NAO
NATIONAL AUDIT OFFICE

Report by the
Comptroller and Auditor General

The Scottish Executive

Progress on National Audit Office Reports on Scottish Matters

SE/1999/55
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This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

John Bourn
Comptroller and Auditor General

National Audit Office
10 December 1999

The Comptroller and Auditor General is the head of the National Audit Office employing some 750 staff. He, and the National Audit Office, are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

The Scotland Act 1998 provides for the appointment of an Auditor General for Scotland on the nomination of the Scottish Parliament. In due course the Auditor General for Scotland will become responsible for the commissioning of financial and value for money audits across much of the public sector in Scotland, and reporting the results to the Scottish Parliament. This report has been prepared and presented to the Scottish Parliament under arrangements for the transitional financial year for the Scottish Parliament ending 31 March 2000.

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Executive summary

1 In the two financial years 1997-1998 and 1998-1999, we published seven value for money reports on Scottish matters, covering the Skye Bridge, Scottish New Towns, Highlands and Islands Enterprise, Cataract Surgery, Glasgow Caledonian University, Further Education and the NHS Estate. The Committee of Public Accounts has taken evidence on four of these and published their recommendations for improvements on each. The other three reports included recommendations and proposals for further consideration and action by the bodies concerned.

2 This report records the progress achieved by the responsible bodies in responding to the recommendations on each individual report. The report includes sections for each of the reports published indicating the issues we examined and our main findings, and highlights developments against each of the recommendations made.

Reports where the Committee of Public Accounts took evidence

3 The Committee of Public Accounts took evidence and published reports on the following:

The Skye Bridge (Part 2)

4 As one of the earliest completed projects the Skye Bridge was an important milestone in the implementation of the use of private finance. Following an initiative by the former Highland Regional Council, in 1991 the Scottish Office (now the Scottish Executive) Development Department signed a contract for the design, build, finance and operation of the Skye Bridge with the developer Skye Bridge Tolls Limited. The bridge was subsequently built at the expense of the developer who now operates it and receives tolls to recover the costs incurred, including the financing costs.

5 The Department achieved their primary objective to secure the early provision of a fixed crossing – the bridge opened to traffic in October 1995 - and the Department's approach to procurement was generally well chosen though they were unable to bring competition to bear in the final stages. Total expenditure on the project by the Department and users will amount to £39 million. While the Department's own project costs were higher than planned most of the project's costs were determined competitively and the extent of risk transfer is in line with

similar privately financed projects. The Department remain on course to achieve their objectives for tolls, namely that tolls should be no higher in real terms than the former ferry fares and that the concession should end within 20 years. The Department now expect the concession to end in 2012, i.e. within 17 years.

6 After completion of the National Audit Office report in 1997 tolling policy was changed to benefit regular bridge users, which will increase the Department's costs. And after the May 1999 the Scottish Ministers decided to review the effects of the earlier toll changes and to freeze tolls at 1999 levels throughout the remainder of the concession. The further changes necessary to the contract are currently being negotiated.

7 The Committee of Public Accounts reported on the project in 1998. They concluded on the achievement of the Department's objectives, the costs of the bridge, the limited extent of competition for the project and value for money. The Government's response to the Committee's report confirmed that since this early private finance project, and taking into account the lessons from it and wider experience across Government, the Department have acted positively to implement improvements in procedures for procuring services in partnership with the private sector.

Highlands and Islands Enterprise (Part 3)

8 Highlands and Islands Enterprise are a Non Departmental Public Body established in 1991 to assist the economic and social development of the Highlands and Islands, to enhance skills relevant to employment there and to improve the environment. Within a strategic and operational framework set by the Scottish Executive, Highlands and Islands Enterprise have developed their Strategy for Enterprise Development aimed at enabling the people of the Highlands and Islands to realise their full potential, through growing businesses, developing people and strengthening communities. Highlands and Islands Enterprise spend around £80 million each year.

9 Assessing the impact of economic development assistance is difficult and agencies such as Highlands and Islands Enterprise face considerable challenges in devising the means to do so. Objective assessment of achievement is required to safeguard the taxpayer's interest and to inform decisions about the value for money to be derived from assistance measures. The report examined how Highlands and Islands Enterprise measured their performance and evaluated the results of their expenditure programmes.

10 The Committee of Public Accounts reported on the project in March 1998. They concluded on the Department's sponsorship of Highlands and Islands Enterprise, on the ways in which Highlands and Islands Enterprise performance is measured, and on how well Highlands and Islands Enterprise have been performing. Since the Committee's report was published the Department and Highlands and Islands Enterprise have acted positively to develop the performance measurement framework and to introduce new measures of achievement. Over time, this should ensure a model system for performance measurement allowing Highlands and Islands Enterprise to produce relevant and reliable reports on their achievements for the Scottish Parliament and others.

Cataract Surgery in Scotland (Part 4)

11 In 1992, the Scottish Office Department of Health commended to the NHS in Scotland an aim of having 80 per cent of cataract operations done as day surgery by the end of 1997, in order to save around £1.9 million and provide a better service for patients. Only one out of 17 trusts where ophthalmic surgery is carried out reached this level and six trusts carried out less than 25 per cent of their workload as day cases. The report looked at the NHS' progress in reaching 80 per cent day surgery, constraints on progress and the potential benefits of more day surgery.

12 Following a Treasury Minute providing a response to the Committee's report, the Committee took further evidence from the Department in March 1999. The Committee's subsequent report concluded on the progress made to increase the level of day surgery for cataracts, and on how maintaining the momentum towards higher levels of day care surgery had the potential to lead to enormous improvements in the quality of many peoples lives.

13 Since the National Audit Office's report was published the proportion of operations undertaken as day surgery has increased. Against a target for 80 per cent of cataract operations to be undertaken by day surgery the NHS Trusts in Scotland have increased the proportion from 27 per cent to nearly 65 per cent by June 1999. Conducting 65 per cent of cataract operations through day surgery not only benefits more patients but should also represent savings in excess of £1 million to the NHS in Scotland.

The NHS in Scotland: Making the Most of the Estate (Part 5)

14 The National Health Service in Scotland (NHSiS) serves a population of some 5.1 million and is the responsibility of The Scottish Executive Health Department (the Department) through the Management Executive. At the time of our study, the NHS comprised 15 Health Boards, 46 NHS hospital Trusts and various other NHS bodies including the Common Services Agency, the State Hospital Board and the Scottish Ambulance Service Trust. NHSiS healthcare was provided in a variety of settings ranging from some 360 NHS hospitals, health centres and clinics through GP surgeries to people's homes. The NHSiS employed some 113,000 people and cost in excess of £4 billion a year to run.

15 In order to provide the necessary facilities for patients, and to accommodate its staff and services, the NHSiS requires an estate of land and buildings located in accordance with the needs of the community and the Government's healthcare objectives. The estate is valued at some £3 billion and comprises in excess of four million square metres of buildings situated on over 3,200 hectares of land. It covers a range of property from large open sites in rural areas to high density buildings in city centres.

16 Against this background, we looked at how the NHSiS managed its estate; how well the estate was utilised and how suitable the estate was for its purpose.

17 The Committee of Public Accounts reported on the project in September 1999. They concluded on the management of the Estate, on the utilisation of the Estate, and on the condition of the Estate. Since the Committee published their report, the Scottish Executive have issued further guidance which should assist NHS bodies to improve overall management of the estate. This includes steps to improve information on estate utilisation, on condition surveys, and on action to ensure NHS estate buildings meet statutory health and safety standards.

Reports where the Committee of Public Accounts did not take evidence

18 The Committee of Public Accounts did not take evidence on the following reports:

Sales of Scottish New Towns Commercial and Industrial Properties (Part 6)

19 The report examined the programme of commercial and industrial property disposals that the five former Corporations completed between 1992 and 1996. In this period the disposals raised almost £420 million, and the Corporations satisfied the former Scottish Office Development Department's requirement to dispose of their entire interest in property assets before ceasing operations.

20 Generally the Department and the Corporations planned the disposals to a high standard and the Corporations conducted individual disposals skilfully and in line with previous Committee of Public Accounts' recommendations. The report highlighted four issues for public bodies to take into account in future public asset sales, concerning pre-sale preparation, valuations, written guidance on sales conduct and industrial buildings allowances, which purchasers may be able to claim in relation to particular properties.

21 Since the New Towns ceased operations in 1996 there have been no similar large-scale disposal programmes within the Department's responsibility. In March 1999 the Scottish Office completed and issued revised guidance on the disposal of assets by departments and public bodies in Scotland. The new guidance covered the issues identified by the report, including the need to take advice in cases where purchasers may be able to claim industrial buildings allowances in relation to a particular property, as well as other aspects of good sales practice.

22 We note the further guidance issued to departments and public bodies. Disposals will remain an important feature of activity across the Government Estate in Scotland, and this further advice on best practice should contribute to the effective conduct of sales.

Investigation of Misconduct at Glasgow Caledonian University (Part 7)

23 Glasgow Caledonian University (the University) is one of 18 higher education institutions in Scotland. The University was established on 1 April 1993 from the merger of Glasgow Polytechnic and the Queen's College Glasgow. The University receive, with other Scottish higher education institutions, grant in aid from the Scottish Higher Education Funding Council (the Council) to support teaching and research. The Council will provide £35 million grant in aid to the University in 1999-00.

24 The report set out the results of an investigation by the Council into allegations of serious misconduct within the University, which the National Audit Office and the Council received in 1997.

25 In the two and a half years since then there has been thorough investigation not only of the original allegations but also of separate concerns relating to particular academic matters and wider aspects. The University and the Council have shown rigour in addressing these concerns, and the University have made significant progress in reform within the institution. Consequently the Council concluded earlier this year that their monitoring of the governance management and financial control arrangements in the University could be placed on a more routine basis.

26 Concerning governance standards more widely within higher education institutions in Scotland, the Council have issued guidance on a range of matters which this case highlighted and they have recommended that all institutions in Scotland benchmark their performance against good practice in this guidance and publish the results. It will be important for the Council to take stock as soon as the results of this work are available.

Corporate Governance and Financial Management in the Scottish Further Education Sector (Part 8)

27 Forty-three further education colleges in Scotland provide a wide range of education and training programmes for students from school leaving age upwards. After transfer from local authority control in April 1993, colleges became independent corporate bodies with some two thirds of their funding coming direct from the Scottish Office. In July 1999 the Scottish Further Education Funding Council (the Council) took over responsibility for the funding of colleges, and the role of the Scottish Executive Enterprise and Lifelong Learning Department (the Department) is now to fund the Council and set the policy framework for the sector. Grant in aid for the colleges in 1999-00 is expected to be £321 million.

28 The report set out the results of an examination of corporate governance and financial management procedures within a sample of 12 of the 43 colleges[1]. In recent years there has been an increased emphasis on the need for public bodies to conduct themselves with probity and openness, reinforced by the work of the Committee on Standards in Public Life. Sound planning and financial management

1 In July 1999 we published a further report dealing with further aspects of financial performance within the sector: *Scottish Further Education Colleges: Managing Costs* (HC 493 session 1998-99).

is also essential as colleges have faced the need to expand student numbers while reducing costs. That process resulted in a number of colleges reporting financial deficits from the mid-1990s.

29 The National Audit Office report indicated that colleges had progressed towards but not yet fully achieved best practice in corporate governance. While colleges' planning and financial management procedures were mostly sound they could further strengthen procedures in in both governance and financial management, so that the sector as a whole achieves best practice.

30 Since the report was published there is evidence, particularly from the results of the survey conducted by the Association of Scottish Colleges, that individual colleges have responded positively to the specific areas for further improvement identified. The Department and the newly created Council, have also responded positively, and are now undertaking a management review across the sector.

Conclusion

31 For each of the seven National Audit Office reports published in 1997-98 to 1998-99 the responsible bodies have indicated encouraging and positive responses to the recommendations made by the Committee of Public Accounts and the National Audit Office.

32 These responses have resulted in beneficial changes to systems and procedures by the bodies. In some cases it will be important to follow-up the action taken by responsible bodies in a way which will enable the Scottish Parliament to review the changes in performance.

Part1: Introduction

Background

1.1 In the last two financial years, 1997-98 and 1998-99, the National Audit Office published seven value for money reports on Scottish matters covering the Skye Bridge, Scottish New Towns, Highlands and Islands Enterprise, Cataract Surgery, Glasgow Caledonian University, Further Education Governance and Financial Management, and the NHS Estate (see Bibliography, Appendix 1).

1.2 Four of these reports (Skye Bridge, Highlands and Islands Enterprise, Cataract Surgery and the NHS Estate) were considered by the Committee of Public Accounts. As a result the Committee published their recommendations for further action to be taken by the bodies concerned.

1.3 The remaining three reports (Scottish New Towns, Glasgow Caledonian University and Further Education Governance and Financial Management) contained the National Audit Office's recommendations and proposals for further consideration and action by the bodies concerned.

1.4 Consequent upon the Scotland Act 1998, the Scottish Parliament was established on 1 July 1999. In financial year 1999-2000 the National Audit Office published two value for money reports prior to 1 July (on Further Education Managing Costs and the M74/A74(M)/Private Finance project). Both these reports have been being considered by the Audit Committee of the Scottish Parliament.

Scope of the Report

1.5 This report is concerned with the seven reports referred to above. Its purpose is to report the progress achieved by the responsible bodies in responding to recommendations made by the Committee of Public Accounts, or where the Committee did not take evidence on a report, those recommendations made by the National Audit Office.

1.6 Parts 2 to 5 of this report deal with the extent to which progress has been made in response to the recommendations made by the Committee of Public Accounts on the Skye Bridge (Part 2), Highlands and Islands Enterprise (Part 3), Cataract Surgery (Part 4), and the NHS Estate (Part 5).

1.7 Parts 6 to 8 of this report deal with the extent to which progress has been made in response to the recommendations and proposals made in the National Audit Office's reports, on Scottish New Towns (Part 6), Glasgow Caledonian University (Part 7) and Further Education Governance and Financial Management (Part 8).

1.8 In preparing this report we relied on the Scottish Executive and the related responsible bodies' information on the action taken and progress made in responding to recommendations.

Part 2: The Skye Bridge

HC 5 Session 1997-98, published 23 May 1997

Scope of the National Audit Office report

2.1 Following an initiative by the former Highland Regional Council, in 1991 the Scottish Office (now the Scottish Executive) Development Department signed a contract for the design, build, finance and operation of the Skye Bridge with the developer Skye Bridge Tolls Limited[2]. The bridge was subsequently built at the expense of the developer who now operates it and receives tolls to recover the costs incurred, including the financing costs. The bridge opened to traffic in October 1995.

2.2 As one of the earliest completed projects the Skye Bridge was an important milestone in the implementation of the use of private finance. Since the deal was completed, a great amount of further work and thought has gone into defining what is good practice for such projects. The Department did not have the benefit of this in 1991, though much of what they did in the Skye case contributed to guidance which has since been issued.

