

Finance and Public Administration Committee

15th Meeting 2023 (Session 6), Tuesday 23 May 2023

Inquiry into the Scottish Government's Public Service Reform Programme

Purpose

1. The Committee is invited to take evidence in relation to its Inquiry into the Scottish Government's Public Service Reform Programme from:
 - Antony Clark, Executive Director, Audit Scotland
 - Professor John Connelly, Head of Department of Social Sciences, Glasgow Caledonian University,
 - Alison Payne, Research Director, Reform Scotland
 - Dave Moxham, Deputy General Secretary, Scottish Trades Union Congress (STUC)
2. This paper sets out background information in relation to the Committee's inquiry and highlights key issues raised in written submissions received from the above witnesses. Submissions from Audit Scotland, Reform Scotland, and the STUC are reproduced in full at Annexe A.

Committee remit

3. Public service reform was included in the Committee's remit when it was established at the start of Session 6, in June 2021.
4. That year, the Committee held two exploratory evidence sessions to establish what progress had been made in relation to delivering public service reform in line with the Christie Commission's principles, and the barriers to advancing this agenda. At the first session, held on [9 November 2021](#), the Committee heard from: the Auditor General for Scotland, Professor James Mitchell from the University of Edinburgh (and Commission Member), and Professor Graeme Roy of the University of Glasgow. Witnesses recognised that the Christie Commission principles remain relevant, but that limited, or "sporadic", progress has been made. The Committee heard that, for reform to be successful, it requires time, effort, cultural change, a longer-term focus, proper accountability mechanisms, collaboration, and innovation.
5. These points were explored with the Deputy First Minister and Cabinet Secretary for Covid Recovery at an evidence session on [21 November 2021](#). He told the Committee that "the Government's commitment to Christie's vision and public services reform remains strong but making Christie a reality requires

a collective national endeavour”, adding “I am committed to making that happen in the years to come”. He also provided examples of areas where reform had taken place in recent years, including structural reform of the police, fire and rescue service, and policy reforms such as the expansion of early learning and childcare provision. He also recognised that some areas may be more challenging to effect reform.

Background to the Inquiry

6. [The Scottish Government's 'Investing in Scotland's Future' Resource Spending Review](#) (RSR) published on 31 May 2022 set out its high-level spending plans up until 2026-27 to deliver its ambitions. The RSR stated that “the more efficient and effective we can become in the delivery of public services, the more able we will be to achieve key priorities and direct support towards those who need it most”. The RSR identified five areas of focus for reform over the lifetime of this Parliament:
 - digitalisation
 - maximising revenue through public sector innovation
 - reform of the public sector estates
 - reform of the public body landscape, and
 - improving public procurement.
7. The Scottish Government also indicated in the RSR that it wanted to develop—

“a pathway to return the overall size of the public sector workforce broadly to pre-Covid-19 pandemic levels, while supporting expansion in key areas of service delivery, helping to hold total pay bill costs – as opposed to pay levels – at 2022-23 levels”.
8. Further details of the Scottish Government’s plans for reform and workforce levels were expected to be published with the Scottish Budget 2023-24 on 15 December 2022 but did not materialise.
9. The then Deputy First Minister explained to the Committee on [10 January 2023](#) that—

“I want to debunk for the Committee the idea that we are waiting for something to happen to undertake public sector reform, because we are constantly changing the way in which public services are delivered in order to live within the financial restraint that we all face.”
10. He went on to state that, instead of targets and an overarching framework for reform, public bodies would be expected to “change the way that they operate in this financial year to ensure the sustainability of their public services”. He further noted that “those changes will become apparent as organisations take decisions in order to live within the resources that have been made available to them”.

11. The Committee's [Budget Report 2023-24](#) therefore sought to establish further details of how the Scottish Government plans to achieve each of the five priorities for reform (included in the RSR and set out at paragraph 3 above). The Committee also asked for information on the milestones for delivering these priorities, the costs, efficiencies, and savings it anticipates as a result, and how it is supporting public bodies to deliver each element.
12. Some further detail on the Scottish Government's plans were included in the then Deputy First Minister's [response of 3 February](#) to the Committee's Budget Report, including confirmation that public bodies' plans are expected later this year for inclusion in the Scottish Budget 2024-25. [In further correspondence dated 20 March](#), the then Deputy First Minister appeared to indicate that the original plans regarding the public sector pay bill had been revisited—

“The RSR included commitments to hold the total public-sector pay bill (excluding Local Government) at around 2022-23 levels, whilst returning the overall size of the public sector broadly to pre-COVID-19 levels. Following further analysis and engagement, our proposal on how we achieve sustainable public bodies developed. ... it is for individual public bodies to determine locally the target operating model for their workforces and to ensure workforce plans and projections are affordable in 2023-24 and in the medium term”.

Inquiry

13. On 6 March 2023, the Committee launched an inquiry into the Scottish Government's plans for public service reform, with the following remit:
 - to develop a greater understanding of the Scottish Government's public service reform programme,
 - to bring greater transparency to the aims of the programme and measures put in place by the Scottish Government to support public bodies to achieve these aims,
 - to track progress in delivering public service reform by the Scottish Government and public bodies over the remainder of this parliamentary session until 2026, and
 - to examine the outcomes of the public service reform programme, including effectiveness, efficiency, and impact on public service delivery. *This element will be explored towards the end of the parliamentary session.*
14. The Committee's [call for views](#), which opened on 6 March 2023, sought written submissions from Scottish public bodies on their plans for reform in their sectors, and others with a view on how the reform programme is working in practice and how it is delivering effective and efficient services. The evidence gathered through the [written submissions received](#) and a series of evidence sessions to take place during May/June 2023 will inform the Committee's pre-budget scrutiny starting in September. Its findings from this work will be

included in its Pre-Budget 2024-25 Report, given the links between reform and the sustainability of Scotland's public finances.

15. In a [letter dated 20 April, the Committee sought clarification from the new Deputy First Minister and Cabinet Secretary for Finance](#) in relation to the frequency of updates to be provided on public service reform. The Committee also, at the request of the former Deputy First Minister, reflected on the nature of these updates and asked that "they should include details of all public bodies reform activity, rather than just narrowly focusing on the five areas of reform identified in the RSR".
16. In the [Scottish Government's 'Equality, Opportunity and Communities' Prospectus](#) published in April 2023, the Deputy First Minister states that by 2026, she will have progressed a 10-year programme of public bodies and public service reform; strengthened the resilience of public services and communities, and "targeted both short-term efficiencies and wider, deeper, and longer-term reform".

