

The role of boards



Prepared for the Auditor General for Scotland
September 2010

Auditor General for Scotland

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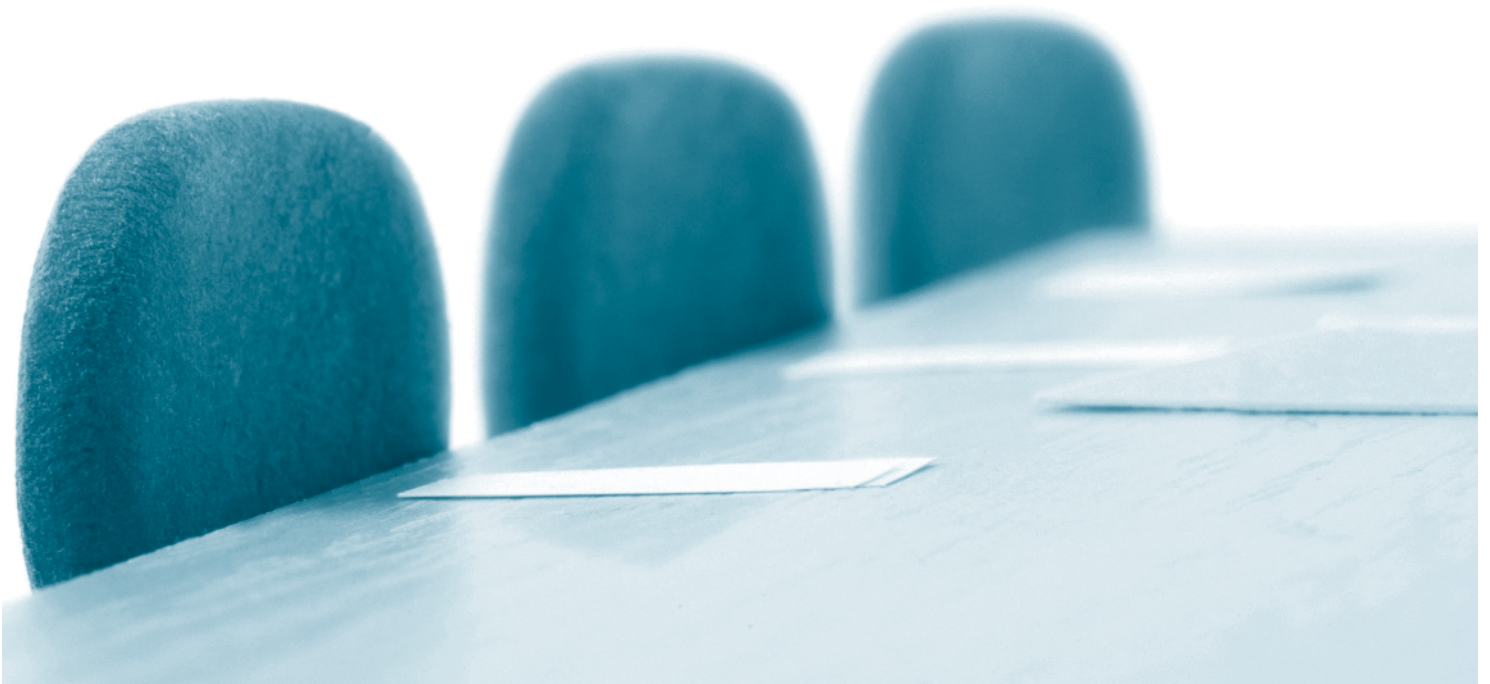
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Summary



Public bodies are entering a changing environment and boards will play a central role in how they respond to challenges ahead.



1. The public sector in Scotland is made up of over 200 organisations serving five million people. There are a number of different types of public body in Scotland, including NHS bodies, non-departmental public bodies (NDPBs), executive agencies, non-ministerial departments, colleges and Scottish Water. In addition to these organisations, there are local government bodies, including councils and joint police and fire boards, which have different accountabilities.

2. This landscape was mostly in existence before devolution in 1999, when these public bodies operated at arm's length from central government in Westminster. Since devolution there have been some changes in public bodies, such as the establishment of NHS boards in 2003/04 after trusts were abolished. Public bodies are now more closely linked into the purpose and objectives of the Scottish Government. The Scottish Government's public sector reform agenda has reduced the number of public bodies in Scotland but there has been no systematic review of whether these structures remain fit for purpose post-devolution.

3. In 2009/10, the Scottish public sector spent around £36 billion, following a decade of higher than inflation growth in funding. Their activities include delivering health and social care services, providing justice services and protecting the environment. Although public bodies receive most of their funding from the Scottish Government they operate autonomously, allowing services to be delivered without direct day-to-day control by Scottish ministers. Increasingly, public sector organisations are working in partnership to try to provide services more effectively and efficiently.

4. Most public bodies are governed by a board which provides oversight of how they are performing, how they spend their money and a link through the Scottish Parliament to the electorate. Boards are in place to ensure the good corporate governance of public bodies, defined by the Scottish Government as 'the structures and processes for decision-making and accountability, controls and behaviour at the top of organisations'.¹ Scottish Government guidance for board members defines the role of the board as:

- giving leadership and strategic direction
- defining control mechanisms to safeguard public resources
- supervising the overall management of the body's activities
- reporting on stewardship and performance.²

5. Despite this and other guidance such as the *Scottish Public Finance Manual*, there remains a lack of clarity about the roles of the boards of public bodies, particularly the extent to which they provide leadership and strategic direction. This report examines this issue, along with other questions about the work of boards.

6. Public bodies are entering a changing environment and boards will play a central role in how they respond to challenges ahead. The recession has resulted in fiscal tightening and the Auditor General commented on the likely impact on the public sector in his report, *Scotland's public finances*, in November 2009.³ Since then an emergency UK budget was

announced by the Chancellor of the Exchequer in June 2010 outlining the need for substantial spending reductions, in advance of the UK spending review in October 2010.^{4,5} The Scottish Government's Chief Economic Adviser has analysed the likely impact on public expenditure in Scotland.⁶ The *Independent Budget Review*, which was published in July 2010, projects a real terms reduction in funding of £4.3 billion between 2009/10 and 2014/15, of which £1.7 billion will be in 2011/12.⁷

7. The *Independent Budget Review* also recommended the continuation of the reduction in the number of public bodies set out in the Public Service Reform (Scotland) Act 2010 and suggested that a strategic review of the structures that deliver public services in Scotland was necessary. The role played by the boards of public bodies and the system of public accountability more generally should be part of that review to ensure that they remain appropriate for a smaller, devolved public sector.

8. We acknowledge that many public bodies and their boards are unique but this report draws out common themes across the public sector.

About this report

9. This report examines the role and work of boards in 67 public sector bodies and 39 colleges which are audited by the Auditor General for Scotland and that existed on 31 March 2009 ([Exhibit 1, overleaf](#)). These 106 organisations spent almost £17 billion and employed 175,000 staff in 2008/09. This report does not consider the role of councils, advisory NDPBs, tribunals, commissioners and ombudsmen.⁸

¹ *On board: A guide for board members of public bodies in Scotland*, Scottish Executive, April 2006.

² *Ibid.*

³ *Scotland's public finances: Preparing for the future*, Audit Scotland, November 2009.

⁴ *Budget 2010*, HM Treasury, June 2010.

⁵ The next spending review will cover the period 2011/12 to 2014/15.

⁶ *Outlook for Scottish Government Expenditure*, Scottish Government, July 2010.

⁷ *Independent Budget Review*, Crawford Beveridge, July 2010.

⁸ An Audit Scotland report on how councillors and officers work together in local government, *Roles and working relationships: are you getting it right?*, was published in August 2010.

Exhibit 1

Public bodies covered by this report

The six different types of public body covered by this report spent £17 billion and employed 175,000 staff in 2008/09.

Organisation type	Description	Number	Expenditure (£ billion)	Staff (wte)
Colleges	Independent institutions that provide further and higher education	39	0.71	13,032
NDPBs	Arms-length organisations that deliver public services on behalf of the Scottish Government	29	3.17	11,705
NHS bodies	Arms-length organisations that deliver health services or provide support services to the NHS	23	9.35	137,245
Executive agencies	Organisations that are part of the Scottish Government but which operate independently of Scottish Government directorates	11	2.56	7,954
Non-ministerial departments	Independent departments, operating under named office holders. They are part of the Scottish Administration but not the Scottish Government	3	0.08	1,707
Scottish Water	Commercial enterprise under direct control of Scottish ministers	1	0.95	3,737

Note: See also Appendix 1 for the bodies in each category. The figures for expenditure and staff are for 2008/09. Seventy-three per cent of expenditure by colleges (£0.520 billion) is provided by the Scottish Further and Higher Education Funding Council which is an executive NDPB. wte is whole time equivalent.

Source: Audit Scotland

10. There are a number of different terms and definitions for aspects of the public sector. For the purposes of this report we use the following:

- Public bodies include colleges, NDPBs, NHS bodies, executive agencies, non-ministerial departments and Scottish Water, ie all types of body included in [Exhibit 1](#).
- Board members refer to both executive and non-executives. The chair is the person who leads the board.
- Executives are senior employees of public bodies who are also members of the board, for example, the chief executive or directors who are responsible for

the day-to-day management and running of the organisation.

- Non-executives work part-time for the organisation but are not involved in the day-to-day management.⁹

11. The report draws on a range of evidence which we gathered using qualitative and quantitative techniques. More details of our audit approach are set out in [Appendix 2](#). In summary:

- We surveyed all 1,500 board members of the 106 public bodies and received responses from 777 (around 50 per cent). We also surveyed chief executives of NDPBs who are not board members.

- We carried out in-depth fieldwork at 17 public bodies of varying sizes, covering all six types of public body, from across the country and providing a range of public services ([see Appendix 1](#)). As part of this fieldwork we interviewed over 70 chairs and non-executives, observed board meetings and reviewed board papers and other documentation.
- Reviewed and identified good practice from a range of publications and guidance on the role of boards from the public and private sector.
- Interviewed other key national stakeholders including the Scottish Government and the Commissioner for Public Appointments in Scotland.

⁹ This report also defines staff and other representatives on the boards of NHS bodies and colleges as non-executives.

12. Appendix 3 provides a series of questions for boards and individual board members to ask themselves about how well they are working. An advisory group provided advice and comment during the course of our work (Appendix 4).

13. This report examines:

- the role of boards and how they are accountable to the Scottish Government (Part 2)
- board members' skills and expertise (Part 3)
- how boards operate (Part 4).

Summary of key messages

- Following a decade of growth, public sector budgets will be reduced significantly over the next few years which will have a major impact on the finances of public bodies. Boards will need to demonstrate strong leadership and make difficult decisions about their funding priorities.
- The Scottish Government has made progress with its public sector reform agenda but the public sector landscape is still complex with a number of different types of body. The make-up of boards and their role has evolved over time rather than as a result of any objective evaluation of the best model for public accountability.
- Chief executives and their boards have parallel lines of accountability and this can cause confusion over who

leads the organisation unless the separate roles are well defined and understood. Public bodies need strong leadership to make important decisions on spending priorities in the coming years. It is essential that the roles of chairs and chief executives are clear and their relationships work well to ensure effective leadership.

- Relationships between the Scottish Government and public bodies vary and need to improve to ensure that public bodies effectively meet future priorities and financial challenges.
- The appointments process for non-executives is improving but there are still weaknesses. The length of time it can take to make an appointment remains too long and there has been mixed progress in widening the diversity of applicants to become non-executives. The overall number of people applying to be non-executives is falling.
- One of boards' key roles is to scrutinise risk, financial management and performance, and this will become increasingly important as budgets are reduced. Boards are not consistently good at providing scrutiny. Responsibility for risk management is largely delegated to audit committees, rather than being led by the board.

Recommendations

The Scottish Government should:

- as part of its public sector simplification agenda, clarify the lines of accountability between public bodies, the Scottish Government and the Scottish Parliament
- clarify the role of the non-executives of executive agencies
- strengthen the role of sponsors of NDPBs to reflect their critical role in ensuring that Scottish ministers' priorities are delivered
- investigate why the number of applications for public appointments is falling and take action to reverse this trend
- reduce the time it takes to make public appointments
- ensure that work to expand the range of people applying to be non-executives is completed and procedures are in place to assess its effectiveness
- encourage the chairs and non-executives of different public bodies to meet on a regular basis
- review the time commitment of non-executives and chairs and ensure that it is more realistic and made clear as part of the recruitment process
- review the pay of non-executives and chairs to ensure greater consistency and clarity about remuneration levels
- review and update its *On board* guidance
- review the rationale for why some chief executives are not board members.