Main findings

Total expenditure on the project by the Department and users will amount to £39 million

2.3 The report showed that bridge users must pay tolls to Skye Bridge Limited for a maximum period of 27 years or, as is expected to be the case, for a shorter period until they have amounted in total to some £24 million (measured in constant 1991 prices and discounted to 1991 base year over the lifetime of the

2 Skye Bridge Tolls limited changed their name to Skye Bridge Limited in 1993. The company is owned by a consortium comprising Miller Civil Engineering Ltd, Dyckerhoff & Widmann AG (known as Miller-Dywidag) and BankAmerica International Finance Corporation.

project). In addition, the Department had at the time of the report contributed directly some £12 million in respect of developers costs, and incurred £3 million costs in developing, negotiating and supervising the contract (Figure 1).

2.4 Since publication of the National Audit Office report in May 1997 tolling policy has changed to benefit regular bridge users. As a result, the Department are likely to make further payments of some £3 million (in 1991 prices) to the operator over the remaining life of the concession. However these payments substitute for higher tolls which these users would otherwise have paid and count against the £24 million target revenue for the operator. Consequently they will not increase the total expenditure on the bridge project, but will alter the proportions paid by toll and taxpayer. Figure 1 demonstrates the latest position regarding the Department's and users' expenditure on the bridge over the life of the project, taking into account the developments since publication of our previous report.

Figure 1

Expenditure on the Skye bridge project by the Department and users

Payments to Skye Bridge Limited by users	
■ Forecast toll payments by users to be received by Skye Bridge Limited over the lifetime of the concession, under the 1991 agreement	£24 million [1]
■ Less the Department's additional payment substituting for user tolls, under the agreement amended in 1997	(£3 million)
■ **Net total toll payments by users over the lifetime of the concession**	**£21 million**
Payments to Skye Bridge Limited by the Department	
■ Payments by the Department to or on behalf of Skye Bridge Limited for constructing the approach roads, and compensation for the cost of design changes and delay following a public inquiry	£12 million [1, 3]
■ The Department's additional payments to Skye Bridge Limited substituting for user tolls agreed in 1997	£3 million
■ **Total payments by the Department to or on behalf of Skye Bridge Limited**	**£15 million**
Other direct project expenditure by the Department including advisers' fees, survey work, land purchases and staff costs	**£3 million** [1]
Total payments by users and the Department	**£39 million** [1]
Indirect public expenditure reflecting loss of ferry revenue by Caledonian MacBrayne	**See note 2**

Notes
1. These figures are expressed in constant 1991 prices discounted at 6% a year to 1991 base year. This is how toll revenues are measured within the Skye concession contract and allows the figures to be compared on a common basis.
2. In 1996-97 Caledonian MacBrayne's revenue deficit grant was increased by £1 million to reflect loss of earnings on the route. This increased requirements for external finance was however mitigated by other changes in Caledonian MacBrayne's financial plans, with the net result that total external finance for the company in 1996-97 remained as previously planned.
3. In 1999 the Department accepted the results of an arbitration determining Skye Bridge Limited's claim for additional payments for the cost of design changes and delay following a public inquiry. These were in addition to the Departments payments to the Company detailed in our earlier report for these items, Consequently in June 1999 the Department paid the Company an additional £0.6 million, equivalent to £0.3 million expressed in constant 1991 prices discounted at 6% a year to 1991 base year.

Source: The Department

The Department achieved their primary objective to secure the early provision of a fixed crossing

2.5 The bridge opened in 1995, six years after the Department first accepted responsibility for the project. Opening the bridge provided a number of advantages over the former ferry service including shorter journey times, improved reliability in bad weather, elimination of congestion and delay to the local community and the elimination of charges once the concession is terminated. The Department stated they would not have provided a publicly funded bridge until well into the next century, if at all.

The Department's approach to procurement was generally well chosen but they were unable to bring competition to bear in the final stages

2.6 The Department prepared the ground carefully and chose procedures that could reasonably have been expected to deliver a satisfactory outcome. Though the procedures used fell short in some respects of best practice at the time of the National Audit Office report, this was not least because best practice in privately financed projects has developed in the years since 1991 when the Skye bridge deal was completed. Areas where procedures could have been better implemented included the appointment of the Department's advisers and the requirement for full access to bidders' financial models to strengthen the assessment and negotiation of bidders' proposals. There was no comparison of the terms of the proposed privately financed deal with a public sector comparator – the Department were not required to make such a comparison at the time though in line with best practice they would do so now.

2.7 Despite efforts to encourage bidding, the Department received fewer bids than they had good reason to hope for. The best bid did not offer scheduled toll charges that matched the former ferry fares. This left the Department to negotiate with only one bidder, who then faced the need to come forward with revised financing proposals. To satisfy their objectives and overcome these difficulties the Department accepted, in final negotiation with the successful bidder, an increase of nine per cent in the total tolls to be paid by users over the lifetime of the project.

A local public inquiry was satisfied with the design subject to some modifications

2.8 The Department required the winning bidder in the competition to provide the bridge to propose their own design that would be consistent with the Department's environmental and aesthetic requirements. The contract signed in December 1991 incorporated this design subject to confirmation by a public local inquiry.

2.9 While those consulted about the design of the bridge offered diverging views, the public local inquiry recommended acceptance of the basic design subject to some changes that the National Trust for Scotland and the Countryside Commission for Scotland proposed. Changes to the design and a delayed start to construction associated with the public inquiry resulted in the Department making additional payments to Skye Bridge Limited. At the time of our previous report these additional payments totalled £3.8 million, and in 1999 the Department paid the company an additional £0.6 million as a consequence of arbitration determining the company's claim for certain additional costs.

The Department are achieving their objective for tolls

2.10 The Department's objectives for the tolls were that they should be no higher in real terms than the former ferry fares and that the concession should last no more than 20 years.

2.11 The achievement of these objectives remains dependent on future usage of the bridge, and cannot be guaranteed. However usage to date has continued to be consistent with the Department's forecasts. The Department's current assessment (November 1999) is that the concession is most likely to end in the year 2012, some 17 years after the bridge opened.

The Department's own project costs were higher than planned

2.12 The Department have paid to the developer a contribution to their costs of some £12 million, equivalent to some £9 million in 1988 prices or 48 per cent more than their original target of £6 million in 1988 prices. The increase arose from the compensation to the developer for the cost of making design changes recommended by the public local inquiry and for the delay in starting construction arising from a late start to statutory procedures. In developing, negotiating and supervising the contract the Department incurred a further £3 million expenditure, and there were no targets for most of this expenditure.

Most of the project's costs were determined competitively or were in line with market rates

2.13 Figure 2 shows that the total tolls to be paid by users over the life of the concession were determined by the developer's forecast costs, after allowing for the Department's forecast contribution of £6 million. The developer's forecast construction and operating costs account for 86 per cent of the total project costs. These elements were exposed to competition and were in line with the Departments' expectations.

Figure 2

Financing the Skye Bridge – key features

The Figure shows that the total payments by users over the life of the concession were determined by the expected costs to Skye Bridge Limited of building, financing and operating the bridge.

Forecast lifetime payments to and from the project	Paid by/to	Amount (£ million Discounted[1])	
Costs of the project:			
Construction costs	Contractor	20	
Operational costs	Contractor	4	24
External financing costs (net):			
Debt financing costs and fees	Commercial banks and lenders	1	
Dividends	Equity investors (Millers and Dywidag)	3	4
Total costs borne by Skye Bridge Limited			**28**
Payments to Skye Bridge Limited:			
Tolls	Users	24	
less Taxes	Skye Bridge Limited	-2	
Contribution to the cost of approach roads	Department	6	
Total payments by the Department to or on behalf of Skye Bridge Limited			**28**

Note 1. All figures are lifetime project costs as forecast in 1991 expressed in constant 1991 prices discounted at 6 per cent a year to 1991 base year. This is how toll revenues are measured within the Skye concession contract and allows the figures to be compared on a common basis. For this presentation all figures are rounded to the nearest £1 million.

Source: Bank of America finance model October 1991

2.14 Figure 2 above also shows that the extra cost of private finance over public funding for the Skye Bridge was some £4 million, 14 per cent of overall costs. Because the procurement was not fully competitive in its final stages the Department had to rely on negotiation by the preferred bidder not competition to determine some important financing costs. Much of the external project finance was in the form of loans at rates clearly in line with the market, given the degree of risk. A significant part of the external project finance was loan stock placed with a single investor on a negotiated basis. There was also some equity investment from the owners of Skye Bridge Limited. There is little against which to benchmark these costs, though they are lower than for some projects arranged later than the Skye Bridge.

The extent of risk transfer is in line with similar privately financed projects

2.15 The private finance approach may offer the prospect of delivering the services required by public sector clients in a way that provides superior value for money than conventional procurement. In part this is because the approach can give scope for better management of the risks associated with projects. The principle in private finance deals is that risks are allocated to whichever party is best able to manage them.

2.16 In the Skye case the analysis of risks showed that the developer did not accept full responsibility for all of the more important risks of the project, but there was evidence that the risk allocation as finally settled was broadly in line with other similar projects.

Developments since completion of the National Audit Office report

In 1997 tolling policy was changed to benefit regular bridge users

2.17 In May 1997 the Government completed an examination of the toll levels. The Secretary of State for Scotland announced in July 1997 proposals to increase discounts available for regular users of the bridge. Negotiations were required to agree the terms on which such a change was to be introduced, as under the 1991 contract after any such change the parties must be as nearly as practicable in the same position as they would have been in had no such toll order change occurred.

2.18 Consequently in December 1997 the Department and Skye Bridge limited agreed revisions to the contract to allow the introduction of new lower discounted tolls from January 1998 for those who purchase books of toll tickets in advance. As a result, the Department are likely to make further payments of some £3 million[3] to the operator over the remaining life of the concession. These payments will substitute for higher tolls that these users would otherwise have paid. The precise amount to be paid will depend on the number of users of the bridge . As these new

3 Expressed in constant 1991 prices discounted at 6% a year to 1991 base year.

payments will count against the £24 million target revenue for the operator they will not increase the total expenditure on the bridge, but will alter the proportions paid by toll and taxpayer.

2.19 After the May 1999 elections Scottish Ministers decided to review the effects of the 1998 toll changes and to freeze tolls at 1999 levels throughout the remainder of the concession. The further changes necessary to the contract are being negotiated.

The Committee of Public Accounts reported on the project in 1998

2.20 The Committee of Public Accounts took evidence from the Scottish Office Development Department on the C&AG's report in November 1997. Figure 3 sets out each of the Committee's subsequent conclusions and recommendations, published in June 1998, the Government's response (September 1998) and subsequent action. The Government's response confirmed that the Department have applied lessons from the Skye case to later projects though more recently, since the Committee's report, there have been no further opportunities to do so.

Conclusion

2.21 Since this early PFI project, and taking into account the lessons from it and wider experience across Government, the Department have acted positively to implement improvements in procedures for procuring services in partnership with the private sector.

Figure 3

PAC Recommendations, response and action taken

PAC Recommendations (42nd Report, June 1998)	Government Response (Treasury Minute of September 1998)	Consequent Further Developments and Action
On the Achievement of the Department's Objectives		
(i) The Department achieved their primary objective, the provision of a privately financed tolled crossing to Skye. Compared with the former ferry service this has brought a number of benefits to people travelling to and from Skye, including shorter journey times and a more reliable service in bad weather. The Department did not fully achieve their other objectives in relation to the level of tolls, the duration of the concession or the design of the bridge. Our reservations on these are set out below.	The Scottish Office Development Department (the Department) is pleased that the Committee recognises that the bridge brings benefits. The Department is carrying out a post project evaluation of the socio-economic impact of the bridge, which is due for completion by the end of 1998. Responses to comments about the objectives follow.	The report by external consultants was delayed and is now being considered by Scottish Ministers.
(ii) The Department expect traffic to continue to grow at a rate that will allow the bridge to become toll free within 14 and 17 years from opening, with tolls kept below the level of the former ferry fares. But we note that the contract does not guarantee either that the bridge will be toll-free within the Department's 20 year target period, or that tolls will remain lower than their target level	The Department notes the Committee's comments. Given the low level of traffic, high dependency on tourist traffic and the novelty of the project, the Department could not have reasonably expected to secure guarantees. Provision had to be made in the contract to cover the possibility of a longer toll period, and tolls which might have exceeded the original target, although the department was confident at the time of the negotiations that these eventualities would not arise. If the growth in the level of traffic using the bridge to date is maintained the contract will end earlier than the Department's 20 year target. Tolls (with one minor exception) are lower than the 1991 actual ferry fare levels inflated annually by the Retail Price Index. The provision in the contract to further increase tolls can only be triggered if income falls below that assumed from 1990 traffic levels. This is highly improbable since traffic levels in the year to 31 December 1997 were over 40 per cent higher than in 1990.	As a result of Government policy, and subject to current negotiation with the Company, tolls are to be frozen at 1999 levels, which are (with one minor exception) lower than the actual 1991 ferry fare levels inflated annually by the Retail Price Index. The Department's current forecast is that the concession is most likely to end in 2012 - the actual date depends on future traffic levels.

continued...

Figure 3

PAC Recommendations, response and action taken *continued*

PAC Recommendations (42nd Report, June 1998)	Government Response (Treasury Minute of September 1998)	Consequent Further Developments and Action
On the Achievement of the Department's Objectives		
(iii) Following the Government's decision to set lower tolls for regular users of the bridge, the Department's further payments to the operator of some £3 million over the remaining life of the concession will count towards the £24 million target revenue for the operator. While the new payments do not increase the total revenue the operator will receive, they may increase the operator's profits from the project. This is because, given the target toll revenue, the operator's profits depend on the length of the concession: the shorter the concession, the shorter the period for which the operator must bear the operating costs of the bridge, and hence the higher the profits (iv) We would have expected the Department to have negotiated a revised agreement for tolls which minimised their own extra costs and which was financially neutral for the operator. But there is no assurance that this will be the case. Because the new lower tolls are likely to generate extra traffic, over and above the levels there would have been under the original toll regime, the operator is likely to reach the £24 million target revenue sooner than previously expected. And because the new agreement does not take full account of this likely earlier flow of revenue, this means that the operator's profits are likely to be higher than previously expected.	The Department notes the Committee's comments. Its objective was to minimise additional cost and achieve a financially neutral agreement, but the Department had also to take account of the judgement of the concessionaire about the likely effects of the tolling reduction on the concessionaire's position. The revised contract shares the risks associated with the uncertain response to the new tolls by placing an annual ceiling on the cost of the reduced tolls to the public purse.	The ceiling on the Department's contribution was reached in 1999 and this has reduced the amount that would otherwise have been payable to the concessionaire by £30,000. The Department paid £642,525 to the concessionaire in respect of tolling reductions in 1998 and £704,645 in respect of 1999.
(v) The principal test of the Department's objective to ensure a satisfactory design of the crossing was the outcome of the public inquiry which in 1992 examined the proposals put forward by the operator and the objections that had been made to them. The Department were not wholly successful here, since the design did not attract unanimous support, and while the report of the public inquiry endorsed the design this was subject to a number of modifications which were carried out largely at the expense of the Department.	The Department agrees with the Committee's comments. To the extent that the Bridge as built reflects the outcome of the inquiry, the Department believes that the design now commands general approval.	The position remains as in the Department's response to the Committee.

continued...