'Setting the scene' evidence session

17. This session is intended to 'set the scene' regarding the Scottish Government's programme for public service reform ahead of future evidence sessions with public bodies and local authorities on their experiences of the reform programme. This session could explore issues such as:
 - the benefits and disadvantages of the approach to reform now being taken by the Scottish Government, which appears to place the onus on public bodies to manage reform and workforce levels within their budgets rather than being based on strategic outcomes and oversight,
 - the extent to which drivers for reform are based on the need to alleviate pressures on the Scottish Budget,
 - the outcomes the Scottish Government should be looking for from its reform programme,
 - the barriers to reform and how greater progress might be made,
 - how the Scottish Government's reform programme can ensure that public service delivery is enhanced rather than negatively affected by efficiency-savings,
 - how the Scottish Government can balance its focus on immediate issues with longer-term reform, including early intervention and prevention,
 - the levels of support the Scottish Government should be providing to public bodies to best implement their reform plans,
 - the Scottish Government's Public Sector Pay Strategy 2023-24, and
 - examples of good practice in relation to reform, how success was achieved in these cases, and how this can best be shared.
18. All written submissions are published on the Committee's [Inquiry web pages](#). Submissions from the witnesses are attached at Annexe A of this paper.

19. Audit Scotland (AS), in its written evidence, highlights that “in the long-term, the economic and fiscal outlook means that continuing to make small-scale budget cuts is unfeasible and a strategic long-term approach to public service reform is required”. AS states that, if the pace and scale of reform does not increase “it will be increasingly difficult for the Scottish Government to manage the pressures on the budget, meaning that larger cuts to spending and/or increases in taxes will be necessary to balance the budget, with an increased risk that the quality of public services will fall”. It goes on to note that “reform is most successful when it is planned and targeted, in contrast with flat budget reductions across the board which reduce spending across the public sector without considering the impact on wider ambitions”. It also provides some examples of good practice, including collaborative practices during the Covid-19 pandemic. AS further suggests that the recommendation in the Public Sector Pay Strategy 2023-24 that public sector workers receive a pay increase of 3.5% “may be difficult” if inflation remains high.
20. In its written evidence, Reform Scotland notes that “the Scottish Government does have an admirable and welcome set of ambitions in terms of public policy, but too often delivery is wanting”, adding “reform requires difficult decisions and too often tough choices have been avoided or abandoned and attempts at change have been too timid”. Changes called for include in the NHS, local government, school education, and further and higher education. It goes on to note that a debate is needed on broadening the tax base, having a competitive tax system in place, and putting in measures to retain skills, as well as striking a balance between short-term “fire-fighting” and “investing in much-needed early intervention and prevention programmes to improve outcomes in the longer term”.
21. The Scottish Trades Union Congress (STUC) highlights in its submission that public sector pay is not keeping up with inflation or with the private sector and argues that the 3.5% pay risk suggested in the Public Sector Pay Strategy 2023-24 “is not remotely sustainable”. Neither it argues are plans to reduce the public sector workforce, which it concludes would result in cuts to public services. The STUC suggests that “rather than cutting public services the Scottish Government should be raising revenue, including through new income and wealth taxes, to sustain public services”, adding that its research shows that the Scottish Government could raise more than £3 billion through a package of short and long-term tax measures. The STUC stresses that it is not opposed to “genuine reform” with the aim of strengthening public services, rather than trying to “do more with less”.
22. Professor Connelly did not provide a submission to the Committee’s call for views but has pointed to the article [The Leadership of Co-Production in Health and Social Integration in Scotland](#), his edited book on [Public Value Management, Governance and Reform in Britain](#), and the chapter [The Leadership and Management of Public Services Reform in Scotland](#). In the latter chapter from the Oxford Handbook of Scottish Politics on public services reform in Scotland (August 2020), which he co-wrote with Professor Robert

Pyper¹, he notes that there has been ‘lost opportunities’ to make greater progress on reform both in Scotland and in other devolved areas. He lists five key related points regarding reform:

- “Close-knit policy communities create opportunities [for reform] ..., however, this does not mean that the overarching strategic role of national leadership is not needed”.
- “An open approach to lesson-learning and policy transfer is helpful”,
- “Structural reforms in isolation from a broader strategic approach will not solve problems of policy or service delivery, but ignoring the opportunities for structural change, and opposing such change ‘in principle’ or due to political factors, will severely limit the prospects for successful change”.
- “It is important to be aware of, and address, the challenges flowing from the political and organisational vested interests in the status quo—this downside of close-knit policy communities can lead to a form of ‘groupthink’ which eschews solutions and approaches ... which do not align with these interests.”
- “Policy distraction ... on longer term political and constitutional goals ... can limit the time, policy commitment, and values-based leadership for other key domestic priorities such as enhanced service delivery”.

Next steps

23. The Committee will continue taking oral evidence in relation to this inquiry with a round-table of public bodies at its next meeting on 30 May 2023. A SPICe summary of evidence will be available for the next meeting.

Committee Clerking Team
May 2023

¹ Professor of Government and Public Administration at Glasgow Caledonian University,

Written Submission from Reform Scotland

Please tell us how you think the Scottish Government's public service reform programme is working in practice and how its aims of delivering effective and efficient public services are being met.

Reform Scotland welcomes the opportunity to comment on the committee's inquiry and hopes that the change in First Minister is taken as an opportunity to review and consider a wider degree of reform.

Such consideration is urgent. The current public policy programme is not delivering the outcomes required and a change in direction is needed.

The poverty-related attainment gap, despite being cited as a priority eight years ago, remains stubbornly wide; hospital waiting lists were growing before covid and have worsened since; there have been numerous problems delivering key transport commitments; Higher education is heralded as being free, but caps on places in Scotland limit young people's ambition and resources have been diverted away from colleges; Local authorities are constrained rather than empowered. While there have certainly been some policy successes, there seems to be a lack of an overarching reform strategy.

