



Budget Strategy Phase

Call for Written Evidence

Scottish Parliament Finance Committee

What preparation should be underway now by the public sector to ensure the efficient delivery of public services within a period of tightening public expenditure?

Written Submission by the Scottish Chambers of Commerce

Scottish Chambers of Commerce is Scotland's largest business representative organisation, representing 9,500 businesses employing over half of the private sector workforce, with one hundred and seventy staff in the offices of its twenty constituent member Chambers.

Scottish Chambers of Commerce (SCC) welcomes the Scottish Parliament Finance Committee's invitation to submit evidence for this important enquiry. In a period of declining budgets, it is vital that the Scottish Government reforms its functions in the delivery of public services so that these services can continue to improve at lower cost. SCC believes that the necessity for public sector reform presents an opportunity to remodel public services in a way which will allow both better customer focus in the future as well as higher economic growth.

If it is to achieve this, the Scottish Government must think in terms of 'reform' rather than 'cuts'. It is not a question of doing less, but of doing more with less. With this general approach in mind, we seek to answer the committee's specific questions below.

1. In preparing for the forthcoming reductions in the Scottish budget, how can public sector bodies best take service users' views and needs into account?

The usual democratic procedures apply in assessing voter priorities, and SCC would not presume to second guess these. However any meaningful reform of public services must include measures to make providers more sensitive to consumer demand. This

means improving accountability to service users and encouraging user choice. These measures would have the dual effect of improving productivity by incentivising better performance, and responding to public priorities more effectively. Within the business community we represent we regularly take soundings on policy issues. Our latest findings will be published on 31 March 2010, and we should be happy to supply the Committee with a copy.

2. **How can public service providers ensure that the most vulnerable groups do not unduly suffer from any budget reductions?**

SCC recommends an approach that emphasises reform rather than cuts. Changes should mostly be in terms of institutional and process re-organisation, with a minimum of end use service cuts. Surveying customers through the usual processes will give feedback on the success or otherwise of such an approach.

3. **Should any spending area be protected from real term cuts and, if so, what would the implications be for other areas of the public sector? Should there be an emphasis on seeking uniform efficiency savings, or are there particular bodies/spending areas that should be targeted?**

Public sector reform must be applied across the full range of public services, so that all departments and sectors can respond to constrained budgets without cutting end services. It is very tempting to 'ring fence' certain sensitive areas, but this simply increases the strain on other budgets. For example, according to the CPPR, safeguarding the health budget would increase the savings required on other departments from 8.5% to 13% over the next five years.

There is a particular temptation to reduce capital budgets to save current spending, and also to reduce business support budgets. SCC believes that this short term approach would damage medium and long term growth, and that if we can increase productivity across the board, then a general reduction in budgets need not result in poorer services. Experience from best practice appears to indicate that promoting local responsibility and decision making can be more beneficial than central diktats. People like to be proud of the unit in which they work, and respond better to being given responsibility, than to being controlled 'from on high'. This would suggest that local modelling appropriate to circumstance may provide good examples of best practice and encourage competition in successful reform. This is more important than uniformity.

4. **How should the public sector best be organised to deliver the services for which it has responsibility and what barriers would have to be overcome to achieve this? What are the principles that should underpin any future strategic changes to the configuration of the Scottish public sector?**

We have to address the productivity issue in the Scottish public sector. The Office for National Statistics has said that, over the 10 years to 2007, productivity in the public sector declined by 3 per cent, while productivity in the private sector increased by 25 per cent. Meanwhile according to Government Expenditure and Revenue Scotland public spending in Scotland is some 15% higher the UK average. Yet most indicators show that outcomes in key services such as health and education are somewhat below the UK average. This points to a major productivity challenge.

The good news is that, even if productivity can just be brought to UK average levels, the budgetary reductions could be accommodated. We should be aiming for better performance still, but it is not necessarily about putting numbers on it; it is about getting the public sector to be customer focused.

SCC recommends a shift towards a consumer orientated, locally focussed model for public service provision that is the norm across Europe. Service providers should be independent of government and accountable to service users instead, who should in turn benefit from greater variety of provision. The government role would be limited to a financial and regulatory role to ensure that access remains universal.

5. What are the challenges to the successful delivery of the Scottish Government's national performance framework if public spending is reduced?

As we have said, the key is to focus on productivity improvements rather than service cuts. If that can be achieved, then performance will remain at current levels and indeed be improved. Having said that, reform will involve rebalancing spending priorities within the public sector. One major challenge is to bring employment practices into line with the rest of the economy. Rather than looking at head count, we need to consider employment costs more widely, which account for 50% of public sector spend in Scotland.

One objective of reform should be that public and private sectors work on similar principles. For example, in the private sector the pensions market has changed rapidly so that most pensions are contribution based whereas, in the public sector, most are still salary based. This is greatly adding to public sector employment costs and therefore the budgetary problem. In the eight years between 2002/3 and 2010/11, pension payments under the teachers and NHS schemes doubled in Scotland to £2.53bn. The mismatch also distorts the labour market by making it harder for private sector firms to attract key workers. Allowing new public sector workers to source pension plans along market norms would go a long way to solving the Scottish Government's budgetary problems in the medium term, while boosting economic performance at the same time.

