

Public service improvement

The conditions for success and the Scottish experience

A discussion paper by the Auditor General for Scotland, Robert W Black

April 2006



Auditor General for Scotland

The Auditor General for Scotland is the Parliament's watchdog for ensuring propriety and value for money in the spending of public funds.

He is responsible for investigating whether public spending bodies achieve the best possible value for money and adhere to the highest standards of financial management.

He is independent and not subject to the control of any member of the Scottish Executive or the Parliament.

The Auditor General is responsible for securing the audit of the Scottish Executive and most other public sector bodies, except local authorities and fire and police boards.

The following bodies fall within the remit of the Auditor General:

- departments of the Scottish Executive, eg the Health Department
- executive agencies, eg the Prison Service, Historic Scotland
- NHS boards
- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Enterprise.

This report is based on a Public Management and Policy Association/
The Chartered Institute of Public Finance and Accountancy in Scotland (PMPA/
CIPFA) in Scotland lecture given on 30 March 2006 in the Scottish Parliament.

Introduction



Devolution has brought about differences in the organisation and delivery of key public services in different parts of the UK and therefore it is reasonable to ask whether there has been an impact on the performance regime applied to public services in Scotland. Devolution has provided opportunities for innovation in public service improvement but there are some necessary conditions for sustained improvement in these services that have not yet been fully addressed in Scotland.

Structure

This paper is structured into eight headings:

1. The pressures on public bodies to improve performance.
2. The divergence of public policies between Scotland and England.
3. Models for delivering improved performance in public services.
4. The conditions for success in sustainable public service improvement.
5. The scrutiny agenda: Inspection, regulation and public audit.
6. Best Value in Scotland.
7. The role of the Scottish Parliament in supporting performance improvement.
8. Some conclusions.

Pressure on public bodies to improve performance

There are challenges for the management of public services that are evident everywhere in the UK, with implications for inspection, regulation and public audit:

- Managing in the goldfish bowl, involving more scrutiny by Parliament and trial by media.
- Higher public expectations of performance and delivery, linked to pressure for equality of access and standards.
- Citizens and clients rights to complain and have redress.
- Growing pressure on resources, after a period of sustained growth in public spending.

- pressures for more joint working and joined-up service delivery to address complex needs.

As a consequence, we are seeing two related developments across the UK:

- Stronger and more transparent accountability for performance.
- New policies for inspection and regulation, which are moving away from inspection and regulation systems that are based in a professional service to a framework that is based on client groups – for example in services to children and the elderly, in criminal justice, social work and in community housing and development.

Divergence of public policy

There is a growing body of evidence that devolution has allowed a flourishing of different approaches in key areas of public policy and service delivery between different parts of the UK. Significant policy divergences include free long-term care and no upfront tuition fees in Scotland; the abolition of school league tables in Wales; free bus travel for the elderly first introduced in Northern Ireland; and the congestion charge in London. In some areas, Scotland has taken a lead and England has followed (or may soon do so). Examples include the foxhunting ban, the smoking ban, dietary programmes for school children, and the Fresh Talent Initiative for attracting foreign students.

In health and education, two of the most important areas of public policy, there have been significant divergences. In Scotland and Wales there is greater emphasis on public health and promoting healthier communities compared with England. In England there

is a significant emphasis upon market-based health and education reforms, based on competition (or contestability) and choice, whereas these are largely absent in Scotland and Wales. In education, the policies in Scotland and Wales emphasise the links between schools and communities and the need for common content and standards of provision across all schools, whereas in England there is greater emphasis on choice and institutional diversity.

It might be argued however, that public preferences may limit the degree of divergence in the longer term. What works best is what everyone will want, whether they live in Scotland or elsewhere. For example, it has been suggested that the lack of priority given by the Welsh Assembly to NHS waiting times lead to pressure for a policy rethink in light of the achievements that have been reported in England.

Generally speaking, in relation to major public services such as health and education, there seems to have been greater – and potentially more far reaching – policy experimentation with the basic structure of service planning and delivery in England compared with Scotland and Wales. As I have indicated, however, this does not mean that the Scots and the Welsh have failed to lead the way occasionally. Devolution is providing an opportunity for diversity and innovation. Good learning from this diversity may lead to better public services.