Reform Scotland would agree that the Scottish Government is limited in its ability to raise revenue and we have continually called for greater devolution to enable more of what is spent in Scotland to be raised directly by Holyrood. However simply spending more money is not the answer. Indeed, perpetuating the myth that all that is required to fix public services in Scotland is more money does a disservice to all.

The Scottish Government does have an admirable and welcome set of ambitions in terms of public policy, but too often delivery is wanting. Reform requires difficult decisions and too often those tough choices have been avoided or abandoned and attempts at change have been too timid. The public are capable of understanding that elected politicians sometimes have to push through difficult reforms for the national good, as long as the reasons and potential outcomes are clearly communicated.

At present, even those reforms that are underway have too often been delivered with a glacial speed. That is why it is necessary to not just focus on short-term crises, but look to the long term.

In our submission we have focused on a few areas where we believe Scotland must start a programme of policy thinking now if we are to meet the long-term challenges, such as demographic change, that our public services will face.

Reform the NHS, with the only non-negotiable being that it remain free at the point of use. If we want to preserve the principle of an NHS that is free at the point of use, then work must start now to develop, agree and then implement the necessary reforms.

This means properly developing and investing in early intervention and prevention programmes, moving away from our 'National Illness Service' way of working to an actual National Health Service.

It means recognising that some things are best delivered as close to people as possible in communities, while other specialities should be in large central hospitals. Centres of excellence for routine operations and specialisms work well where practitioners and teams can build up skills. Indeed, lessons can be learned from good practice around the country – some areas of Scotland retain GP out-of-hours care, and make use of shared facilities with social care to ensure continuity of care.

Can we expand the use of Minor Ailment services? Can we enable pharmacists, perhaps working alongside nurse practitioners, to carry out more checks and prescribing? What role can fast-developing developing technology play? Can personal data infrastructures help reduce the friction between different services and providers?

Revitalise local democracy

Throughout the period of devolution there have been continued calls, both within and outwith parliament, for greater decentralisation within Scotland, and for local government renewal. But nothing has changed. Indeed, it could be argued that instead power has been centralised at Holyrood through caps on council tax, police centralisation and proposals to remove local authorities' role within social care.

It is past time for a major rethink, and for the genuine empowerment of Scotland's councils. Scotland needs a new and better balance of powers between Holyrood and local government. This requires a shift away from central command and control.

Reform Scotland believes that the country needs to have a debate focused on the specific measures that can regenerate and revitalise local government, and to set out a new vision for a decentralised Scotland. Issues that we have previously highlighted include:

- Directly-elected mayors, dynamic, highly visible and accountable to their electorates
- Full devolution of council tax, including the ability to replace it
- Full devolution of business rates
- Councillors' pay and conditions

School education

There needs to be fundamental change in the culture of Scottish education and particularly in the way in which it is managed. This should include changes to responsiveness and ensuring the culture is more customer-focused. All agencies should include a number of practising teachers working on a secondment basis. This would help open up agencies to other voices and experiences which are currently locked out.

Strategic curriculum guidance should be developed collaboratively with extensive stakeholder involvement but should be seen clearly as the responsibility of government rather than a supposedly arms-length agency. The unintended consequences of extending Broad General Education to S3, with the subsequent reduction in subject choice in S4 that Reform Scotland and others have highlighted, must be addressed.

Resources available for developing advice and delivering support should be progressively devolved to school level, allowing school staff to select those providers they see as offering the best quality service.

An independent inspectorate should be established, overseen by a board independent of government influence and answerable to Parliament. The focus of the inspectorate's activities should be as much about evaluating the effectiveness of policy as it is on implementation at the level of the individual school or other establishment.

In order to improve standards in Scotland's schools the Scottish Government first needs to be honest and accept that standards have fallen relative to other countries and that there has been little progress made in closing the attainment gap. Reinstating Scotland's participation in the TIMSS and PIRLS international studies is a welcome first step. A replacement for the Scottish Study of Literacy and Numeracy would also help measure the work that needs to be done. Creating an education statistics body could help monitor the system objectively, while data, analysis and further external evaluations are required to learn lessons of what has gone wrong. It is vital to empower schools, but making better use of data and evaluation will help develop accountability for outcomes.

Further & higher education reform

There may be no university tuition fees, but there is a cap on student numbers, which means that often English or international students can be accepted on to courses in Scotland while their Scottish counterparts are denied. There has also arguably been a focus on universities to the detriment of colleges, with the latter wrongly seen for far too long as the lesser option. Funding cuts threaten colleges' ability to deliver the skills Scotland needs in a changing and modernising workplace.

For higher education we have to accept that the current funding arrangements are simply unfair and unsustainable. There needs to be a better balance between the individual graduate and taxpayers in contributing towards higher education, with graduates contributing towards the cost through a deferred fee, to be repaid once they earn more than the Scottish average salary.

The Scottish Government could then look to introduce schemes that cut or scrap repayments for graduates who remain in Scotland working in certain sectors for set periods of time. For example, someone graduating with a medical degree who works in the NHS for five years post-graduation could have their fees written off. This would enable many to still access fully taxpayer-funded higher education, but as part of a scheme that ensures more people stay in Scotland after graduation, helping to address demographic challenges and skill shortages.

Broaden the tax base

Public sector reform costs money. Even if it leads to eventual savings, fixing short-term problems while simultaneously trying to introduce long-term reform can be expensive. In Scotland, like the rest of the UK, we are facing a cost-of-living crisis and a demographic timebomb. While it is to be welcomed that more of us are living longer, there is also a proportionately shrinking working-age population.

Simply increasing taxes will not deliver the necessary additional revenue - we need to broaden our tax base.

Immigration, both from within and outwith the rest of the UK, can help increase the number of working-age people. But Scotland is competing not just with England, but in a global marketplace and it needs to demonstrate to those who wish to invest, those who want to start a business, and those who wish to live and work and raise families, why they should do so in Scotland. This includes a competitive tax system and an attractive social contract.

Boosting the size and strength of the working-age population can be supported by immigration, but only in the short term. Other policies to support skills being retained and developed in Scotland also need to be considered.

Early intervention versus fire fighting

One of the biggest obstacles to the sort of reform outlined above is the challenge of simultaneously investing in much-needed early intervention and prevention programmes to improve outcomes in the longer term, while dealing with short-term crises that demand immediate attention and resource.

