THE DAVID HUME INSTITUTE

Unlocking the Potential in Scotland's Public Services

From Good to Great by 2020

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Foreword by Jeremy Peat (Director)

As soon as I heard that Robert Black was to stand down from his role as Auditor General for Scotland, after a lengthy and most successful period in office, I asked him to speak for us at the DHI. He had been a valuable friend to the Institute for many years and readily agreed to take on this task. His talk was always set to be extremely informative, thoughtful and significant.

Bob's talk was delivered at the RSE on 4th October. We are extremely grateful to Shepherd and Wedderburn for supporting that very successful seminar. Afterwards Bob was keen - as were we at the Institute - that an extended version of his paper should be published. Shepherd and Wedderburn most kindly also agreed to meet the costs of this publication.

In this paper Bob Black sets out the challenges that lie ahead for Scotland' public services and then examines the need for 'transformational' change in order to meet those challenges. Given his wide and deep knowledge of the sectors involved, it is no surprise that his paper is packed with informative and insightful practical examples.

In the final sections Bob Black considers governance and politics in Scotland and within this context provides some suggestions for change. Specifically he proposes a Scottish Commission on Resources and Performance, producing the type of analytical reports that he considers would empower the Holyrood Parliament, and also the creation of a 'safe space' both for sharing knowledge and innovation and aiding and accelerating people development.

The focus on increasing the scope and transparency of analysis and enhancing programme and policy challenge echoes much of other thoughts from the DHI - and indeed by the RSE in budget submissions. All these ideas merit urgent and serious consideration.

However, I must as ever note that the views expressed in this paper are those of the author rather than of the Institute. We are, nevertheless, delighted Bob agreed to speak for us and then to prepare this paper. We all hope that it will exert beneficial influence and assist the move for our public services 'from good **to great'.**

The Author

Robert Black was the first Auditor General for Scotland, appointed in 2000 under the Scotland Act which brought into being the Scottish Parliament. He was the accountable officer, and therefore in effect chief executive, of Audit Scotland and was responsible for leading its development to become the respected public sector watchdog it is today. He arranged for the audit of the expenditure of most public bodies in Scotland, including the Scottish Parliament and departments of the Scottish Executive but excluding individual local authorities. A distinctive feature of Audit Scotland's work has been the programme of performance reports which are made to the Scottish Parliament, covering all those public bodies in Scotland which are accountable through Scottish Ministers to the Scottish Parliament.

His previous post was Controller of Audit for Scotland, and his earlier career was mainly in local government. He was Chief Executive of Tayside Regional Council between 1990 and 1995, until just before its abolition. Before that, he was Chief Executive of Stirling District Council, and his earlier career was in policy planning and research with Strathclyde Regional Council and Nottinghamshire County Council.

Robert Black has an honorary Doctorate of Law from the University of Aberdeen, an honorary Doctorate of Business Administration from Queen Margaret University College, an Honours Degree in Economics, a Masters Degree in Planning and a Masters Degree in Public Policy. He is a Fellow of the Royal Society of Edinburgh, a Fellow of the Royal Statistical Society and an Honorary Member of the Chartered Institute of Public Finance and Accountancy.

Since his retirement from the post of Auditor General he has joined the Court of Edinburgh University as a lay member, the Council of the Institute of Chartered Accountants of Scotland as a public interest member, and he has also joined the board of the British Library in London.

Introduction

We are some twelve years or so into devolution. For most of this time I had the great privilege of being the first Auditor General for Scotland and the first chief executive of Audit Scotland. I had responsibility for arranging for the audit of spending by most public bodies in Scotland, including the Scottish Government, for performance audits across the public sector, and making reports to the Scottish Parliament. Having had a unique perspective on how government works, I was grateful for the opportunity given to me by the David Hume Institute and the support of Shepherd and Wedderburn to reflect on the new government, and governance, of Scotland. The contents of this paper are my own and the views expressed are mine in a personal capacity. They have not been discussed with Audit Scotland.

The strategic policies of successive governments in Scotland have generally been well crafted and across the whole of our public services many high-quality public services are provided. However, my task in this paper is not to praise, although much praise is due, but to offer constructive challenge.

I held the office of Auditor General during the most benign period for the public finances in living memory and now we are into the most challenging times in living memory. My two questions are, whether we are doing enough to consider openly the hard choices that are going to be necessary, and whether our system of government is equipped to act on issues of service redesign and to address the transformational change which I believe is urgently needed.

Political debate in Scotland is focused on the independence issue and the proposed referendum later in 2014. This paper does not address the independence issue for two reasons. In the first place, I have nothing novel or insightful to add to the debate, and secondly, whether the outcome is the status quo, more devolution or complete independence, we will be facing the same challenges in our public services as we do today. I have a concern that the political and media focus on the independence issue may be leaving little space or opportunity to address the challenges which we are facing.

Time is not on our side. The challenges are immediate and require an urgent response. We cannot afford to place this agenda to one side until after 2014.

In the early part of the paper I consider the need for transformational change in response to the challenges ahead. I then offer some personal thoughts about governance and politics in Scotland before going on to discuss the challenges in more detail. In the final part, I offer suggestions about how we should prepare for the future, and identify some specific areas where transformational changes are needed.

The Age of Unreason and Transformational Change

"Circumstances are now once again, changing. Change is not what it used to be. The status quo will no longer be the best way forward…..Those who know why changes come waste less effort in protecting themselves or in fighting the inevitable. Those who realize where changes are heading are better able to use those changes to their own advantage. The society which welcomes change can use that change instead of just reacting to it."

This quotation is from Charles Handy's seminal book, The Age of Unreason which was written in 1988. A hazard of getting older is a growing suspicion that there may indeed be nothing new under the sun. Change is always with us, but every so often there is a discontinuity or break with familiar patterns. This can be confusing and disturbing in our personal lives, and also for those who hold power in society.

Seismic changes are occurring in the global economy and in society, including the changing balance of economic power towards the fast-growing and developing societies, the attendant growth in global competition, the crisis in capital markets, uncertainly over the future of Europe and the single currency, constraints on the supply of natural resources, the not unrelated risk of regional wars arising from religious and ethnic tensions. As a small country with an open economy, Scotland is not isolated from these changes.

Closer to home, there are the challenges arising for our public services by the prospect of years of resource constraint or reduction, and the fast-growing pressures of an ageing population, long term unemployment and other social factors.

Governments tend to respond to challenges by devising strategies designed, at best, to improve existing systems or, at the very least, to sustain them. I would call these coping strategies. This approach tends to reduce complex problems into separate components in the belief that they can be managed in this way. But this approach will not be enough given the future we are facing.

In Scotland, governments have over the years produced policy overviews and strategies and, as I have mentioned, these are generally of good quality. But it has often been difficult to implement them effectively. For example there have been reports advocating penal reform and several strategic documents on the future shape of health services. Some of these have led to action but the pace of change has often been slow

We need to think clearly, and courageously, not only about short-term responses but also about longer-term transformational change. There are two key elements in transformational change in public services. The first element must be the wholehearted adoption of systems thinking, which treats public services as complex adaptive systems, with serious attention being given to developing learning systems for improved performance. Secondly, ways must be found to engage citizens and service users with the issues, since there will be resistance to any change where people feel they have a personal stake in the status quo and they are not persuaded that change is necessary

Governance and Politics in Scotland

Democracy and leadership

In a recent book, Francis Fukuyama suggests that the origins of political order are constructed on three pillars: firstly the presence of effective state institutions; secondly the operation of the rule of law to constrain political power and corruption; and finally the accountability of government which compels the state to use its power in accordance with public, transparent rules. He develops his argument in relation to societies across time and geography – in relation to China, India, Greece and Rome, and in some European states. What comes across clearly from Fukuyama's account is that modern democracies are a relatively recent form of social organization, and the contingent factors that allow democracy to evolve and flourish are relatively rare in history.