Public bodies should:

- ensure that all non-executives receive formal induction training that explains their roles, the key issues facing the board and the organisation and how it operates
- review the skills and expertise they need for the future and actively seek to attract people with skills to address any gaps identified
- ensure that the performance of all non-executives is formally and regularly assessed
- ensure that the board's scrutiny efforts are focused on organisational performance, financial management and risk management
- improve the performance information provided to their boards and its link to financial information
- maximise the openness and accessibility of their board meetings and papers
- regularly review how they are operating and performing with support and advice from an external peer
- review the use of committees and ensure that major decisions that should be made by boards are not delegated
- ensure that board members are asked to declare any interests they have at all board meetings and where a conflict exists they do not participate in discussion and this is formally recorded.

Part 1. Introduction



Boards need to make decisions based on clear evidence about the priorities for the public body and where money should be spent.



Key messages

- Following a decade of growth, public sector budgets are now being reduced significantly. Current forecasts predict that Scottish Government spending will be reduced by £4.3 billion in real terms between 2009/10 to 2014/15, of which £1.7 billion will be in 2011/12.
- Even when funding was relatively abundant some parts of the public sector and individual public bodies faced financial problems. Reduced funding over the next few years will have a major impact on the finances of public bodies.
- Boards will be central to the way public bodies meet the challenges posed in the coming years. They will need to make difficult decisions about funding priorities and demonstrate strong leadership.

The public sector is facing significant challenges

Scotland's public sector experienced significant growth in the first decade after devolution

14. The Scottish Government's budget increased from £17 billion in 2000/01 to £34.7 billion in 2009/10, an average real terms increase of just over five per cent a year since devolution. The Scottish Government allocates around 85 per cent of its budget to public sector bodies. Public bodies receive most (usually more than half) of their funding from the Scottish Government and operate at arm's length from the Scottish

Government, allowing functions to be carried out without direct day-to-day control by Scottish ministers. As a result most public bodies' budgets increased significantly over this period.¹⁰

15. Despite year-on-year funding increases over this ten-year period some public bodies experienced financial management problems. The Auditor General has repeatedly drawn attention to the financial position and costs pressures facing NHS bodies and colleges in his overview reports.

16. In particular, in the early years after devolution Scotland's colleges were facing significant financial management problems with 18 colleges reporting operating deficits in 2001/02.¹¹ By 2006/07, overall colleges' financial performance had improved with fewer colleges reporting operating deficits and the cumulative financial position for the college sector moving from deficit of £6 million to surplus of almost £17 million.¹² The college sector received a 20 per cent increase in funding in real terms between 2000/01 and 2008/09.

17. The NHS also experienced significant financial performance challenges over this period. In 2003/04, four NHS boards (Argyll and Clyde, Grampian, Lanarkshire and Western Isles) overspent by a total of £61.7 million.¹³ However, between 2001/02 and 2008/09, the NHS received a 38 per cent increase in funding in real terms, and by 2008/09 all health boards were meeting their financial targets.

Public sector budgets will be reduced significantly over the next four years

18. In mid-2008, the UK and Scottish economies went into recession along with many other countries across the world. The Auditor General highlighted the seriousness of this for the public sector in his report, *Scotland's public finances*.¹⁴ The report highlighted the serious financial challenges facing the Scottish public sector and outlined some key questions that decision-makers should be asking to help plan for the future. In that report, we stated that the 2009/10 Scottish budget of £34.7 billion was likely to be the peak year for some time to come. We identified the challenges and cost pressures facing the public sector through increased demand for some public services as a result of more older people, more personalised public services and the effects of the recession; the cost and long-term affordability of universal services such as free personal nursing care; and the cost profile of delivering public services with over half of costs being spent on staff. We also highlighted a potential gap in public finances of between £2.1 billion and £3.8 billion based on projected public spending levels in 2009/10 and the Centre for Public Policy for Regions (CPPR) published projections for the Scottish budget.¹⁵

19. Since then, the UK and Scottish economies have officially come out of recession and a new UK coalition Government has been elected. The UK Chancellor of the Exchequer announced his emergency budget in June 2010 in advance of the UK spending review in October.^{16, 17} The emergency budget sets out the UK

¹⁰ *Scotland's public finances: Preparing for the future*, Audit Scotland, November 2009.

¹¹ *Financial performance of the further education sector in Scotland – an update report*, Audit Scotland, December 2003.

¹² *Financial overview of Scotland's colleges 2006/07*, Audit Scotland, April 2008.

¹³ *Overview of the financial performance of the NHS in Scotland 2003/04*, Audit Scotland, December 2004.

¹⁴ *Scotland's public finances: Preparing for the future*, Audit Scotland, November 2009.

¹⁵ *Briefing Note*, Centre for Public Policy for Regions, April 2009.

¹⁶ *Budget 2010*, HM Treasury, June 2010.

¹⁷ The next spending review will cover the period 2011/12 to 2014/15.

Government's plans to reduce public sector borrowing and the budget deficit through a mix of increased taxation and reduced public spending. The budget plans for public spending to be reduced by around £32 billion a year over the next four years.

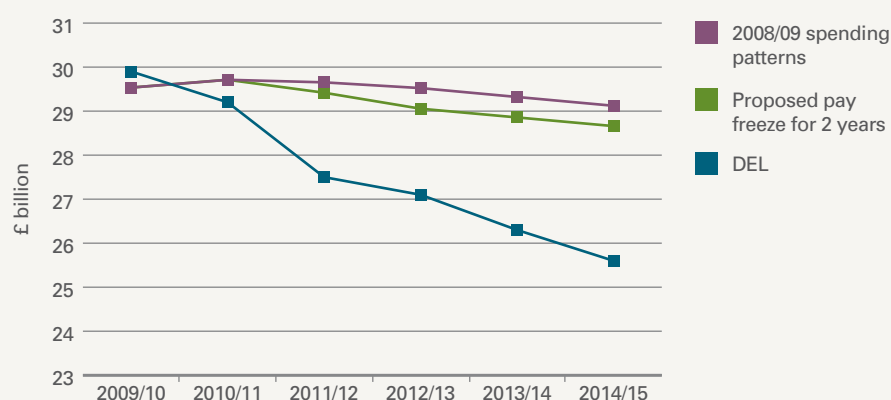
20. It is not yet clear what the exact implications of the UK Government's actions and budget will mean for the Scottish budget. However, the Scottish Government's Chief Economic Adviser published his *Outlook for Scottish Government Expenditure* as a result of the UK emergency budget in July 2010.¹⁸ This forecasts that the Scottish DEL budget will be reduced by £4.3 billion by 2014/15 from the peak in 2009/10.¹⁹ This is equivalent to around 3.7 per cent each year. However, the next financial year – 2011/12 – will have a proportionately higher cut of £1.7 billion (5.9 per cent) as a result of the pattern of the UK Government's deficit reduction plan and the Scottish Government's decision to defer for a year its share of the UK Government's £6.2 billion spending cuts implemented in 2010/11. These forecasts are close to the worst case scenario previously forecast by the CPPR. If public sector spending remained at the same level as in 2009/10 then a significant gap would emerge over the next four years, and even if a two-year public sector pay freeze was introduced it would not be enough to bridge this gap (Exhibit 2).

21. In addition, Scotland's capital DEL budget is likely to be cut more significantly and could be reduced by £1.6 billion compared to 2009/10 – a 40.1 per cent real terms reduction.²⁰ This could have major implications for the future capital investment programme.

Exhibit 2

Projections of Scottish Government spending and budgets to 2014/15 (real terms)

Projected budget reductions will result in a significant gap emerging should public sector spending continue on the same basis as 2009/10, even if a public sector pay freeze for 2011/12 and 2012/13 is implemented.



Note: The DEL expenditure data are taken from the *Independent Budget Review*, July 2010. The line showing spending based on 2008/09 patterns assumes 1.5 per cent annual growth in public sector pay and an 11 per cent annual increase in capital charges due to increases in capital expenditure over the past few years. The pay freeze line assumes that there will be no increase in public sector pay in 2011/12 or 2012/13.

Sources: Audit Scotland, Centre for Public Policy for Regions, and Scottish Government Chief Economic Adviser

Boards have an important role in steering public bodies through these difficult times

Boards should ensure corporate governance arrangements are in place

22. All but one of the public bodies have a board whose key role is to ensure that corporate governance arrangements are in place.

23. It is widely recognised that good governance leads to good management, good performance, good stewardship of public money,

good public engagement and, ultimately, good outcomes.²¹ The main purpose of boards is to provide effective leadership, direction, support and guidance to organisations and ensure that the policies and priorities of Scottish ministers (and the Scottish Government) are implemented. In most cases, the board is the most senior group in the organisation and provides important oversight of how public money is spent.

24. Over the last decade the Auditor General for Scotland has reported to the Scottish Parliament on a small

¹⁸ *Outlook for Scottish Government Expenditure June 2010 emergency budget update*, Office of the Chief Economic Adviser, Scottish Government, July 2010.

¹⁹ Departmental Expenditure Limit.

²⁰ The Scottish Government previously brought forward £347 million of capital budget into 2008/09 and 2009/10 as part of its economic recovery plan.

²¹ *Good Governance Standard for Public Services*, CIPFA, 2004.

number of public bodies where there has been evidence of weak board performance (Exhibit 3).

Boards will need to make difficult decisions and demonstrate leadership

25. Audit Scotland has published a number of reports over the last year that have highlighted the challenges ahead and recommended action for the future. In particular, our reports *Scotland's public finances* and *Improving public sector efficiency* set out the following messages for boards to consider:²²

- Public bodies should ensure they are budgeting for and spending on their priorities.
- Difficult decisions and new approaches will be needed.
- Strong leadership and engagement is needed to challenge, monitor and support public bodies.

26. Given the scale of potential budget cuts, public bodies need to fundamentally review what and how they deliver services and set budgets. With less money available public bodies need to adopt a priority-based approach to budgeting, which considers the competing priorities and targets the limited funds accordingly. Adopting such an approach means that boards need to be clear about:

- the money available
- how services contribute to national objectives and outcomes
- the value for money of services.

27. Boards need to make decisions based on clear evidence about the priorities for the public body and where money should be spent. However, to do this, boards need to be presented with good information

Exhibit 3

Reports by the Auditor General for Scotland reflecting weak board performance

There have been examples of poor board performance that have affected public services.

NHS Western Isles

Between 2002/03 and 2007/08, NHS Western Isles accumulated a total deficit of £3.1 million. In 2008/09, the Scottish Government provided funding to clear the deficit following assurances from the board about its plans for financial recovery. The Scottish Parliament's Audit Committee was critical of the board of NHS Western Isles for its poor scrutiny of the financial management of the organisation. The Committee concluded that there were serious weaknesses in the organisation's financial management and a lack of financial management expertise and financial focus among board members. During Committee evidence sessions there was confusion over the extent to which the board and the Scottish Government were accountable for these problems.

Inverness College

Inverness College's accounts for 2004/05 reported a deficit of nearly £1 million. The Scottish Parliament's Audit Committee noted that the college had failed to deliver its financial recovery plans. The Committee concluded that the board had been too detached from key management and decision-making processes; and had failed to perform adequate scrutiny of the college's finances or set an effective strategic direction for the college.

Scottish Qualifications Authority

In 2000, 17,000 students did not receive accurate results from the Scottish Qualifications Authority. Subsequent inquiries by two Scottish parliamentary committees noted many operational failings, but also a lack of clarity about the role of the board of the Scottish Qualifications Authority in responding to the concerns presented to it.

Sources: *Report on the 2006/07 audit of the Western Isles Health Board*, Scottish Parliament Audit Committee, May 2008; *The 2004/05 audit of Inverness College*, Scottish Parliament Audit Committee, July 2006; *Performance management in the Scottish Qualifications Authority*, Audit Scotland, November 2006

on the costs, activity, productivity and quality of services that demonstrate how they are linked. Audit Scotland has previously highlighted that sufficient financial and performance information is not available to manage services effectively, for example in the NHS.²³

28. Boards therefore need to increase their scrutiny of public bodies' performance and challenge management to provide sufficient information to allow them to make informed decisions about priorities and budgets.

²² *Improving public sector efficiency*, Audit Scotland, February 2010.

²³ *Overview of the NHS in Scotland's performance 2008/09*, Audit Scotland, December 2009 and *Improving public sector efficiency*, Audit Scotland, February 2010.

29. Boards will need to make difficult decisions about what and how future services should be delivered. This may mean stopping or reducing the delivery of some services and fundamentally reviewing the way other services are delivered. The best way of delivering services in the future may be outsourcing or partnering with another public, private or third sector provider. This needs creative and innovative thinking and a strong desire and determination to break down any potential barriers.