As well as delivering more efficient services and better outcomes, reform, if done properly, can potentially reduce costs over time. But investing in that reform to begin with always come at a price. Further, it is near impossible to do both what is required for the long term and the short term while also facing a cost of living crisis and the impact of other externalities.

The Scottish Government's borrowing powers are limited and borrowing cannot be accessed to generally increase the resource budget. Perhaps a line of discussion as part of the Fiscal Framework Review could be an extension of borrowing powers which could be used to fund current revenue, but only for a short period of time and with the intention of delivering service reform.

Inquiry into the Scottish Government's Public Service Reform programme

Response from Audit Scotland, on behalf of the Auditor General for Scotland



May 2023

Background

The Scottish Government's Resource Spending Review (RSR) published in May 2022 set out its high-level spending plans to deliver its key policy ambitions up until 2026-27. The Review said that "the more efficient and effective we can become in the delivery of public services, the more able we will be to achieve key priorities and direct support towards those who need it most".

The Review identified five key areas of focus for reform over the lifetime of this Parliament:

- digitalisation,
- maximising revenue through public sector innovation,
- reform of the public sector estate,
- reform of the public body landscape, and
- improving public procurement.

Reform and pre-pandemic workforce levels

The Scottish Government has also said it wants to "return the public sector workforce broadly to pre-Covid-19 levels". It plans to do this "while supporting expansion in key areas of service delivery, helping to hold total pay bill costs – as opposed to pay levels – at 2022-23 levels".

Further information on the government's plans for reform and workforce levels were expected in the Scottish Budget 2023-24 but did not materialise.

The Deputy First Minister later confirmed that, instead of targets and an overarching framework for reform, public bodies would be expected to "change the way that they operate in this financial year to ensure the sustainability of their public services". He explained that "those changes will become apparent as organisations take decisions in order to live within the resources that have been made available to them".

Committee Inquiry

The Finance and Public Administration Committee has therefore agreed to look in more detail at the Scottish Government's public service reform programme, including its plans to keep pay bill costs at 2022-23 levels.

As part of this work, the Committee will examine how public bodies are working to achieve these plans in 2023-24 and beyond.

Response

Please tell us how you think the Scottish Government's public service reform programme is working in practice and how its aims of delivering effective and efficient public services are being met.

Introduction

1. Audit Scotland, on behalf of the Auditor General for Scotland (AGS), welcomes the opportunity to respond to the Finance and Public Administration Committee's request for views for its inquiry into the Scottish Government's public service reform programme.
2. The AGS is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and reports to Parliament on their financial health and performance.
3. Audit Scotland is a statutory body established under the Public Finance and Accountability (Scotland) Act 2000 (PFA). It is Scotland's national public sector audit agency which provides the AGS and the Accounts Commission (who are responsible for the audit of local government) with the services they need to carry out their duties.
4. The AGS has a longstanding interest in the Scottish Government's public service reform programme, both in specific areas (e.g. reform of police and fire and rescue services) and thematically (e.g. prevention and workforce planning), We have drawn on relevant audit work on behalf of the AGS to support our submission. We consider how well public resources are used by the Scottish Government and public bodies in discharging their functions. This includes the progress and effectiveness of reforming public services to manage the sustainability of public finances and improve outcomes for the communities they serve. We cannot question the merits of the policy objectives of Scottish Ministers, the Scottish Government or any other public bodies. All our publications are available on the Audit Scotland [website](#).

Overview

5. The AGS has continued to underline the importance of reforming public services to manage the sustainability of Scotland's public finances. The November 2022 briefing, [Scotland's public finances: challenges and risks](#), prepared by Audit Scotland on behalf of the AGS highlighted that failure to make the necessary changes to how public services are delivered will likely mean further budget pressures in the future. In the long term, the economic and fiscal outlook means that continuing to make small-scale budget cuts is unfeasible and a strategic long-term approach to public service reform is required.
6. Reforming public services requires more than just delivering improved efficiencies, it means changing how services are delivered to people in a way that more effectively meets both their needs and the Government's policy aspirations. Reform is most successful when it is planned and targeted in contrast with flat budget reductions across the board which reduce spending across the public sector without considering the impact on wider ambitions.
7. The significant pressures facing Scotland's public finances and public services are even greater than when medium-term plans were last set out by the Scottish Government. The Medium-term Financial Strategy (MTFS) published in December 2021, projected that by 2026/27 there would be a £3.5 billion gap between its central funding and spending scenarios. The MTFS was then updated in May 2022 and published alongside the Resource Spending Review (RSR). This reflected a balanced medium-term position, where the central funding scenario and central spending scenario align, closing the previously identified

funding gap. A key part of how the Scottish Government planned to close the funding gap was by making necessary budgetary savings through public service reform (Exhibit 1).

Exhibit 1

Public service reforms included in the RSR

Type of reform	Summary from RSR
New approaches to public services	<p>Key reforms over the course of this Parliament include:</p> <ul style="list-style-type: none"> the establishment of the National Care Service keeping the Promise (as set out following the Care Review), including by investing £500 million in preventative spend through the Whole Family Wellbeing Funding the Vision for Justice in Scotland – the future justice system Education Reform – replacing existing education bodies National Strategy for Economic Transformation.
Public sector capacity and pay	<p>The RSR includes plans to:</p> <ul style="list-style-type: none"> from 2023/24, a broad aim to keep the total cost of the overall annual pay bill the same as 2022/23 a broad aim to return the total size of the devolved public sector workforce to around pre-Covid-19 levels by 2026/27, through effective vacancy and recruitment management continued development of the use of technology within the public sector to support hybrid and flexible working.
Efficiencies for the public sector	<p>Recurring annual efficiencies of at least three per cent will be required from public bodies. Planned efficiencies include:</p> <ul style="list-style-type: none"> further use of shared services management of the public sector estate (around 30,000 properties) effective procurement (current levels of procurement spending stood at £13.3 billion in 2020/21, or around a quarter of the Scottish budget) management of public sector grants.
Reform to public bodies	<p>The RSR notes that there are currently 129 public bodies in Scotland, and notes 'reform is inevitable'.</p>

Source: Audit Scotland, Scottish Government

- The cost-of-living crisis, and the pressures on public spending and public services, mean that these reforms are more necessary than they were even when the RSR was announced last year. In the past, delivery of the reform of public services has not matched the original ambition which creates risks moving forward.
- In the face of the financial challenges, the pace and scale of reform needs to increase, and this will require a sense of urgency from the Scottish Government, at a time when it is also pressing to resolve short-term issues facing the budget. If this does not happen, it will become increasingly difficult for the Scottish Government to manage the pressures on the budget, meaning that larger cuts to spending and/or increases in taxes will be necessary to balance the budget, with an increased risk that the quality of public services will fall.