Figure 3

PAC Recommendations, response and action taken *continued*

PAC Recommendations (42nd Report, June 1998)	Government Response (Treasury Minute of September 1998)	Consequent Further Developments and Action
On the Costs of the Bridge		
(vi) The £39 million cost of the bridge falls directly both on the toll payers and on the taxpayer. Together they will pay the amount the winning private sector bidder estimated as necessary to cover the cost of construction, the cost of operating the bridge over the lifetime of the concession, and the cost of financing the concession. It follows that to minimise the costs to toll payers and to the taxpayer, it would have been necessary for the Department to have persuaded the winning bidder to accept the lowest estimates of likely costs. (vii) In the event the estimated costs rose rather than fell during a period of exclusive negotiations with the winning bidder. The Department accepted the bidder's argument that traffic flows might not increase over the concession period in line with the Department's own expectations. The effect of this and other concessions made during exclusive negotiations is that the target toll revenue figure rose to £24 million from £22 million increasing the burden on toll payers by some £2 million. It also means that the operator will get the benefit of this additional income if, as now seems likely, their own more pessimistic traffic forecasts are exceeded.	The Department notes the Committee's comments and agrees that the target toll revenue was increased. It does not accept that this resulted from concessions. The negotiation produced a contract that more closely met the Department's objectives and which also included changes in the original proposals put forward by the bidder. One notable change was that the bidder's proposed tolls were reduced so as to ensure that they would be no higher than actual 1991 ferry fares in real terms, thus securing one of the Department's primary objectives. Had this crucial toll reduction not been secured, toll payers would have faced the burden throughout the concession period of tolls higher than current levels and higher than 1991 ferry fares. The Department concluded in 1991 – and firmly believes it to be the case – that that would have been unacceptable to users and more widely. The inevitable outcome of this conclusion was that, using the same traffic forecast, the bidder's income would be lower and their costs, including borrowings could only be funded over a longer tolling period. Thus an increase in the target toll revenue was agreed.	While the total toll revenues to be paid to the Company remain as in the original contract, toll payments by users are now lower as a result of the changes agreed between the Department and the Company in 1997. In 1999 the Government announced their intention to freeze tolls at 1999 levels, and the Department are negotiating with the Company to agree the necessary changes to the contract to permit this.
(viii) This upward pressure on the costs of the bridge arose because the Department were negotiating this aspect with a single bidder as a result of financing difficulties encountered by that bidder. The Department did not detect the risk of such difficulties before entering into exclusive negotiations because they relied on an assurance from the Bank of America, who were the financial adviser to the bidder, that the proposed method of finance was achievable. In the event it was not and we criticise the Department for relying on an assurance, which provided no real security.	The Department notes the Committee's view. Reliance on a letter of intent is standard practice in project finance since lenders will not firmly commit funds until they have carried out due diligence. In recognition of this issue, the Department now seeks independent confirmation of the viability of the proposed method of project financing. However, even with this, there is no guarantee that a funding package will be achievable.	As reported to the Committee the Department would seek independent confirmation of financing for any new projects, as for example the Department obtained in the case of the A74(M)/M74 private finance contract.

continued...

Figure 3

PAC Recommendations, response and action taken *continued*

PAC Recommendations (42nd Report, June 1998)	Government Response (Treasury Minute of September 1998)	Consequent Further Developments and Action
On the Costs of the Bridge		
(ix) Following objections to the preferred design on environmental and aesthetic grounds, the Department agreed with the operator to pay an additional £4 million in real terms to cover costs arising from the delay caused by the need for a public inquiry and from the recommended changes which resulted. The Department were unable to persuade the private sector to accept the risk of such additional costs. We note that subsequent Treasury guidance is that such risks should be retained in the public sector as being best able to handle them. This guidance casts doubt on the practicality of awarding contracts for privately financed projects before statutory planning procedures have been concluded. (x) The Department believe they would have encountered the same level of construction costs had they promoted the bridge at a public inquiry before, not after, proceeding with a competition. But if the competition had followed the public inquiry then the additional costs would have been subject to competitive pressure. We note the Department's assurance that lessons have been learned from this project, though they have not said what these are.	The Department shares the Committee's views. The provisions of the New Roads and Street Works Act 1991 applied in the case of Skye Bridge. To avoid the unnecessary duplication of expense and effort in relation to the consideration of the special roads schemes and the toll orders, the 1991 Act requires proceedings in relation to those separate elements to be taken concurrently so far as is practicable. This requirement was followed in relation to Skye Bridge. As a result, therefore, the terms of the contract for the procurement of the bridge had to be in place prior to the public inquiry since the draft toll order was an integral part of that contractual arrangement. Should any further procurement take place under the New Roads and Street Works Act 1991, consideration would have to be given by the Department as to whether it would be practicable to separate the proceedings in relation to the road schemes themselves and the toll order so as to provide the separation which the Committee considers to be desirable. One indication of the lessons learned from this project is the fact that, in its only other roads PFI project to date (to which the 1991 Act does not apply), the Department did not award the contract before the conclusion of statutory procedures required in relation to the roads schemes themselves. This is also the case in all conventionally procured roads projects.	No new procurement has been made under the 1991 Act. The position remains that, as the Government's response indicated, lessons learned have been applied in the only other roads private finance project the Department have completed, the A74(M)/M74 private finance contract.

continued...

Figure 3

PAC Recommendations, response and action taken *continued*

PAC Recommendations (42nd Report, June 1998)	Government Response (Treasury Minute of September 1998)	Consequent Further Developments and Action
On the Costs of the Bridge		
(xi) The Department consider that the financing terms on which the bridge has been provided are not out of line with other private sector projects concluded at the time. But neither the real rate of return to equity investors of 18.4 per cent a year nor the terms of the index-linked bonds which formed the next tier of financing were determined competitively. The terms of neither of these forms of finance were readily capable of being benchmarked against the market. There was, moreover, clear evidence of market imperfections, such as the fact that at the time of the deal there was only one potential provider of the index-linked bonds. This calls into question the validity of such benchmarking as may have been possible.	The Department agrees that the market for this type of finance was still at a very early stage of development in 1990 and that there were real difficulties in settling an appropriate funding package, bearing in mind the undeveloped market, the perceived risks of the project and the changing market conditions over the period in question. It does not believe, however, that competition for the financial elements of the funding package would have resulted in improved terms. Indeed, its experience suggests that at the time of placing the finance a competition could not have been sustained due to the lack of interest. Moreover, there was a close relationship between the terms for the equity and loan stock, the main determinant for equity being the cover required by holders of the loan stock, and the Department believes that the terms for these had to be determined within a single package. Thus, it remains impossible to establish a definitive view on the terms of the deal and the Department agree that benchmarking as such is very difficult, although in this case it looked to its advisers for a test of reasonableness, based on their view of a fair market return. The Department remains of the view that the final deal was acceptable, with the weighted average cost of capital coming down between the initial and final proposals.	There have been no developments or actions as a consequence of these points. However on the A74(M)/M74 private finance contract agreed in April 1997, the Department achieved a competitive procurement and the successful bidder in that case used a competitive process so as to minimise the additional cost of using private finance.
(xii) The experience of privatisation has shown that Departments are able to learn from experience and put pressure on the market to deliver increasingly good value for money in successive deals. We therefore look to Departments and their financial advisers to secure improved terms, as the financial market for PFI deals develops.	The Department agrees with the Committee's conclusion.	The Department will continue to learn from the wider experience available from relevant deals.

continued...

Figure 3

PAC Recommendations, response and action taken *continued*

PAC Recommendations (42nd Report, June 1998)	Government Response (Treasury Minute of September 1998)	Consequent Further Developments and Action
On the Costs of the Bridge		
(xiii) In those cases in which negotiation cannot be avoided, Departments should protect themselves from making unnecessary concessions to the bidder by developing a clear negotiating limit and by taking steps to avoid unwelcome surprises, for example by seeking independent confirmation of the likely viability of bidders' financing proposals.	The Department agrees with the Committee's conclusion.	The Department have had no further projects since the Committee's report in which to apply this conclusion.
On the Limited Extent of Competition for the Project		
(xiv) Departments must try to secure effective competition as the basis for any commercial deal, whether for privately financed projects, public private partnerships or for other types of procurement. Shortlisting too few bidders or failing to maintain competitive tension throughout negotiations, as in this case, will increase the risk of poor value for money. But there is a danger too that the high cost of tendering for private finance projects may discourage bidders if too many are shortlisted, and this may also weaken competition. (xv) For this reason Departments must consider carefully the balance between having too few and having too many bidders, and how this is likely to affect value for money. Departments must also try to minimise the cost of tendering in order to maximise the number of potential final bidders. It will be very important to keep these aspects in view as experience of projects grows.	The Government agrees with the Committee's conclusions. The Bates Review of PFI in 1997 suggested that, to help make projects more cost effective by minimising costs to the private sector of bidding for PFI projects, there should be a reduction in the number of bidders to a maximum of four. The Government accepts this view. It also accepts the need to maintain competitive tension for as long as possible during major procurement exercises.	The Department have had no further projects since the Committee's report in which to apply the principles set out in this conclusion.
(xvi) The Department decided not to apply competition for the appointment of their advisers. This was contrary to good practice, unfair and imprudent. Competition would have been no barrier for getting the best people for the job. Indeed it would have reinforced the selection of the most suitable advisers. And the way in which they were appointed makes us all the more concerned that the Department failed to set budgets for their advisers. As our predecessors' reports have noted, this is an elementary element of sound financial control. Departments must ensure that they carefully assess at the outset their likely costs in managing private finance deals, and set budgets and manage and monitor costs accordingly.	The Department accepts the Committee's comments as to good practice. Its current guidance on procurement emphasises the need for competition and tight control of costs.	The Department's procurement practices continue to be as reported to the Committee.

continued...

Figure 3

PAC Recommendations, response and action taken *continued*

PAC Recommendations (42nd Report, June 1998)	Government Response (Treasury Minute of September 1998)	Consequent Further Developments and Action
On Value for Money		
(xvii)The Department decided against calculating a public sector comparator for this project on the grounds that such a comparison would have been false and misleading since they had no intention of funding the Skye Bridge except as a privately financed project. But it is highly unsatisfactory that a Department can seek to avoid having to carry out a thorough comparative evaluation of a proposed project merely by asserting that public finance would not be available for a conventional solution. (xix)Because every decision to proceed with a privately financed project must involve rejecting some alternative, systematic comparisons are the key to prudent decision-making in this area. We criticise the Department for not having carried out such a comparison. We note their assurance that, in similar circumstances, they would now look carefully at preparing a comparator.	The Department notes the Committee's criticisms. Treasury Taskforce Policy Statement No. 2, *Public Sector Comparators and Value for Money,* published in February 1998, states that, with some limited exceptions, "the presumption should now be that some form of comparator is necessary for PFI projects". The Department would therefore expect to prepare an appropriate comparator or comparators in similar circumstances.	The Department's position remains as in the reply to the Committee, as for example in the case of the A74(M)/M74.
(xviii)The Department took a narrow view of the amount of taxpayer's money in the project, looking only at their direct contribution to the project. But the project involved the public sector forgoing the income from the former ferry service, which was generating profits at a rate of £ 1 million in its last year of operation, to the benefit of the taxpayer. We expect Departments to consider the full implications of projects for the taxpayer, including not just direct expenditure but also indirect costs, such as income forgone. We also expect Departments to seek good value for those users, whether or not taxpayers, who will be required to pay for monopoly services.	The Department notes the Committee's comments and agrees that the full implications to taxpayers must be considered in taking forward projects. In this case, the estimated surplus at the time the decision was taken was significantly less than £1 million. The continuation of the ferry service in the longer term would also have required future capital investment, funded by the public sector, to maintain a safe and reliable ferry system capable of coping with increasing levels of demand. The Department also notes the comments about monopoly services. Section 32 of the New Roads and Street Works Act 1991 safeguards the users of the Skye Bridge. That section requires that, in the case of a major crossing, the toll order specifies the maximum toll. The original Skye Bridge Toll Order, and that Order as varied, specifies the maximum toll and restricts increases to movement in the RPI. As already noted, the maximum toll is lower than the 1991 ferry fare increased by movements in the RPI.	The Department have had no further projects since the Committee's report in which to apply the principles set out in this conclusion.

continued...

Figure 3

PAC Recommendations, response and action taken *continued*

PAC Recommendations (42nd Report, June 1998)	Government Response (Treasury Minute of September 1998)	Consequent Further Developments and Action
On Value for Money		
(xx) In the absence of such a comparison, and given that competitive tension did not apply in the final stages of the negotiation of this deal, a question mark must remain over the extent of value for money obtained by the taxpayer and the toll payer from this project.	The Department accepts that it is not possible to demonstrate absolutely the extent of value for money in the project. Most of the project's constituent costs, however, were determined competitively or were in line with market rates. The Department believes that it selected the best available privately financed deal.	The Department's view remains as in the response to the Committee.

Part 3: Highlands and Islands Enterprise Performance Measurement

HC 64 published 4 June 1997

Scope of the National Audit Office report

3.1 Highlands and Islands Enterprise are a Non Departmental Public Body established in 1991 to assist the economic and social development of the Highlands and Islands, to enhance skills relevant to employment there and to improve the environment. Within a strategic and operational framework set by the Scottish Executive, Highlands and Islands Enterprise have developed their Strategy for Enterprise Development aimed at enabling the people of the Highlands and Islands to realise their full potential, through growing businesses, developing people and strengthening communities. Highlands and Islands Enterprise spend around £80 million each year.

3.2 Assessing the impact of economic development assistance is difficult and agencies such as Highlands and Islands Enterprise face considerable challenges in devising the means to do so. Objective assessment of achievement is required to safeguard the taxpayer's interest and to inform decisions about the value for money to be derived from assistance measures. The report examined how Highlands and Islands Enterprise measured their performance and evaluated the results of their expenditure programmes.

Main Findings

Meeting Targets and Measuring performance

3.3 Highlands and Islands Enterprise's performance framework provided a comprehensive assessment of their activities. Their reported results showed that they had been predominantly successful in meeting increasingly challenging targets and indicated that good value for money had been achieved. There was a need for Highlands and Islands Enterprise to continue to develop measures within the framework including aggregation of Projects and Marketing activities and enhanced mechanisms for recording environmental improvement performance and for assessing jobs housed in their property. They also recognised the need to develop, with National Audit Office support, a system for weighting performance results in terms of priorities.