30. Delivering this scale of change requires strong leadership and engagement from the very top of organisations, including boards. Leaders need to ensure that:

- the priorities are clear, well communicated and understood by stakeholders, staff, users and the general public
- decision-making is open and transparent
- constructive challenge is encouraged
- high standards of conduct and performance are expected and delivered.

31. A number of Audit Scotland reports include checklists for board members which set out questions for key decision-makers to check, challenge, monitor and support their organisations. In particular, Audit Scotland published a good practice checklist for public bodies to support our report *Improving public sector efficiency*. The checklist outlines key questions for boards.²⁴ We also include a list of questions for non-executives to ask themselves about the role of their board at [Appendix 3](#).

²⁴ *Improving public sector efficiency – good practice checklist for public bodies*, Audit Scotland, February 2010 can be found on Audit Scotland's website at www.audit-scotland.gov.uk

Part 2. The role and accountability of boards



There remains a large number and range of different types of public sector bodies and the reasons for this are not always clear.



Key messages

- The Scottish Government has made progress with its public sector reform agenda but the public sector landscape is still complex with a number of different types of bodies. The make-up of boards and their role has evolved over time rather than as a result of any objective evaluation of the best model for public accountability.
- Accountability for the performance of public bodies is complex, lacks clarity and has been further complicated by the introduction of new non-ministerial departments, all of which have different accountability arrangements.
- Chief executives and their boards have parallel lines of accountability and this may cause confusion over who leads the organisation unless the separate roles are well defined and understood.
- Relationships between the Scottish Government and public bodies vary and need to improve to ensure that public bodies effectively meet future priorities and financial challenges.

Accountability for the performance of public bodies is complex and lacks clarity

32. The public needs assurance about the way in which public bodies make the best use of public money and how they are held to account. This assurance is easier if there is:

- an easily understood public sector landscape
- clear lines of accountability for the performance of public bodies

- clarity and transparency about the roles and responsibilities of boards and chief executives.

The public sector landscape remains unclear

33. The Scottish Government's public sector reform agenda and the *Independent Budget Review* have highlighted the need to make the public sector landscape clearer. The Scottish Government has taken steps to reform the landscape, for example by seeking to remove 25 per cent of public bodies by 2011. However, despite this simplification agenda there remains a large number and range of different types of public sector bodies and the reasons for this are not always clear.

Accountability arrangements are not easy to understand

34. Of the 106 public bodies that we have examined, there are six different categories and each has different accountability arrangements (*Exhibit 4, overleaf*). Even within these categories, there are differences between public bodies in the way they account for their expenditure and performance and to whom they do so. These arrangements appear to have evolved over time, are difficult to understand, and run the risk that in some circumstances it may not be clear who is ultimately accountable for the performance of a public body. It is not clear why accountability arrangements differ.

Half of boards are directly accountable to Scottish ministers and Parliament

35. Half of boards (NDPBs, NHS bodies and Scottish Water) are directly accountable to Scottish ministers and through them to the Scottish Parliament. On behalf of Scottish ministers, they are responsible for the performance of the organisation and for ensuring that it delivers Scottish ministers' policies and priorities.

Colleges are independent institutions and have different accountability arrangements

36. The college sector, as a whole, receives the majority of its funding (73 per cent in 2008/09) from the Scottish Further and Higher Education Funding Council (SFC) which is an NDPB. College boards are not directly accountable to Scottish ministers or to the SFC. College principals – their chief executives – are responsible to the chief executive of the SFC for the money that they receive from it.²⁵

The boards of executive agencies are not accountable to Scottish ministers or Parliament for the exercise of their duties

37. Executive agencies are part of the Scottish Government but operate as separate organisations. Their chief executives are statutory accountable officers and are directly accountable to Scottish ministers and through them to Parliament for the performance of their organisations. Their boards have no legal status but may be potentially called to account by Scottish ministers and the Scottish Parliament.

38. Some non-executives on agency boards we spoke to said they were unclear about their own role. Their role is a governance oversight one with a non-executive chairing the audit committee and an advisory function to support the chief executive in his or her role as accountable officer. This means that in some cases significant strategic decisions are not discussed by the board. For example, non-executives on the board of Transport Scotland first heard about the extension of the rail franchise when it was announced in the media.²⁶

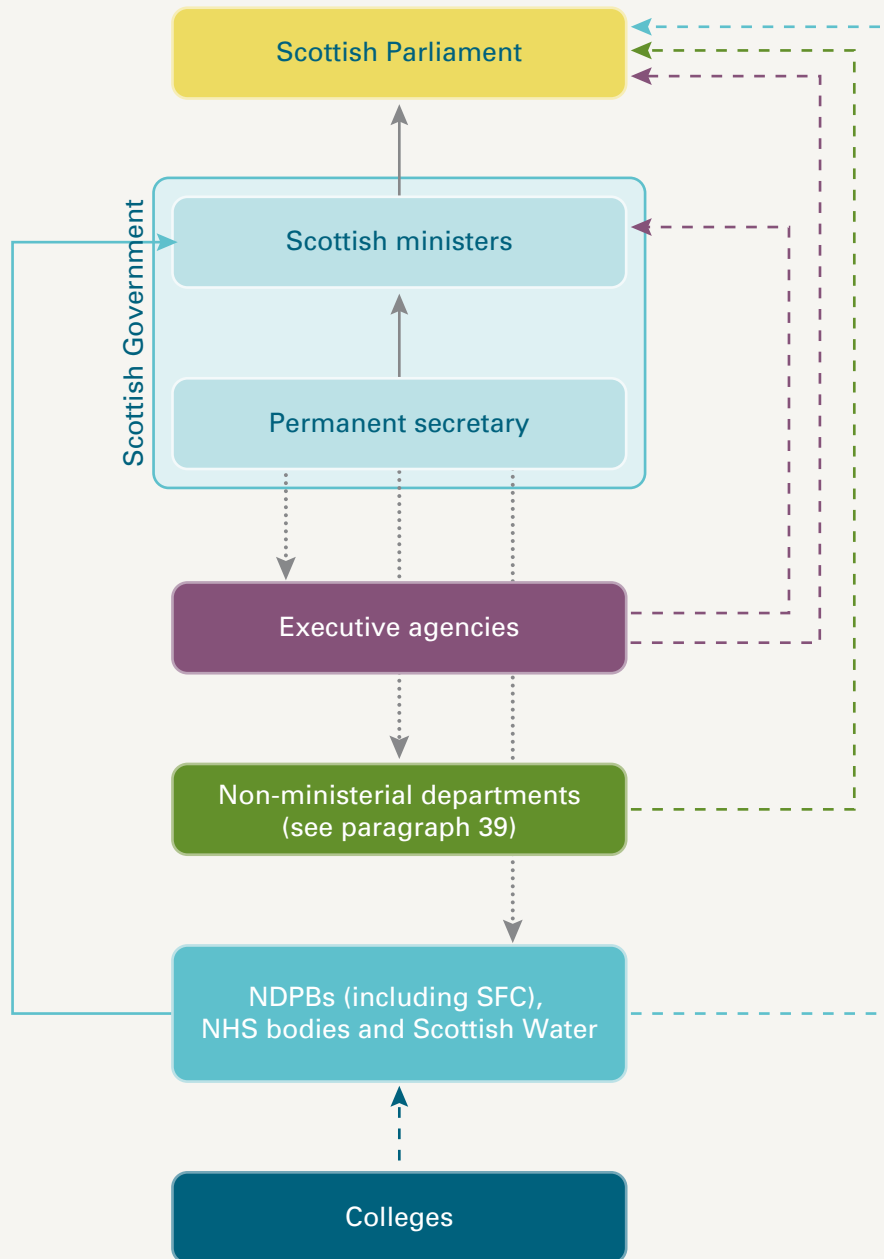
²⁵ *Governance and management matters*, SFC/10/2007, Scottish Further and Higher Education Funding Council, February 2007.

²⁶ *The First ScotRail passenger rail franchise*, Public Audit Committee, June 2009.

Exhibit 4

Accountability of public bodies to the Scottish Parliament

There are complex and parallel lines of accountability between public bodies and the Scottish Parliament.



- Coloured solid line indicates the accountability of boards.
- ... Dotted lines indicate delegated authority from the Permanent secretary to accountable officers under the Public Finance and Accountability (Scotland) Act 2000.
- - - Dashed lines indicate the accountability of accountable officers to the Scottish Parliament. Chief executives of executive agencies are also accountable to Scottish ministers.
- - - Dashed dark blue line indicates accountability of college principals to the chief executive of the Scottish Funding Council for public funds under their control.

Non-ministerial departments have variable accountability arrangements

39. Non-ministerial departments have varying lines of accountability and this does not appear to support the public sector reform agenda which is aimed at simplifying the public sector landscape. Of the four current non-ministerial departments:

- The General Register Office for Scotland has no board and is run by the Registrar General for Scotland and his senior managers. The Registrar General is accountable to the Scottish Parliament through Scottish ministers for the running of his organisation.
- The Keeper of the Registers of Scotland (the equivalent of a chief executive) is directly accountable to the Scottish Parliament for the work of her organisation. The Registers of Scotland's board advises the Keeper. Uniquely the organisation is an executive agency as well as a non-ministerial department.
- The Office of the Scottish Charity Regulator has a board made up entirely of non-executives and operates like the board of a NDPB. The board collectively is a non-ministerial officeholder in the Scottish Administration. It is accountable to the Scottish Parliament for its work.
- The Scottish Court Service changed from being an executive agency to a non-ministerial department on 1 April 2010. Its new board (under the terms of the Judiciary and Courts (Scotland) Act 2008) is made up

of senior members of Scottish judiciary, representatives of the Scottish legal profession, the chief executive and three other people. The board collectively is a non-ministerial officeholder in the Scottish Administration and it is directly accountable to the Scottish Parliament.

There are parallel lines of accountability for chief executives and their boards

40. The Public Finance and Accountability (Scotland) Act 2000 created a system where responsibility for the proper and effective use of resources in public bodies is delegated from the Permanent Secretary – the top civil servant in the Scottish Government – to the chief executives of public bodies. As accountable officers, chief executives are personally accountable to the Scottish Parliament for the proper management of public funds and for ensuring that these resources are used efficiently, economically and effectively.²⁷ This creates a separate line of accountability to the Scottish Parliament to that of the board. Boards and chief executives should therefore act as a check and balance on each other.

41. Further work is needed on clarifying governance arrangements and ensuring that there is clarity about roles and responsibilities in all public bodies – particularly the respective roles and responsibilities of chairs and chief executives. Current guidance for boards needs to be updated as it does not adequately distinguish between their roles and can lead to the risk of internal conflict.

Boards have different roles depending on the type of body

42. All public bodies are expected to focus on supporting the delivery of the Scottish Government's single purpose and national outcomes as outlined in the National Performance Framework.²⁸ In addition, the current economic climate means that, for the first time since devolution, public bodies will need to make difficult decisions on how to provide services with reduced budgets. Most boards have a key role to play in this decision-making.

43. Boards fall into two main categories: those that have overall responsibility for performance; and those that are established in an advisory capacity. Both types of board exercise a governance function and have a duty to ensure that public money is spent wisely and according to the rules.

44. The majority of boards (92 of the 106 organisations covered by this report), including the boards of NDPBs, NHS bodies, colleges and Scottish Water, are responsible for the performance of their organisations through:

- setting the organisation's strategic direction within the context of the National Performance Framework and the policies and priorities of Scottish ministers
- monitoring, scrutinising, challenging and supporting the management in its running of the organisation on a day-to-day basis
- ensuring the organisation meets its objectives.

²⁷ *Scottish Public Finance Manual*, Scottish Government, 2007. Individual letters of appointment to accountable officers from the Permanent Secretary.
²⁸ <http://www.scotland.gov.uk/About/scotPerforms>

45. Audit Scotland has identified these three main responsibilities from all of its work on governance and accountability in the public sector. They differ from the definition of the responsibilities of boards given in the Scottish Government guidance, *On board: A guide for board members of public bodies in Scotland*. We also consulted other guidance such as the *Scottish Public Finance Manual* and the *Good Governance Standard for Public Services*.²⁹

Relationships between the Scottish Government and public bodies vary

46. Budget reductions mean that Scottish ministers will have to make difficult decisions about spending priorities. Where Scottish ministers appoint boards to ensure that their policies and priorities are implemented, there will need to be closer working between Scottish ministers and boards to ensure shared understanding of priorities. Chairs are the key link between Scottish ministers and boards.