Learning from past public service reforms

10. The AGS and Audit Scotland have repeatedly highlighted how difficult it is to reform public services, for example in their audit work on health and social care integration, Scotland's colleges, drug and alcohol policy, and police and fire reform.
11. [Reflecting](#) on the progress made ten years on since the Christie Commission, the AGS commented that "concerted action has been taken to try and implement progressive policies... But audit work consistently shows a major implementation gap between policy ambitions and delivery on the ground."
12. Our audit work has also regularly highlighted the need for greater clarity on what success in public service reform will look like and how progress towards Scottish Government public service reform ambitions are measured and reported. For example, our [NHS in Scotland 2022](#) report noted that the Scottish Government must be clear on what progress is being made in reforming health and care services and what can realistically be achieved. The report highlighted that it is vital that measures are in place to monitor the impact of innovation and redesign and provide clarity on the effectiveness, efficiency and value for money of new ways of delivering services. The Scottish Government and NHS boards must make sure health services can be delivered in a sustainable way. They must be clear on what resources are available and what can be delivered within financial and operational constraints. When driving forward innovation and redesign they should be clear on what success would look like and what timescales they are working to. That must be informed by reliable modelling and data.
13. Our audit work has also often identified slow progress in delivering tangible change through public service reform. There is also often limited evidence that the implementation of reform is making a real difference in improving the quality and effectiveness of services provided to the public. For example, our 2017 progress audit on [self-directed support](#) found that, seven years after the ten-year self-directed support strategy was introduced jointly by the Scottish Government and COSLA in 2010, limited progress had been made. Individuals were still not being offered the choice and control over social care services envisaged by the Social Care (Self-directed Support) (Scotland) Act 2013 and there was no evidence that authorities had made the transformations in services required to fully deliver the strategy.
14. Our [Social care briefing](#) (January 2022) set out key learning points from past public service reforms, for example health and social care integration, police and fire reform, college sector regionalisation, and the development of social security responsibilities in Scotland. Our reports in these sectors have found that reform is challenging and public bodies have experienced difficulties implementing elements of reform – expected benefits are not always clearly defined and, even if they are, reform does not always deliver the expected benefits, particularly in the short term. Key learning points include the importance of including:
 - realistic costs in financial memoranda accompanying parliamentary bills for legislative change
 - a comprehensive business case, clearly setting out the purpose and objectives of reform, timescales, key roles, responsibilities and accountability, risks, and the budget
 - evidence to support major changes and being clear about how they will improve outcomes, options appraisal, and economic modelling
 - good baseline information and a clear plan for measuring performance and improvement
 - governance, accountability, roles and responsibilities in the new structure, and ensuring a shared understanding and agreement among key stakeholders

- strong, consistent strategic leadership from the outset
- an understanding of the time and effort needed to implement major change and complex restructuring, and of the cultural differences between partners.

15. These points will be more important during a period of fiscal pressure and tight budgets if future public service reform is to achieve maximum value for money.

Effective leadership and collaboration

16. The Scottish Government's longstanding approach to public service reform aims to deliver on the objectives established by the Christie Review. That means public services are built around people and communities; public service organisations work together effectively to achieve outcomes; prioritise prevention, reduce inequalities and promote equality; public services constantly seek to improve performance and reduce costs and are open, transparent and accountable. Delivering these ambitions requires strong, effective and collaborative leadership across the public sector.

17. In recent years, the AGS has reported on the leadership capacity across the public sector, emphasising the critical need for effective and collaborative leadership at a time of increasing pressures and change. Public bodies, including councils, integration authorities and the NHS are experiencing a high turnover in senior staff and are competing not only with each other for the best quality leaders but also with the private and third sectors.

18. Our report on [Health and social care integration](#) identified the common leadership traits which were important in integrating health and social care services, drawing from a range of published research (Exhibit 2, below). Many of these traits are equally important to all leaders working in the public sector – setting the tone for the way in which decisions are taken, helping build and maintain trust and creating a culture of collaboration with partners and other stakeholders focused on delivering efficient and innovative user-focused services.

Exhibit 2

Traits of effective collaborative leaders

There are a number of leadership traits which are important in integrating health and social care services.



Influential leadership

- Clear and consistent message
- Presents a positive public image
- Ability to contribute towards local and national policy
- Shows an understanding of the value of services



Ability to empower others

- Encourages innovation from staff at all levels
- Non-hierarchical and open to working alongside others
- Respectful of other people's views and opinions
- Inspiring to others
- Creates trust
- Willing to work with others to overcome risks and challenges



Promotes awareness of IA's goals

- Confidence and belief in new technology to facilitate progress
- Facilitates planning of sustainable services
- Recruitment of staff to fit and contribute to a new culture
- Sets clear objectives and priorities for all
- Develops widespread belief in the aim of the integrated approach to health and social care



Engagement of service users

- People who use services feel able to contribute to change
- Ability to facilitate wide and meaningful engagement
- Open to and appreciative of ideas and innovation
- Ensures voices are heard at every level
- Transparent and inclusive



Continual development

- Encourage learning and development, including learning from mistakes
- Belief in training and understanding of who could benefit from it
- Encourage innovation, debate and discussion
- Driven to push for the highest quality possible

Source: Audit Scotland, 2018; from various publications by The Kings Fund; Our Voice; Scottish Government; Health and Sport Committee and the Scottish Social Services Council.

19. The public sector response to the Covid-19 pandemic demonstrated how effectively collaborative leadership can operate when there is a clear shared goal around which public sector leaders can focus their efforts. During that time changes were made to how public services were delivered at a scale and pace which would have been unimaginable in normal circumstances.
20. As the Scottish Government develops its thinking on its future approach to public service reform it will be important to reflect on the lessons that can be learnt from the public sectors experience of working together to deliver transformational change and improvement during the Covid-19 pandemic.