Models for delivering improved public services

The importance of developing effective models for improving public services is made all the more important because the devolved system of government in Scotland still exhibits the features of the 'hollowed out state' as described by Rod Rhodes¹ many years ago. Of the total planned spending for 2005/06 approved by the Scottish Parliament of £27,238 million, 36 per cent is spent by local government, 32 per cent goes on health and 32 per cent is spent by central government. The central government split is 16 per cent being spent through agencies and NDPBs with only 14 per cent accounted for directly by central government. Because most spending is decentralised, it is important to have in place mechanisms that will result in improved performance and efficiency across the public sector.

It is possible to identify different models for delivering improved public services. These have been developed from a framework described by Professor Simon Stevens at a recent lecture in Edinburgh.²

Trust-based

The trust-based model is that within organisations people can be inspired to change. It is a bottom-up approach. For key services like health and education, the drive for improvement should come from the professionals working with management at the local level. This model has been damaged by growing public mistrust of professionals and high-profile organisational failures, for example the controversies over organ retention in hospitals, child abuse cases, public confidence in the Scottish fingerprint service, various stories alleging financial 'mismanagement' and so on.

The trust-based model also has the weakness that it does not include a systemic incentive to improve.

Hierarchical command and control

The command and control model is the drive to improve performance by central directives and detailed performance targets and measures. It may not work very well because of complexity, for example in the health service. It may stifle, or at least may not adequately support, innovation and efficiency. And as with the trust-based model, it may be difficult to design into the system effective incentives for sustainable improvement and efficiency.

Markets and tariffs

Incentivisation is the rationale of this model. It is about the design of effective incentives by creating quasi-market systems with the incentives provided by prices or tariffs. It may be difficult to apply because of imperfect markets, poor cost information, and the political problem of dealing with the fall-out from organisations that fail to respond by addressing their inefficiencies.

Local choice and local voice

There are two elements to this:

- 1. Consumer choice** is about encouraging a range of providers and challenge provider interests. It requires surplus capacity and adequate consumer information to empower the users. The need for independent, authoritative information is the key to service users' ability to make good choices.
- 2. Representative choice** is about rediscovering democratic control and choice on behalf of citizens. It leads into the current debate about reinventing the purpose of local government.

Simon Stevens suggests that in the UK there is a general trend away from the trust model and towards empowering consumers. In Scotland, there is generally more emphasis on command and control and less on markets and tariffs, with the risk that incentives for improvement and efficiency may be weaker. There is generally less emphasis on local choice in Scotland, but there is commitment in principle to representative choice, which is seen in the legislation that has given to councils a power to promote general well-being in their areas and a duty of community planning.

Conditions for success in sustainable public service improvement

The literature about the application of systems thinking to the management of complex public organisations is important when we are considering how to deliver sustainable public service improvement. The central message is that complex systems and organisations need complex controls.

Each of the models outlined above tends to be given political significance because they each involve assumptions about how best to deliver modern public services. Each model is an attempt to tackle what is generally called the principal-agent problem in the delivery of public services. The principal who is paying for a service (usually the government) does not know how far poor performance is the fault of the agent, because of imperfect information. The issues in the principal-agent problem are how to motivate service providers in the public sector to deliver results efficiently, how to know whether this is happening, and also how to deal with complex chains and networks of principal-agent relationships.

1 *The hollowed out state: the changing nature of the public service in Britain*, Rhodes R A W, *Political Quarterly*, 65,2, 1994.

2 *The politics and economics of funding and delivering healthcare*, Simon Stevens, Edinburgh Lectures, March 2006.

Because we are dealing with complexity in most public services, there is no simple way of getting better performance. Sustained improvement may require more than one of the models that I have outlined, depending on the context. In Scotland, for example, limited use of tariffs will be adopted to inform and incentivise the delivery of some health services, within the unified structure of health boards which both plan and provide most health services.

However, if any combination of these models is to be applied to good effect, it is possible to identify seven conditions for success that need to be present in any context. These conditions for success are: systems thinking and strategic planning; the right structure; adequate resources; good performance management and resource management systems; the right people; excellent leadership; public performance reporting linked to democratic accountability and supported by public audit.