The sponsorship of NDPBs is not carried out consistently

47. The relationship between the Scottish Government and individual NDPBs is managed on a day-to-day basis by civil servants known as sponsors. Sponsors tend to interact with the senior management of the organisation rather than the board and are not senior civil servants. Senior civil servants at deputy director, director and director general level also have dealings with public bodies at more senior levels.

48. The way that the sponsorship role is carried out varies according to the nature of the organisation and the individual civil servant in post. For example, sponsors should not normally attend board meetings.³⁰ However, the sponsor of the SFC

attends all its board meetings as an observer. Other sponsors of NDPBs attend occasionally, for example, when they first become the organisation's sponsor.

NHS bodies have a close relationship with the Scottish Government

49. The Scottish Government Health Directorates have a well-established framework of support and monitoring for NHS bodies. The Finance and Delivery Directorates provide ongoing support for health boards to help them meet their performance and financial targets and there is a continuous dialogue between them. The chairs of NHS bodies meet the Cabinet Secretary for Health and Wellbeing and the Director-General for Health monthly. Every year there is a public review of each NHS body when board representatives meet the Cabinet Secretary.

50. Even with these clearer arrangements in place, it can still be difficult to understand who is responsible when problems arise. This is particularly so for the respective accountabilities of the chief executive of the NHS in Scotland and the chief executives of individual health boards. This was highlighted in evidence given to the Scottish Parliament Audit Committee during its inquiries into NHS Western Isles and NHS Argyll and Clyde.^{31, 32}

The relationship between colleges and the Scottish Funding Council is less clear

51. Relationships between college boards and Scottish ministers are more complex and less clear. College boards are not directly accountable to Scottish ministers or to the SFC. College principals are not statutory accountable officers but they are accountable to the SFC for the public funding received. It

is therefore important that college boards, principals and the SFC have a clear and shared understanding of priorities to ensure that consistent and coherent spending decisions are made across the college sector. In this sector too, there has been confusion over the accountability arrangements of the chief executive of the SFC and that of individual college principals when evidence was given to the Audit Committee about Inverness College.³³

Recommendations

The Scottish Government should:

- as part of its public sector simplification agenda, clarify the lines of accountability between public bodies, the Scottish Government and the Scottish Parliament
- clarify the role of the non-executives of executive agencies
- strengthen the role of sponsors of NDPBs to reflect their critical role in ensuring that Scottish ministers' priorities are delivered.

²⁹ *Good Governance Standard for Public Services*, CIPFA, 2004.

³⁰ *On board: A guide for board members of public bodies in Scotland*, Scottish Executive, April 2006.

³¹ Report on *The 2006/07 Audit of the Western Isles Health Board*, Scottish Parliament Audit Committee, May 2008.

³² Report on *The 2003/04 Accounts of NHS Argyll and Clyde*, Scottish Parliament Audit Committee, March 2005.

³³ Report on *The 2004/05 Audit at Inverness College*, Scottish Parliament Audit Committee, July 2006.

Part 3. The skills and expertise of board members



Boards need to include people from different backgrounds who can bring a broad range of skills, expertise and perspectives to the role of a non-executive.



Key messages

- The appointments process for non-executives is improving but there are still weaknesses. The length of time it can take to make an appointment remains too long and work still needs to be done to identify the range of skills and qualities needed for an effective non-executive.
- The overall number of people applying to be non-executives is falling. There has been mixed progress to improve the diversity of applicants for public appointments.
- There is variation in the time commitment expected of non-executives and the pay they receive. Some non-executives are committing significantly more time to their role than was indicated at the time of their appointment.

The skills and expertise of board members and how they work together is key to the success of boards

52. Making decisions about priorities, targeting resources and where to reduce expenditure will make the role of boards harder. This increases the importance of ensuring that board members have the necessary skills and expertise. Many boards are established by legislation that pre-dates devolution so there may be historical reasons for the make-up of some boards that are no longer valid. Scotland has a small population and it is therefore important that the skills and expertise available to public bodies are used as effectively as possible. In particular, it is vital that there is clarity about the role of non-executives and that the right people are recruited.

53. The critical factors in determining the strength and success of any board are:

- the calibre and personalities of individual board members
- the blend of skills and expertise of the board
- how they work together as a group.

Boards are seeking to plan and manage their skills and expertise

54. Ensuring that people with the right skills and expertise apply to become non-executives is important. All of the public bodies we visited were considering the mix of skills and expertise on their board and seeking to ensure that they had the right balance for the future, either through a formal review process or less formal

discussion between the chair and board members.

55. In ten of the boards we visited, a written skills matrix was used to monitor and review non-executives' skills and expertise. Skills matrices are lists of skills and expertise that an organisation considers that its board collectively should have mapped against its current board membership. [Case study 1](#) highlights the skills matrix used by the Office of the Scottish Charity Regulator. As a result of reviewing the skills and expertise needed some boards have recruited non-executives with specific expertise. For example, NHS Greater Glasgow and Clyde appointed a non-executive with experience of overseeing major capital projects to help the board scrutinise progress with the new Southern General Hospital project.

Case study 1

The Office of the Scottish Charity Regulator developed a skills matrix for recruiting non-executives

The skills matrix identifies 13 specific skills that it requires among its non-executives.

- Knowledge of the Scottish charity sector
- Leadership
- Understanding risk management
- Understanding finance
- Understanding policy in the public sector
- Practical experience of change management
- Track record of implementing regulation
- Understanding public sector finance
- Understanding of corporate governance in public, private and charity sectors
- Legal knowledge
- Good overview and knowledge of small charities
- Charity fundraising
- Overview of regulation and its effects

Source: Office of the Scottish Charity Regulator

Scottish ministers appoint most non-executives except to college boards

56. People can become non-executives of public bodies in a number of ways, including being:

- appointed by Scottish ministers (or on recommendation by the Queen)
- appointed or co-opted by the board itself or, in the case of some executive agencies, by the chief executive
- appointed by Scottish ministers after nomination by other organisations such as local authorities
- directly elected to the board.

57. Excluding colleges, four-fifths of non-executives are appointed by Scottish ministers through the Scottish Government's public appointments process ([Exhibit 5, overleaf](#)). The Public Appointments and Public Bodies etc. (Scotland) Act 2003 requires public appointments to the boards of regulated bodies to be made fairly and openly. The Commissioner for Public Appointments in Scotland oversees the public appointments process and assesses it against the Code of Practice for Public Appointments.³⁴ The Commissioner oversees the process of appointing non-executives to 55 public bodies covered by this audit.³⁵ The Commissioner's work is supported by a group of 13 OCPAS (Office of the Commissioner for Public Appointments in Scotland) assessors who scrutinise the public appointments process. The chair of the public body is not involved in the final decision on non-executive appointments but is involved in the process and the recommendation made to Scottish ministers, except for chair appointments. Scottish

ministers ultimately decide who should be appointed.

58. The process of appointing non-executives varies among the 11 executive agencies. The chief executives of most executive agencies appoint non-executives to their boards. However, Scottish ministers appoint the non-executives for the Scottish Public Pensions Agency.

Colleges appoint their own non-executives

59. Colleges are independent organisations and their boards appoint their own non-executives. Best practice suggests that appointments should be made through a committee that is entirely made up of non-executives. College principals should not be members of these committees and should play no part in the appointment process.³⁶ In the three colleges we visited, this best practice was followed.

60. There is no requirement for college boards to have any independent input into the appointments process but some do. For example, at John Wheatley College, the process of appointing non-executives was supported by an independent adviser who provides reports on the college's appointment process and has made suggestions about the skills and expertise that the board should have.

The number of elected board members is increasing

61. During 2008/09, the two national park authorities were the only public bodies to have elected board members. Elected members made up just over a fifth of the boards of the Cairngorms and Loch Lomond and The Trossachs National Park Authorities. The Scottish Parliament has passed legislation that will reduce the overall size of the boards of these organisations but will maintain the number of elected members.

62. In July 2010, the Scottish Parliament passed the Crofting Reform (Scotland) Act 2010 which will require a majority of members of the Crofting Commission to be elected to its board.

63. In June 2010, voters in Dumfries and Galloway and Fife elected people to be members of their NHS boards. The elections in these two areas were part of a pilot for direct elections to all health boards. The Health Boards (Membership and Elections) (Scotland) Act 2009 requires nominees from local government and directly elected board members to form the majority on the boards of NHS bodies. The boards of NHS bodies remain wholly accountable to Scottish ministers.

64. The introduction of elections to the boards of NHS bodies will lead to a reduction in:

- the number of non-executives appointed by Scottish ministers
- the number of executive directors on the boards of NHS bodies.

65. Elections to the boards of NHS bodies aim to strengthen democracy and local accountability. However, they may also generate risks for the boards of NHS bodies by:

- reducing boards' ability to plan and manage the board's overall range of skills and expertise
- creating tension between individual non-executives' wish to represent the interests of the people who elected them; their accountability to Scottish ministers; and the need for collective responsibility for board decisions. There is value in having different perspectives on boards but all non-executives are ultimately bound by board decisions.

³⁴ *Code of Practice for Ministerial Appointments to Public Bodies in Scotland*, Commissioner for Public Appointments in Scotland, 2006. The Commissioner for Public Appointments is currently consulting on a revised code of practice.

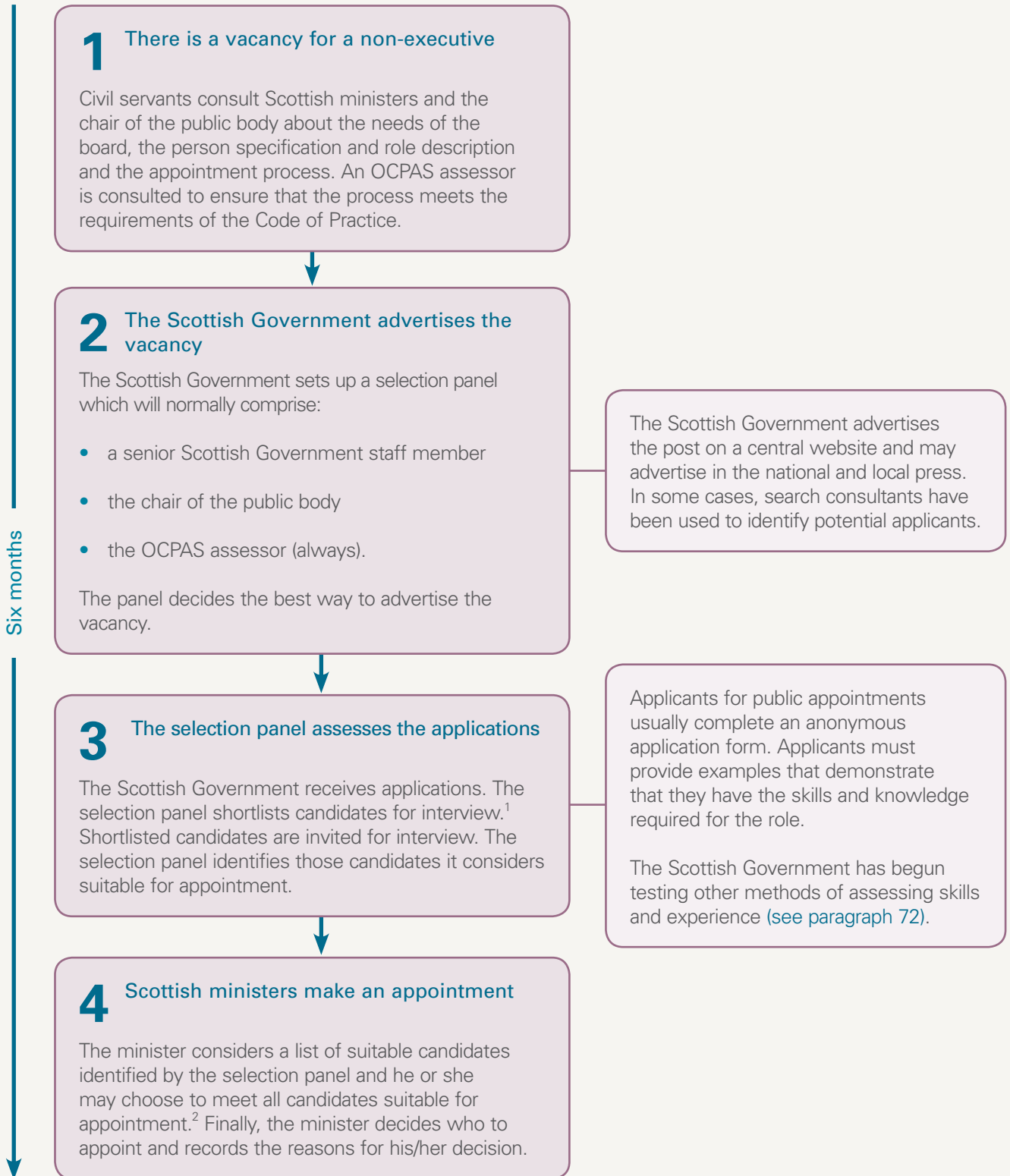
³⁵ The exceptions are the advisory boards of the 11 executive agencies and the Registers of Scotland.