A focus on users and outcomes

- 21.** Delivering sustainable high quality public services at a time of fiscal constraint and increasing service demand will be challenging, especially in the context of the current cost of living crisis. Difficult choices will need to be made about what level and types of services can be provided in future, including how and where they will be provided. It is likely that some fundamental changes may need to be made to the overall shape and focus of public services if the significant challenges facing Scottish society around addressing inequalities, meeting Net Zero commitments and delivering sustainable economic growth are to be achieved. These changes will directly affect us all. As such, it is important that citizens and communities are involved in the decisions that need to be made about how services might change in the future.
- 22.** For this to happen effectively further progress will need to be made in strengthening arrangements across the public sector in consulting and engaging with communities and citizens. Our audit work shows that limited progress has been made to date in citizen participation in budget processes, particularly for marginalised groups, for example in relation to participatory budgeting. Our recent [Tackling child poverty briefing paper](#) reported that insufficient involvement of children and families with lived experience of poverty is hindering the development of sufficiently targeted policies for tackling child poverty.
- 23.** We have however found good examples of public engagement from our work on social security. The Scottish Government's Social Security Programme continues to learn from existing benefit recipients through user experience panels and engagement with targeted client groups to inform its design decisions.
- 24.** Empowering communities to participate in democratic processes can help to reduce disadvantage and inequality and improve outcomes for communities and individuals. There are many benefits of getting community empowerment and public participation right, as set out in our [Principles of community empowerment](#) work with scrutiny bodies in 2019. However, good public participation needs investment and capacity building to ensure that public participation includes a cross section of the community, not just the most vocal, articulate, or best resourced groups.
- 25.** There may be lessons to be learnt from the public sector response to the Covid-19 pandemic here. [Our Community empowerment: Covid-19 update](#) found communities played a crucial role in the response to the pandemic. Lessons that public bodies can learn from this experience include considering:

 - designing flexible governance and decision-making processes best suited to the communities they serve
 - implementing more local decision-making structures with active local participation
 - reducing the digital divide and continue to learn from and improve digital engagement with communities.

A shift to prevention and early intervention

26. One of the fundamental principles of the Christie Commission report, which continues to underpin the Scottish Government's public service reform agenda, was a commitment to prevention and early intervention. Christie was clear that it is only by addressing the root causes of the challenges that face Scottish society such as its health inequalities and inequalities in wider outcomes (e.g. education attainment and employment) that we can deliver sustainable public services and create a fair and just society.
27. Our January 2022, [Social care briefing](#) identified important ongoing barriers that are inhibiting the desired shift towards increasing preventative spending. In particular, the extent to which resources are currently tied up in dealing with short-term problems. The briefing warned that without a shift to preventative action, increasing demand would swamp public services' capacity to achieve high quality outcomes.
28. Making a shift towards preventative spend is even more difficult when there is significant pressure on existing resources and there are new, emerging and competing demands. The AGS has recently reported on areas where preventative spend in priority areas may be under pressure because of the cost-of-living crisis. For example, the Scottish Government had significantly increased investment in employability support for parents to reduce child poverty but in September 2022, this spending was reduced from £81 million to £29 million as part of the Emergency Budget Review statement.
29. There are other issues to consider when seeking to make a shift towards more preventative approaches to public service delivery, including how the performance of public services is measured and reported on. The AGS noted that over the last ten years since the Christie Commission report the focus of much public sector performance management and reporting continues to be on short-term metrics for public services rather than prevention and longer-term outcomes. Improving the alignment between the Scottish Government's reform ambitions, including its commitment to prevention and improving long-term outcomes, and its performance management arrangements would better incentivise public bodies to focus on these areas.

Measuring and reporting on progress and outcomes

30. The Scottish Government must be clear how public sector reform supports and contributes to improved performance if value for money is to be delivered.
31. To understand how to best target support and monitor how reform and change is affecting people and delivering improved outcomes it is essential that public bodies have access to good quality and up-to-date data. A lack of data limits public bodies' ability to target spending to where it is most needed, but further work is needed in this area. For example, recent audit outputs from the AGS and Audit Scotland have highlighted some significant gaps in the performance and outcome data currently available across the public sector:
 - The [NHS in Scotland 2021](#) report (February 2022) highlights a lack of robust data in relation to health inequalities and the need for intersectional equality data. Without this data it will be hard to measure the impact of the cost-of-living crisis and find appropriate ways to target support.
 - Audit Scotland's recent blog '[Radical action needed on data](#)' highlighted that public sector leaders are not always clear on what data they have and how to use it. Or they find that the data they want is simply missing or doesn't exist. This all uses precious staff resources but without delivering the value and insights we need.

- 32.** Given that outcomes are long-term in nature, milestones are helpful in judging progress. The current lack of milestones for National Outcomes will make monitoring how changes to budgets and public sector reform impact on people and longer-term goals much more difficult. It also makes it harder for parliament and other bodies to scrutinise the work of public bodies and have assurance that spending and reform is providing maximum value for money.

Public sector capacity and pay

- 33.** Our November 2022 briefing, [Scotland's public finances: challenges and risks](#), highlighted the significant financial pressures the Scottish Government faces in a period of increasing costs. This includes public sector pay settlements that are above budget assumptions as a consequence of higher than typical rates of inflation.
- 34.** Wages are a significant element of the Scottish Government's overall budget, accounting for over £22 billion across the devolved public sector (including local government). The Scottish Government pay policy set in December 2021 reflected inflation of 3.1 per cent, but by the time of the Medium-term Financial Strategy (MTFS) in May 2022, this had increased to nine per cent. Inflation currently remains high, and although it may reduce in future, the like-for-like increased pay costs are locked in for future budgets and will not fall back to their previous levels. This creates financial pressures on budgets in public bodies.
- 35.** The need to change the size and shape of the workforce in Scotland to make it affordable is not merely a consequence of the current cost crisis. The public sector workforce in Scotland grew considerably in response to Covid-19. As at Q4 2022, the devolved public sector in Scotland employed a total of 538,700 individuals, an increase of 42,700 (8.6%) from Q4 2018 (Scottish Government Public Sector Employment Statistics).
- 36.** Growth in the workforce has varied in scale across different parts of the public sector. The majority of the workforce employed in the Scottish public sector as at December 2022 were employed by local government (48.4%) and the NHS (33.5%). These areas saw the largest increases during Covid-19 in numbers. Local government employee headcounts have increased by 13,000 (5.2%) since Q4 2018, and NHS employee headcounts by 16,600 (10.1%). In percentage terms, however, the largest increase is in the devolved civil service, the headcount of which has grown by 10,700 (a 64% increase) between Q2 2016 and Q4 2022.
- 37.** The next MTFS due in May 2023 will report the total payroll costs associated with the public sector workforce. In May 2019, the MTFS put the total payroll cost at £16.7 billion. By December 2021, the MTFS placed this at £21.1 billion, and by May 2022, £22 billion (all in cash terms).
- 38.** The Resource Spending Review (RSR) published earlier this year notes that some of this increase in numbers and costs will reflect new functions taken on by the Scottish Government in respect of tax and social security, but the document also notes that "continued growth of the public sector away from frontline services is not sustainable". This reinforces the importance of workforce reform featuring as a key component of the Scottish Government's wider public service reform agenda.