In Scotland we are extremely fortunate to live in a mature functioning democracy. There is effective government; there is respect for the rule of law which is founded on the concept of individual liberty; there is an open and transparent system within which the state exercises power and can be held to account; and finally, as I know well from my years as Auditor General, there are high standards of probity and propriety across public life.

I do not for a moment think that our democracy is under threat, but we can see evidence in some southern European countries of the pressures that can arise. Whether in individual organisations or systems of government, similar pathologies can emerge when there is stress – a move to greater secrecy, a siege mentality gripping organisations, denial, avoidance and displacement behaviours, and a growing anxiety about loss of control. This runs the risk of stasis or decline, and it is for this reason that we must think seriously now, about both our short term coping responses and our longer-term transformational strategies.

We need to build a vision for Scotland's civil society and public services which builds confidence about the future.

This is not just the task of political parties, in government or in opposition, but politicians do have the main leadership role.

I have had many conversations with senior leaders and practitioners and thinkers in Scotland's public life. The message is usually the same. Political debate often feels out of time. For example, we came through the last UK general election and the Scottish Parliamentary election with a sense from the political manifestos that the debate was about which party could provide more services, keep more front line staff in place, and sustain fewer cuts than its rivals. The political debate fashioned during the years of growth is no longer appropriate.

The mode of politics is inherently adversarial because parties have different beliefs and priorities. However, the culture and ethos across most of the political spectrum in Scotland places a high value on public services and upon equality of opportunity and access. There is a fairly strong emphasis upon direct service provision by public bodies. This runs the risk of crowding out the opportunity to consider openly and safely – and I use that word advisedly – significant service redesign or restructuring issues. Where significant change is adopted, it generally takes place within established systems of service delivery.

A good example of this would be the current plans for a single police force in Scotland, where the political narrative has been centred on achieving efficiency savings and maintaining the number of uniformed officers. The efficiency savings for which plans are being made are substantial. There is, however, a policy imperative that the current number of police officers should be maintained at 17,234. This requirement is understandable for the short term, because the public put a high value upon the visibility of the police service in local communities. At some point quite soon, the debate must shift to the role of modern policing in society, the impact of scientific and technological progress on the service, innovative ways for mobilizing community resources in the quest for community safety, and the best way to use the professional skills of police officers. The number 17,234 is an input measure which cannot be set in stone for the future. I was interested to read a small piece in a national newspaper that in 1949, the authorized strength of police forces in the cities, burghs and counties across Scotland was 7,343.

It is rare for a party or leader to take the risk of being the first mover in rethinking policies, whether it be penal reform, reshaping the health service, practical steps to stop doing things so we can move resources into prevention strategies, or in many other policy areas. This is understandable. There are usually people who have a strong interest in preserving the current arrangements, and these people have votes and influence. The quality of public services in Scotland is generally high. Political leaders may baulk at the idea of radical change if it puts at risk adequate levels of service. And we have in Scotland many services which are adequate. As the management guru Jim Collins said some years ago, "the good is the enemy of the great."

A joined-up system?

I spent my formative years as a young local government officer doing budget review and policy planning in Strathclyde Regional Council which covered half of Scotland. Some years later I became chief executive of Tayside Regional Council, a large council by today's standards, covering Dundee, Angus and Perthshire.

A key design feature of these regional authorities was that they did strategic planning and they also delivered the services for which they were doing the planning and budgeting. For performance review purposes, you could look at the delivery chains and the whole systems of service provision, from the centre through to the locality. The elected members were connected to high-level planning and budget setting and also to local service provision, and the senior officers could be held to account for all of it. It was a joined-up system, with coterminous boundaries shared by the regional council, the health board, and the enterprise body for Tayside. The nine regional and three island authorities were well connected with the Scottish Office

The system now is undoubtedly more complicated. Devolution has pushed considerable power and responsibility from Westminster to the Scottish Parliament. However, after devolution there are still many of the features of what one academic called, a "hollowing out" of the state.

Roughly 85% of the money coming into the control of the Scottish Parliament from Westminster goes to be spent by 32 local authorities, 23 health boards, 8 police forces (soon to be one of course), 20 universities, 37 colleges and many other public bodies. Coming to work with the new Parliament after a decade as a council chief executive, I was struck by the disconnects in the system compared with my experience in Tayside and Strathclyde.

These disconnects present some challenges for MSPs. In the very early days of the Parliament there were many members who had been councillors. They had knowledge and understanding about front line service delivery and the reality of making hard choices about priorities because their councils had to strike legal budgets. It is different for MSPs, especially those who do not have this background. They will of course each have strong networks at local level, but they have to rely on the formal scrutiny arrangements in Parliament. Scrutiny is exercised by the Public Audit Committee in relation to public spending and the performance of public bodies and by subject committees in relation to the evidence-taking from interest groups and experts on draft legislation. However, this scrutiny does not provide sufficient opportunity for deep learning to take place. It is generally formal, episodic and patchy, with limited opportunity to sustain and follow through on issues.

Located for much of their time at Holyrood in Edinburgh, how can MSPs develop a deep knowledge and understanding of the complexities of modern service planning, management and delivery in the major service providers and joined-up delivery systems?

For example a major hospital is one of the most important and complex delivery organisations in the public sector. Its activities typically will include: inpatient elective and non-elective operations; outpatient procedures, first attendances and follow-up attendances; emergency care, critical care and paramedic services; diagnostics and pathology; coronary care; audiology; renal dialysis; radiotherapy; chemotherapy; mental health services including inpatients, outpatients, secure units, specialist services and community services; and finally day cases activity. A hospital is a complex system in its own right.

Further levels of system complexity are added by the networks of interaction with primary and community care services, including social services. Given the financial challenges and the growing needs arising from demographic changes and other social pressures, some difficult decisions will have to be made about service redesign. If MSPs are to make big decisions about the future shape and redesign of public services in an era of unprecedented pressure on budgets, we must find ways of giving them a good knowledge and understanding of the complex delivery systems which characterize health and social care, and also the rest of the public sector.

There is change and innovation taking place in Scotland. I have picked up from my conversations and visits to public bodies many examples of promising initiatives designed to provide better services. However, the thinking is often fragmented and the innovation tends to be localized. A recurrent theme from my conversations with leaders is the strong desire to step up the pace of change, to accelerate the redesign of services, and get real energy behind the transfer of knowledge and experience about what works best. Our executive leaders are saying that political leaders must support them in the redesign of services because redesign often requires existing interests, behaviours and ways of working to be challenged. For this to happen, it is essential that political leaders have the opportunity to acquire knowledge and understanding about the complex reality of modern public services, and about the risks, challenges and the exciting opportunities for improvement.