³⁶ *Review of Scotland's Colleges: Accountability and Governance*, Scottish Executive, February 2007.

Exhibit 5

The public appointments process

There is a four-stage process for appointing non-executives to public bodies, which on average takes six months.



Notes:

1. If there are many applications, Scottish Government staff may carry out a preliminary sift of applications.
2. The OCPAS assessor may be involved in these meetings.

Source: Office of the Commissioner for Public Appointments in Scotland

66. The pilot elections to health boards will be independently assessed by the London School of Economics within five years to review the cost, participation levels, and the effect that the elections have had on engagement between the boards of NHS bodies and patients and the public. It is therefore too early to comment further on this approach.

Fewer people are applying to become non-executives

67. In 2008/09, the number of applications across 55 public appointment rounds ranged from six to 30 with an average of 19.³⁷ Between 2004/05 and 2008/09, the number of applications for each round of public appointments more than halved (Exhibit 6).

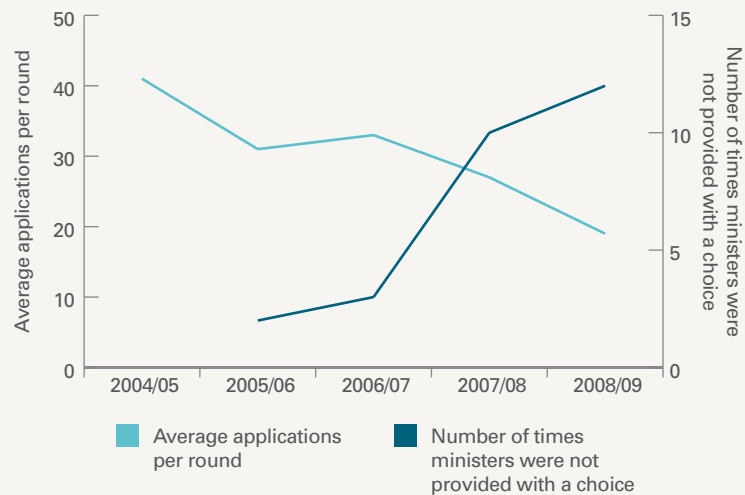
68. During 2008/09, the appointment process failed to provide Scottish ministers with a choice of candidate to appoint in over a fifth of all cases. This requires an exception to the Commissioner for Public Appointments in Scotland's code of practice. The number of times when the Commissioner has granted an exception because there has been no choice of candidate available has risen from two in 2005/06 to 12 in 2008/09 (Exhibit 6).

69. It is not clear why the number of applications has decreased or whether the quality of applications has increased. Attracting applicants to become non-executives may become even more difficult in the future given the major challenges that the boards of public bodies face. Chairs, chief executives, non-executives and others have suggested that potential applicants may be put off by:

- the nature of the appointments process which is competency based

Exhibit 6

The number of applications for public appointments (2004/05–2008/09)
The number of applications for public appointments has halved since 2004/05.



Source: Office of the Commissioner for Public Appointments in Scotland (OCPAS)

- the time taken to make appointments – in 2008/09, each appointment round took an average of six months
- public perceptions of public bodies
- a perceived risk of potential damage to individuals' personal reputations
- the level of pay.

70. Some of the non-executives we interviewed during our board visits were not clear on their roles. This was particularly the case for executive agencies where their role is solely advisory. However, some non-executives in other types of board were also unclear about their roles in leading their organisation and ensuring that corporate governance structures were in place and operating effectively.

Progress to increase the range of people who apply to be non-executives has been mixed

71. Boards need to include people from different backgrounds who can bring a broad range of skills, expertise and perspectives to the role of a non-executive. This includes ensuring that users of public services are as involved as possible. In September 2008, the Commissioner for Public Appointments in Scotland produced a strategy to encourage a wider range of people to become non-executives.³⁸ An action plan including recommendations and targets for the Scottish Government was developed to implement the strategy but progress against it has been mixed (Exhibit 7, overleaf).

³⁷ An appointment round may be undertaken to fill a single vacancy on a board or several vacancies.

³⁸ *Diversity Delivers*, Office of the Commissioner for Public Appointments in Scotland, September 2008.

Exhibit 7

Progress in implementing actions the strategy to encourage a wider range of people to become non-executives
There has been mixed progress in implementing the actions contained in *Diversity Delivers*.

Key	<div><div></div>Not started</div>	<div><div></div>In progress</div>	<div><div></div>Completed</div>
Awareness and attraction		Confidence and capacity	
Communication campaign		Centre of Expertise	
Recruit board role models	<div><div></div></div>	Establish a centre of expertise to advise on and administer the public appointments process	<div><div></div></div>
Board member profiles	<div><div></div></div>	Pilot different application methods	
Short written guide to the work of boards	<div><div></div></div>	Identify the core skills, knowledge and personal qualities needed for a board member to be effective	<div><div></div></div>
Explore distribution of written guide with other mailed documents	<div><div></div></div>	Pilot a variety of new application methods	<div><div></div></div>
Produce and distribute public appointments DVD	<div><div></div></div>	Appointment-focused diversity training	
Run meetings and events for interested groups; utilise board role models	<div><div></div></div>	Provide training for selection panels	<div><div></div></div>
Run workplace events	<div><div></div></div>	Provide regular updates on developments in equality and diversity	<div><div></div></div>
Explore use of social networking sites	<div><div></div></div>	Incorporate diversity training for board effectiveness into induction process for board members	<div><div></div></div>
Hub website		Measure diversity awareness as part of board members' performance assessment	<div><div></div></div>
Develop hub website	<div><div></div></div>	Education and Experience	
Publicity material		Education programme	
Produce publicity and application documents in a more encouraging, less formal style	<div><div></div></div>	Develop and run an education programme on becoming a board member	<div><div></div></div>
Monitoring		Workshops for applicants	
Analysis of monitoring information recommended in <i>Diversity Delivers</i>	<div><div></div></div>	Run regular workshops on how to apply and prepare for interview	<div><div></div></div>
Information bank of different methods of publicising appointments		Pilot of board training positions	
	<div><div></div></div>	Provide routes for potential board members to develop their skills in a training position	1

Note: 1. This action has been replaced by a mentoring programme which is in progress.

Source: Office of the Commissioner for Public Appointments in Scotland

72. A number of the actions have been successfully implemented. For example:

- The Scottish Government has set up a central administrative group to handle all applications for public appointments and provide advice on the process.³⁹
- A single website for all public appointments has been established.⁴⁰
- Testing methods other than the standard application form. For example, gathering expressions of interest; using case study assessment where applicants are presented with a real example and asked to demonstrate how they would respond; or using a standardised curriculum vitae.

73. Feedback from chairs and non-executives in our fieldwork indicated that they believed the appointments process has improved but it is bureaucratic and slow.

74. However, at the time of our review, a number of important actions had not been started and others remained in progress. In particular, no progress has been made on:

- three actions aimed at increasing awareness and understanding of the importance of diversity in the appointments process
- identifying the core skills, knowledge and personal qualities needed for a non-executive to be effective.

75. The composition of boards may not be expected to be perfectly representative of the Scottish population but based on our survey of all board members:

- two-thirds are men compared to 48 per cent of the Scottish population
- three per cent have a disability in comparison with 20 per cent of the population
- the majority are over 50 years old. The majority of the Scottish population are under 50 years old
- 97 per cent identified themselves as white, which is similar to the Scottish population (96.5 per cent)
- two-thirds are either in full-time employment or are self-employed. A fifth are retired.

76. These data refer to all board members, both non-executives and executives. Around 18 per cent of respondents were executives who

are not appointed through the public appointments process, which may skew our findings to a certain extent.

The time commitment expected from non-executives varies

77. The Scottish Government is responsible for setting the time commitment expected of non-executives for most public bodies. However, the time commitment varies by type of body, with non-executives being expected to commit between four and 60 days to the work of the organisation each year. For chairs, the time commitment ranges between ten and 156 days a year. On average, non-executives of NHS bodies and Scottish Water are expected to commit the most time (around one day each week) to board work (Exhibit 8). It is not clear why there is such variation.

Exhibit 8

Time commitment expected of chairs and non-executives

The chairs and non-executives of NHS bodies are expected to commit the most time to board work.

Organisation type	Number of days each year					
	Chairs			Non-executive		
	Average	Max	Min	Average	Max	Min
Colleges	34	100	10	14	36	5
NDPBs	86	144	24	29	60	6
NHS bodies	151	156	45	51	52	25
Executive agencies	n/a			13	30	4
Non-ministerial departments	30	–	–	14	18	9
Scottish Water	130	–	–	48	–	–

Note: The chief executives of executive agencies chair their boards and are excluded from this table.
Source: Audit Scotland

³⁹ A Scottish Executive survey of its sponsor teams in 2006 suggested that the appointments process was the most difficult and challenging aspect of the sponsorship role.

⁴⁰ <http://www.appointed-for-scotland.org/>

78. Non-executives and chairs estimate that they actually spend around a third more time on board work than was indicated at the time of their appointment.

Most non-executives are paid except for colleges and NDPBs with charitable status

79. The Scottish Government is also responsible for setting the pay for those non-executives who are paid. In 2008/09, non-executives in NHS bodies; executive agencies; two non-ministerial departments; and three-quarters of NDPBs were paid. In total, these non-executives were paid £5.5 million – equivalent to 0.03 per cent of the expenditure they were responsible for overseeing.

80. Colleges and four NDPBs are charities which means that, in accordance with the Charities and Trustee Investment (Scotland) Act 2005, their non-executives are not paid.⁴¹ In addition, the non-executives of Learning and Teaching Scotland, with the exception of the chair, and the joint Scottish Arts Council/Scottish Screen board were not paid.⁴²

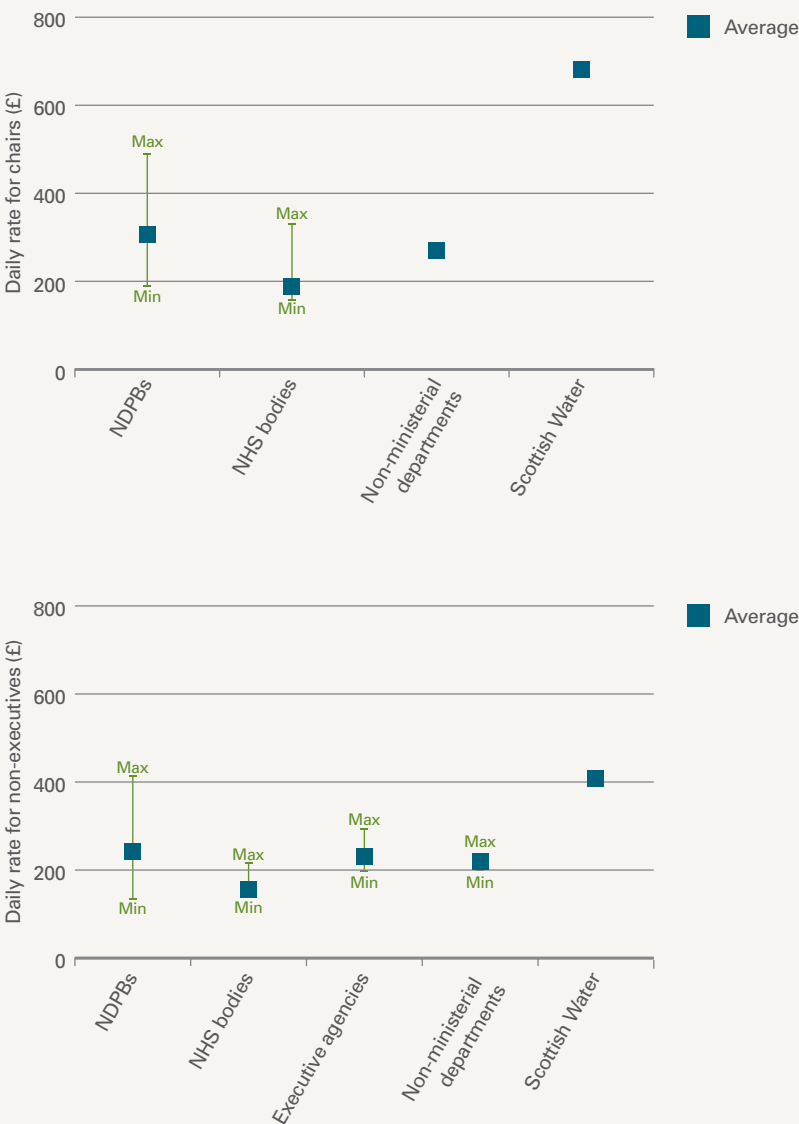
Non-executives’ pay depends on the type of board and varies considerably

81. The levels of pay vary both among public bodies and within each sector (Exhibit 9).⁴³ Chairs and other non-executives of NDPBs are paid over 50 per cent more each day than those on the boards of NHS bodies. This difference is not explained by relative size of budget or workforce or by any explicit statement of the relative importance of these different bodies.