1. Systems thinking and strategic planning

The first of these requirements is a very strong capacity for systems thinking and strategic planning – in other words, an understanding of how economic and social systems work and interact and a capacity to plan for complexity. Putting it simply, if a system is to control its environment it must contain at least as much variety as there is in the environment to be controlled. It follows that in complex economic and social systems, improving performance involves not one, but many actions at different points in the system. There are examples of this in Audit Scotland's performance studies of complex systems.

One example is the study of delayed discharge (bed blocking) in Scottish hospitals. Initiatives for reducing delayed discharges need

to be targeted at different stages in the patient journey, as part of a whole-system strategy. For example, there is a need for chronic disease nurses and rapid response teams working in the community to prevent admissions; delayed discharge coordinators in hospitals and other initiatives to speed up the assessment process and plan the resources for discharge; and better community services such as extended homecare hours, better coordinated aids and adaptations, and more specialist housing. A very similar pattern of a complex system requiring a complex strategic response is evident in another high-profile area of the NHS, namely the management of waiting times on which we produced a report recently.

In dealing with complexity, there is a need to tackle the fragmentation of policy-making that can so easily lead to inefficiency and extra bureaucracy in government. The new community planning role of local authorities in Scotland is a good example of the need for more systems thinking. In its analysis for its forthcoming report on community planning, Audit Scotland is finding that some good progress is being made, but that there are systemic problems that may inhibit success. Community Planning Partnerships (CPPs) have to accommodate a range of other local partnerships such as Community Health Partnerships, community safety partnerships, and a range of collaborative initiatives in social work and economic development. The study identifies at least 20 separate local partnerships required by the Scottish Executive. One council estimated that 29 separate plans and strategies are required for different Scottish Executive departments. A significant amount of Scottish Executive funding is also expected to be spent through partnership working. Audit Scotland estimates that in the last two years the Executive has provided around

£1.2 billion to partnerships in about 40 different funding streams (outwith core funding of partner organisations).

2. Structure

Audit Scotland's examinations of the performance of public services in Scotland do not indicate that organisational size is a clue to organisational performance. Bigger may not necessarily be more efficient and effective, neither does smaller necessarily mean more responsive. However, there is a complex structure of government in Scotland serving a population of some five million people. Scotland has 32 councils, 15 health boards, six police boards, six fire boards, 23 other local authority bodies, 23 NHS bodies, 13 universities, 39 further education colleges, 12 local enterprise bodies, 17 executive agencies and 26 NDPBs. This is much the same structure that existed before the Scottish Parliament was created. With the exception of the NHS (where the number of bodies has fallen from 50 mainly through the abolition of the NHS trusts), the picture is getting more complex. There are seven more executive agencies than existed in 2000 and seven more NDPBs (including ombudsmen and commissioners). Seven regional transport partnerships and eight community justice authorities are being created in 2006.

Although size is not clearly related to performance, it is a recurrent theme in Audit Scotland's reports that better services require better joining up between organisations, and more economical and efficient delivery sometimes points towards more co-operation and shared services. In the complex world of modern public service needs, one organisation is rarely doing everything itself but it is usually working within a network of statutory, charity and private bodies. It is not so much structure that determines success but the ability to manage, shape, lead and create

networks and partnerships that are flexible and responsive to individuals' needs. However, the capacity of organisations to manage this inherent complexity is not helped by the current complicated structure of government. The simpler the structure, the easier it would be to create effective partnerships that deliver better, joined up services.

3. Resources

The delivery of high quality public services requires adequate resources. Total managed expenditure of the Scottish Executive in 2000/2001 was £17,993 million. In 2005/06, planned spending on devolved programmes is £27,238 million, an increase of 51 per cent. The financial resources available to the Scottish Executive depend mainly on the budget assigned by Westminster and allocated on the basis of the Barnett formula. At the start of devolution, public spending on comparable programmes in Scotland was in excess of the population share and it was anticipated that rigid adherence to the formula would reduce relative public spending in Scotland. This convergence has not happened quickly, with Scotland's share of public spending continuing to be relatively high, but it is generally accepted that in future years, spending programmes in Scotland are likely to come under sustained pressure. It is therefore all the more important to find ways of improving performance and productivity in these programmes.