3.4 The nature of Highlands and Islands Enterprise's activities may limit scope for their performance framework to provide a complete assessment of achievement. It was therefore important that steps already in hand to improve the link between performance measures and strategic objectives continued. This would improve the information available for judging the overall success of Highlands and Islands Enterprise.

Evaluating expenditure programmes

3.5 Highlands and Islands Enterprise undertake evaluations of their expenditure programmes in order to identify ways of improving the impact of expenditure. These evaluations are essential, given the complexity of economic development activity and the long lead times before change can be measured in some areas. The rolling programme of evaluations had been successful in identifying significant impact, cost effectiveness and value for money. Where recommendations for improvement had arisen Highlands and Islands Enterprise had taken appropriate action in relation to the specific expenditure programme. Where evaluations had indicated general improvements for managing programmes, such as prioritisation of resources or project appraisal, Highlands and Islands Enterprise should have used the opportunity to apply them in other programmes.

Developments since completion of the National Audit Office report

3.6 The Committee of Public Accounts took evidence from Highlands and Islands Enterprise and the Scottish Executive on the National Audit Office's report. The Committee's subsequent report published in March 1998, included conclusions and recommendations on the Department's sponsorship of Highlands and Islands Enterprise, on the ways in which Highlands and Islands Enterprise performance was measured, and on how well Highlands and Islands Enterprise has been performing. Figure 4 is an extract from Highlands and Islands Enterprise's 1998-99 Annual Report summarising their performance in terms of targets and outturn over time. Figure 4 sets out in detail each of the conclusions and recommendations, the Government's response to each and records action which has taken place to date.

Figure 4

HIE Network 1993-1998: five year summary of targets and outturns

	1999/2000	1998/99		1997/98		1996/97		1995/96		1994/95	
	Target	Target	Outturn	Target	Outturn	Target	Outturn	Target	Outturn	Target	Outturn
Finance For Business											
Value of approvals 9£m)	20.6	16.0	18.9	17.8	14.5	16.1	16.7	20.0	17.6	17.5	21.2
Private investment (£m)	68.0	52.8	75.6	58.7	43.3	53.1	66.6	64.0	47.7	54.0	61.5
Jobs created/retained	3,200	3,150	3,322	3,050	2,801	3,000	3,451	2,955	3,315	2,900	3,383
Cost per job (£m)	3,675	2,900	3,253	2,950	2,978	3,000	2,700	3,800	2,900	3,900	3,372
Leverage ratio	3.3	3.3	4.0	3.3	3.0	3.3	4.1	3.2	2.7	3.1	2.9
Approvals By Sector (£m)											
Food & Drink	-	-	3.4	-	3.6	-	5.5	-	4.7	-	-
Manufacturing & production	-	-	9.2	-	2.1	-	5.0	-	2.8	-	-
Tourism	-	-	3.1	-	6.0	-	3.2	-	3.9	-	-
Knowledge, information & telecommunications	-	-	2.3	-	1.2	-	1.4	-	0.5	-	-
Other sectors	-	-	0.8	-	1.4	-	1.5	-	5.7	-	-
Investors In People											
Commitments	200	350	263	500	362	490	340	555	244	-	38
Recognitions	200	150	235	90	134	80	48	-	13	-	12
Property											
Occupancy rate (%)	89.5	90.5	89.6	91.0	93.5	92.5	92.7	92.5	93.8	93.5	92.6
New floorspace (sq m)	12,000	7,300	9,756	14,000	15,230	6,000	5,800	13,500	18,559	14,000	16,400
Floorspace sold (sq m)	10,000	12,000	12,289	14,000	13,688	14,000	21,370	16,000	19,800	14,000	24,000
Receipts from sales (£m)	2.5	2.0	2.46	3.2	2.8	3.0	3.1	3.0	2.88	4.5	5.1
Toal jobs housed	2,840	2,880	2,970	2,755	2,805	2,980	2,720	2,977	3,075	2,965	2,850
Financial duty Part 1 (%)	4.49	5.42	5.45	5.85	5.92	5.89	5.89	4.50	5.36	4.20	4.30
Financial duty Part 2 (£)	18,925	23,937	24,329	21,098	24,210	20,250	20,370	17,000	18,344	16,440	18,673
Environmental Renewal											
Area of land treated (hectares)	30	35	43	35	47	35	44	35	54	30	41
Area returned to economic use (%)	65	65	68	65	68	65	74	60	60	60	67
Enterprise Training											
BSU – Starts	266	280	227	292	236	320	294	419	352	390	336

continued...

Figure 4

HIE Network 1993-1998: five year summary of targets and outturns *continued*

	1999/2000	1998/99		1997/98		1996/97		1995/96		1994/95	
	Target	Target	Outtturn	Target	Outturn	Target	Outturn	Target	Outturn	Target	Outturn
Skillseekers											
Starts	1,350	2,150	1,930	2,104	2,288	2,001	2,011	1,419	1,264	1,963	1,958
Proportion with employed status (%)	75	75	79	50	70	32	49	30	25	-	-
Vocational Qualifications (VQs)	683	712	761	600	745	570	617	693	625	598	650
*Skillseekers output points	3,285	3,302	3,816	3,122	3,682	3,066	3,022	2,983	3,207	-	-
Training For Work											
Starts	750	993	916	1,400	1,412	1,400	1,596	1,359	1,560	1,265	1,953
** Jobs and other outcomes	182	261	252	329	335	334	335	304	357	285	293
* TfW output points	1,661	1,950	1,991	2,453	2,701	-	2,990	-	3,137	-	-
Community Action Grants											
Number of projects	300	300	399	313	451	292	431	320	493	310	421
Average contributions (%)	30	30	15.1	30	17	30	16.6	30	16.3	30	17
Value of approvals (£m)	1.3	1.2	1.3	1.2	1.3	1.2	1.6	1.3	1.2	-	-
Administration											
Staff in HIE Core (%)	40	40	40	40	39	45	45	46	48	47	48

* Skillseekers output points reflect number and level of qualifications achieved. TfW output points reflect a combination of: number and level of qualifications achieved, jobs and other outcomes.

** Jobs and other outcomes reflect the numbers leaving training and entering a job, self-employment or further education/training.

Source: Highlands and Islands Enterprise Annual Report 1998-99

3.7 The Department and Highlands and Islands Enterprise have acted positively to develop the performance measurement framework and to introduce new measures of achievement. Over time, this should ensure a model system for performance measurement allowing Highlands and Islands Enterprise to continue to produce relevant and reliable reports on their achievements for Parliament and others.

Figure 5

PAC Recommendations, response and action taken

PAC Recommendations (25th Report, March 1998)	Government Response (Treasury Minute of May 1998)	Action to Date
i) The Committee are surprised that it has taken five years for the Department and Highlands and Islands Enterprise to recognise the absence of links between Highlands and Islands Enterprise's strategy and objectives and their performance measures. In the absence of these links, we are not convinced that the Department's management and oversight of Highlands and Islands Enterprise's activities has been robust enough.	The Scottish Office Education and Industry Department (the Department) and HIE note the Committee's comments. Following the revision of HIE's strategy in 1995 a new and comprehensive performance framework was put in place designed, as the Comptroller and Auditor General's (C&AG's) report acknowledges, to further improve the links between individual measures and targets and HIE's three strategic objectives. The Department requires HIE to improve the impact of its resources spent on all of its activities continually through implementing the controls and responsibilities set out in the Management Statement. Developments of the performance framework, on which work was underway prior to the conclusion of the C&AG's Report, is continuing with input from the National Audit Office (NAO).	The development of a new framework "Measuring Sustainable Progress" is under way with full implementation planned for 1 April 2000 with a full suite of targets etc in place for the year 2000-01. The proposed framework and draft output measures are currently with the Department. The structure of the framework is fully aligned to the Network's new Strategy with output measures structured by both strategic and operational objectives. There is also area monitoring of 15 proposed "Sustainability" indicators that are again structured by the Network's strategic objectives. In addition to the redesign of the measurement framework, the Network has also aligned other systems directly to the strategic objectives. The financial block structure, and chart of accounts, is now based directly on the strategy allowing increasing strategic analysis of expenditure. To complete the picture the HIE core has been reorganised and had three operational divisions, each of which is responsible for one of the Network's strategic objectives.
ii) We therefore support the Department and HIE's plans to further develop their performance measurement system, and the proposals for joint working between Highlands and Islands Enterprise and the National Audit Office in this area.	The Department and HIE welcome the Committee's support from the continuing work in this area.	As for item (i).
iii) It is disappointing that, despite the stated intention to promote competition for Local Enterprise Company contracts, no competition has emerged. This may result in a cosy relationship, encourage complacency, diminish efficiency and stifle innovation. The Department and HIE need to make every effort to introduce some element of competition when these contracts come up for renewal.	The Department and HIE note the Committee's comments. Local Enterprise Company (LEC) contracts have been open to competitive bidding since the establishment of the HIE network in 1991, and that position will continue. HIE has procedures in place for processing any such bids but to date none has emerged. LEC Boards are consistently refreshed by new members from a wide range of	Measurement element covered by action noted at item (i). No action considered necessary as regards LEC contracts.

continued...

Figure 5

PAC Recommendations, response and action taken *continued*

iii) continued	backgrounds and this encourages fresh thinking and high quality leadership. HIE introduced its "Appointability through Openness" policy throughout the network in 1997 to ensure transparency in LEC Board appointments. The existence of challenging targets for HIE and the LECs and the development of the new performance measurement system sustains the drive to promote efficiency, innovation and value for money at all levels of the network.	
iv) For 1995-96, Highlands and Islands Enterprise were set 18 out of 28 targets below the level of performance achieved in the previous year. By setting targets that are 'reasonably achievable', and below performance already achieved, the Department are not giving Highlands and Islands Enterprise sufficient challenge, and in turn they are not stretching Local Enterprise Companies. This risks complacency and under-performance.	The Department and HIE note the Committee's views. Through regular discussions with HIE on their Operating Plan the Department ensures that the overall targets for the HIE network are challenging and realistic and achieve maximum value for money. When setting targets account is taken of a number of other factors including the resources available and strategic priorities. As the C&AG notes in his report, HIE has been predominantly successful in meeting increasingly challenging targets for their activities and the C&AG indicated that good value for money had been achieved. For example, since 1991-92 achievements for HIE's Finance for Business and Training programmes (HIE's two largest expenditure programmes) have demonstrated clear annual incremental improvements in areas where the real level of resources applied were reducing. The C&AG's report also noted that HIE in turn sets incrementally more demanding challenges for the LECs.	No direct action considered necessary. The amendments to the measurement framework will ensure strategic focus. The HIE network has also placed in the public domain its annual Network plan which provides additional context and information on the wide range of activities undertaken by HIE and the LECs.
v) Targets have to be realistic but also challenging, and we expect the Department and Highlands and Islands Enterprise to set more demanding targets in future to ensure that they maximise output and impact from the network and the £80 million of public money spent each year.	The Department and HIE note the Committee's recommendation. The new HIE performance measurement system will enable its targets and performance to be closely aligned to its strategic objectives and ensure	As for item (i).

continued...

Figure 5

PAC Recommendations, response and action taken *continued*

v)	continued	that overall output and impact is increasingly transparent. The Department and HIE will continue to develop this system to ensure that HIE achieves the best possible value for money from the resources available.	
vi)	Local Enterprise Company resource allocations and targets are finalised after discussions with Highlands and Islands Enterprise who see this exercise as a team effort. However, we remain sceptical whether Highlands and Islands Enterprise take sufficient account of Local Enterprise Company needs and views in allocating funds and supporting projects, and we are concerned that too prescriptive an approach will stifle innovation. In our view, Highlands and Islands Enterprise need to introduce greater transparency into the process of allocating funds to Local Enterprise Companies, in setting targets and in judging their performance.	The Department and HIE do not accept the Committee's conclusions. Under the network's strategy and geographical targeting arrangements, the largest part of LEC budgets is set with reference to a network approved formula share put in place at the establishment of the network in 1991 and regularly updated since then. The formula share ensures that the allocation of resources to LECs recognises those parts of the Highlands and Islands with the greatest needs. Annual budgets take account of LEC views, in particular on local needs and opportunities in the pipeline, but also balance demands, eg those arising from large projects, across the network. The agreed LEC budgets are published each year by means of a press release and are widely reported in the local media. The annual business planning cycle involves bilateral discussions with the LECs on their performance and on their targets for the coming year. This process promotes innovation, with the network responding to differing local circumstances within a broad overall strategy.	No action considered necessary. The formula share approach to budget allocation is part of the Network's commitment to ensuring balanced development and inclusion. Inclusion in the Highlands and Islands must encompass social, economic and geographic elements.
vii)	HIE should monitor the performance achieved by Local Enterprise Companies every six months. There is, however, worrying evidence of a lack of consistency and accuracy in performance reporting by the Local Enterprise Companies, and until this is remedied Highlands and Islands Enterprise's oversight will remain ineffective. All parties therefore need to improve the definition of performance measures and the accuracy and consistency of performance reporting.	The Department and HIE do not accept the Committee's conclusions. HIE's performance framework provides a comprehensive assessment of its activities, as noted in the C&AG's report. While the HIE Board reviews overall performance across the network on a six-monthly basis, detailed monitoring of LEC performance by the HIE Management Group takes place monthly. This	No action considered necessary.

continued...

Figure 5 **PAC Recommendations, response and action taken *continued***

vii) continued	includes individual LEC reports in a common format (reporting progress against the targets set in their Operating Agreement with HIE) and the submission to HIE of the minutes of monthly Board meetings. Delegated authority procedures for larger projects and a network-wide internal audit and compliance function provide further checks. By such means a consistent and accurate picture of LEC performance across the board is achieved resulting in effective oversight by HIE.	
viii) The success the network has had in creating and retaining jobs, and responding to major job losses is encouraging. Annual performance measures do not tell the whole story about the achievements of Highlands and Islands Enterprise, and their cyclical evaluations of programmes and other exercises take account of wider factors such as unemployment and income levels. However, we believe that Highlands and Islands Enterprise should track jobs lost as a matter of routine, and should consider with the Department whether this important aspect should become one of their annual performance measures.	The Department and HIE agree the Committee's recommendation. The tracking of job losses on an annual basis in cases where HIE has given assistance will add to the picture of HIE's overall impact. HIE will begin the process of identifying job losses immediately.	Figures on job losses are monitored via the LEC's routine monthly reports. Figures encompass closures and major contractions of HIE-assisted companies. Just over 600 such jobs losses were reported in 1998-99.
ix) Assessing the full cost of creating jobs is difficult. But we question whether the cost per job figure quoted by Highlands and Islands Enterprise provides a complete, consistent and comprehensive view of the impact taxpayers funds have on encouraging new employment. We look to the Department and Highlands and Islands Enterprise to explore ways of assessing and reporting the full cost involved in creating jobs in future.	The Department and HIE accept the Committee's recommendations. The C&AG's report pointed to the complexity of providing a full cost per job. HIE will start further work in this area immediately with the objective of refining this measure.	Job measures radically revised as part of new performance measurement framework. The new approach encompasses the direct impact of all forms of Network assistance rather than requiring concentration on the outputs of a single programme.

continued...