The Challenges for Government and Public Services

I suggest that there are several sets of issues which need immediate action to prepare the public service in Scotland for the future

1. Cuts in spending and cost pressures
2. Productivity and the elusive issue of quality
3. Preventative spending
4. Partnership working
5. The role of local government: the enabling council revisited
6. Commissioning services and the voluntary sector

7. The need for systems thinking
8. Local leadership in partnership

1: Cuts in spending and cost pressures

On conference platforms as far back as 2002 I was saying that both the discipline of economics, not to mention biblical text, warn us that seven fat years are likely to be followed by seven lean years. I was never convinced that we had seen the end of boom and bust. In my private conversations with senior civil servants I suggested that there was a need for a stronger Treasury-type function at the centre of government. I started advocating a more strategic approach to budget planning and financial scrutiny which would ensure efficient and effective public spending. In 1999, the Financial Issues Advisory Group, of which I was a member, designed a parliamentary budget process which would allow for robust scrutiny by the Scottish Parliament. However, during the most benign decade of public spending growth that anyone can remember, there was more emphasis on the priorities for spending new money rather than upon robust, systematic scrutiny of spending and performance in both the executive and the Parliament.

Given current circumstances, we would consider ourselves lucky if we were to get off with only seven lean years. The prospects are not good. We know that the current spending plans are providing for a real-terms reduction of over 12% by 2014/15. Even in the health service which has been partly shielded from the cuts in the rest of the public sector, the pressures are intensifying. In 2011/12, spending on health accounted for slightly over a third of the total Scottish budget and amounted to around £11.7 billion. Although the overall health budget has continued to increase in cash terms, Audit Scotland reports that the budget has been decreasing in real terms since 2009/10 and is projected to decrease further in real terms for the next three years.

A further spending review is likely next year. Most experts have been revising their projections to present more challenging scenarios for the public finances.

There seems to be little prospect, at least in the short term, of recovery being driven by exports and investment given global economic conditions, making it hard for the Chancellor to reach his target that public debt should be falling by 2015/16.

Media attention tends to concentrate on this bleak prospect for the public revenues, but in recent years I have been pointing out the pressures on the costs side. These numbers might be a little out of date, because I no longer have immediate access to the talented team in Audit Scotland, but the orders of magnitude will not have changed.

The backlogs in maintenance of the physical estate (roads, buildings and other infrastructure) are in excess of £4 billion. The most recent estimates from Audit Scotland relate to the health service where the maintenance backlog in 2011was estimated to be over £1 billion. Unless the backlogs are addressed across the whole of the public sector estate, we will be passing on to our children and grandchildren a stock of physical assets in worse condition than they are now.

To meet targets, councils will need to increase spending on waste management to £580 million a year. Energy prices are resuming a trend of rising ahead of inflation.

With more of the population reaching the age of 60 and over, the cost of the concessionary travel scheme could rise towards £500 million in the next decade. Free personal and nursing care costs have been rising by about 15% each year and are now above £560 million. Free prescriptions and eye tests amount to around £150 million. Drug prescribing costs more than doubled in the last decade and now stand at £1.5 billion.

Some estimates indicate that by 2030, an extra £3.5 billion or so will have to be found to pay for health and social services for people over 65, if delivery systems remain as they are now. Not only will the numbers of older people rise by 20% in the next ten years, but by 2035 the ratio of pensioners to people of working age will rise from 32 per 100 to 38 pensioners per 100 people of working age. There will be fewer people of working age to provide services to a much larger group in need of services.

The council tax freeze, which of course benefits better-off home owners and occupiers, will leave an income shortfall of around £490 million which has to be met from other sources by the end of the spending period.

Welfare reforms will have significant implications for many vulnerable groups and the consequent pressures will be most keenly felt by local authorities and charities. For example, funding for Council Tax benefit will be reduced by 10% from next April. Responsibility will pass from Department of Work and Pensions (DWP) which currently decides who benefits, to the Scottish Parliament, and in effect to councils in Scotland. Councils will have to decide who benefits, but will be doing this with reduced resources being transferred from DWP and little prospect of being able to top up from their own funds in view of all the other pressures on budgets. The Scottish Government and COSLA have reached an understanding that the 10% reduction will be met jointly by the Government and local authorities in 2013/14 in order that current claimants do not suffer financially when they transfer to the new scheme. However, once the new arrangements are in place, large numbers of people are likely to be asked to make payments, often for small amounts, for the first time. Councils will have to devise systems for collecting small sums from large numbers of poor people. At the moment, DWP pays the money directly to the councils who have a guaranteed revenue stream without the costs of collection. There is a risk that non-payment issues will arise, involving numerous small debtors.

With the introduction of Universal Credit in the longer term, the responsibility for housing benefits administration will transfer from local authorities to the DWP. Universal Credit will be a big change personally for claimants and vulnerable groups. Some councils are already working with community partners, housing associations and landlords to prepare people for the changes.

Most public bodies achieved financial balance in 2011/12. But we are only part of the way through the real spending reductions that are planned by the end of the spending review in 2014/15. Scotland's largest council, Glasgow City, has already reduced its workforce by about 10%.

It is saving roughly 12.5% in its revenue budget over the five years up to 2014/15. Within this, the council has to accommodate the cost pressures and additional social needs which I have outlined. For the following two years officials are anticipating further reductions of around £50 million.

2: Productivity and the elusive issue of quality

How do we respond to these financial challenges? The American Nobel Laureate economist Paul Krugman has observed that, in the long run, almost nothing counts as much for a nation's material wellbeing as its rate of productivity growth. If that was a true statement in the times of trend growth in the economy, then it must be doubly true in a time of stagnation. A good starting point would be to ensure that public service productivity improves, especially in view of the relative size of the public sector in Scotland.

The picture is mixed, and not helped by the lack of good data. The latest GDP figures show that public services output has risen by 6.5% since the end of 2008 at the UK level but has not increased in Scotland. This implies that Scotland has lower productivity in the public sector. In recent years, tight cash limits have been an incentive to improve productivity. The Scottish Government's top-down efficiency targets delivered significant savings, but continuing with a top down approach increases the risk that services will be affected.

Health spending is an important example of the productivity challenge. The Office of National Statistics found that rising NHS budgets at the UK level did not produce commensurate increases in outputs, a general finding which has been confirmed by other studies. Spending per head on health is 12-16% higher in Scotland than in England, according to the Centre for Public Policy for the Regions (CPPR). The higher Scottish spending levels are reflected in higher staffing levels per head of population, but CPPR found it difficult to come to clear conclusions on the productivity question. "At the English level, for which most data is available, the picture is poor, with productivity tending to fall over the last decade.

A similar picture emerges for Wales and Northern Ireland. Composite data shows an average annual change of -0.3% between 1995 and 2008. The higher level of expenditure and resources in Scotland, over England especially, combined with little evidence of higher output, if anything the reverse, might suggest a tendency to even greater inefficiency in Scotland. A finding that would, if true, result in lower productivity."

Audit Scotland has conducted many performance audits in the Scottish health service. Although there is a great deal of data routinely collected by the NHS in Scotland, remarkably often the findings in Audit Scotland's reports are qualified by comments about data deficiencies. In some cases it was possible to capture data which allowed clear findings. For example in relation to orthopaedic services, Audit Scotland reported that a real terms increase of 68% in spending on orthopaedic services over ten years produced an 11% increase in activity. Of course, outcomes for patients may be getting better. It may therefore be a good sign that measured activity is declining, but without data on the quality of the service, we simply do not know if this is the case. Quality is the Dark Matter of public sector productivity measurement. It is there in some form, but it is hard to track down and measure.