This period of significant growth in public spending has also been a period in which there has been fairly unrelenting pressures on many big budgets. This is clearly seen in the NHS, where for a number of years Audit Scotland's annual overviews of the sector have

described the problems of keeping the financial system in balance. This is partly due to the nature of health spending which tends to increase as the population ages and affluence and the costs of new treatments increase, but it is also due to significant weaknesses in the basic management information about costs, inputs activity levels, outputs and outcomes. As a result, new projects are sometimes implemented with unreliable cost estimates and poorly specified benefits. The consequence of any underfunding of new projects is increased pressure on base budgets as managers try to take the strain elsewhere, sometimes with unintended effects on current service levels and quality. The consequence of poorly specified benefits is that it is often difficult to identify the productivity and performance gains from the extra spending.

4. Performance management

Any well managed organisation must have good systems of performance management. There are some examples of improving performance management systems in the Scottish public sector but from our studies it is clear that much work is needed in this area. The Best Value regime, about which more is said later, is principally designed to support the development of better performance management systems.

5. People

The Scottish Executive has significantly improved the employment conditions and staffing targets in many of the key public services in recognition of the fact that good public services require good people in sufficient numbers to manage and deliver them. The extra resources have led to some significant improvements but there are still services where

staffing shortages act as a barrier to better services (for example, social workers and NHS consultants). Given that there will be continuing limitations in the size of the workforce in future, it is all the more important to find new and flexible ways of working – for example by having more flexible roles in the health and social care professions and across organisational boundaries.

6. Leadership

In the last few years, we have seen a growing interest in, and commitment to, developing leadership capacity across organisation boundaries. Audit Scotland has mapped out the full range of leadership development³ activity and spending in Scotland. Some very good examples of investment in leadership development were found, but the picture across Scotland is variable. Levels of spend vary greatly between similar organisations, and systematic evaluation of the investment is rare. There is a problem of fragmentation, with a need for better sharing of information about investment decisions across government.

There is a need for a coordinating body for the public sector, with the ability to broker solutions, provide advice on good procurement, commission research and spread best practice.

7. Public performance reporting and democratic accountability supported by public audit

Where public money is involved, there must be transparent and informative public performance reporting, because public reporting is the main accountability mechanism. As the Sharman report said a few years ago,⁴ 'Accountability for public money is at the heart of the relationship between Parliament and the Executive.'

3 *Leadership development: How Government Works*, Auditor General for Scotland, 2005.

4 *Holding to Account: The Review of Audit and Accountability for Central Government*, Lord Sharman, HM Treasury, London, 2001.

It is the Scottish Parliament's role to hold the Executive and public bodies to account for their performance; it is a duty of the Executive and public bodies to report on their performance; and it is the role of public audit to support the process of democratic scrutiny by providing independent analysis and commentary on performance as well as reports on the accounts.

The scrutiny agenda: inspection, regulation and public audit

The processes of inspection, regulation and public audit can be collectively called scrutiny. Scrutiny is being seen as a key mechanism for delivering improvement by both Westminster and Holyrood. The Scottish Executive has introduced a number of new scrutiny mechanisms over the last two years, but there is also some concern about the burden of scrutiny on those providing services to the Scottish public.

Inspection, regulation and public audit, have two key roles – providing assurance and promoting improvement. Providing assurance to ministers, the Parliament and the public about the performance of public services is fundamental, but contributing to improvement is also important and has been the focus of recent attention.

Inspection, regulation and public audit involve distinct but complementary approaches to common issues:

Inspection is the periodic, targeted scrutiny of specific services, to check whether they are meeting national and local performance standards, legislative and professional requirements, and the needs of service users.

Regulation focuses on providing a licence to operate and monitoring the quality of services provided. Regulation may also include elements of service inspection, and can be designed to drive up quality as well as to enforce standards.

Public audit is the scrutiny of public bodies covering their corporate governance and management, the financial statements and underlying financial systems; and performance, performance management and reporting.

All the scrutiny bodies share an interest in promoting improvement in the services they monitor. Indeed, the Hampton review recommended that scrutiny bodies should be more systematic and active in their advice-giving to encourage awareness and compliance with regulations.