82. The chairs of public bodies who are paid receive an average daily rate of £258 for an average annual commitment of 120 days – just over £31,000 a year. But the daily rate for a chair ranges from £158 to

Exhibit 9
The pay of chairs and non-executives

There is wide variation in the pay of non-executives.



Note: The squares represent the average daily pay and the T-bars represent the minimum and maximum daily pay for each type of public body. Executive agencies are excluded from the chairs’ diagram as chief executives chair the boards.
Source: Audit Scotland

41 The four NDPBs with charitable status are National Galleries of Scotland, National Library of Scotland, National Museums of Scotland and Royal Botanic Garden Edinburgh.
42 The board members of Creative Scotland which replaced the Scottish Arts Council and Scottish Screen on 1 July 2010 are not paid. The chair is entitled to be paid but has waived that entitlement.
43 Some non-executives are paid a daily rate, others are paid an annual amount. In a few cases, they receive additional pay for additional responsibilities, such as acting as deputy chair or chairing a committee. To take account of these differences, we have calculated pay to a daily rate.

£682. Other non-executives receive an average daily rate of £207 for an annual commitment of 36 days – around £7,500 a year. This ranges between £135 and £413 a day.

Not all chairs and non-executives have received induction, training or assessment of their performance

83. When new non-executives are appointed, they should receive training to explain:

- their roles as non-executives
- the key issues facing the organisation
- how their organisation operates.

84. Eighty-four per cent of non-executives said that they had received some form of induction after their appointment. Non-executives of NDPBs (86 per cent) were most likely to have had some form of induction. Seventy-four per cent of non-executives of NHS bodies and colleges reported having some form of induction.

85. Around half of non-executives and just over a quarter of chairs described their induction as formal. Some of the induction processes in the 17 organisations we visited were highly structured and comprehensive (see [Case Study 2](#)). Others were less formal, for example an informal conversation with the chair. In several organisations, non-executives described how induction had improved over time and was now very useful.

86. The role of a chair is highly challenging. Almost all (96 per cent) chairs said that they had the opportunity to consider their training needs. Just over a quarter of chairs had received specific training to support them in their role. The chairs of NDPBs were most likely (35 per cent) to have received such training. Most non-executives (90 per cent) have also had

Case study 2

Induction for new non-executives of Scottish Water

Scottish Water provides its new non-executives with a detailed pack of information, which sets out the legal framework that the board operates within; how the board works; details about managing conflicts of interest; and information on the role of the chief executive. In addition, new non-executives receive recent board papers and minutes. They meet the chair, the chair of the audit committee and all of the executive directors individually. They also spend three days with operational managers to get an understanding of what the organisation does in terms of customer service, water and wastewater treatment.

Source: Audit Scotland

Case study 3

Peer review of non-executives at Scottish Natural Heritage

Scottish Natural Heritage tested a new approach to assessing non-executives' performance during 2008/09. Non-executives could nominate up to four other people from the board and/or the senior management team to provide them with feedback on their performance. This was used as the basis for a discussion about their performance with the chair. In addition, all non-executives and the senior management team are invited to comment on the performance of the chair directly to Scottish Government officials in confidence, and this provides a basis for the chair's annual performance appraisal with senior Scottish Government officials.

Source: Audit Scotland

opportunities to consider and address any training and development needs. This was a consistent pattern across all types of public body.

87. In addition to training, there are other support mechanisms in place for some chairs. For example, the chairs of all NHS bodies meet monthly and the chairs of colleges meet regularly as a group. These groups provide an opportunity for sharing and discussing common issues and experiences among peers. However, there is no regular forum for the chairs of NDPBs to meet, nor anywhere for the chairs of different types of public body to meet and discuss shared issues. Given that all boards will be facing similar challenges over the next few years, this would be valuable.

Half of college non-executives do not have their performance assessed

88. Non-executives' performance should be formally and regularly assessed. This provides a means of providing feedback, identifying any training needs and for informing the reappointment process. However, over a quarter of all non-executives do not receive an assessment of their performance with college non-executives being least likely to have their performance assessed ([Exhibit 10, overleaf](#)). [Case study 3](#) sets out how Scottish Natural Heritage uses peer review to inform assessment of its non-executives' performance.

89. Directors-general or directors within the Scottish Government assess the performance of the chairs of NDPBs, NHS bodies and Scottish Water through a formal appraisal system. It is not clear who should assess the performance of college chairs but in two of the three colleges we visited, chairs sought informal feedback from other board members.

Recommendations

- The Scottish Government should:
- investigate why the number of applications for public appointments is falling and take action to reverse this trend
 - reduce the time it takes to make public appointments
 - ensure that work to expand the range of people applying to be non-executives is completed and procedures are in place to assess its effectiveness
 - encourage the chairs and non-executives of different public bodies and colleges to meet on a regular basis
 - review the time commitment of non-executives and chairs and ensure that it is more realistic and made clear as part of the recruitment process
 - review the pay of non-executives and chairs to ensure greater consistency and clarity about remuneration levels.

Exhibit 10

Percentage of non-executives who did not receive a performance assessment
College board members are least likely to have their performance assessed.

Organisation type	Percentage
Colleges	50
NDPBs and Scottish Water	8
NHS bodies	2
Executive agencies/non-ministerial departments	21
Total	24

Source: Audit Scotland

- Public bodies should:
- ensure that all non-executives receive formal induction training that explains their roles, the key issues facing the board and the organisation and how it operates
 - review the skills and expertise they need for the future and actively seek to attract people with skills to address any gaps identified
 - ensure that the performance of all non-executives is formally and regularly assessed.

Part 4. How boards operate



Boards must hold the management of the organisation to account by challenging and scrutinising their work to ensure that it meets organisational objectives.



Key messages

- Public bodies need strong leadership to make important decisions on spending priorities in the coming years. It is essential that relationships between chairs and chief executives work well to ensure effective leadership.
- A key role for boards is to scrutinise risk, financial management and performance, and this will become increasingly important as budgets are reduced. Boards are not consistently good at doing this. Responsibility for risk management is mainly delegated to audit committees, rather than being led by the board.
- It is important that boards demonstrate collective responsibility and ownership of decisions. This will be particularly important when bodies are deciding their priorities which may include reducing or stopping services.
- There is significant variation in the size and make-up of boards and whether or not the chief executive is a member of the board.

90. Public bodies face a challenging future. Budget reductions may increase the risk of failure to deliver public services and there will be raised public scrutiny of the decisions made by their boards. It is therefore important that boards operate as effectively as possible.

To operate effectively boards need to meet certain criteria

91. There is a large body of guidance available to boards about their role and operation.⁴⁴ We reviewed this material and formed the view that for boards of public bodies to operate well they must:

- provide leadership to their organisations
- set the organisation's strategic direction within the context of Scottish ministers' policies and priorities
- scrutinise and monitor the organisation's performance
- display integrity in how they behave and how they make decisions
- be open and transparent
- regularly review how they operate
- not become involved in the daily running and operation of the organisation.⁴⁵

Guidance on leadership needs to be clearer

92. Strong leadership is essential for public bodies as difficult decisions need to be made about how to operate with less money. Chairs and chief executives in particular have important but different leadership roles to play.

93. Scottish Government guidance on the difference between the leadership roles of chairs and chief executives should make clear that there is a dual responsibility. The *On board* guidance states that 'the chief

executive will normally be designated as (the body's) Accountable Officer (with responsibility for) representing the body before the Audit Committee of the Scottish Parliament'. However, the guidance also states that, 'the chair (has a responsibility for) taking lead responsibility in representing the body in links with ministers and the Scottish Parliament'.

94. The combined responsibility for leadership and accountability (see [Part 2](#)) between the chair and the chief executive may cause confusion and tension unless roles are clear and relationships are well managed, irrespective of whether the chief executive is a member of the board. While it is essential that they work closely together, there must be a clear separation of their roles ([Exhibit 11](#)). This requires that they act professionally, trust and respect each other.⁴⁶ Neither the chair nor the chief executive should be too dominant. In practice, this means that much of the success of the relationship between a chair and the chief executive relies on their personalities. Eighty-six per cent of board members who responded to our survey said that the chair and the chief executive of their organisation understood and respected each other's distinct and separate roles.

95. In the 17 boards we visited, relationships between chairs and chief executives appeared generally constructive and positive with a clear understanding of separation between their roles. It will be important that these relationships are maintained and strengthened to ensure public bodies are led effectively. In a few cases, when a new chair or chief executive had been appointed, we were informed that there was a period of adaptation to different individual work practices and expectations and

⁴⁴ We examined the *Good Governance Standard for Public Services*, The Independent Commission on Good Governance in Public Services, 2004; *On board: A guide for board members of public bodies in Scotland*, Scottish Executive, April 2006; *Review of the role and effectiveness of non-executive directors*, Derek Higgs, January 2003.

⁴⁵ As noted in Part 1, the role of boards in executive agencies is different. This description applies to the boards of NHS bodies, NDPBs, colleges and Scottish Water.

⁴⁶ *On board: A guide for board members of public bodies in Scotland*, Scottish Executive, April 2006.

that this had proved challenging. [Case study 4](#) outlines the way the relationship between the chair and chief executive of the Office of the Scottish Charity Regulator changed when the organisation became a non-ministerial department in 2005.

Boards' ability to set the strategic direction for their organisation is changing

96. The boards of public bodies are the link between Scottish ministers and the organisations that deliver public services. Scottish Government guidance states that one of the key tasks for boards is to 'establish the corporate mission, aims and objectives of the body'. However, boards are required to do this 'within the policy framework set by the Scottish Executive'. Any strategic direction that boards provide to their organisations must have the approval of Scottish ministers and has to contribute to the Scottish Government's purpose, strategic objectives and targets as set out in the national performance framework.⁴⁷

97. Despite this, two-thirds of the non-executives we surveyed thought that the board should have the primary role in leading and directing the organisation and around half felt that their boards actually did this. However, their capacity to lead and direct their organisation needs to be in the context of devolved national priorities and represents a different relationship to the arms-length arrangements pre-devolution. It would be helpful if revised guidance provided a clear articulation of the role of boards in this respect.

98. All the boards of public bodies we visited were taking steps to align their activities with the Scottish Government's purpose, strategic objectives and targets set out in the national performance framework.

Exhibit 11

The roles of the chair and the chief executive

The chair and the chief executive play different roles in leading a public body.

Chair	Chief executive
<ul style="list-style-type: none"> Leads the board Ensures the board sets the strategic direction and objectives for the organisation Ensures that the board holds the management to account for the delivery of the organisation's objectives 	<ul style="list-style-type: none"> Leads the organisation and its staff Runs the organisation on a day-to-day basis Implements the board's decisions Delivers the organisation's objectives Is personally accountable to the Scottish Parliament

Source: Audit Scotland

Case study 4

The working relationship between the chair and chief executive of the Office of the Scottish Charity Regulator

In 2005, the Office of the Scottish Charity Regulator (OSCR) became a non-ministerial department having previously been an executive agency. This change meant that the executive agency board, which was in place to advise the chief executive, was replaced by a board of non-executives with an independent chair. The chief executive is not a member of the board and this change in governance arrangements meant that both the chair and the chief executive had to clarify and adapt to their new roles. This was achieved by regular meetings to discuss the way their relationship should work and has resulted in a relationship that non-executives described as very effective.

Source: Audit Scotland

Boards' scrutiny of risk, financial management and performance needs to improve

99. Boards must hold the management of the organisation to account by challenging and scrutinising their work to ensure that it meets organisational objectives. To do this, boards should focus their scrutiny on:

- the risks faced by the organisation
- performance against organisational targets
- financial management.