- 39.** The RSR states that the Scottish Government recognises the need to ‘reset the public sector following the COVID-19 pandemic, including by returning to a pre-pandemic size’. This would be achieved by 2026/27, through effective vacancy and recruitment management. The Scottish Government intends for this to hold the total public-sector pay bill (as opposed to pay levels) at around 2022-23 levels.
- 40.** Given the increase in workforce numbers and costs, the scale of the challenge ahead is significant, and the timescales relatively short. Without a clear plan from the Scottish Government, it is difficult to know if the extent to which the changes needed can indeed be met by managing vacancies and future recruitment.
- 41.** It is also unclear who will be responsible for managing the required changes. The Scottish Government states the following in its recently published Public Sector Pay Strategy for 2023/24:
- “The Pay Strategy sets the framework for public sector bodies to develop effective pay settlements that reward staff fairly and deliver sustainable services within constrained budgets. Each public body covered by the Pay Strategy must ensure their pay proposals are affordable and sustainable within their financial settlement for 2023-24, drawing as appropriate on business efficiencies and workforce changes as part of ongoing public service reform.”*
- 42.** The strategy recommends public sector workers receive an increase of 3.5%, in line with the UK Government’s recommended pay rise for the public sector. It sets a maximum pay uplift of 5% where there are justifying circumstances, suggests a £1,500 cash uplift for workers who earn £25,000 or less and commits to a review of Chief Executives’ pay.
- 43.** Pay settlements in 2022/23 have been substantially higher than this due to the impact of inflation and some pay disputes are ongoing. If inflation remains high in 2023/24, a 3.5% increase may be difficult.
- 44.** In this context, the Scottish Government’s ambition to ‘return the public sector workforce to pre-Covid-19 levels’ whilst at the same time ‘supporting expansion in key areas of service delivery, helping to hold total pay costs – as opposed to pay levels – at 2022-23 levels’ will require careful management if it is not to impact on the ability and capacity of the Scottish Government to deliver its key policy commitments.

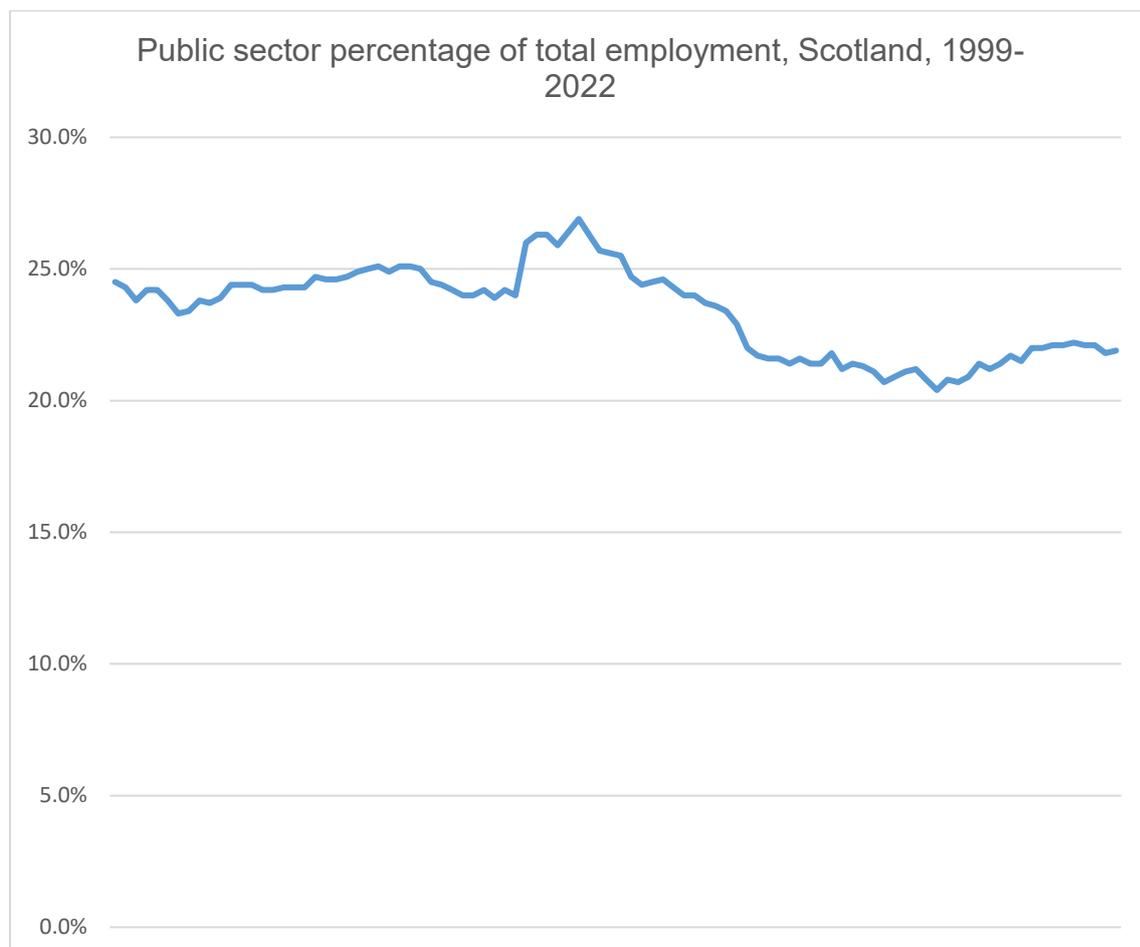
STUC submission to Finance Committee's Inquiry into the Scottish Government's Public Service Reform programme

Please tell us how you think the Scottish Government's public service reform programme is working in practice and how its aims of delivering effective and efficient public services are being met.