The CPPR suggested that Scotland's statutory education system appeared to have higher spending per pupil than elsewhere in the UK, estimating this figure at between 23 and 82%. The range was wide because of uncertainty in the comparability of data across parts of the UK. CPPR concluded that, in the light of differences in funding per pupil on such a scale, further work urgently needs to be done to understand better the true relative funding position. On the productivity question, CPPR suggested that extra spending has not been producing relative improvements in performance, measured by attainment levels

The Organisation for Economic Co-operation and Development (OECD) runs the well-known Programme for International Student Assessment (PISA) which measures the attainment of 15 year olds in reading, mathematics and science.

From a performance that was well above the OECD in all three areas in 2000, for most of the subsequent decade there was a relative decline. Most recently, Scotland was around the average in mathematics and remained above average in reading and science.

There are two other highly regarded international surveys. One is the Progress in International Reading Literacy Study (PIRLS) and the other is the Trends in International Mathematics and Science Study (TIMMS). In the last year for which Scottish data is available, the TIMMS scores for Scotland were lower in three of the four measures compared with 1995 when the survey started.

Between 2004 and 2009 there was a Scottish Survey of Achievement (SSA). By 2009 the SSA was indicating that reading attainment at all stages was at a level similar to earlier years, but the proportion of pupils attaining the expected levels in reading decreased through primary and into secondary, with only 40% of pupils achieving in S2 the standards of "well established" or better than expected."

The Scottish Government has discontinued its involvement in the PIRLS and the TIMMS projects, with the consequence that international comparisons in the domains covered by these projects will no longer be available for Scotland. The Scottish Government has also discontinued the SSA which has been replaced by the Scottish Survey of Literacy and Numeracy.

As a result of the withdrawal from some recognized international comparative studies and the discontinuities in assessment measures within Scotland, it is impossible to present a robust and comprehensive picture of performance at the primary and early secondary stages in the years since devolution. Quality measurement remains elusive in Scotland's school system.

The sparsity of quality data across major public services would be an unacceptable state of affairs at the best of times, but it is even more serious given the severe constraints on budgets and the high opportunity cost of every public pound

The Scottish Government has put in place the National Performance Framework which is a hierarchy of high-lever purpose targets, strategic objectives, national outcomes and national indicators and targets. The great strength of this system is that it gives clarity to the strategic priorities of the Scottish Government and it provides a framework within which public services could be prioritized, planned and delivered. However, the major fault line in the system is that it does not relate to the cost, volume and quality of services on the ground, through which the outcomes are to be delivered.

To give one example, there was an outcome of achieving longer healthier life expectancy in areas of social deprivation. This presented the immediate challenge of ensuring good services were in place to support people with conditions such as heart disease, chronic lung disease or epilepsy. When Audit Scotland examined the provision of services for people with long-term conditions, they found that this was another area where the basic data was not there. This is unacceptable on two counts. More importantly, Audit Scotland could not report on whether people in need were getting services, day in and day out. Secondly how can the Scottish Government, the Parliament, councils and health boards know for certain if we are moving towards, or indeed away from, long-term targets without short-term data on cost, activity and quality?

During my twelve years as the Auditor General for Scotland, I produced many reports which included calls for better cost, activity and productivity information across the public sector, but progress was glacially slow. There is a very large amount of data collected but in many areas it is not adequate for analyzing performance and productivity. Ways must be found urgently to get some pace and energy into this area – not more data mining, but data management for the purpose of serious analysis of performance and productivity.

3: Preventative spending

The Scottish Government, in its programme for public service reform, has stated its aim to make "a decisive shift towards preventative spending." In the 2012/13 budget there was not a stated provision of more than £500 million, although it was not entirely clear which budget lines contributed to this total; nor was there a breakdown between new funding and the continuation of existing programmes. There were three funds explicitly mentioned by the Government – the Change Fund for older people's services; the Early years and Early Intervention Change Fund; and the Reducing Reoffending Change Fund.

Realistically, should we expect to see a decisive shift towards prevention in the high-level spending patterns across the budget? Although the £500 million provision is a significant move, at the strategic level there is not yet evidence that the financial cake can be sliced in different ways. For example, the health service takes about 35% of resources with hospital services consuming about 60% of this large slice, family health and GP services taking about 26%, and community health services about 14%. The size of the portions does not change much from one year to the next. This means that a decisive shift towards preventative spending will have to involve changing priorities and activities within the current programmes. Although the Finance Committee of the Parliament will continue to scrutinize preventative spending, it will be difficult to track progress towards more preventative approaches in the major spending areas because the data is insufficient for proper analysis.

How should we define preventative spending? The attributes of the three Change Funds clearly come within the definition, but other spending might also be contributing to preventative services.

For example, free eye testing is recognized as a good way of detecting a number of illnesses; free personal and nursing care will sometimes prevent the need for unplanned admissions to hospitals; free bus travel may also be supporting community care services and reducing pressure on the acute services; the new contract for GPs has encouraged doctors to do more screening and earlier interventions which appear to be contributing, for example, to significant reductions in the incidence of strokes; investment in community-based programmes can reduce the incidence of crime in local areas.

As part of the push for better analysis of performance and productivity, there is a need for evidence-based analysis of the programmes and services which contribute most effectively to prevention.

4: Partnership working

The importance of developing effective partnerships was a key message coming out of the Christie commission on the future of public services. Partnership working has been of growing significance over the years since devolution. It reflects the growing complexity of public service delivery and the consequent need to soften the boundaries between councils, health bodies and other agencies. In England, there were pilots on partnership working under the banner of Total Place, and the audits of these provided persuasive evidence that the joining up of services at the local level – including central government agencies as well as locally-based bodies – had the potential to achieve both improvements in services and efficiency savings.

In 2004, when Community Planning Partnerships were established on a statutory basis, in Scotland with the lead role given to councils in bringing organisations together to develop co-ordinated approaches to planning and providing local services. A year later, Community Health Partnerships were also established on a statutory basis. CHPs were expected to take devolved responsibility for certain community-based health services and to play a strategic role in shaping the use of health and social care resourced in their local areas.

Audit Scotland reports have shown that the partnership networks often appear complex and challenging to operate. It often seems that partnerships have failed to achieve their early vision. It is not always clear that partnerships have provided better, more joined-up services at lower cost.

For example, Audit Scotland's 2011 report on Community Health Partnerships (CHPS) found some examples of good practice where CHPs were improving community-based services, but these were local, small-scale initiatives. Audit Scotland found it difficult to gather evidence of wide-spread sustained improvements which might be attributed to the CHPs. And at the time of the report, some trends were worsening. More older people and people with long term health problems were being admitted to hospital as emergencies, and the number of patients delayed in leaving hospital was starting to rise again. Few CHP committees seemed to be exercising financial scrutiny and performance monitoring. I mentioned earlier the lack of adequate data on cost, activity and quality. This had been an all too common feature of partnership working. In some cases, there were no agreements between the council and the health board on which services had been delegated to the CHP and what were the joint resourcing arrangements. The governance arrangements were complex because of the different lines of accountability and the need to observe the existing corporate governance arrangements of both partners. Decision making was often slow. The active participation of key players was not always as strong as it should be. In particular, GPs and clinicians were not fully involved in service planning and resource allocation, partly because CHPs had very little influence over the totality of resources.

