

ENHANCING THE PRODUCTIVITY OF SCOTLAND'S PUBLIC SERVICES

DAVID HUME INSTITUTE

22 NOVEMBER 2007

Thoughts from my observation of the public sector as Auditor General and experience as a chief executive.

The Scottish Government is introducing a National Performance framework and Outcome Agreements with local authorities. This framework presents opportunities and challenges:

There are opportunities to get clarity about what local authorities are expected to deliver as their contribution to national priorities.

However the outcome agreements of themselves say nothing about the other side of the equation – this is “the use of resources.” Although outcome specification is important, so is the *efficiency* with which resources are used to deliver the outcomes – the VFM question. Audit Scotland will be in dialogue with the Scottish Government about the systems required to ensure VFM is achieved and reported.

My second thought is about the nature of regulation. Some regulators oversee standards but do not address the efficiency question – eg. QIS and the Care Commission. This is a gap that needs to be filled and Audit Scotland has made some attempt to do that by working for example with QIS. The Crerar Review of scrutiny arrangements could perhaps have said more about linking inspection with ensuring the efficient use of resources.

It is in this area that we need to think about what we can learn from the economic regulators. Answering the VFM question requires robust and relevant information on activity costs, comparative costs and good benchmarks linked to clearly specified outputs and outcomes. At the heart of economic regulation, is a concern for activity costs, comparative costs, benchmarks and outputs. We should therefore be looking at the experience of economic regulators such as the SWIC to learn as much as we can about how to apply to economic techniques of regulation to other parts of the public sector – as Jo Armstrong has so eloquently advocated. Some of Audit Scotland's performance audit studies look at these factors – for example, we have a project at the moment which is examining activity costs/tariffs in the Scottish NHS. Central to Audit Scotland's business is the analysis of use of resources.

My next thought is about context. These techniques are unlikely likely to work well unless the right context is set by government, at both the national and the local level. Given that public services operate in imperfect markets where there are classic principal/agent problems everywhere you look, governments should generally be in favour of mixed economies of provision. The language of “the mixed economy” may have an appeal across the political spectrum because it implies parity of esteem between purchases and all providers, whether the latter are in the public, private or not-for-profit sector. I recognise that the DHI will want to use the language of competition but it should be set within a recognition of the importance of developing mixed economies.

There needs to be “intelligent commissioning” – by which I mean those making the commissioning decisions must be

- clear in their specification of outputs and outcomes
- have good systems for monitoring performance.

Intelligent commissioning requires that purchasers know the supplier market well. With this knowledge, they should be prepared to influence the supply side so that good suppliers can come into existence (overcoming barriers to entry in for example, social care markets) and flourish over the long term if they can demonstrate competence. Once good competition has been secured, there has to be sustained and effective partnership working between the commissioner of services and the preferred suppliers.

There are important issues yet to be resolved about the capacity of existing public sector bodies, for example small councils, to engage in skilled commissioning that maximises user choice, achieves value for money, and achieves partnership working with suppliers whilst maintaining competitive tension. A related issue is whether the geographical structure of commissioning bodies can allow a flourishing mixed economy of provision within tight administrative boundaries (issues of diversity of suppliers, critical mass in artificially small markets).

We in Audit Scotland apply this intelligent commissioning principle in creating and managing a mixed market of audit providers - drawn from the private firms and also from Audit Scotland directly employed staff. About two thirds of the 200 or so audits are undertaken by Audit Scotland and the balance is done by private firms. To ensure its independence and objectivity, Audit Scotland’s procurement function is directly accountable to me and is separate from the delivery function which is headed up by the Deputy Auditor General. Our in-house provider helps to ensure that we are skilled in commissioning and partnership working with our suppliers. I believe that this mixed economy approach has great potential for improving efficiency and productivity in many areas of the Scottish public sector.

A mixed economy in the public sector generally would involve: public providers, private providers, trusts and other hybrid bodies, the voluntary sector and the social enterprise sector.

I think there is a need for a strong not-for-profit sector. This is recognised by government and the spending review gives greater recognition of its potential role. In order to secure their place as significant players in public service delivery, not-for-profit organisations must be able to demonstrate their efficiency and their performance by having good business systems in place and a commitment to public performance reporting.

There is also a need for high-quality public providers – not least as providers of last resort in areas of social care, but also so that purchasers can build up a good knowledge of the supply side of the business. We must of course, manage the risks identified by Jo Armstrong of purchasers giving too much weight to the interests of the in-house provider - but I believe this can be done and we must not throw the “in-house baby” out of the “mixed economy bathwater.”

ROBERT BLACK