100. In our survey almost three-quarters of non-executives felt that they were scrutinising and challenging the organisation's management very well or quite well. However, almost

47 Letter from Cabinet Secretary for Finance and Sustainable Growth to the chairs of all public bodies, May 2009.

a fifth thought the level of challenge and scrutiny was only adequate. We saw examples of highly robust questioning of senior managers by non-executives on, for example, reports on financial management but we also observed other examples where financial reports were accepted without challenge or question.

Risk management needs to be improved

101. The scrutiny of risk, organisational performance and financial management is essential as the three issues are interlinked. Boards will have to focus increasingly on the financial health of their organisations while ensuring that core services are delivered and organisational targets are met. There will be more risks that organisations will fail to meet their financial or performance targets and the likelihood of those risks materialising will become higher. It is therefore vital that boards are fully sighted on all of the risks facing their organisation.

102. Boards are not as focused on risk management as they should be. In all of the boards we visited, the main responsibility for risk management was delegated to the audit committee and in some cases risk was not reported to the board. Where responsibility for risk management is delegated to the audit committee, it is important that the whole board regularly considers risks and any preventative action that can be taken.

Boards need better information to scrutinise the financial management of their organisations

103. Sound financial management is crucial for public bodies at any time, but this is particularly important now as less money is available. In [Case study 1 \(page 18\)](#) we referred to the financial problems experienced by NHS Western Isles and Inverness

College and the lack of scrutiny of financial management by their respective boards. It is vital that boards of public bodies have the necessary skills and receive the right level of financial information to effectively scrutinise the financial management of their organisations.

104. In our visits to 17 boards we found that the quality of board papers on financial management was variable, with not all receiving a clear summary of key issues. For example, at Adam Smith College, the board only received the minutes of its finance committee, which gave assurance that college finances were being managed adequately but contained no figures. By contrast, at Historic Scotland a full breakdown of the current financial position was reported with commentary on key issues.

105. It is important that all boards are provided with up-to-date financial information which outlines the forecast outturn position for the financial year and provides commentary and assessment of any risks that may affect the position. Boards need to increase the profile of financial management in their governance role.

Scrutiny of organisational performance varies

106. In our visits to boards we found that papers on organisational performance were generally good, giving a fairly comprehensive but strategic assessment of performance in most cases. However, all 17 boards were making efforts to improve the quality and effectiveness of the performance information that they received. Where possible, boards should scrutinise their organisation's performance alongside their monitoring of financial management and risk to address how well money is being used to deliver results.

Boards are using committees to manage their workload but there are risks attached to this

107. All boards use committees to manage their workloads. However, the number of committees varies significantly, ranging from one to 24, with the average being between five and six committees.⁴⁸ All public bodies have an audit committee, which is chaired by a non-executive. NHS boards generally have higher numbers of committees and this is partly because some committees, such as those for community health partnerships, are required by legislation and others such as an ethics committee are required by the Scottish Government.

108. In some of the 17 boards we visited, detailed scrutiny of organisational performance and financial reports was delegated to a committee. While committees can do more detailed scrutiny work on particular areas and allow boards to maintain their focus on the major issues facing the organisation they also generate the risks of:

- the full board not being aware of significant issues or risks
- drawing non-executives into too much operational detail
- reducing the speed at which decisions can be made.

109. Our survey found that non-executives are aware of the importance of not interfering with the day-to-day operation of the organisation. However, there is a balance to be struck between ensuring that they receive sufficient information to be able to monitor and scrutinise the organisation's performance and not becoming too involved in the details of the organisation's operations.

48 NHS Greater Glasgow and Clyde has 24 committees.

Some boards need to improve the way they operate

110. The way in which boards conduct their business varies. Although none of the 17 board meetings we attended was particularly long, most lasted around two or three hours, in some cases agendas were lengthy. At John Wheatley College, for example, the agenda had 22 main items within which there were 36 sub-items. It is unlikely that boards would be able to give this many items an appropriate level of attention. A number of board agendas were not explicit about which items were for decision, discussion or information only.

Some boards are more open than others

111. The extent to which boards are open and transparent to the public and stakeholders varies by type of

organisation (Exhibit 12). Across all 106 boards, on average:

- two-fifths had board meetings that were open to the public
- all made their board minutes available – three-quarters on their website and a quarter on request
- four-fifths made board papers publicly available – three-tenths on their website and half on request. However, a fifth did not make board papers available.⁴⁹

112. In the past, a number of public bodies have held annual public meetings to allow their boards to engage with the public and other stakeholders. However, this approach has not been wholly successful, as attendance at these meetings has been low. John Wheatley College and the Cairngorms National Park

Authority hold smaller, more focused meetings for specific groups or on particular topics. This has increased the participation of the public and other stakeholders. Scottish Water used to hold its board meetings in public but attendance was very low. Instead, it now holds stakeholder meetings around Scotland where members of the public and other stakeholders can meet non-executives and senior members of staff.

113. Most of the boards that held open meetings had some form of private session to consider confidential matters. In our view the agenda items included in these sessions were appropriate (eg, matters that related to staffing or commercially confidential material). For those boards that held closed meetings it is not clear why the public were excluded as most agenda items did not appear to have a high degree of sensitivity.

Exhibit 12

Openness and transparency in public bodies

There is wide variation in the openness and transparency of boards of public bodies.

		Colleges	NDPBs	NHS bodies	Executive agencies	Non-ministerial departments	Scottish Water	Average
		%	%	%	%	%	%	%
Public meetings		33	25	100	0	0	0	41
Board minutes	On web	49	82	96	100	0	100	75
	On request	51	18	4	0	100	0	25
	Not available	0	0	0	0	0	0	0
Board papers	On web	8	21	83	9	0	0	29
	On request	56	61	17	55	100	100	49
	Not available	36	18	0	36	0	0	22

Note: All board papers may be subject to requests under the Freedom of Information (Scotland) Act 2002.

Source: Audit Scotland

⁴⁹ Some board papers and minutes that were made public contained material that was not published as it was considered to be exempt under the Freedom of Information (Scotland) Act 2002. This may be appropriate but public bodies should seek to minimise this material and review it to decide whether it can be made public in the future.

Members are not always asked to declare any interests at board meetings

114. The Ethical Standards in Public Life etc. (Scotland) Act 2000 requires all public bodies to keep a public list, or register, of individual board members’ interests which records their other interests and activities that could influence their work as a board member. All of the public bodies covered by our review had a register of interest in place and 98 per cent of all board members said they knew how to register and declare their interests. In most cases, board members updated their register of interests whenever there was a change to their circumstances and this was supported by an annual review.

115. When board members have a conflict of interest, this must be declared and recorded. If the conflict of interest is sufficiently significant, the member should not be part of the discussion or should not remain in the room. We saw examples of discussions at board meetings where board members left the meeting when a subject with which they had a conflict of interest was being discussed, and careful recording of declarations of interest in the minutes of meetings. However, in six out of 17 board meetings we attended there was no formal request for board members to declare any interests.⁵⁰ Without proper declarations of interest and clear recording of those declarations, public confidence in the work of boards may be undermined.⁵¹

Not all boards regularly review how they operate

116. Regular review of how boards are working is important to ensure they are operating as effectively as possible. Reviews may look at issues such as the frequency of meetings or the committee structure below board-level. In the 17 public bodies we visited, there was a variety of practices: some conducted annual

reviews (eg, Scottish Water) or reviews every other year (eg, NHS Shetland) while others did not have a systematic review process in place (eg, Scottish Qualifications Authority). The NHS has introduced a Board Development Programme, central to which is a self-assessment tool which allows NHS boards to review their effectiveness.

117. Where reviews have taken place they have resulted in some changes to board practices. For example, the board of Scottish Natural Heritage carried out a review to improve its own effectiveness as well as that of its committees. As a result the board and its committees are more strategic in their operation, with shorter meetings and greater focus on performance and outcomes.

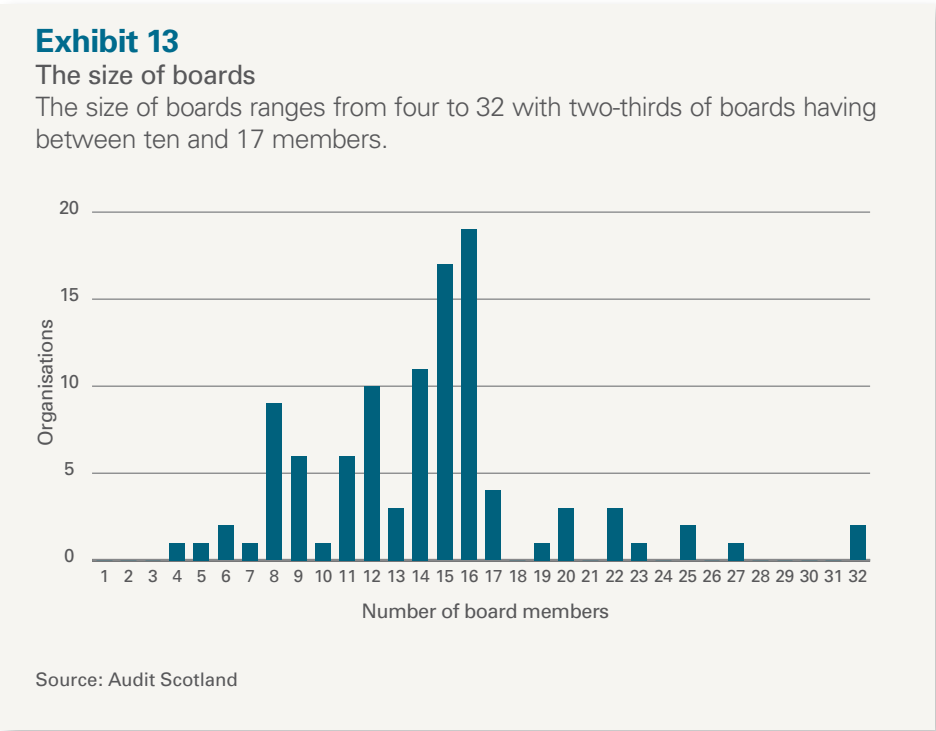
118. The *UK Corporate Governance Code* sets out best practice for the boards of private sector companies.⁵² One of the principles of the Code

is that boards should undertake a formal and rigorous evaluation of their own performance and that of their committees and individual directors. A recent change to the Code recommended that any review of the board’s performance should involve someone from outside the board who could bring an independent perspective. This peer review approach could also help to promote good practice among boards of public bodies and encourage sharing of best practice across different parts of the public sector.

The make-up of boards varies across and within sectors

The size of boards ranges from four to 32

119. The number of board members (executive and non-executive) varies significantly across the public sector but two-thirds of boards have between ten and 17 members ([Exhibit 13](#)). The Scottish Public



50 Board members were not asked to declare an interest at the board meetings we attended at Historic Scotland, National Library of Scotland, NHS Ayrshire and Arran, NHS National Services Scotland, NHS Shetland and the Scottish Prison Service.
51 *The First ScotRail passenger rail franchise*, Public Audit Committee, Scottish Parliament, June 2009.
52 *UK Corporate Governance Code*, Financial Reporting Council, July 2010. Previously known as the Combined Code on Corporate Governance.

Pensions Agency has the smallest board with four members, and the National Library of Scotland and NHS Greater Glasgow and Clyde have the largest boards with 32 members.⁵³

120. On average, boards that are responsible for the performance of their organisation (NHS bodies, colleges and NDPBs) have more members than advisory boards, with NHS boards tending to be the largest. The size of boards varies by type of body ranging from:

- 11 to 32 in NHS bodies, with an average of 18
- 12 to 17 in colleges, with an average of 15
- 6 to 32 in NDPBs, with an average of 12
- 4 to 14 in executive agencies, with an average of nine
- 8 and 9 in the two non-ministerial departments which have boards.

121. It is difficult to specify the ideal number of board members. There has to be a balance between having sufficient skills and expertise and not having so many members that decision-making and collective responsibility become difficult. Other than the historic context in which boards were established there is no rationale for the difference in size of boards. **Exhibit 14** shows the variation in the set-up of a health board and an NDPB board. It is understandable that representatives of different interests should be included on health boards. However, in addition to a larger than average number of executive members it means that these boards are very big.

Exhibit 14

Comparison of public sector boards in Scotland

NHS Tayside has nearly double the number of executives and non-executives compared to Scottish Enterprise.