The Scottish Government, in recognition of some of these challenges, has moved to strengthen the framework of partnership working. Legislation is being introduced to put health and social care partnerships on a statutory footing. It remains to be seen how this will work out. Having a set of mandatory outcomes agreed between the Government and a council could help in providing much-needed clarity about the contribution of local delivery by a partnership to the overall national objectives in Scotland performs.

However, there is a risk that accountability arrangements may still be quite complex. These would be challenging enough to operate when budgets are growing, but they will be even more difficult to manage in a time of cutbacks, when issues of opportunity cost will be very significant indeed for all the players. There will need to be a vision held by all partners about how the new statutory arrangements will be able to contribute to better access and quality of services and to the efficiency drive for cost reductions. The challenges for all partnerships, in healthcare and elsewhere, will be to do more with less.

If partnerships are to become more effective, there is a need to improve the commissioning of services. In March 2012, Audit Scotland published a report on the commissioning of social care. This report was just the latest of many Audit Scotland reports which contained challenging findings about the commissioning and delivery of social and health care services and the effectiveness of partnership working. Over the decade Audit Scotland delivered reports on homecare services, on the commissioning of community care services for older people, on the policy of free personal and nursing care, on palliative care services, on services for children in residential care, on transport for health and social care, and the report on CHPs which I mentioned a few moments ago.

The report found that in only eleven of the thirty two council areas did commissioning strategies cover all social care services. Most of these did not have analysis of local needs, costs and the capacity of provider organisations. Skills in good commissioning of care services were inadequate, with staff needing training in the legalities of procurement and the particular skills of producing personal care packages for individual clients. As with other reports on partnerships, there were not many examples of good joint planning supported by a good understanding of the shared resources available to the organisations involved.

In particular, councils were not always involving the not-for-profit service providers and the private sector in their planning work. Both these sectors deliver a great deal of social care in Scotland, and it is generally recognized that the not-for-profit sector is good at understanding the needs of its client groups and tailoring responses to the individual. Councils generally needed a better understanding of the costs, capacity, quality and accessibility of services of different providers in their areas. At a time when resources are under real pressure, this adds to the risk that councils will cut costs without taking adequate account of the true costs of delivering services and this is already proving a threat to the sustainability of some not-for-profit service providers.

And what about clients? It takes time for older and vulnerable clients to build trusting relationships with their carers, and poor quality commissioning can have a very adverse impact if, for example, one client is receiving several different care workers. It is also important to support the 500,000 or so carers in Scotland who are looking after family members of friends. Many of those consulted by Audit Scotland had not been offered support or were unsure of the support which might be available.

Also in this area, we need to be sure that councils are addressing the implications of self-directed support which is designed to give individuals more choice and control over the service packages they receive. In introducing the Social Care (Self Directed Support) Bill early in 2012, the Scottish Government recognized that there was a great opportunity for many more people to shape their own packages of care. In 2011 it was estimated that fewer than 4.400 people received direct payments out of more than 200,000 adults and 16,000 children who were receiving some form of social care and support. The proportion of people who receive direct payment in Scotland remains much lower than in England, with a wide variation in take-up across local government areas. In councils where the standard operating system is still seen as direct service provision, there is an important need for training in new skills for professional social workers and carers, and there may be cultural issues to address to prepare and motivate staff in their new roles.

5: The role of local government: the enabling council revisited

When I was a local authority chief executive in the late 1980s and early 1990s, some colleagues and used to meet to discuss the idea of the enabling council. The enabling council, as the local elected body, would have the authority to specify and commission the services needed for its local community, but in addition to direct service provision, some services would be provided through contracts with shared-service, arms-length, not-for-profit, and private providers which had the capacity to deliver over a wider geographical area. This could help sustain variety in the size of councils. Some providers would be jointly owned by the adjacent authorities who would contract for service packages designed to meet local needs and preferences. Other providers would be in the not-for-profit sector and the private sector which would bring specialist skills and knowledge into the council.

In preparing for the last reorganization of local government in the mid 1990s, it proved inordinately difficult to make shared service models a reality. The thirty-two new councils understandably wanted to establish as much control as possible over their own service delivery arrangements. One of the few successes in this quest was in Tayside, where colleagues and I were able to persuade political parties that Tayside Contracts should continue in existence. It has been a success, providing services to the successor authorities of Angus, Perth and Dundee, creating employment, and doing this in competition with the private sector.

Shared service arrangements are a particular form of partnership working. There has been mixed success in the last few years in establishing shared services between public bodies, especially between councils. The general picture has been one of disappointingly slow progress. Some three years ago, Sir John Arbuthnott published his report on shared services in the Clyde Valley which looked at joint working and shared services between the eight local authorities in the Clyde Valley Community Planning Partnership. The report highlighted that there were few significant shared services initiatives in Scotland, particularly in front line services.

In 2009, the Improvement Service in a review of shared service arrangements concluded that service improvements and cost reductions can be delivered, but it usually takes up to five years for back-office shared service projects to deliver a return. Building working arrangements between partners must be a long-term commitment but relationships can be fragile and volatile. The review also suggested that plans are often over-optimistic; the challenges of managing change are under-estimated; and costs can escalate.

There are, however, recent signs of progress in some areas and sectors. For example, NHS National Services Scotland has been progressing shared services opportunities with the Improvement Service and councils in five main areas – information technology; governance and corporate responsibility; facilities management; human resource and organizational development; and procurement including logistics, fleet management and waste management.

There are local shared service arrangements in, for example, Stirling and Falkirk, and Midlothian and East Lothian. In Glasgow, the council has several arms-length organisations which work closely with their parent body. There are the strategic hubs for capital projects planning and management supported by the experts in the Scottish Futures Trust (SFT).

Everything possible should be done to encourage and actively support developments like these. By developing shared expertise and doing things only once for several organisations, there the prospect of delivering more and better services for less cost across the public sector.

From this experience of partnership working, including shared services, it is possible to suggest the key conditions for success in partnerships.

- Strong leadership at political and executive level, with a real, sustained and active role being played by senior politicians, in both local government and central government, and officers working together

- Good behaviours, with an understanding and respect for different organisational cultures and contexts
- Strong shared vision, with a clear commitment to delivering the added value from the partnership, and effective, swift decision making.
- The right people with the right skills.
- A real energy and drive for improvement and a relentless pressure to cut costs, supported by robust accountability structures.
- Robust and effective financial planning and management, with a commitment to driving out efficiencies from the partnership which can be measured and reported
- Skilled intelligent commissioning of services from the full range of providers – the councils and the health boards themselves, but equally important, from the not-for-profit sector and if appropriate, the private sector

6: Commissioning services and the voluntary sector

The SFT is an interesting model. In other areas, such as the care services there is a need for a centre of expertise linked into local networks of councils. The weaknesses in the commissioning of social care services by councils is largely a result of the lack of expertise. A body similar to the SFT could support councils and health boards in care commissioning. If there is to be integration of health and social care services, we need to think seriously about creating this capacity.

Commissioning must be defined broadly and not just in terms of conventional contracts. This is especially important in bringing the voluntary sector (not-for-profit organisations and social enterprises) fully into partnership working. Reports by Audit Scotland and others have found that some councils have relied on imperfect contracting arrangements with voluntary sector bodies. This issue is important because financial pressures are leading councils to reduce or terminate grants and to rely more on contracts.