Figure 5

PAC Recommendations, response and action taken *continued*

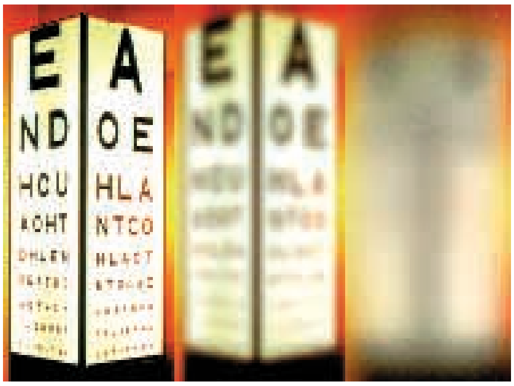
x) Local Enterprise Companies are often small and need the support which Highlands and Islands Enterprise's core office can provide. However, despite an overall reduction in administration costs incurred by the Highlands and Islands network, these costs have consistently represented over 13 per cent of the total budget, and the number of staff employed by the core is more than 45 per cent of that employed by the network. In our view, the Department should set more challenging efficiency targets for Highlands and Islands Enterprise to further reduce their management costs.	The Department and HIE do not accept the Committee's recommendation and are constantly looking at ways of increasing administrative efficiency. It is considered that administration costs are set at a level which ensures increasing administrative efficiency; that budgets are set to maximise value for money; and that HIE's efficiency targets are challenging. This is reflected in the year on year reduction in the levels of administration costs set and the improved efficiency this represents. The Department will continue to apply appropriate efficiency targets. Numbers employed at the HIE core reflect that HIE undertakes pan-Highlands and Islands projects and also achieves economies of scale in areas such as financial accounting where it would not be cost effective for each LEC to provide the service locally.	No action considered necessary.
xi) Attracting private sector funds to the Finance for Business programme is challenging in many locations and Highlands and Islands Enterprise achieved a significant improvement in leverage in 1996-97. Nevertheless we question Highlands and Islands Enterprise's argument that the most deserving cases might be those which are unattractive to the private sector, and encourage them to bring forward projects which attract the maximum private sector involvement and thereby maximise the return on public funds.	The Department and HIE note the Committee's recognition of the challenging nature of leverage targets and HIE achievements in 1996-97. HIE will continue to seek the highest possible levels of private sector involvement and maximise the return on public funds. The overall leverage figure in any one year is determined by the application of additionality and the strategic aim of geographical targeting. While higher overall leverage might be obtained by assisting more projects in the prosperous parts of the HIE area, the HIE strategy is to target funds to the most needy, remote, and fragile areas where rates of return are generally lower.	No additional action considered necessary. Leverage has increased over the lifetime of the Network and, in 1998-99, £4 of private sector funds were secured for every £1 of Network investment compared to less than £3 in the first years of the Network.

continued...

Figure 5

PAC Recommendations, response and action taken *continued*

xii) Highlands and Islands Enterprise have taken positive steps to improve the effectiveness of their Training Development activities, including the use of benchmarking and the dissemination of good practice.	The Department and HIE welcome the Committee's conclusion. The wide range of training development activities undertaken by the network is a key means of achieving HIE's strategic objective of developing people and efforts continue to raise its effectiveness further.	No action considered necessary.
xiii) Attracting private sector investment in property is challenging, and those assessing Highlands and Islands Enterprise's performance in this area need to take into account wider factors than straightforward financial returns. We look to Highlands and Islands Enterprise to develop further the way they assess the cost benefit of providing property and the impact achieved.	The Department and HIE agree with the Committee's recognition that attracting private investment in property in a remote rural area is challenging and that account needs to be taken of wider factors than financial returns in assessing performance in this area. The low rates of return on industrial and commercial property investments in the Highlands and Islands reflect market conditions. Property development is however a key tool for the network in achieving its strategic objective of growing businesses and HIE will seek immediately to develop further measures which enable the economic benefits of property investment to be more readily quantified.	New output measures designed for performance measurement framework. These measures include the impact on construction employment.
xiv) Highlands and Islands Enterprise's expenditure on Projects and Marketing activities covers a diverse range of projects which cannot be aggregated to provide a single measure of performance. We therefore support Highlands and Islands Enterprise's plans to continue to assess the impact of their expenditure project by project, and to benchmark the results of similar projects.	The Department and HIE welcomes the Committee's endorsement of HIE's planned work.	Evaluation procedures clearly identified within Network guidance. Network is currently piloting a new approach to evaluation based on the strategic objectives which activities are designed to address rather than the traditional approach of programme evaluation. The pilot is looking at Network assistance to New Starts and will report in November 1999.
xv) One can only get a full picture of the impact and success of Highlands and Islands Enterprise by looking at performance measures and the outcome of their evaluations. Highlands and Islands Enterprise already report their performance achievements in their Annual Report; but it would be useful if they would also report the outcome of their evaluations more widely to help assure Parliament and the taxpayers that the £80 million being spent each year has been used widely and that any improvements necessary are implemented promptly.	The Department and HIE agree with the Committee's observation that the results of programme evaluations should be reported widely and will take this forward in future HIE Annual Reports from 1998.	Summary results of programme evaluations included in HIE Annual Report.



Part 4: Cataract Surgery in Scotland

HC 275 published
12 November 1997

Scope of the National Audit Office report

4.1 1n 1992, the Scottish Office Department of Health commended to the NHS in Scotland an aim of having 80 per cent of cataract operations undertaken as day surgery by the end of 1997, in order to save around £1.9 million and provide a better service for patients. Only one out of 17 trusts where ophthalmic surgery was carried out had reached this level and six trusts carried out less than 25 per cent of their workload as day cases. The report looked at the NHS' progress in reaching 80 per cent day surgery, constraints on progress and the potential benefits of more day surgery.

Main Findings

4.2 The National Audit Office estimated that the available savings from increasing cataract surgery to 80 per cent was £1.47 million. There were other associated benefits from increasing day surgery: length of stay for inpatients tended to shorten as day case surgery increases; high day case levels were linked to high surgical throughput and patients tended to have fewer outpatient appointments.

4.3 The non financial benefits included the fact that most patients preferred day surgery provided they received good, full information. The National Audit Office found widely reported evidence that results from day case surgery were as good as for inpatient treatment. Surgeons at all trusts confirmed to the National Audit Office that there was no difference in outcome between day case cataract surgery and inpatient treatment. However, the National Audit Office found that boards and trusts were not monitoring outcomes systematically as recommended by the Department.

4.4 The main constraints on increasing day surgery levels were consultants' attitudes to day surgery; long travelling distances for patients; patients' home circumstances and patient choice. There was action trusts could take to tackle some of these problems. The National Audit Office found that the 17 trusts visited treated only 32 per cent of the patients living near the hospitals as day cases. Some trusts had taken innovative approaches, including: offering outreach clinics; developing patient hostels and offering a patient taxi service. The National Audit Office found that the key determinant for high day case levels was a consultant team committed to the concept and practice of day surgery.

4.5 The proper assessment of patients so that those suitable for day surgery are selected was crucial to its success. The assessment was carried out by ophthalmic nurses who were in short supply in some hospitals.

4.6 There were significant geographical variations in treatment rates for cataract surgery across Scotland, with Tayside Health Board 41 per cent above the Scottish average and Borders 82 per cent above, once treatment rates were adjusted for demographic factors. The differences were reflected in treatment rates analysed by local government district. The National Audit Office found that these differences reflected varying referral practice, with few GPs using explicit referral criteria agreed with the local hospital. This suggested that patients of similar clinical priority might have different chances of being referred and treated in different parts of Scotland.

Developments since completion of the National Audit Office report

4.7 The Committee of Public Accounts first took evidence from the Department on Cataract Surgery in February 1998. The Committee's report drew attention to:

- the need to achieve the Department's target that 80 per cent of cataract surgery should be carried out by day surgery (the NHS had achieved just 43 per cent), and the wide variation in the level of day surgery for cataracts across Scottish NHS trusts;
- Concerns about the willingness of consultant surgeons to operate on a day case basis;
- Concerns that there was a large number of patients who were effectively blind by the time they were referred for surgery;
- Concerns about equality of access to cataract surgery across Scotland, including for those over 75.

4.8 Following a Treasury Minute providing a response to the Committee's report, the Committee took further evidence from the Department in March 1999. The Committee's subsequent report in September 1999 concluded on the progress made to increase the level of day surgery for cataracts, and on how maintaining the momentum towards higher levels of day care surgery had the potential to lead to enormous improvements in the quality of many peoples' lives. Figure 6 sets out the Committee's conclusion and most recent action in detail.

Conclusion

4.9 Since the National Audit Office's report was produced the proportion of operations undertaken as day surgery has increased. Against a target for 80 per cent of cataract operations to be undertaken by day surgery the NHS Trusts in Scotland have increased the proportion from 27 per cent to nearly 65 per cent by June 1999. Conducting 65 per cent of cataract operations through day surgery not only benefits more patients but should also represent savings of £1.5 million to the NHS in Scotland.

Figure 6

Cataract Surgery in Scotland - PAC Recommendations, Response and Action Taken

PAC Conclusion (39th Report, September 1999)	Departmental Response	Action to Date
We welcome the action taken by the Department to increase the level of day surgery for cataracts, and to tackle variations in treatment across areas and trusts. Higher levels of day care surgery have the potential to lead to enormous improvements in the quality of many people's lives, and we look to the Department to keep up the momentum. We recognise that for some surgeons this will mean a readiness to change longstanding surgery techniques that they regard as proven and effective. The potential prize is great, however, in view of the healthcare benefits cataract surgery can bring.	The PAC's conclusions remain valid. Cataract surgery is the most commonly performed surgical procedure in Scotland. The benefits of increasing the proportion of day care surgery for the treatment of cataract, both in financial and quality of life terms, have been kept clearly in mind. The trend towards day surgery generally is underlined by the commitment in the Scottish Executive's Programme for Government towards developing new approaches to speed treatment and shorten waiting times. Significant progress continues to be made towards the target of undertaking 80 per cent of cataract operations by day surgery, and this is detailed in the next column. The Scottish Executive has been particularly mindful of the need to tackle variations in referral patterns and treatment rates and to bring about changes in surgical techniques. There were also particular concerns about GP referral practices. The advent of Primary Care Trusts and Local Health Care Co-operatives should provide a better framework for Trusts and GPs to devise explicit referral patterns, but we will wish to encourage Acute Trusts to take a more pro-active approach with GPs.	In the year to the end of March 1996, around 27 per cent of cataract operations were carried out as day cases. By the end of March 1997, the figure had risen to 37 per cent, and by the end of March 1999 to 57.4 per cent. The latest data available, for the first quarter of the current financial year, shows a Scottish rate of 64.8 per cent. Within the national picture, there continue to be variations. Four Trusts (West Lothian Healthcare, Dumfries & Galloway Acute & Maternal, Borders General and Fife Acute) have exceeded the 80 per cent target. On the otherhand, Highland Acute Hospitals and Argyll & Clyde Acute Hospitals had fewer than 50 per cent of cataract procedures carried out as day cases. Future action will concentrate on these areas in particular, and in continuing to meet the overall target for day surgery. In order to follow-up the PAC's perception of the need for changes in existing clinical practice, particularly amongst surgeons, the Scottish Intercollegiate Guideline Network (SIGN) was encouraged to give as much priority as possible to the development of a Guideline on Day Cataract Surgery. This is now well in hand and once finalised will be of great assistance to primary care teams, optometrists and all professionals in the hospital ophthalmic team in developing the day surgery service.

Part 5: The NHS in Scotland: Making the Most of the Estate

HC 224 published 24 February 1999

Scope of the National Audit Office report

5.1 The National Health Service in Scotland (NHSiS) serves a population of some 5.1 million and is the responsibility of The Scottish Executive Health Department (the Department) through the Management Executive. At the time of our study, the NHS comprised 15 Health Boards, 46 NHS hospital Trusts and various other NHS bodies including the Common Services Agency, the State Hospital Board and the Scottish Ambulance Service Trust. NHSiS healthcare was provided in a variety of settings ranging from some 360 NHS hospitals, health centres and clinics through GP surgeries to people's homes. The NHSiS employed some 113,000 people and cost in excess of £4 billion a year to run.

5.2 In order to provide the necessary facilities for patients, and to accommodate its staff and services, the NHSiS requires an estate of land and buildings located in accordance with the needs of the community and the Government's healthcare objectives. The estate is valued at some £3 billion and comprises in excess of four million square metres of buildings situated on over 3,200 hectares of land. It covers a range of property from large open sites in rural areas to high density buildings in city centres.

5.3 Against this background, we looked at how the NHSiS manages its estate; how well the estate is utilised and how suitable the estate is for its purpose. We did not examine the day to day operational aspects of estate management nor the detailed processes of disposing of individual parcels of the estate.

Main Findings

5.4 The estate is a high value asset. Yet it often had a low profile with Trust senior management. Information and reporting systems needed to be improved and Trusts needed to set clear and measurable targets for estate performance.

5.5 Demands on the NHSiS estate will continue to change over time and strategic planning is essential. However, strategic planning was not always carried out and staff were not always adequately trained to perform this key function.

How well is the estate utilised?

5.6 The NHSiS has been particularly successful in identifying estate that was not expected to be required for healthcare purposes in the longer term. Such property is termed the non-essential estate. NHSiS bodies were, however, in up to half of cases, unable to demonstrate that estate considered essential was well utilised because space utilisation surveys were not always carried out or up to date. Of the essential building area surveyed, almost 75 per cent was assessed as being adequately used.

5.7 There were no overarching high level indicators in use which provided NHSiS bodies with an indication of how the total size of their estates matched the overall provision of service. Such indicators would be particularly useful for senior management to assess how well their estate compares with other similar NHS bodies and to question the efficiency of the estate.

5.8 Our use of high-level performance indicators at the ten Trusts visited suggested that there might be scope to identify additional areas of under-utilised estate. Any potentially surplus estate needs to be identified in a systematic way as part of the strategic planning process and may require a full investment appraisal of alternative provision before its future is decided. The extent to which under-utilised estate can be either disposed of, or used more efficiently, will depend on the particular circumstance of each Trust and its estate.

5.9 A particular disincentive to identifying and disposing of surplus estate at some Trusts was that, until 1998/99, NHSiS bodies were restricted in the amount of capital receipts they could retain from disposals. The Department applied this policy to ensure that receipts were used to best effect for the NHSiS as a whole.

How suitable is the estate for its purpose?