6. What are the best examples of efficiency savings being achieved by public bodies working together and across boundaries, for example, through procurement, and can these savings be replicated across the public sector?

SCC has stressed for many years the idea of combining some public bodies and sharing functions both within the public sector, and with independent organisations. One recent success has been the rationalisation of the skills networks in Scotland with the creation of Skills Development Scotland. This process can go even further. We still have Skills Development Scotland, Scottish Enterprise, the Scottish Further and Higher Education Funding Council, and sector skills councils, all performing overlapping functions.

In particular back office functions (e.g. payroll) may be amalgamated across organisations. It might be the case that where organisations vary in size there can be a benefit from contracting out parts of service provision (e.g. Scottish Borders Council assist with roads maintenance in Midlothian). Imaginative approaches might include a very efficient local authority planning department providing a service for a neighbouring authority which struggles with service provision, or indeed the private sector could provide support to a department under a competitive pricing regime.

7. **Have efficiency savings had an impact on the quality of public services? To what extent can efficiency savings continue to be made while maintaining current levels of service delivery?**

SCC believes that efficiency savings should come from productivity improvements, so that service output is maintained or even enhanced. One positive outcome of efficiency savings is the improvements in staff morale that come from seeing your own team do better.

8. **Have any improvements that have been made to the delivery of public services always been commensurate with the amount of funding that relevant delivery bodies have received? What is the best way of measuring the quality of public services and ensuring that this performance monitoring leads to improved service delivery?**

There is no clear link between levels of funding and quality of service. Scotland has seen real terms increases in funding of 50% or more in health and education over the last decade, without commensurate improvements in service levels. Key indicators show that pupil attainments has stayed stable, and indeed fallen relative to other international and UK comparators. We may question whether we are measuring the right things (indeed Strathclyde University's research has questioned significantly the basis for curriculum design). Some basics generally stand out – e.g. literacy/numeracy levels amongst primary and secondary school leavers; numbers taking forward modern languages and technical and science subjects at standard grade, higher and advanced higher grade and degree level. East Lothian's intention to group schools under local boards is a prime example of devolving power for efficiency to the people who have the greatest stake in making it work.

Surveys show our health service near the bottom of international league tables in terms of major disease survival, despite funding at the OECD average, and productivity levels well below other UK regions. We still have levels of persistent bacterial infections which some other countries manage to keep largely absent. Iatrogenic illnesses are over present to a great degree. Again basics such as this and peri-natal mortality are sure fire indicators. Patient waiting times have been shown to be easier to manipulate as a statistic. Since funding increases have not resulted in major improvements, it follows that a budgetary squeeze need not result in falling levels of output, so long as reform is undertaken. Lothian Health Board has managed to save over £20m per annum three years in a row through training and the use of one hundred and twenty departmental 'agents for change'.

In terms of measurement, Scotland has good internal data, but this is rendered largely meaningless if there is no comparison against other public service providers in foreign and other UK jurisdictions. Indeed, since devolution, key measures of health service attainment have diverged from UK counterparts, and there is a danger of the same happening in education, making it difficult to judge relative performance. SCC strongly recommends that the Scottish Government makes every effort to measure public service performance on a like for like basis against other jurisdictions, using independent agencies such as Audit Scotland.

9. How should technology be utilised to ensure the better provision of public services?

As in any other sector, as new technology becomes available it should be used to improve performance where it is cost effective. The key to better efficiency is not blanket use of technology or other 'silver bullet' solutions, but to devolve financial accountability to independent providers who have the right incentives to strike the right balance between cost and quality. There are also indications that, for example, megalithic government computer schemes have been repeatedly poorly specified, late and over budget on delivery and generally poorly responsive to customer need. We need the best appropriate technology to be used and the flexibility to adapt and change quickly as technological advances are made.

10. What lessons can other countries provide for how public services can be more efficiently delivered in Scotland, particularly at a time of budgetary constraint?

Scotland is now in a small minority of OECD countries that retains a centralised system of public service delivery. The norm in many other European countries is for a diverse range of competing public service providers, accountable to users who benefit from considerable choice or governance control. These systems are still funded by the state directly, or, in the case of many healthcare systems, through social insurance mechanisms that ensure universal access.

The benefit of such mixed systems is that they use market-style mechanisms of competition and consumer accountability to drive performance and productivity improvements while ensuring equity. Indeed, they usually achieve greater equity than centralised systems because good quality is more universal, and wealthier citizens have no need to exit or manipulate the system to find the best providers.

SCC recommends that the Scottish Government study the experience of other OECD countries and learn from their experience in this regard.

11. Given reduced budgets, will the public sector have the capacity to deliver efficient public services while also responding to the longer-term challenge of demographic change?

Meaningful reform of the public sector in Scotland will leave it better placed to meet the demographic challenges of the future. Indeed the latter imperative means that public pension reform is essential if we are to avoid a two class state of senior citizens. Public sector pension reform will also make it easier to adapt flexibly to the longer working careers that will inevitably be required to fund longer retirement stemming from greater life expectancy.

As the economy resumes growth, tax receipts rise, and the Scottish Government enjoys higher revenue in the longer term, it will be able to direct resources into a more efficient system. Unlike the last ten years, greater resources will lead to improved outputs in the future, giving us every chance of being able to cope with an ageing population.

**Scottish Chambers of Commerce
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