Contract models are appropriate for not-for-profit organisations which are mainly in the business of service provision. However, large numbers of small voluntary organisations are not in the business of major service provision and are unlikely to have the capacity to manage contracting processes. Their role is to help build community capacity, nurture social capital and give a voice to communities.

Partnerships must find ways of engaging with the full range and diversity of community organisations which make valuable contributions in many different ways at the locality level. This can be difficult for mainstream public bodies to achieve. Audit Scotland's review of Community Planning Partnerships found that CHPs generally do not engage well with communities and in many cases there is no local representation in partnership structures.

The Scottish Government with COSLA has been making some significant moves in this area, most notably in the recent consultation on a Community Empowerment and Renewal Bill. The aims are to strengthen community participation and promote enterprising community development and community renewal. There is a need to ensure that processes are in place which "enable the breadth of Community Planning partners to come together to understand local needs and aspirations and to design and deliver services that meet those needs and aspirations." The Bill is designed to empower communities to shape local service delivery and to take control of local assets which are not being used effectively.

There is enormous diversity in the character and make-up of local communities across Scotland. If there is to be sustained community empowerment in a local area then there must be one or more effective community organisations in the area. The Scottish Community Alliance exists to support local volunteering and community action alongside the work of established voluntary organisations. The Alliance argues that strong and independent communities possess the ability to come together usually around some local organisation which they own. The Alliance says that there are no examples of sustained community empowerment without some such locally embedded organisation, although in some areas this leadership role is achieved by two or more groups acting together.

The first use of the term “anchor organization” was in the government report Firm Foundations, which was published by the Home Office in 2004. The idea has been carried forward by subsequent governments in the belief that community anchor organisations can provide a foundation for self help and capacity building activities in local communities. In March 2009, the Scottish Government and COSLA jointly launched the Scottish Community Empowerment Action Plan. This plan adopted the idea of 'community anchor organisations' as a key element in genuine community empowerment. There are many community anchor organisations in Scotland listed on website of the Scottish Community Alliance

The commissioning of conventionally structured contracts is not appropriate to supporting local empowerment and capacity- building of this sort. Cuts in grants and relying on conventional contracts runs the risk that the potential for capacity building in localities will not be realized. For this reason, commissioning should be redefined as a broad-based, intelligent activity which looks at the whole system in each local area and the range of support which is necessary. Grant assistance must continue at the locality level where contracting models are not appropriate

7: The need for systems thinking

Partnerships are important and necessary. Public expectations of properly joined up services have never been higher and rightly so. Well structured and well managed partnerships should help to avoid attempting to address complex problems is separate silos and should engage skillfully in community capacity-building.

Systems thinking, which treats public services as complex, adaptive systems, should be built into the vision and planning of all partnerships. Systems thinking helps stakeholders and participants in partnerships to recognize that each of them will have different perspectives, based on their own experiences, cultures and goals. This is a challenge to the command and control culture that has been prevalent in much of government and the public sector.

Audit Scotland has done useful work over the last decade in the performance audit of complex systems, usually in partnerships. An example from Audit Scotland's work was the application of systems thinking to the complex problems of delayed discharge in hospitals, commonly called bed-blocking. It was a project with Tayside Partnership and the Information Services Division (ISD) to develop a whole systems model for Tayside which could help tackle delayed discharges from hospital. Here is a quote from the introduction to the handbook. "The model developed for Tayside is not a "one size fits all" solution that can be used by other partnerships across Scotland. It is a model for Tayside – developed with Tayside staff, comprising local understanding of how the Tayside system works, using local data and considering local strategies put forward by Tayside…A shared understanding of how the whole system works can then help partners to plan how to deliver services and use resources to make sure that people get the services they need, delivered to a high quality and in a sustainable way."

Systems thinking is about learning. In the Tayside project, learning and sharing experience by all stakeholders was central to the project, using an interactive ""stock and flow" model of the whole system. There were five stakeholder events, starting with identifying the issues, then building the model, populating it with data, giving a "hands-on" opportunity for stakeholders to use the model as a basis for exploring the strategies, and discussing the action to follow from the project. The model was then used by the partnership in its planning work. The learning process showed that no single strategy was appropriate for all circumstances; that changes in process were as important as investment in capacity; and that without redesign of processes there was a level of delayed discharges below which it would be extremely difficult to go.

When applied to the complex, adaptive systems that characterize public services, under systems thinking the best approach to improving performance is to take a range of actions, evaluate the results and learn what works best. This approach to learning requires a commitment to support and celebrate innovation, and a real appetite for evidence.

The application of systems thinking requires a tolerance of variety and for the occasional failures of trials. These conditions for success are not as evident as they should be in Scottish politics and policy-making.

8: Local leadership in partnership

Systems thinking in partnerships is essential because most of the social problems in communities transcend single disciplines. These problems used to be called the "wicked issues" because they often appear intractable. Crime, substance abuse, poverty, health, housing, individual lifestyles, education and unemployment are interrelated in complex ways. An important example is the intensity of the public health problems in the West of Scotland where, despite a range of policy interventions over many years, the outcomes in Glasgow remain worse than those of other cities which are the closest comparators. Coping strategies are insufficient when faced with a challenge like this. Successive governments have recognized the need for a strategic response and there are well conceived and articulated public health strategies in Scotland. The challenges are to make the right changes at the locality level and to find ways of sustaining the right actions and supportive interventions over the long term.

Local transformation involves working across boundaries, and working in ways that allow diversity, difference and intense learning to become the norm. Transformational change must be embedded for the long term. It requires new behaviours rooted in the culture, values and daily activities of all the key players in the locality. Public leaders must understand, believe in and personify the new approach.

It is critically important to recognize that public sector leadership can be effective only when the right authorizing environment exists. Heifetz says that leadership is about relationships. People in power change their ways when the sources of their authority change their expectations. "Their behaviour is an expression of the community that authorizes them." Rather than being overly concerned about institutional structures, we should be striving to get the right authorizing environment so that local action can be effective.

The authorising environment is created when local organisations, the professionals in the locality, and elected representatives from the council and the Parliament come together around a common vision and strategy.

If leadership is about relationships, then policies and resource decisions taken by the Scottish Government and Parliament at the centre can only be fully understood in the specific, applied context of the locality. This was a central message in the Christie report. It is in the locality that the active learning takes place to improve performance. Leadership in this context requires collaboration between politicians, community leaders, executives, practitioners – and across political divides. It has to involve collaboration across tiers of government as well as between local organisations – between elected representatives at the national and at the local level. It has to involve finding ways of overcoming the "hollowing out" of the state, which I mentioned earlier, so that elected representatives in the Scottish Parliament and in the local council come together to authorize and support transformational change in their local areas. Putting it another way, in the next phase of its development the Scottish Government and the Scottish Parliament and must continue to develop a model of distinctive "enabling government" through partnerships in which good active learning takes place.

Active learning is not achieved just by gathering and analyzing data, important though this is. Kotter says there is a simple message at the heart of change: "People change what they do, less because they are given analysis that shifts their thinking, than because they are shown a truth that influences their feelings." There is a whole set of literature which confirms the power of story telling, as an essential part of useful evidence. A powerful way of ensuring that policy-makers and professionals hear the knowledge held by members of deprived communities and local workers is through story-telling. I recently contributed to a conference of Community Learning and Development Managers Scotland where the use of story telling about local projects was powerful, persuasive and above all, a learning experience which I could never have acquired from simply reading analytical reports.