There will always need to be a core of activity which holds services to account and drives out poor services. The demand for scrutiny from the public and their elected representatives is always greater where there is more perceived risk. The challenge to the scrutiny system is to deliver more effective, risk-based and proportionate scrutiny which, over time, will minimise the amount of assurance work required and free up time and resources that can be directed towards supporting improved performance.

There has been a growth in scrutiny over many years. The Better Regulation Task Force concluded in 2003 that 29 new regulators had been created since 1973. In Scotland, the landscape of scrutiny has become more complicated over time. Scrutiny bodies have been set up at different times in response to different demands,

and over recent years a number of new approaches to audit and inspection have been introduced, including:

- The audit of Best Value in local authorities by Audit Scotland on behalf of the Accounts Commission.
- The creation of the Scottish Public Services Ombudsman and a number of commissioners.
- The role of Communities Scotland in regulating and inspecting local authority housing services.
- The establishment of the Care Commission as a national independent regulator of all local authority, private and voluntary care services and all private health care. The Care Commission brought together the regulatory functions of 32 local authorities and 15 health boards.
- The establishment of NHS Quality Improvement Scotland, bringing together the functions of five former organisations.⁵
- The establishment of a new Inspectorate of Prosecutions.
- A new system of inspections of criminal justice social work.
- The development of a multi-agency inspection regime for children's services, starting with child protection.
- The launch of Social Work Inspection Authority to carry out inspections of social work services for older people, learning disabilities and mental health.

5 Clinical Resource and Audit Group, Clinical Standards Board for Scotland, The Health Technology Board for Scotland, Scottish Health Advisory Service, Nursing, Midwifery, Practice Development Unit.

- The establishment of the Office of Scottish Charities Regulator.
- The creation of a Water Industry Commissioner, recently replaced by a Water Industry Commission.

The focus of inspection processes is changing to reflect new, integrated models of service provision. There are new joint inspections/reviews by existing bodies covering for example children's services, older people's services, people with learning disabilities, and substance misuse services.

This shift can help to ensure that the needs of service users are central to the process of inspection, but it also increases the potential for overlap between scrutiny bodies and processes. All of these changes mean that there is a strong case for reviewing the way in which scrutiny of public services works in Scotland.

The various scrutiny bodies already put a significant amount of effort into working together to minimise the burden on public services while achieving the aims of accountability and improvement. This should be taken further. The first step should be to agree a set of common principles among the scrutiny bodies. For example, scrutiny should be: risk-based and proportionate; independent; accountable; and transparent.

These principles should be based on an agreed set of standards, to which the sector under scrutiny has contributed. The scrutiny bodies should:

- develop a shared code of practice
- agree a joint scrutiny plan and programme

- increase information sharing
- share resources and expertise
- share best practice.

A more fundamental review should also be considered. There is a need to develop a system which provides effective scrutiny and reduces bureaucracy. Joint inspections do not deliver an improved and less burdensome system of scrutiny in themselves, unless all the scrutiny bodies involved change their ways of working.

The key questions are:

- Where does the burden of scrutiny come from?
- How are the scrutinised bodies affected?
- How effective is scrutiny in leading to service improvements?
- How appropriate are the governance arrangements for scrutiny?
- Are the risks of service failure serious enough to justify the system of scrutiny in place?
- Have serious service failures been minimised or prevented?
- What are the costs and benefits of different forms of scrutiny?

The Hampton Review⁶ recommended that, if the government decides that scrutiny of a particular public service or activity should be initiated, changed or improved, new tasks should be given to existing scrutiny bodies unless there is a compelling reason to create a new body.

There is also a strong case for arguing that scrutiny bodies should commit themselves to reviewing their work when a serious service failure occurs, to clarify whether the failure could have been avoided and to identify how the existing scrutiny system could be improved.

These principles could be combined into a protocol to be considered by the Executive and the scrutiny bodies before new scrutiny arrangements are proposed.

Professor Christopher Hood⁷ has suggested that we should be 'applying mutuality to the regulation of government'. This is a good phrase because it carries the message that auditors, inspectors and regulators should voluntarily come together to discuss and recommend how they can improve the quality and efficiency of what they do. Hood also suggests one possible model from business regulation. This is the 'umbrella' or 'double-decker' model in which individual scrutiny bodies combine specialist expertise in sub-units at the operating level, and also add another layer of more general policy analysis backed up by a capacity to identify the need for high level action in response to an organisation that has persistent unsatisfactory performance. This type of arrangement would also make it easier for all the scrutiny bodies to develop and sustain a body of expertise that can do performance review efficiently and effectively.