5.10 The physical condition of the estate and compliance with safety and statutory standards has improved over time and was generally good though there were areas where statutory standards were not fully met. Furthermore, about 14 per cent of the essential estate had not been surveyed for compliance with safety and statutory standards and consequently senior NHSiS management could not be fully informed about this significant aspect of their estate.

5.11 About three quarters of the essential estate was regarded as functionally suitable for its purpose but around 20 per cent had not been assessed. Due to the age and design of many hospital buildings it would not always be cost effective to raise the levels of functional suitability.

Developments since completion of the National Audit Office report

5.12 The Committee of Public Accounts took evidence from the Department on the C&AG's report. The Committee's subsequent report, published in September 1999, includes conclusions and recommendations on the management of the Estate, on the utilisation of the Estate, and on the condition of the Estate. Figure 7 sets out each of the conclusions and recommendations, the Government's response to each and records action which has taken place to date.

Conclusion

5.13 The Scottish Executive have issued further guidance which should enable NHS bodies to improve overall management of the estate. This includes steps to improve information on estate utilisation, on condition surveys, and on action to ensure NHS estate buildings meet statutory health and safety standards.

Figure 7

PAC Recommendations, response and action

	PAC Conclusion and Recommendations	Departmental Response	Action to date
i)	Over eleven years ago the Department undertook to secure significant improvements in the management of the NHS Estate. While progress has been made, there remain significant gaps in the basic elements of estates management in many health bodies – effective estates strategies linked to health care needs; good and accessible management information; effective strategic focus at Board level in Health Boards and NHS trusts; and expertise.	The Health Department believes that the major changes which have impacted upon the NHS in Scotland over the last seven years, both organisational and in service delivery, have in large part been paralleled by improvements in the strategic management of the estate. It accepts that this is not a uniform picture and not yet always effectively embedded in appropriate management systems.	The Department, as noted, in the Report, has taken steps to improve that position. It will continue to impress upon NHS Trusts and others the importance of effective property management as an integral element in the provision of modern healthcare based on clear service strategies. It will monitor action through its ongoing liaison with NHS Trusts and Health Boards. From 1 October 1999 no Business Case for new capital investment has been considered without the support of an agreed Property Strategy. The Department has also advised NHS Trusts and other NHS in Scotland bodies of its intention to require the provision of a comprehensive property performance return as at 1 April 2000 and at three yearly intervals thereafter. This information, together with ongoing liaison with NHS Trusts and Health Boards, and with the ability to interrogate Property Strategies will provide the Department with the information needed to support its policy and strategic planning functions and to identify potential problems which may require intervention.
ii)	The Management Executive sought to excuse this slow progress by pointing to the change of responsibilities, which flowed from the delegation of health matters to health boards and NHS trusts. This misses the point. The Department, through the Management Executive, have throughout the last 11 years remained responsible for the efficient, effective and economic use of resources by the NHS on the estate in Scotland. On the evidence we have seen, and particularly since 1996, they have not discharged this responsibility effectively in relation to the £3 billion tied up in the NHS estate.	The Department accepts its overarching responsibility for the efficient, effective and economic use of resources by the NHS on the estate in Scotland. It will continue to pursue this objective by all appropriate means both direct and indirect. The Department believes that recent changes to the NHS in Scotland following the "Designed to Care" White Paper will help it to pursue this objective.	Direct actions include capital charging, the requirement that NHS Trusts and others have agreed Property Strategies, and the approval of Business Cases for new healthcare facilities allowing inappropriate accommodation to close and be disposed. Indirect includes the introduction of national policies and strategies for the delivery of modern healthcare resulting in the closure of outmoded, expensive and non-functional long stay hospitals and their replacement with modern small scale provision in appropriate community settings.
iii)	We note the new arrangements put in place after the White Paper "Designed to Care – Renewing the NHS in Scotland". The Department have taken steps to make health boards	The Department confirms its view of the robustness of these management arrangements.	Where monitoring suggests that it is necessary, appropriate follow-up action will be taken through the existing accountability process.

continued...

Figure 7

PAC Recommendations, response and action *continued*

PAC Conclusion and Recommendations	Departmental Response	Action to date
(iii) responsible for fully integrating estate considerations into service requirements, through a new system of health planning and health improvement programmes. And the Department have issued fresh guidance which set out in unambiguous terms the estate management policy for the NHS estate in Scotland and the roles and responsibilities of health boards and NHS trusts.		
iv) The Department will need to monitor these new developments closely, to ensure that health boards and trusts are taking a strategic view of their estates needs and that boards, trusts and the Management Executive have sufficient information to intervene where problems emerge.	As noted at (i) the Department will monitor the implementation of its national property management policy.	As noted at (iii) the Department will take any necessary follow-up action.
v) We recognise that the NHS is necessarily subject to continuous change and development and that developments in healthcare and service delivery mean that hospital facilities can become outdated and no longer needed for their planned purpose. That said, we are disappointed that over 25 per cent of the NHS estate had not been surveyed to assess whether it was essential.	The Department accepts that notwithstanding the fact that some NHS Trusts occupy quite modern property the pace of service change requires that information on its use be kept up-to-date.	The Department has advised NHS Trusts and others that all property performance surveys, including space utilisation within buildings, should be repeated in full at least once in every five years and reviewed/ updated as necessary in between. Additionally it has advised that where the circumstances demand it then full surveys may be required at lesser intervals, for example, because of the nature of the existing property or the change agenda.
vi) In their detailed examination of space utilisation at the Royal Alexandra and Raigmore NHS Trusts, the National Audit Office demonstrated additional potential opportunities to rationalise the Estate through rigorous surveys. We look to the Department to ensure that such surveys are undertaken throughout the NHS in Scotland.	The Department accepts the need for such surveys as noted at (v).	As noted at (v) the Department has acted to ensure that surveys are carried out in respect of all NHS property.
vii) We note that the NHS reduced its land holding by 7 per cent since 1994, and over the period 1993-94 and 1997-98 receipts totalled £124 million and were rising.	The Department can report that receipts from the disposal of surplus land and buildings in 1998-99 totalled approximately £30 million, (subject to audit).	No action required.

continued...

Figure 7

PAC Recommendations, response and action *continued*

PAC Conclusion and Recommendations	Departmental Response	Action to date
viii) At present, NHS trusts have identified 40 per cent of their land and 20 per cent of their buildings as non-essential. We recognise that disposal has to be timed to fit with the introduction of new facilities, and that the department has improved the incentives for trusts to identify and dispose of surplus assets. But these substantial, unutilised assets, represent significant sums that could be realised and spent to improve healthcare in Scotland. We therefore urge the Department to take a more pro-active role in ensuring that surplus land and buildings are identified and disposed of quickly.	The Department would emphasise that non-essential land and buildings are not unutilised. Non-essential is that which is forecast to be not required for operational purposes beyond the immediate planning period (4 years at the time of the report). Such land and buildings will become surplus and vacant over the period as service and capital plans are implemented and disposal will be effected as quickly as it consistent with the aim of ensuring that property is sold at a price which is the best obtainable for the public interest.	The Department is carrying out a census of the NHS in Scotland's ownership and occupation of property as at 1 April 1999. In addition to identifying non-essential property it will provide information on the expected disposal timescale. The Department will analyse that information and where appropriate will pursue with individual NHS Trusts and others the reasons for extended disposal timetables with a view to ensuring that disposals are normally completed within the three year Treasury guideline.
ixi) We are very concerned that eight years after Crown Immunity was removed from the NHS estate, 29 per cent of it did not comply with safety and statutory standards, and the trusts involved were breaking the law. Although the Department estimate that it will cost £70 million to rectify this, we look to them to conduct an urgent review of the situation, and in conjunction with the Health and Safety Executive develop an action plan to ensure compliance over a reasonable timeframe.	The Department acknowledges the further effort required to ensure that all property occupied by the NHS in Scotland is, in so far as is reasonably practicable, fully compliant with safety and statutory standards.	The Department now funds centrally the provision of an appropriate health and safety risk management tool, including introductory training. This is intended to assist NHS Trusts and others to assess compliance with safety and statutory standards and to agree prioritised actions. The Department has agreed an action plan with the Health and Safety Executive.
x) We are appalled that Angus NHS Trust could have got into a situation where 14 of 16 buildings had a high risk of legionella, and that patients and staff were exposed to health risks involving asbestos. Although the Trust has now taken action to reduce the risks, this case represents a signal failure of the NHS at all levels to ensure that buildings used by staff and patients are in an acceptable condition.	As stated at (ix) above the Department is determined to ensure that all property occupied by the NHS in Scotland is, in so far as it is reasonably practicable, fully compliant with safety and statutory standards.	As noted before the Department has taken various steps including the reinforcement of the requirement for Property Strategies, the announced intention to require a comprehensive property performance return in 2000, the monitoring of these, and the commitment to take appropriate follow-up action through the accountability process when necessary.

continued...

Figure 7

PAC Recommendations, response and action *continued*

PAC Conclusion and Recommendations	Departmental Response	Action to date
xi) We are concerned too that having identified the problems, the NHS Trust did not inform the NHS Executive, the Health and Safety Executive, staff or patients. While we recognise that the trust took action to manage and minimise the risks, and that no cases of legionella arose, this failure to communicate fell below the standards of good governance and care for patients and staff that we would expect. We look to the Department to develop in the light of this case guidance for the NHS in Scotland for ensuring effective communication should similar cases arise in future.	Trusts are statutorily responsible for all aspects of Health and Safety for staff, patients and visitors. In addition they are responsible for the proper notification to the Health and Safety Executive of all accidents and untoward incidents in accordance with NHS MEL (1995)74. NHS MEL (1995)74 places a clear responsibility on General Managers and Chief Executives to have clear written procedures for reporting and that such procedures are made known to all staff. Furthermore it also requires Hazard Notices, Safety Action Notices and other safety warnings to be brought promptly to the attention of appropriate managers, staff and users of equipment. Health Boards and Trusts are also required by the MEL, to identify an individual who carries managerial responsibility for the arrangements.	The NHS in Scotland HR strategy "Towards a New Way of Working" requires the proper provision of a healthy and safe environment in which to work and the Scottish Executive is shortly to publish an Occupational Health and Safety Service strategy, "Towards a Safer Healthier Workplace", predicated on the basis that work should not make you ill. All NHSiS employers are required to have a partnership agreement in place and to have partnership forums up and running during October. Such forums will provide the natural arena for the discussion and resolution of such matters and afford staff and their representatives the opportunity of ensuring that their health and safety needs are fully met.
xii) We note that in addition to non-compliance with safety and statutory requirements, 18 per cent of the estate in Scotland was not in an acceptable condition and 23 per cent was not functionally suitable. We look to the Department to ensure that the condition and suitability of the estate is given due emphasis in health improvement programmes and health board plans, linked to service plans.	The Department will continue to monitor these aspects of property performance and will take appropriate follow-up action when required.	

Part 6: Sales of Scottish New Towns' Commercial and Industrial Properties

HC 14 published 4 June 1997

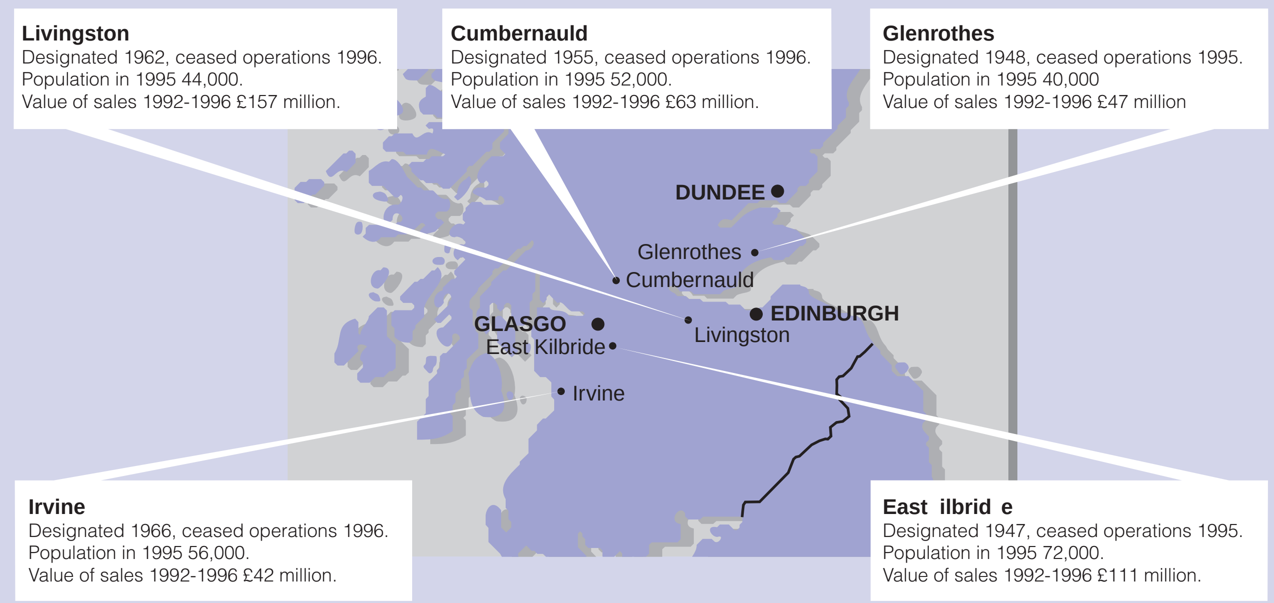
Scope of the National Audit Office report

6.1 Scotland's five New Town Development Corporations were established between 1947 and 1966 and ceased operations between 1995 and 1996. Their main objectives were to assist the dispersal of industry and population from overcrowded urban areas, and to provide locations for and promote new economic development.

6.2 The report examined the programme of commercial and industrial property disposals that the five former Corporations completed between 1992 and 1996. In this period the disposals raised almost £420 million, and the Corporations satisfied the former Scottish Office Development Department's requirement to dispose of their entire interest in property assets before ceasing operations (Figure 8).

Figure 8

Scottish New Towns



Main Findings

Generally the Department and the Corporations planned the disposals to a high standard

6.3 The Department provided a strong framework of guidance governing Corporations' management of disposals which was consistent with earlier recommendations of the Committee of Public Accounts. The Department and the Corporations ensured an orderly programme of disposals and met or exceeded key financial targets for the programme, permitting the Corporations to repay all outstanding National Loans Fund debt before ceasing operations.

6.4 The National Audit Office identified one area, industrial buildings allowance, where Corporations might have improved sales preparation. These allowances, which can enable purchasers to offset tax liabilities, are likely to have attached to a significant proportion of the industrial properties sold by Corporations. Corporations adopted different approaches to marketing properties where allowances were available. In the National Audit Office's view it would have been advisable for all Corporations to have assessed the potential tax allowances available to purchasers prior to each sale and to have drawn attention in all cases to the allowances during marketing.