Dialogue should be an active process through which different sources of knowledge, evidence and experience are brought together to allow coherent action to be taken. Developing the capacity for dialogue is a key to leadership in partnership. This raises fundamental questions about the engagement of politicians in good dialogue, away from those arenas in Parliament and in council chambers where politics is primarily adversarial, so that they can provide supportive leadership for executive, professional and other community leaders in very challenging times.

Preparing for the Future

In the final part of this paper, I am going to offer suggestions, some of which involve transformational changes. I should emphasise that these ideas are entirely mine.

The Scottish Parliament

The Scottish Parliament is now firmly established. There are three functions of the Parliament – to make laws, to scrutinise the Scottish Government and hold it to account, and to be a forum for voicing the issues of importance to the people of Scotland.

With an average of 5% real growth each year over the first decade of its existence, it was possible to deliver a post school education system free from tuition fees, free personal and nursing care, free bus travel for older people, the removal of NHS prescription charges, and some significant increases in public sector pay. With regard to law-making, there have been 191 Acts of the Scottish Parliament – about 15 Acts on average each year. Much of the legislation has made a difference to people's lives in areas as diverse as social housing, land reform, mental health rights, proportional representation in council elections and the ban on smoking in public places. This is an impressive record of achievement for a new institution.

Given the challenging prospects for the public finances, law-making should not be exempt from the productivity challenge. Is enough done to make sure that each and every piece of legislation is really necessary? Is there sufficient challenge to the government to find out if the desired outcomes could be achieved administratively? Is enough done to ensure that both the financial costs, and the compliance costs, of legislation are made clear at the outset? Are the bills and acts always as well crafted as they could be? Should there be a mandatory requirement to review certain legislation after a few years of operation? Should there be sunset clauses for regulations?

These questions are important, partly because more than 70 per cent of bodies in an Audit Scotland survey reported that legislation and statutory duties were a barrier to achieving efficiencies.

Should the Parliament put more emphasis on budget scrutiny and performance review and if necessary, scale back other work? I was a member of the Financial Issues Advisory Group (FIAG) which advised Ministers and the new Scottish Parliament on the financial procedures of the Parliament. FIAG recommended that pre-legislative scrutiny of the budget should be a key element in an active committee system at the heart of how the Parliament works. However, scrutiny of the executive has not been as robust and effective as FIAG originally envisaged. Perhaps the motivation was lacking because the year-on-year growth in spending avoided the need for tough choices of for focused scrutiny of performance and productivity weaknesses.

Over the decade, Audit Scotland produced a flow of reports on performance which were often given detailed consideration by the Parliament's Public Audit Committee. In some cases the scrutiny work had a lasting impact, but it was often difficult to sustain a commitment to ensuring improvement occurred, and the link between the Public Audit Committee and the Finance Committee was not as strong as it needed to be. Given that challenges that lie ahead for our public services, we need to think about how the role of Parliament might be made more effective

The Scottish Government has strengthened its finance function in recent years, and the in-year financial performance of the Government has been sound. The Parliament is well served by the staff in the Scottish Parliament Information Centre (SPICE) and the small team supporting the budget process, in particular their expert adviser, and of course, the Public Audit Committee is well served by the reports of Audit Scotland.

The Finance Committee holds occasional seminar-type meetings involving outside experts and these sessions can help members of the Committee to deepen their understanding of major issues. However, it seems to be difficult to use this information in a structured way in the budget process. Examination of the budget continues to be, for the most part, short term and incremental.

Since 2002 I have been proposing that there should, over the lifetime of a Parliament, be systematic scrutiny of the performance and efficiency of service delivery across every spending area, as part of a rolling programme of reviews. If during the lifetime of a Parliament there were comprehensive, evidence-based reviews of most or all major spending areas as part of a rolling review programme, then it would be possible to plan more strategically for the long term. If time and resources were given over to such reviews it would also be possible to have a good dialogue on issues at the local level, in line with the systems thinking approach which I advocated earlier. This could deepen knowledge and understanding of everyone who is a stakeholder, particularly but not only the members of the Parliament. Is the time now right to develop this idea?

Systematic scrutiny of major spending programmes over the lifetime of a Parliament would require a strengthening of the objective, evidence based analysis available to the Parliament. How could we achieve this?

The David Hume Institute and the Royal Society of Edinburgh have suggested that Scotland needs an augmented Treasury function or an equivalent to the Office of Budget Responsibility at the UK level.

I would subscribe to the view that this sort of function should be strengthened to prepare for the challenges that are upon us. The Scottish Government has gone some way towards recognising the importance of this by creating a post of Director General covering finance and resources and subsequently by augmenting the resources of the finance function, partly in preparation for the implementation of the provisions in the Scotland Act 2012. I welcome these improvements.

We must recognize, however, that the role of the finance function within government is primarily to serve the government. Civil servants quite properly have an accountability to the government of the day and are in a position to inform and advise Parliament only when this does not conflict with their role in supporting the government. The finance function is not in a position to directly provide comprehensive support the Scottish Parliament. It cannot provide for Parliament objective, evidence based analysis across the public sector.

Audit Scotland's programme of financial and performance audits provides an evidence base for the challenge function, and other inspection and regulatory bodies also play a role here. However, Audit Scotland's role in serving the Auditor General and the Accounts Commission is an auditing function – it is retrospective and debarred from involvement in policy matters. The Public Audit Committee of the Parliament is also prevented from any involvement in policy matters. It is not in a position to cost and evaluate future options and to test the assumptions contained in ongoing policy proposals. The Public Audit Committee holds public bodies to account for their spending and performance, but it does not have the time or the capacity for a deep, sustained engagement with individual bodies in relation to productivity and performance issues.

Earlier in this paper I mentioned the productivity challenges across the public sector in Scotland and the serious weaknesses in fit-for-purpose data on cost, activity, quality and productivity. Given the ongoing reductions in budgets at a time of growing needs, productivity gains should be making a vital contribution to sustaining quality and access to public services.

I have not said much about the role that competition might play in incentivizing productivity improvement; for the simple reason that the appetite for greater competition in the public sector does not seem to be very strong in Scotland. How, then, are we to challenge and incentivize coasting and poor- performing service providers across the public sector? It is imperative that we develop a coherent answer to this critical question. Current arrangements for analytical review and evidence-based challenge are important but they are fragmented and the impact has been patchy.

A Scottish Commission on Resources and Performance

As part of transformational change, I suggest we need to redeploy some of the analytical resources that currently exist in the public sector to get critical mass, drive and energy to push ahead with productivity and performance improvement across the public sector. This exists in other countries. In Australia, for example, there is a Productivity Commission at arm's length from government. It is a standing Commission with the powers to undertake independent reviews commissioned by the Government, with a board of 11 commissioners and permanent staff who are mainly economists.

A Scottish Commission on Resources and Performance could be established at little or no extra cost by bringing together existing resources and expertise. The Commission would be accountable to Parliament and would report in public to Parliament. It would be objective and independent in all its work and its reporting, but it would build close working relationships with the Scottish Government and Audit Scotland, and it would be guided by both the Parliament and the Government in its work programme.

A Scottish Commission on Resources and Performance could provide the wide-ranging analytical reports for Parliament that would be needed for a rigorous, strategic review process. For example, the Australian Productivity Commission has looked at disability care and support, emission reduction policies, and early years support.