It seems to me that the Best Value regime that has been applied to local government in Scotland has the potential to provide the integrated approach to scrutiny that Hood suggests and that is implied by the Hampton review.

⁶ *Reducing Administrative Burdens: Effective Inspections and Enforcement*, Hampton P, HM Treasury, London, 2005.

⁷ *Regulation of government: has it increased, is it increasing, should it be diminished?* Hood C, James O, and Scott C, Public Administration, Vol 78, No 2, pp 283-304, 2000.

Best Value in Scotland

The strategic statement I published in 2004 has the title *Holding to Account and Helping to Improve*. A fundamental role of audit is to provide independent reports on whether taxpayers' money has been used properly, wisely and well. But audit can also support continuous improvement in public services. This has been one of the most exciting and promising areas of development of public audit work in Scotland. This improvement role should, and will, grow in significance in future.

Central to the strategy is the Best Value regime that it now being applied to local authorities under the Local Government (Scotland) Act 2003. The new Best Value regime is placing the performance of councils at the centre of the local government agenda, and is designed to support continuous improvement in the management and service delivery of councils.

The focus is on each individual council to be responsible for, and give a public account of, its performance. Once every three years, a council is required to produce an account of its priorities and its performance, set against relevant contextual information. The council is also expected to draft an action plan for improvement. Audit Scotland then conducts a Best Value audit based on the council's submission and other information such as inspectorate reports, key performance indicators and performance audit reports. Audit Scotland then produces a Best Value audit report which is a public document. It is an integrated overview of a council which covers what the council is trying to achieve, how it is organised to improve, and how well it is performing.

The central requirement of Best Value is that a council demonstrates continuous improvement in the performance of its services. This means that a council needs to know how services are performing and whether they are improving over time. The Best Value guidance below sets out the key features of an effective performance management system.

How do we know we're doing the right things?

- a. We understand the needs, expectations and priorities of our stakeholders.
- b. We have decided on the best ways to meet these needs, expectations and priorities.
- c. We have detailed plans for achieving our goals.
- d. Our plans are based on the resources we have available.

How do we know we're doing things right?

- e. We make best use of our resources.
- f. We make best use of our people.
- g. We monitor and control our overall performance.
- h. We have sound financial control and reporting.

How do we plan to improve?

- i. We actively support continuous improvement.

How do we account for our performance?

- j. We provide our stakeholders with the information they need about our services and performance and listen to their feedback.

Each Best Value audit report is considered individually by the Accounts Commission, and the Commission generally issues its own public findings after a dialogue with the council.

In the years between Best Value reviews the council's auditor will use the Best Value reports as one of the inputs to planning the annual cycle of audit work. Audit Scotland, in partnership with the accountancy firms who work in public audit, is modernising the financial audit to give priority to the major risks and performance issues facing managers in public bodies. In the case of councils, the Best Value reports highlight the main risks and performance issues on which the external audit resource needs to concentrate in order to challenge and assist managers to improve before the next Best Value assessment comes round. It is possible to use the modernised audit to challenge and support councils in the drive for improved efficiency of council services. Auditors do this through the annual cycle of reports to individual local bodies which cover a range of local risk and performance issues, backed up by the annual final report of the audit which is a public document.

The key features of the Best Value regime are as follows:

- The focus is on the individual council – recognising local context and democratic choice of priorities.
- The emphasis is on performance of services – placing performance issues at the heart of councils' agendas.
- The emphasis is on continuous improvement within each council – there are no league tables or across the board comparisons of councils as a whole.
- The approach aims to be risk-based, targeted and proportionate – concentrating on the issues that matter.
- Best Value reports include references to the reports and findings of inspectors and regulators – to ensure systematic follow up and action on weaknesses that have been identified.