	NHS Tayside	Scottish Enterprise
Executives	7 (Chief executive, Director of Finance, Chief Operating Officer, Director of Workforce, Director of Public Health, Medical Director, Nurse Director)	1 (Chief executive)
Non-executives	16 (includes three Local Authority representatives, Employee Director, Chair of the Area Clinical Forum, nomination from the CHP conference, representative of Dundee University and nine non-executives)	11
Total	23	12

Source: Audit Scotland

122. In 2009, the average number of board members in a FTSE 100 company was 10.8.⁵⁴ We reviewed the make-up of the boards of a sample of six FTSE 100 companies. Board members numbered between nine and 14, with non-executives being in the majority. In all cases the chief executive and chief financial officer were executive board members.⁵⁵

Non-executives make up the majority of boards except in executive agencies

123. Nearly all boards have a majority of non-executives which is important in enabling them to hold the management of their organisations to account. The exceptions are the boards of executive agencies and the Registers of Scotland, which have a higher proportion of executive board members reflecting the purely advisory nature of these boards.

124. The make-up of most boards is usually prescribed in legislation. College boards are subject to the Further and Higher Education (Scotland) Act 1992 which states that they must have between ten and 16 members and include:

- the principal of the college (its chief executive and only executive board member)
- a student from the college
- representatives of both the teaching and non-teaching staff of the college.

125. All college boards meet this requirement, although one college (Barony) has 17 members on its board.

⁵³ The size and composition of the National Library of Scotland board is defined by law. The Scottish Government has consulted on proposals to restructure the board of the National Library of Scotland during 2010.

⁵⁴ *The Female FTSE Board Report 2009*, Cranfield University, 2009.

⁵⁵ The companies we examined were Shell, British Airways, Capita, Serco, BP and Schroders.

126. Some non-executives have a representative role, such as local authority, employee and patient representatives for NHS bodies, and student representatives on college boards. They serve an important function in ensuring that the board is aware of the views of its key stakeholders. However, there is potential for conflict in the role as these non-executives seek to represent their stakeholders but are also members of the board.

Not all chief executives are board members

127. The chief executives of all NHS bodies and executive agencies, and the principals of colleges all sit on their boards in their own right. However, the picture is mixed in NDPBs and non-ministerial departments. Twenty of the 29 NDPB chief executives are not board members although they do attend board meetings to answer questions and provide advice and information ([Exhibit 15](#)). The chief executive of one non-ministerial department (Office of the Scottish Charity Regulator) does the same.

128. This inconsistency is a result of different legislation establishing the role of individual NDPBs. However, excluding the chief executive from board membership appears to be at odds with his or her formal accountable officer role and accountability to the Scottish Parliament for the proper use of public money.

129. In addition to the chief executive, some senior directors such as directors of finance are executive board members of NHS bodies, Scottish Water and executive agencies. This contrasts with NDPBs and colleges where directors are never board members. It is unclear what the reason is for this different practice across the public sector.

Collective responsibility among board members is critical

130. All board members must take collective responsibility for decisions made by the board. Collective responsibility is essential and will be increasingly tested as boards have to make challenging decisions about how best to implement Government priorities, how to reduce costs and what services need to change or stop being delivered. If boards do not take collective responsibility for their decisions, the risk of poor performance and potential for board decisions to be undermined increases.

131. Ninety-four per cent of all board members agreed or strongly agreed that their boards took collective responsibility for decisions. In the 17 boards we visited, boards appeared to take collective responsibility for decisions even when there were strong differences of opinion expressed during discussion.

132. Irrespective of how non-executives come to be on the board, what is best for the organisation must override any other interests. Discussion and debate is essential within boards and it is important that stakeholder representatives are able to put across the views and concerns of the people they represent. However, once a decision is made – even by a vote – all board members must take collective responsibility for the decision and support it.

Recommendations

The Scottish Government should:

- review and update its *On board* guidance
- review the rationale for why some chief executives are not board members.

Public bodies should:

- ensure that the board's scrutiny efforts are focused on organisational performance, financial management and risk management
- improve the performance information provided to their boards and its link to financial information
- maximise the openness and accessibility of their board meetings and papers
- regularly review how they are operating and performing with support and advice from an external peer
- review the use of committees and ensure that major decisions which should be made by boards are not delegated
- ensure that board members are asked to declare any interests they have at all board meetings and where a conflict exists they do not participate in discussion and this is formally recorded.

Exhibit 15**Board membership among the chief executives of NDPBs**

Twenty out of 29 chief executives of NDPBs are not members of their boards.

Chief executive IS NOT on the board	Chief executive IS on the board
Bòrd na Gàidhlig	Highlands and Islands Enterprise
Cairngorms National Park Authority	Learning and Teaching Scotland
Loch Lomond and The Trossachs National Park Authority	Scottish Children's Reporter Administration
National Galleries of Scotland ¹	Scottish Enterprise
National Library of Scotland ¹	Scottish Environment Protection Agency
National Museums of Scotland ¹	Scottish Further and Higher Education Funding Council
Quality Meat Scotland	Scottish Qualifications Authority
Risk Management Authority	Skills Development Scotland
Royal Botanic Garden Edinburgh ¹	Water Industry Commission for Scotland
Scottish Arts Council ²	
Scottish Commission for the Regulation of Care	
Scottish Criminal Cases Review Commission	
Scottish Legal Aid Board	
Scottish Legal Complaints Commission	
Scottish Natural Heritage	
Scottish Police Services Authority	
Scottish Screen ²	
Scottish Social Services Council	
Sportscotland	
VisitScotland	

Notes:

1. The chief executives of the four organisations with charitable status cannot be board members by statute.

2. Creative Scotland has now been established and takes over the role of the Scottish Arts Council and Scottish Screen – its chief executive is not a board member.

Source: Audit Scotland

Appendix 1.

Public bodies and colleges included in this audit

Colleges (39)	Non-departmental public bodies (29)	NHS bodies (23)	Executive agencies (11)
Aberdeen College Adam Smith College ¹ Angus College Annie'sland College Ayr College Banff and Buchan College of Further Education Barony College Borders College Cardonald College Carnegie College Central College Clydebank College Coatbridge College Cumbernauld College Dumfries and Galloway College Dundee College Edinburgh's Telford College Elmwood College Forth Valley College Glasgow College of Nautical Studies Glasgow Metropolitan College Inverness College James Watt College of Further and Higher Education Jewel and Esk Valley College John Wheatley College Kilmarnock College Langside College Lews Castle College Moray College Motherwell College North Glasgow College North Highland College Oatridge Agricultural College Perth College Reid Kerr College South Lanarkshire College Stevenson College Stow College West Lothian College	Bòrd na Gàidhlig Cairngorms National Park Authority Highlands and Islands Enterprise Learning and Teaching Scotland Loch Lomond and The Trossachs National Park Authority National Galleries of Scotland National Library of Scotland National Museums of Scotland Quality Meat Scotland Risk Management Authority Royal Botanic Garden Edinburgh Scottish Arts Council ² Scottish Children's Reporter Administration Scottish Commission for the Regulation of Care ³ Scottish Criminal Cases Review Commission Scottish Enterprise Scottish Environment Protection Agency Scottish Further and Higher Education Funding Council Scottish Legal Aid Board Scottish Legal Complaints Commission Scottish Natural Heritage Scottish Police Services Authority Scottish Qualifications Authority Scottish Screen ² Scottish Social Services Council Skills Development Scotland SportScotland VisitScotland Water Industry Commission for Scotland	NHS Ayrshire and Arran NHS Borders NHS Dumfries and Galloway NHS Fife NHS Forth Valley NHS Grampian NHS Greater Glasgow and Clyde NHS Highland NHS Lanarkshire NHS Lothian Mental Welfare Commission for Scotland National Waiting Times Centre Board NHS 24 NHS Education for Scotland NHS Health Scotland NHS National Services Scotland NHS Quality Improvement Scotland NHS Orkney Scottish Ambulance Service NHS Shetland State Hospitals Board for Scotland NHS Tayside NHS Western Isles	Accountant in Bankruptcy Historic Scotland HM Inspectorate of Education National Archives of Scotland Scottish Court Service ⁴ Scottish Housing Regulator ⁵ Scottish Prison Service Scottish Public Pensions Agency Social Work Inspection Agency ³ Student Awards Agency for Scotland Transport Scotland
		Non-ministerial departments (3)	Public corporation (1)
		General Register Office for Scotland Office of the Scottish Charity Regulator Registers of Scotland	Scottish Water

Notes:

1. We conducted fieldwork in the 17 organisations in bold.
2. The Scottish Arts Council and Scottish Screen had a joint board in readiness for their merger into Creative Scotland which took place on 1 July 2010.
3. These organisations will become part of the new Social Care and Social Work Improvement Scotland.
4. The Scottish Court Service became a non-ministerial department on 1 April 2010.
5. It is proposed that the Scottish Housing Regulator will become a non-ministerial department under the Housing (Scotland) Bill.

Source: Audit Scotland

The audit did not include councils, tribunals, commissioners or ombudsmen. In addition, although we included the NDPBs listed in the table, we did not include advisory NDPBs. These are bodies that do not normally employ staff or have budgets and they are not audited on behalf of the Auditor General. The bodies are:

- Fisheries (Electricity) Scotland
- General Teaching Council for Scotland
- Local Government Boundary Commission for Scotland
- Mobility and Access Committee for Scotland
- Public Transport Users' Committee for Scotland
- Scottish Advisory Committee on Distinction Awards
- Scottish Law Commission
- Scottish Local Authorities Remuneration Committee

Appendix 2.

Audit approach

Evidence for this report was gathered from fieldwork using quantitative and qualitative approaches. The key elements of this were:

- a survey of all board members of public bodies and colleges.¹ We surveyed all 1,500 board members in the 106 bodies and we achieved a response rate of over 50 per cent (777). The survey covered a range of topics including:
 - their time commitments and pay
 - their experience of induction, training and performance appraisal
 - their experience of being appointed
 - their understanding of the role of the board
 - the collective skills of the board
 - how the board operates
 - relationships both within and external to the board
 - demographic data
- document reviews and interviews with board members and key staff in 17 sample boards (see [Appendix 1](#)). We attended a board meeting and interviewed chairs, chief executives, board members and staff who support the board. In total, we conducted 68 interviews and spoke to over 70 chairs and non-executives. Our interviews covered:
 - board roles and responsibilities
 - appointments
 - induction, appraisal and training
 - board working
 - relationships
- interviews with Scottish Government staff, the Commissioner for Public Appointments in Scotland and other key stakeholders
- review of guidance to public bodies including:
 - *On Board*
 - *Scottish Public Finance Manual*
 - *Good Governance Standard for Public Services*
 - *NHS Board Development Programme*.

¹ The survey was conducted on behalf of Audit Scotland by George Street Research. The report is available at www.audit-scotland.gov.uk

Appendix 3.

Questions for board members

Checklist	Assessment	Required actions
<ul style="list-style-type: none"> • Am I confident that the board has the right information to assess the organisation's and the management's performance? • Am I sure that the board has effectively assessed the risks facing the organisation and has plans in place to manage those risks? • Am I confident that the board has the right skills, knowledge and expertise? • Does the financial and performance information I receive as a board member tell me how the organisation is performing? • Is the relationship between the chair and chief executive effective, balanced and appropriate? • Do the chair and the chief executive understand and respect their respective roles? • Does the board know when to stay out of the day-to-day running of the organisation? • What more could the board do to be open and transparent? • Are we learning and sharing enough from other boards? • How could we improve and develop our system of induction, training and assessment of board members? • Do I think our committee structure enhances our scrutiny work or does it slow us down or draw us into too much detail? • Am I confident that the board makes the best decisions? 		

Appendix 4.

Membership of the project advisory group

A project advisory group provided independent advice and feedback at various stages of the project. The membership of the group was:

Member	Organisation
Ian Bruce	Compliance Manager, Office of the Commissioner of Public Appointments Scotland
Frank Clark	Convener, Scottish Commission for the Regulation of Care
Brian Keegan	Chair, Scotland’s Colleges
Jennifer Mack	Head of Strategic Development, NHS Grampian
Colin Miller	Public Bodies Policy Division, Scottish Government
David Nicholl	Head of Chartered Institute for Public Finance and Accountancy, Northern Ireland
Colin Spivey	Head of Resourcing Centre of Expertise, Scottish Government
John Swift	Public Appointments, Scottish Government Health Directorates

Note: Members of the project advisory group sat in an advisory capacity only. The content and conclusions of this report are the sole responsibility of Audit Scotland.

The role of boards

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ISBN 978 1 907916 00 7 AGS/2010/9

Printed on Revive 100 Uncoated, a Forest Stewardship Council (FSC) certified recycled grade containing 100% post consumer waste and manufactured at a mill certified with ISO 14001 environmental management standard. The pulp used in this product is bleached using an Elemental Chlorine Free process (ECF).