The very existence of a Commission would be a spur to change. If public bodies knew that they were soon to come under the spotlight of the Commission, they would be incentivised to improve their productivity and cost information before the economists and performance auditors paid a visit. The methods used by Audit Scotland would be very relevant to the work of the Commission which could make good use of Audit Scotland's work in engaging with public bodies on productivity and performance issues and the delivery of best value.

The principles of the Audit Scotland best value regime include a commitment to self-evaluation by local authorities, but this support for self-evaluation is tied into the challenge role which is provided by the programme of performance audits and good practice reports. There is a strong link to guidance and evidence-based analysis supplied by Audit Scotland, and a commitment to public reporting of all the work. These principles could be applied across all public bodies by the Scottish Commission on Resources and Performance

Effective benchmarking would be central to the work of the Commission. A good example of the power of effective benchmarking linked to robust economic analysis is found in the recent history of the Scottish water industry. Scottish Water has improved its efficiency dramatically over the last decade or so. According to their latest performance report, Scottish Water has reduced its operating costs by 40% in real terms since 2002. In 2012/13 the average household charge is the lowest in the UK water industry. It is now £52 lower than the average in England and Wales, whereas ten years ago it was £30 higher that the England and Wales figure. The Water Industry Commission has been a highly effective economic regulator.

The Commission gathered and analysed extensive cost and performance data from across the UK and by using its analytical toolkits, challenged and supported Scottish Water to improve its performance.

We should apply this model to other parts of the public sector. Earlier in this paper I gave the example of the productivity challenge in the health service. The Scottish Commission on Resources and Performance would challenge and support the development of good benchmarking and analytical work in the health service. It is a serious gap in the good government of Scotland that this constructive challenge, using the disciplines of economic regulation coupled with performance audit, does not exist in Scotland. This analysis exists in England, for example in the work of the Kings Fund in partnership with the Institute of Fiscal Studies, and in the work of Monitor. The Commission could also do similar work in other sectors. For example, once the single police service for Scotland is established, there will be a need for analytical review of costs, activity and performance within Scotland and in comparison with other police organisations.

The Commission could also have a role in costing and assessing future policy options and scenarios for major public services such as the health service and the police service, but this future-focus work would require the prior agreement of the Parliament and the Scottish Government. For example, the Commission could produce reports similar to the Kings Fund/Institute of Fiscal Studies report on future financial scenarios for the health service in England.
The analytical work of the Commission would be captured in public reports made to Parliament. In this way, the Scottish Parliament would have for the first time a strong foundation of objective and independently prepared data and analysis which could be used to inform reviews of the performance of public services and the budget process.

I recognize that my proposal would involve transformational change which could affect a number of public bodies, but it is required because of the urgent need to improve performance and productivity in very challenging financial times.

Creating a safe space for knowledge sharing and innovation, and people development

One of the greatest privileges of my role as the Auditor General for Scotland was the network of contacts that I had across the whole of public services. I am in no doubt about the quality, the professionalism and the commitment of public sector leaders and practitioners across the whole of Scotland. The country is well served by its leadership cadre.

In my final months in post, I had a series of discussions with leading figures in Scottish public life, academics, chief executives and professionals about the future vision for Scotland's public services and their perceptions of the barriers to realizing the potential. There is no shortage of energy and commitment amongst our leaders. They are up for the challenges that lie ahead and I was impressed with the clear thinking about what needs to be done to unlock the potential and by some of the initiatives and innovations which are to be found across our public services. In almost every conversation I had, the same three topics came up.

There were strongly held feelings that the nature of the political debate in Scotland had not yet fully come to terms with the new challenges which the public sector is facing. Executive leaders often felt the need for more support from political leaders from all parties in openly addressing the real challenges of choosing priorities, redesigning services and driving down costs whilst maintaining service access and quality. They recognized that these issues involved considerable challenges for politicians. There was a widespread view that elected representatives needed more knowledge and understanding of the complexities of running modern public services. With improved knowledge and understanding, it would be that bit easier for politicians to engage with the public, service users and providers (including professional bodies and the trade unions) about the importance of service redesign and innovation, and the unavoidable need for hard choices to be made.

The second topic was the problem of accelerating the process of innovation and the speed and energy behind knowledge transfer about what works best. Good ideas are everywhere, and small-scale innovation and service redesign is not that hard to find, but it tends to be localized and piecemeal. Elected representatives also have a key role here in learning about innovation and redesign, supporting and celebrating successful projects, and being tolerant of those initiatives that don't work out as planned.

The third issue that came up was about people. The downsizing of organisations has consequences. There is the loss of knowledge and experience that rested with people who have left organisations. The executive leaders are clear about the energy and potential of younger people coming through to senior posts. Many of the younger people have enjoyed promotion to positions of greater responsibility but they have not always had time to learn and develop fully as they move up the promotion staircase. This is especially true in smaller organisations. In these organisations, senior managers and professionals can find themselves in quite lonely positions, learning on the job while facing unrelenting pressures of growing needs and demands for their services and at the same time having to plan and deliver cuts in spending.

There was strongly expressed support for creating a safe space to consider innovation and service redesign opportunities and to bring politicians, executives and professionals together to share their knowledge and experience.

It would not be a place where politics and policy-making are discussed. It would address questions about how to plan and deliver the best public services within the given framework of current policies and budgets. It would not be another think tank (although it would draw on the ideas generated in the think tanks). It would be at the operational level, looking at the hard issues of service redesign and delivery in challenging financial times. It would have a strong bias towards systems thinking and shared learning.

The defining characteristic of this space would be an appetite for learning and sharing ideas, and a tolerance for the expression of differences of views based on experience. It would be educational and developmental – the practical work of advanced education and capacity building.

To be successful, the existence of this space would need to be recognized and supported by the Scottish Government, the Parliament and local government.

Also to be successful, leaders and experts in their fields would be expected to contribute. This happens in some areas of public life. For example, in a teaching hospital, senior consultants are required to give some of their time to teaching other clinicians. Why should this hold good for a teaching hospital but not across the rest of our public services?

Because the toughest issues facing public services are whole-systems issues, there is an absolute need for this sort of learning to involve people from all corners of the landscape – central and local government, the voluntary sector, the academic sector and the think tanks which would be on tap – but not on top. Current leaders would have a key role but the cast-list would include many other players

Finally – the most transformational change idea of all – the safe space would sometimes actively involve elected representatives from the Parliament and councils, and also board members from public bodies. It is an achievement – and a privilege - for a person to be elected via the ballot box. Getting elected is rather like passing the job interview. But getting through the interview marks only the fact that someone is on the starting line of a career. The privilege of becoming an elected representative should bring an obligation to start personal learning in a chosen area of public service. All political parties should require their elected members to acquire knowledge and understanding in selected areas of public service.

It is not appropriate in this paper to go into the practical issues around creating this safe space. If the will is there, it can be made to happen. We have in Scotland many civic and academic institutions of the highest quality. Any one or more of these could provide the safe space that many people at a senior level in public service and civil society feel is greatly needed in Scotland.

To come back to my starting point, Scotland has a very strong civic society and a public service full of talented and committed people. We should not allow the good, or the barely adequate, in our public service to be the enemy of becoming great. Coasting and under-performing organisations should be challenged and supported. Good organisations should be recognized and given the support they need to become great. Whatever the outcome of the referendum on Scottish independence, by 2020 Scotland should be an exemplar of best practice in public service to the rest of the world.

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