The strengths of the Best Value regime as it applies to local authorities are:

- It recognises the democratic legitimacy of councils.
- The Best Value reports are set in the local context.
- Accountabilities are in the right place, with the responsibility for delivering improvements clearly with the councils.
- Audit is fulfilling the dual roles of holding to account and helping to improve over the full Best Value cycle.

The areas of Best Value requiring further development are:

- Better information on service delivery (service coverage, quality and cost).
- Better information about users' experience of services.
- Improved performance and service quality information from inspectors.
- Application of Best Value to community planning.
- More systematic challenge on whether councils are comparing alternatives and using contestability sufficiently.

The statutory Best Value regime applies only to councils in Scotland, but ministers have expressed a desire that the Best Value principles should apply across the public sector. There is a strong case for improving the accountability of all public bodies to the Scottish Parliament and the public by introducing a system of comprehensive performance reporting, with independent audit of these reports. Integrated Best Value reports would include an overview of findings made by inspectors, regulators, the ombudsman and commissioners. The reports would describe the action being taken to address weaknesses.

These Best Value reports would not be annual, for two reasons. Firstly it is important to restrict the burden of scrutiny upon managers, and secondly, sufficient time must elapse between comprehensive performance reports for improvement plans to have an impact. The triennial Best Value reporting cycle required of councils could be applied elsewhere.

The role of Scottish Parliament in supporting performance improvement

The early years of the Scottish Parliament have been a period of significant growth in public spending. This has allowed the Scottish Executive with the support of Parliament to introduce more (sometimes costly) public services and policies. The forecast is for a much tighter public spending environment in the years ahead. This means that the Parliament will need to learn to talk more in the language of priorities and require better information on benefits and costs. Should current policies with open-ended spending commitments be resourced without limit of time or cost at the expense of other priorities? What is the balance between funding preventative health programmes and new drug treatments? Or the balance between spending on early years programmes and youth crime programmes? Or the choices between capital spending on tramways or busways or roads or railways? Or the balance between spending more on front-line services for people and keeping old and surplus buildings open?

Audit Scotland reports, prepared for the Auditor General, are laid in the Scottish Parliament. The Parliament's standing orders provide for these reports to be considered by the Audit Committee. The scrutiny undertaken by the Audit Committee is undoubtedly one of the success stories of devolution. It is non-political in its proceedings and it holds accountable officers (senior civil servants and chief executives of public bodies) to account for financial management and performance.

The Audit Committee has demonstrated its commitment to supporting improvement as well as holding to account. This is most clearly seen in its willingness to engage with issues over a long period. For example, I occasionally produce a first report on an issue or an organisation, with recommendations for improvement that have been accepted as appropriate by accountable officers. Then there is a period for action by managers before a further audit report is made, on which the Committee may take evidence and issue its own findings. This practice provides opportunities and incentives for managers to deliver improvements over time, knowing that they will then be held to account by the Audit Committee.

Other committees of the Parliament have not so far made significant direct use of Audit Scotland reports in their work. The Finance Committee has a major role in the oversight of the budget and has conducted effective scrutiny in a number of areas, although Audit Scotland has not been greatly involved in providing reports and evidence to inform the Finance Committee's scrutiny.

Most subject committees have devoted a large part of their time to the consideration of draft legislation. The outcome of this work has been the addition of not far short of 100 Acts of the Scottish Parliament in six years. It must be likely that the workload associated with new legislation will ease in future. There is therefore an opportunity for the committees to become more systematic in their scrutiny of public expenditure. Committees should take a serious long-term interest in the results delivered by major spending programmes and the performance of executive agencies.

There is a need for Parliament to build on its achievements by developing a more systematic approach to public expenditure and performance review. All committees, most significantly the Finance Committee and the Audit Committee, should have a key role to play in the systematic scrutiny of Best Value in the big spending programmes.

The Audit Scotland programme of performance audits is designed to help achieve a more systematic approach to public expenditure and performance review by Parliament. Since it was established in April 2000, Audit Scotland has published overview reports of specific areas of the public sector. These have focused on the three big spending sectors: local government, the health service and further education. Each overview report gives an integrated picture of performance in the sector as a whole and also in individual bodies if there are significant issues at the local level. We are now extending the same principles to other areas of public policy, with the intention of preparing an overview report on each major area of policy on a cyclical basis, starting later this year with transport. We will examine the information available on performance in each policy area, together with the contribution that other bodies (such as local authorities, executive agencies and non-departmental public bodies) make to the delivery of Executive policies and objectives to provide an overall picture of progress.