The Corporations conducted individual disposals skilfully and in line with previous Committee of Public Accounts' recommendations

6.5 Total sales proceeds of almost £420 million exceeded the book value of £406 million. Corporations could reasonably be expected to have maximised sale proceeds in most cases though, in a few cases, the National Audit Office had doubts about the price achieved compared with valuations and other criteria.

6.6 Corporations completed more than half of the sales, 56 per cent worth £164 million, after competition and acceptance of the highest available offer.

6.7 15 per cent of sales worth £45 million could not be competitive either because leases provided tenants with pre-emptive rights or as a result of the Government's policy to transfer selective key properties to Scottish Enterprise. The remaining major sales, 29 per cent worth £85 million, were also by negotiation and in these cases Corporations did not consider open market disposals appropriate often because the sale involved economic development benefits which competition would have jeopardised.

6.8 Corporations obtained pre-sale valuations from their sales advisors for almost all open market sales. But for negotiated sales they considered that annual valuations of all their property supplied for accounts purposes often provided a sufficient alternative, when taken together with the knowledge and experience of their in-house professional staff. In just under a quarter of cases examined the National Audit Office found valuation benchmarks to be unavailable or weak.

The report highlighted four issues for public bodies to take into account in future public asset sales

6.9 Looking forward from sales of Scottish New Towns' commercial and industrial properties to future public asset sales the National Audit Office highlighted four issues which public bodies may wish to take into account. Based on evidence of good practice and lessons learned from this disposal programme these concerned the importance of:

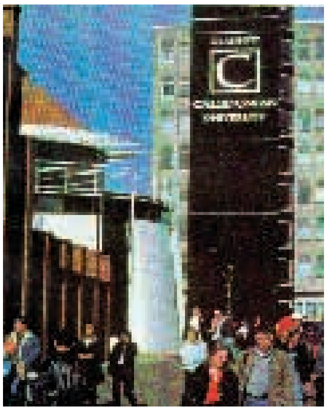
- Thorough pre-sale preparation, to facilitate effective marketing of property.
- Up-to-date and appropriate valuations prior to any sale, as the basis for the asking price and to benchmark offers received.
- Written guidance on sales conduct including arrangements to provide assurance that sales guidance is complied with in practice.
- Considering carefully issues arising from industrial buildings allowances, which purchasers may be able to claim in relation to a particular property. The allowances may influence how a public body may market and dispose of property.

Developments since completion of the National Audit Office report

6.10 Since the New Towns ceased operations in 1996 there have been no similar large-scale disposal programmes within the Department's responsibility. In March 1999, the Scottish Office completed and issued revised guidance on the disposal of assets by departments and public bodies in Scotland. The new guidance covered the issues identified by the report, including the need to take advice in cases where purchasers may be able to claim industrial buildings allowances in relation to a particular property, as well as other aspects of good sales practice.

Conclusion

6.11 We note the further guidance issued to departments and public bodies in Scotland on property disposal. Disposals will remain an important feature of activity across the Government estate in Scotland, and advice on best practice should contribute to the effective conduct of sales.



Part 7: Investigation of Misconduct at Glasgow Caledonian University

HC 680 published 24 April 1998

Scope of the National Audit Office report

7.1 Glasgow Caledonian University (the University) is one of 18 higher education institutions in Scotland. The University was established on 1 April 1993 from the merger of Glasgow Polytechnic and the Queen's College Glasgow. The University receive, with other Scottish higher education institutions, grant in aid from the Scottish Higher Education Funding Council (the Council) to support teaching and research. The Council will provide £35 million grant in aid to the University in 1999-00.

7.2 The report set out the results of an investigation by the Council into allegations of serious misconduct within the University in 1997 (Figure 9).

Figure 9

Summary of allegations received in February 1997

Employment aspects. The allegations suggested instances of favouritism involving the employment of the Principal's family and others within the University.

Vehicles. The allegations stated that senior staff used University vehicles and drivers for personal purposes; and that the Principal's wife had sole use of a University company vehicle.

Overseas visits. The allegations stated that senior staff had been on a number of trips to the Far East, South Africa and Oman, that their partners accompanied them, and that there were holiday elements to these and other trips.

Caledonian College of Engineering, Oman. The allegations indicated that the financial viability and value for money of the University's development of this overseas college was unclear.

The University's subsidiary companies. There were allegations regarding the financial performance, accountability and control of two subsidiary companies of the University.

Management. The allegations indicated that there was dissatisfaction and disquiet within the University regarding insufficient checks and balances over senior management, with no avenue for staff to voice concerns without unfair recrimination.

Source: National Audit Office

Main findings

The conduct and outcome of the initial investigations into allegations of misconduct within the University

7.3 The Council acted promptly in response to the allegations of February 1997, completing an initial investigation in April 1997. This showed that there was a factual basis to most of the allegations, which warranted further inquiry.

7.4 In May 1997, in response to the initial findings, the University Court – the governing body – provisionally accepted the Principal's request for early retirement. The Principal Dr Mason did not subsequently return to duty and in September 1997, after their own review of aspects of the allegations concerning employment matters, the University dismissed him for gross misconduct with no compensation. In doing so the University had regard to recommendations of the Committee of Public Accounts concerning the conduct of public business, which the Council had drawn to their attention.

7.5 We noted in our report that Dr Mason rejected the findings of the University's review which led to his dismissal, and that he intended to take a case for unfair dismissal to an Employment Tribunal, the outcome of which was not known when we completed our report[4]. Dr Mason also rejected the allegations of wrongdoing that caused the Council's investigation, and objected to the findings of this investigation concerning his conduct.

The completion of the investigations and action to reinforce governance standards within the University

7.6 The University completed its review of employment matters in September 1997 and the Council completed its detailed investigation in February 1998. Together these investigations found evidence of serious wrongdoing, irregularities and control weaknesses within the University in

4 After we published our report in April 1998 an Employment Tribunal heard Dr Mason's claim of unfair dismissal against the University. In November 1998 the Tribunal decided unanimously that, because of weaknesses in the dismissal process, the University had unfairly dismissed Dr Mason and by a majority the Tribunal accepted Dr Mason's claim for reinstatement as a remedy for this. The University Court accepted that the process was unfair, but they remained satisfied that the reasons for dismissal were valid and in June 1999 the Employment Appeal Tribunal accepted the University's consequent appeal against Dr Mason's reinstatement order. Finally in November 1999, in the light of these proceedings, the Employment Tribunal ordered the University to pay Dr Mason £11,300 as compensation for unfair dismissal.

respect of the use of vehicles, overseas travel, employment practices and the oversight of subsidiary companies. These findings raised broader concerns about the governance of the institution and the management culture in operation (Figure 10).

Figure 10

Main findings of the investigation of misconduct

Employment matters

In response to the Council's initial investigation in April 1997 the Council accepted the University Court's request to appoint a separate panel of Court to investigate employment aspects. This panel's remit included examining three employment cases where questions of favouritism had arisen.

The University inquiry panel's report of September 1997 found there was evidence of serious wrongdoing in relation to all three cases. It concluded that the then Principal's conduct in relation to them demonstrated a fundamental breach of trust placed in him by the Court, and an inexcusable abuse of his authority. Dr Mason knew personally all the appointees, including in one case his daughter in law, and the panel found that his actions showed that he had improperly intervened in and sought to influence all three cases.

The panel concluded also that the conduct of two other University staff involved in these cases demonstrated a lack of proper regard for professional standards, for proper conduct and for the public interest, and in one case was likely to damage the reputation of the University.

Vehicles

The Council found that the then Principal improperly accepted exclusive use of two University cars at the same time, one of which was used by his wife. The cars were later sold, one to the Principal, and the Council concluded that the manner in which these sales were conducted provided a significant risk of loss to public funds.

Overseas visits

While the Council found that certain senior staff visits to the Far East in 1993 and 1995 were reasonably well targeted and provided some positive results there were also grounds to question the propriety of aspects of both visits. In particular, the University met the costs of holiday elements for the delegation and their spouses/partners during the visits.

Caledonian College of Engineering, Oman

The Council were not satisfied that the University had effectively controlled their contribution to the development of the college. In particular the University incurred development costs of some £0.2 million in connection with the college, without prior authority of the governing body.

The University's subsidiary companies

The Council's investigation focussed on two subsidiary companies of the University, initially established by one of the predecessor institutions. The Council were dissatisfied particularly with the accountability of one of the companies. The only representative of the University Court on this company's board was the Principal who had a close professional and career interest in the company. This company repeatedly made losses but still paid bonuses to key staff (including the Principal's sons, without authorisation from the University's governing body).

Source: National Audit Office

7.7 In response to these findings the Council recommended the University undertake a fundamental review of the University's structures and operations, to ensure that they would meet the best standards available in the sector, and other steps to reinforce proper conduct and systems within the University. Our report showed the University had responded positively to implement these recommendations. We show the action now completed on the main points later in this report (Figure 11).

Wider governance standards within the higher education sector in Scotland

7.8 In addition to reporting the results of the investigations within the University, the report showed that institutions in Scotland including the University had mostly adopted governance procedures consistent with the Council's suggested good practice in 1996.

National Audit Office recommendations

7.9 The report concluded that this was a disturbing case, but acknowledged that the Council acted promptly to investigate the allegations and that they and the University had initiated action to reinforce proper conduct within the University. The report contained recommendations for further action by the Council and institutions in Scotland on a range of specific aspects highlighted by the case.

Developments since completion of the National Audit Office report

7.10 Since publication of our previous report there have been important further developments in management and governance affecting particularly the University but also more generally the higher education sector in Scotland. In summary:

Concerning the University:

- The University has implemented significant changes in management and governance, consistent with the Council's earlier recommendations.
- The University has responded positively to a separate inquiry into academic matters reinforcing the need for reform.

Across the sector:

- The Council has issued revised guidance to institutions in Scotland on good governance and other aspects.

The University has implemented significant changes in management and governance, consistent with the Council's earlier recommendations

7.11 The Council monitored closely the University's actions in implementing their recommendations on the basis of a detailed action plan agreed with the University. In August 1999 the Council concluded that the University had addressed as far as reasonably possible all the recommendations arising from their earlier inquiry, and that their monitoring of the governance, management and financial control arrangements at the University could be placed on a more routine basis. In considering this matter the Council recognised the considerable effort and commitment shown by the University Court in addressing the recommendations in such a comprehensive manner.

Improved controls and procedures within the University

7.12 In relation to specific areas of the inquiry which showed weaknesses in controls and procedures the University agreed to implement recommendations for:

- Improvements in the control of University vehicles.
- Tighter control by the University of overseas travel.
- Action to place the University's commitments to the Caledonian College of Engineering Oman on a sounder, more transparent footing.
- Improved control over the University's subsidiary companies.

7.13 The Council confirmed the successful implementation of these agreed actions.

Recovery of costs

7.14 In addition to obtaining improvements in internal control and procedures within the University, the Council have implemented their intention to recover certain costs from the University.

7.15 The Council deducted £36,400 from the grant instalment paid to the University in May 1998. This related to the University's costs in making an early retirement settlement in August 1997 that the Council were not prepared to meet[5]. Similarly, the Council also recovered £2,400 from the University in May 1998 in respect of certain garaging fees that the University had paid to Dr Mason, which the Council considered inappropriate. In both cases the University have met the resulting shortfall from reserves, which include net income from commercial activities, so avoiding any reduction in funds for teaching and research.

7.16 The Council had also recommended that the University seek recovery from third parties of certain other costs. Since then, although the University have not recovered all of these costs, the Council are satisfied that the University has taken action in this area as far as is reasonably practicable.

7.17 The Council had recommended the University should recover from Dr Mason £49,668 in respect of the acquisition and use of vehicles supplied to him through subsidiary companies of the University and £1,453 associated with Far East visits in 1993 and 1995. However, although the University subsequently claimed this sum from Dr Mason, he did not accept their claim. The University has not pursued the claim after receiving opinion from counsel, which concluded that litigation would be lengthy and expensive and was unlikely to be successful. In monitoring the University's actions in response to their recommendations the Council, with their own legal advice, accepted this position.

7.18 The Council had also recommended that the University should take steps to recover from members of the University's delegations to the Far East in 1993 and 1995 certain costs relating to non-business elements of the trips. The University subsequently recovered £3,201 from three of the four members of the delegation. They have not recovered other costs claimed from Dr Mason for the reasons noted

5 The Council were concerned that the University had permitted the senior assistant principal responsible for staffing policies and procedures to retire early in August 1997 before the University Court had considered the outcome of the employment inquiry which strongly criticised his conduct. The Council's concern reflected the Committee of Public Accounts earlier criticism of ex gratia payments made by public bodies without authority on termination of employment, particularly where disciplinary action might be more appropriate (Committee of Public Accounts Eighth Report HC154 Session 1993-94).

above. In addition the University estimated that they incurred travel costs of £6,384 on behalf of spouses and partners of the delegation members. As these parties undertook duties on behalf of the University during the visits the University has not sought to recover these costs. However the University has transferred a corresponding amount from its reserves, in order to avoid any consequent reduction in funds for teaching and research.

Effective governance procedures

7.19 Following the Council's conclusion that the structures of the University Court and the interaction with senior management were not fully effective, the Court established a taskforce to take forward their commitment to make a fundamental review of governance. This taskforce completed its work between August 1998 and May 1999 under the chairmanship of a newly appointed independent Court member with experience at senior executive level of initiating and implementing organisational change. The Court accepted all of the taskforce's recommendations, which were included in two interim reports and a final report. Figure 11 summarises the action taken on the main points.

Figure 11

Glasgow Caledonian University governance taskforce – key changes

Principles of governance

The Court adopted a new statement of principles of governance in December 1998. The principles state clear expectations of behaviour for all staff and are expected to influence every aspect of governance including the actions of everyone appointed as a governor and everyone holding executive office. The nine principles cover the requirement for: mutual respect; selflessness; integrity; objectivity; accountability; openness; honesty; quality; propriety.

The University Executive

The University has abolished the strategic planning and resources committee and the university management group, whose role and operations the Council questioned. They have created a new group called the University Executive with a greater emphasis on professionalism and accountability, including new directors of resources and administration, information resources, corporate planning, human resources and marketing and public relations. The Executive includes the Court Secretary, and the Court welcomed the recognition given to the independent role of this post in relation to the Court and the innovative appointment of an elected member at the level of assistant principal responsible for quality assurance and development.

Standings Committees of Court

The Court has approved various changes intended to reform and further democratise its standing committees and to encourage those committees to become more proactive in formulating policy and developing performance indicators. There will be increased staff representation on several committees, and the particular remit of the remuneration committee has been clarified and strengthened.

continued...

Glasgow Caledonian University governance taskforce – key changes *continued*

Figure 11

Scheme of delegation to the principal
The Court has approved a scheme of delegation which clearly defines the Principal's delegated authority and accountability. The scheme includes matters such as contract approval and strategic alliances with overseas institutions.

The role of the Secretary to the University Court
The role of the Court Secretary has been defined in accordance with best practice within the higher education sector.