The STUC is deeply concerned that in order to 'reset' the public sector to pre-pandemic levels, the Scottish Government's 2022 Spending Review proposed cutting 30,000 public sector workers. Our analysis suggests that the 30,000 public sector workers recruited during the pandemic was made up of: 13,300 NHS workers, 8,000 local government workers, 5,000 railway workers, and 3,700 civil servants (mainly delivering newly devolved social security powers).ⁱ

After more than a decade of UK Government spending cuts, cutting public services further will have catastrophic consequences for Scotland's communities.

To highlight the unsustainable nature of the proposed cuts to public sector employment, we need only look at the size of the Scottish public sector workforce since devolution, highlighted by the table below. Cutting the workforce to 'pre-pandemic levels' would pin the size of the public sector workforce to historically low levels.

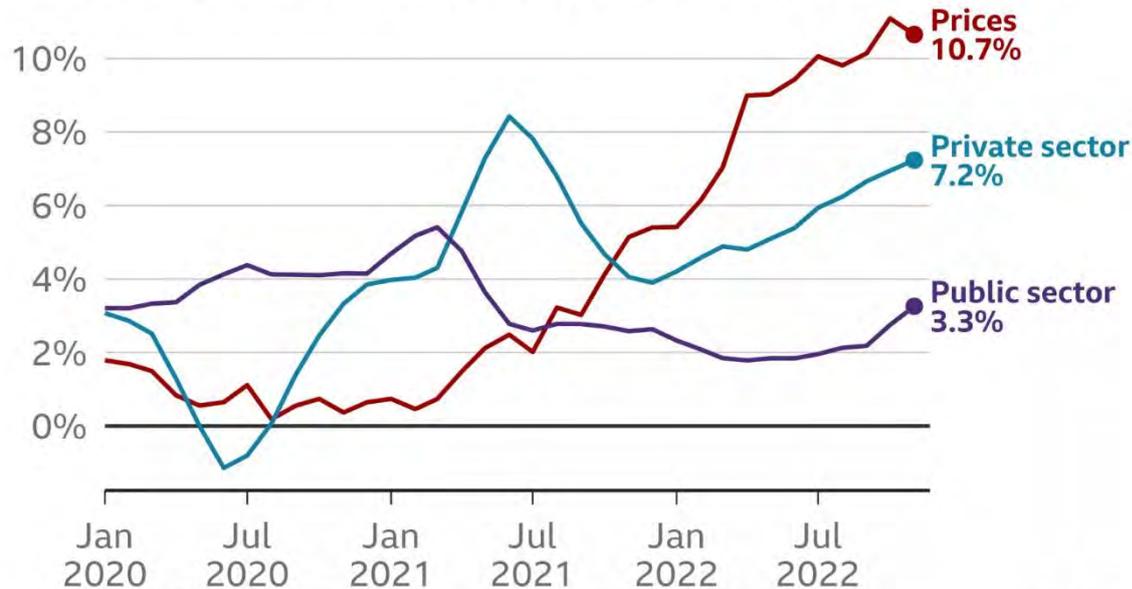


STUC analysis based on Scottish Government Public Sector Employment statistics

In addition, public sector pay growth is not only falling behind inflation, but also falling behind private sector pay growth.

Pay is not keeping up with inflation

Annual wage and price growth, Jan 2020 to Nov 2022



Source: Office for National Statistics



As well as impacting on the cost of living, this is leading to serious recruitment issues in crucial public services. In this context, the Scottish Government's Public Sector Pay Strategy, which proposes a 3.5% pay rise, is not remotely sustainable.

These cuts to the workforce and to pay, are not inevitable, they are a political choice.

Rather than cutting public services the Scottish Government should be raising revenue, including through new income and wealth taxes, to sustain public services. STUC research shows that the Scottish Government could raise more than £3 billion through a package of short and long-term tax measures.ⁱⁱ

The Committee would also be interested to hear about any examples of good practice where public service reform programmes have worked well in other countries and any lessons that can be learned.

By international standards Scotland and the UK have relatively small public sector workforces. This is particularly true compared to Scandinavian countries which have significantly larger public sector workforces, and fare better on a range of social, economic and environmental metrics. It is also worth noting that Scotland and the UK have relatively small local government workforces, again in contrast with Scandinavian countries.

While the STUC is not opposed to reform to improve public services, reform should have an aim of strengthening public services rather than trying to 'do more with less'. Genuine reform, rather than reform which is often code for cuts, is best undertaken

in conjunction with workers and their trade unions alongside increased investment in both overall size and the remuneration of the frontline workforce.

The STUC would also highlight principles of worker empowerment and subsidiarity, rather than the somewhat concerning statement contained in the Spending Review:

“This spending review invites all public sector leaders to consider the scope for innovation that embraces entrepreneurship, improves value for money, offers opportunities for commercialisation, better manages assets and brings benefit to the public purse.”

Statements such as this are particularly concerning given that in the same document, the Spending Review states: “continued growth of the public sector away from frontline services is not sustainable”. Encouraging public sector leaders to embrace entrepreneurship and opportunities for commercialisation is actively encouraging growth away from frontline services.

We would also note concern that reform of reform of the public sector estate may run in contradiction to the Scottish Government’s community wealth building aspirations which are about maximising existing assets of anchor institutions, including through insourcing, rather than outsourcing assets to multinational companies.

For further information contact:

Francis Stuart, STUC Senior Policy Officer, STUC

ⁱ STUC analysis based on Scottish Government ‘Public Sector Employment in Scotland’ statistics
<https://www.gov.scot/collections/public-sector-employment-statistics/>

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[https://stuc.org.uk/files/Reports/Scotland Demands Better Fairer Taxes for a Fairer %20Future.pdf](https://stuc.org.uk/files/Reports/Scotland%20Demands%20Better%20Fairer%20Taxes%20for%20a%20Fairer%20Future.pdf)