Conclusions

It is essential to have a systematic approach if sustained improvement in the performance and management of public services are to be achieved. Different models for achieving sustained improvement will apply to different circumstances. A system of incentives is important for economy, efficiency and effectiveness.

In Scotland, I suggest that for many services, a very important challenge is to build in the right incentives for improvement and efficiency. These are likely to involve, as a minimum, more rigorous comparisons of options for service provision and developing better performance management and reporting, supported by public audit.

Conditions for successful public services

Regardless of the preferred model, the necessary conditions for success must always be there. These are systems thinking and strategic planning, the right structure, adequate resources, good performance management and resource management systems, the right people, excellent leadership, public performance reporting, and democratic accountability supported by public audit.

Scrutiny

We should take action to streamline the scrutiny arrangements to support sustained improvement. Our first step should be to agree a set of common principles among the scrutiny bodies. Scrutiny should be risk-based, proportionate, independent, accountable and transparent. The overall costs of scrutiny should be contained and the burden upon public bodies must be kept to a minimum.

We should also consider whether a more fundamental review is needed to develop a system which provides effective scrutiny, reduces bureaucracy and limits the cost of scrutiny work. Joint inspections don't deliver an improved and less burdensome system of scrutiny in themselves, unless all the scrutiny bodies involved change their ways of working. There is a need for an integrated overview of how any public organisation is performing backed up by a capacity to take high level action in response to persistent unsatisfactory performance.

Best Value

The Best Value regime is designed to provide integrated overviews of councils. It is working in local government and the principles should be applied everywhere else in the public sector. Best Value has the great advantage that it promotes a form of public accountability that allows for diversity and choice while promoting continuous improvement. It also brings performance issues to the centre of the stage, whether in a council or any other public body. The Best Value approach provides the integrated reporting that is necessary to give a rounded picture of performance over time.

Organisational learning

Scrutiny must support responsible innovation and experimentation, not stultify it. We need systems and incentives that encourage innovation in government and develop the capacity to redesign services. We should be learning through place-based projects because that is where practical learning is most useful (for example, the Glasgow initiative that is bringing the council and the health board closer in how they deliver flexible services, other whole systems approaches, other local innovations that work well).

We should also be learning through evidence-base evaluation of what is happening in other parts of the UK (and possibly further afield – although international benchmarking is usually very difficult). In particular, robust evaluation will be needed of the models of choice and competition that are being introduced in England in order to learn the lessons about whether sustained improvements are being delivered and whether there are unintended consequences.

Government needs to develop organisational learning, based on good evaluation, to support sustained improvement.

Audit and democracy

One academic writer⁸ has talked of the 'democratising potential' of audit. Audit reports can contribute to high standards of democracy and provide the basis of public scrutiny. The Scottish Parliament holds the Scottish Executive and public bodies to account for their stewardship and performance. This important role is being strengthened by the modern public audit regime that we are developing in Scotland. The Scottish Parliament should build on its achievements by developing a more systematic approach to reviews of public expenditure and the performance of public bodies and departments. The Parliament should consider how to use its committee system to develop the systematic scrutiny of Best Value in the big spending programmes, supported by public audit.

Continuous improvement

It has been said that devolution is a process, not an event. Not long before the late Donald Dewar became First Minister of the Scottish Parliament he spoke of "*building a new kind of Scotland with modern, relevant, open and transparent government.*" One of the successes of the devolution process so far has been the greater openness and transparency it has brought to most areas of government. This has strengthened public accountability in Scotland. We now have an opportunity to build on this progress by developing a distinctive approach to continuous improvement in public services.



Robert W Black
Auditor General
for Scotland,
Edinburgh,
April 2006.

Public service improvement

The conditions for success and the Scottish experience

If you require this publication in an alternative format and/or language, please contact us to discuss your needs. It is also available on our website: www.audit-scotland.gov.uk

Audit Scotland
110 George Street
Edinburgh EH2 4LH

Telephone
0131 477 1234
Fax
0131 477 4567

www.audit-scotland.gov.uk