Register of interests
A register of interest has been approved. The register will apply initially to governors and members of the University Executive, but will eventually encompass all members of staff.

Source: University Court Action Plan June 1999

A separate inquiry into academic matters reinforced the need for reform within the University

7.20 Our report indicated that the University had commissioned a further independent – but at that time unfinished - inquiry arising from allegations about certain academic matters that the Council had received in July 1997. These separate allegations were different from the questions of financial and managerial misconduct central to the Council's inquiry within the University then in progress.

7.21 Consistent with advice from the Chief Executive of the Council, the University established an independent panel in August 1997 to address the concerns raised about academic aspects. Professor John Darby, a former assistant principal of Napier University led the inquiry panel. The inquiry was a significant piece of work, which mainly took place over a period of 37 weeks between September 1997 and May 1998, and the University has since accepted and implemented its recommendations.

7.22 The inquiry did not sustain allegations that examination results had been falsified nor that overall academic standards within the University had been diminished. The inquiry did, however, report serious lapses from good academic practice as well as managerial weakness. The inquiry noted that the examples of unprofessional conduct found should be seen in the context of the rapid changes that took place in the University between 1993 and 1995, and the substantial achievements of the University in the same period. Figure 12 summarises the main allegations and the related inquiry findings.

Figure 12 **Inquiry findings about academic matters at Glasgow Caledonian University**

Academic practices - the BSc Radiography group 1993-1994

The allegations were that: the University had in 1994 wrongly set aside their own normal academic regulations for the progress of one group of students enrolled on the University's BSc Radiography course. Financial pressures had played a part in the decisions of the University in this case. The University failed to get the approval of the Chief External Examiner concerned for this action. The Chief External Examiner subsequently resigned in protest and the University did not follow up this exceptional event

The inquiry concluded that: the University had indeed wrongly set aside normal academic regulations, particularly in regard to obtaining the agreement of the external examiners. They had permitted the group of 13 first year BSc Radiography students to progress to their second year, even though this group had twice failed an examination normally required for this. While the inquiry concluded that these were serious lapses, in their opinion academic standards were ultimately maintained for this group because all the students involved eventually passed at an undiminished, externally examined standard. The inquiry panel's findings showed that financial considerations played no part in the decision to offer these students a further attempt to continue on the course.

Academic practices - the BSc Orthoptics 1991-1997

The allegations were that: the University introduced changes to their BSc Orthoptics course for 1994 -95 without proper independent accreditation, and following the resignation of the entire professional staff. The independent body responsible withdrew accreditation in April 1995, however, the University did not immediately inform students or new applicants of this, nor of the resultant possible bar on state registration on completion of the course. The issues that led to the loss of accreditation remain unresolved

The inquiry concluded that: the University should have exercised greater care in its relationship with the independent body responsible for providing accreditation. Operational difficulties and a breakdown of communication with the body led to the University temporarily losing the necessary accreditation in 1995 (though this accreditation was soon restored). Moreover, the University did not keep students on the course sufficiently informed of events that might have directly affected their future.

Management and personnel practices 1992-1997

The allegations were that: managers within the University's Faculty of Health responsible for courses in Radiography and Orthoptics had improperly pressured three members of staff to take early retirement or resign in 1994. More generally the management approach within the University, including the style of the University's senior management team, had been too authoritarian with insufficient opportunities for staff to speak out and debate decisions without fear of retribution. Senior management manipulated membership of the Senate sub-committees, and that Senate itself acted as a rubber stamping body.

The inquiry concluded that: an allegation of bullying leading to the resignation of one member of the radiography staff in 1995 was true. More widely management had not tackled other evidence of disharmony and poor relationships within the two areas. And in some cases management style within the University had indeed been too authoritarian with insufficient opportunities for staff to speak out and debate decisions.

Academic standards

The allegations were that: factors associated with the creation of the University in 1993 had diluted academic standards generally. These factors included organisational changes made on creation and changes in the teaching modules making up students' programmes, as a cover for dilution of teaching, reduced teaching hours and compromises in curriculum decisions.

The inquiry concluded that: overall academic standards had *not* been diminished, examination results had not been falsified, the progression of students on their courses was not influenced by financial considerations, and the overall effect of changes in the delivery of the University's courses in 1994 had been beneficial. The inquiry noted that: the examples of unprofessional conduct they found in two programmes should be seen in the context of the rapid changes that took place in the University between 1993 and 1995, and the substantial achievement of the University in that same period.

Source: Inquiry report

The University has responded positively to the recommendations of the inquiry on academic matters

7.23 The inquiry recommended action to reinforce good academic practice and good governance within the University.

- On academic matters, the inquiry recommended a new programme of academic audits within the University to provide on-going assurance on the maintenance of good academic practice. They also suggested a strategic review of professional administrative support within the University, to reinforce good academic practice. They highlighted other areas for particular review by the Senate which, with the Principal, is responsible for academic leadership within the University.

- On governance and management, the inquiry challenged the management culture that had developed within the University. To reinforce accountability and a more participative management style they recommended strategic reviews of staffing policies and the interaction of senior managers and University committees. They also recommended immediate steps to establish a whistle-blowing or complaint procedure in order to resolve all possible grievances fairly and without conflict or recriminations.

7.24 In December 1998 the Court received a report from the Senate and other committees on progress made in responding to the inquiry findings and recommendations. The Court noted with approval the inquiry findings that academic standards were not diminished, that no student passed who should not and that financial considerations were not driving academic standards. While the Court accepted that there had been lapses and that there were lessons to be learned, it considered that the academic problems identified were narrowly focussed, not University-wide.

7.25 The Funding Council concluded that the inquiry represented a thorough investigation of the allegations, and that there were no matters of a financial nature arising from the report to give concern to the Council's accounting officer.

7.26 In accordance with new policies on freedom of expression and communication with the media the Court published the inquiry report and its response in full in December 1998. The University accepted the recommendation to establish a programme of academic audit which commenced in 1999.

7.27 On governance and management the Court had already approved the need for a fundamental review of governance, and in December 1998 it implemented significant changes to the University's governance framework as the taskforce had recommended (Figure 11 above). At the same time Court approved and implemented a whistle-blowing policy and procedure, and a more general complaints procedure. The Court also ensured that the taskforce would address each of the inquiry recommendations on management practices.

7.28 The Court decided that its staff affairs committee would consider as a matter of urgency the unsatisfactory management and personnel practices identified in the inquiry. A disciplinary inquiry was subsequently established which resulted in two senior members of staff being disciplined. Other disciplinary inquiries connected with the Council's investigation were completed in May 1999 and resulted in one Vice-Principal receiving a final written warning and one being dismissed for gross misconduct.

The Council have issued revised guidance to institutions in Scotland on good governance and other aspects

7.29 In 1998 and 1999 the Funding Council issued guidance and advice to all 18 Council-funded Scottish higher education institutions on aspects of governance and the proper conduct of their affairs. This took account of the increased emphasis generally on the need for institutions across the public sector to focus on good governance, probity and openness as well as specific issues that the Glasgow Caledonian University case highlighted. The guidance addressed all the recommendations to the Council included in the earlier National Audit Office report (Figure 13).

Figure 13 **Action by the Council in response to National Audit Office recommendations**

National Audit Office recommendations	Action by the Council
Whistle-blowing procedures	
We recommended the need to establish whistle-blowing procedures for the sector and to publicise these to staff.	The Council's guidance to the sector on good governance (January 1999) recommended good practice in this area. It recommended governing bodies develop and publish procedures which would allow and encourage any member of the institution or public to raise matters of concern without fear of recrimination and allowing for legitimate concerns to be investigated. The Council have also endorsed complementary guidance on public interest disclosure policy and procedures that the Association of Heads of University Administration issued to member institutions in September 1998.

continued...

Figure 13 Action by the Council in response to National Audit Office recommendations ***continued***

Severance terms in disciplinary cases	
We welcomed the Council's commitment that they would wish to examine routinely any severance payments made to senior staff of any institution, and to follow up any issues emerging. We recommended that when an institution considers disciplinary action against a member of staff for severe misconduct, they should make no commitment relating to the departure of the staff member before completing the necessary disciplinary procedures.	The Council issued further guidance to the sector on severance arrangements for senior staff in December 1998. This gave detailed guidance in response to the need for a clear framework of responsibility, policy and procedures to govern severance arrangements, including the need for institutions to avoid rewarding or being perceived to reward poor or unacceptable performance leading to early termination.
Provision of vehicles at public expense	
We recommended that governing bodies of institutions should ensure proper oversight of vehicles provided for senior staff and governing body members.	In their regular monitoring visits to institutions the Council routinely raise the question of policy and practices relating to the provision of vehicles to senior staff.
Monitoring and control of overseas activity	
We noted the Council's intention to issue further guidance in this area, and we recommended that individual institutions should evaluate their policies for overseas visits to ensure economy and value for money.	The Council issued to the sector guidance on overseas student operations in January 1999. This aimed to provide institutions with broad guidance on management and control issues when operating or contemplating international initiatives to recruit students. It supplements guidance that the Quality Assurance Agency have developed aiming to secure high academic standards in such initiatives.
Oversight and control of subsidiary companies	
Our report noted that the Council issued advice to institutions on the oversight and control of subsidiary companies in 1996, though only one institution has implemented the recommended procedures in full. We welcomed the Council's intention to follow this up with institutions to help ensure that institutions achieve best practice in this area.	The Council's guidance on good governance (January 1999) provided further benchmarks for good practice in this area. These include proper representation by independent lay members of the governing body on the board of directors of related companies, formal reporting mechanisms for financial and other aspects of the related company to the governing body, and provision of legal advice to governing body members regarding their duties as directors of related companies. The Council have also commissioned further follow up work to research implementation of their original 1996 guidance.
The effectiveness of governance procedures	
We welcomed the Council's undertaking to require institutions to review and report formally on the effectiveness of their governance and to issue further guidance. We suggested that the Council should consider carefully how far they should monitor institutions' compliance with their guidance on good practice, an what sanctions they should apply in the event of non-compliance.	In issuing to the sector their revised guidance on good governance in January 1999, the Council recommended that all institutions should compare existing practice against the good practice benchmarks detailed in the guidance. They asked institutions to report the findings to their governing bodies and to publish the results in their next year's annual reports and financial statements.

Source: National Audit Office, Funding Council

Conclusion

7.30 The National Audit Office and the Council received the original allegations of misconduct within Glasgow Caledonian University more than two and a half years ago. Since then there has been thorough investigation not only of the original allegations but also of separate concerns relating to particular academic matters and wider aspects.

7.31 There has been significant progress made to rebuild confidence in the management and governance of the University and to help prevent the recurrence of problems. The University and the Council have shown rigour in addressing the concerns, and the University has made significant progress in reform within the institution. Consequently the Council concluded earlier this year that their monitoring of the governance management and financial control arrangements in the University could be placed on a more routine basis.

7.32 Concerning governance standards more widely within higher education institutions in Scotland, the Council have issued guidance on a range of matters which this case highlighted and they have recommended that all institutions in Scotland benchmark their performance against good practice in this guidance and publish the results. It will be important for the Council to take stock as soon as the results of this work are available.

Part 8: Corporate Governance and Financial Management in the Scottish Further Education Sector

HC 682 published 30 April 1998

Scope of the National Audit Office report

8.1 Forty-three further education colleges in Scotland provide a wide range of education and training programmes for students from school leaving age upwards. After transfer from local authority control in April 1993, colleges became independent corporate bodies with some two thirds of their funding coming direct from the Scottish Office. In July 1999 the Scottish Further Education Funding Council (the Council) took over responsibility for the funding of colleges, and the role of the Scottish Executive Enterprise and Lifelong Learning Department (the Department) is now to fund the Council and set the policy framework for the sector. Grant in aid for the colleges in 1999-00 is expected to be £321 million.

8.2 The report set out the results of an examination of corporate governance and financial management procedures within a sample of 12 of the 43 colleges. In recent years there has been an increased emphasis on the need for public bodies to conduct themselves with probity and openness, reinforced by the work of the Committee on Standards in Public Life. Sound planning and financial management is also essential as colleges have faced the need to expand student numbers while reducing costs. That process resulted in a number of colleges reporting financial deficits from the mid-1990s.

Main Findings

Colleges had progressed towards but had not yet fully achieved best practice in corporate governance

8.3 Each college has a Board of Management that carries major responsibility for the conduct of the college, including the use of public funds. We reported that boards were properly constituted with the required levels of representation from business, staff and students and were supported by appropriate committees with generally clear terms of reference. Colleges had made good arrangements for ensuring that information about the activities of the board and its committees were available to staff, students and the wider public. Most boards had established appropriate arrangements for determining the pay and conditions of senior staff although there was scope to improve the quality of minutes kept by remuneration committees.

8.4 There were a number of areas in the colleges we visited where there was scope for further improvements. Regarding the recruitment of new board members, most colleges visited did not have a publicly available written appointment procedures. Only two college boards had established self-assessment procedures to determine how effectively the board were discharging their responsibilities. While all colleges had, or were about to have, a register of interests for board members, the registers often did not include declarations from staff with significant financial responsibilities or from close family relatives of those included on the register. Only three colleges had prepared a whistle-blowing policy.

Colleges planning and financial management procedures were mostly sound

8.5 Good development planning and sound financial management are essential if colleges are to achieve their educational and other goals. The Department have provided colleges with a framework within which they can undertake their development planning.

8.6 At all the colleges visited, boards had set the overall mission and strategic aims of the college upon which the development plan was constructed. Most of the colleges too had included specific, measurable objectives and related targets in their development plans. At a few colleges, though, we identified scope to promote more regular board scrutiny of performance towards the achievement of development plan targets, and for boards to play a more active role in development planning.

8.7 At most colleges visited we found board members, managers and budget holders received appropriate financial information for monitoring colleges' financial position and health. There was scope for some colleges to improve the information to the board on cashflow, and we suggested too that most could improve links between development plans and budgets.

8.8 At every college there was a financial memorandum between the Secretary of State (now the Scottish Ministers) and the board requiring the latter to have a sound system of internal financial controls. Controls must include safeguards against fraud and theft and arrangements for internal audit to ensure that internal control systems are effective. All colleges we visited had comprehensive financial regulations, although at some there was a lack of detailed supporting financial procedures.

8.9 Six colleges had established companies to conduct trading, research and consultancy services. Colleges generally had made appropriate managerial and financial arrangements to govern the relationship with the companies. In one case we identified scope for improvements in the information to be provided to the board about the financial health of the company. In another case we endorsed action taken by the college to clarify the financial and managerial arrangements between the college and its company.

Colleges could further strengthen procedures in several areas

8.10 Based on our report we recommended that colleges across the sector should take stock. They should aim to ensure that they have corporate governance arrangements that reflect best practice, and development planning and financial management arrangements that contribute effectively towards the achievement of colleges' educational and other goals. We highlighted specific areas where, based on our findings at the sample colleges, there was likely to be scope for improvements (Figure 14).

National Audit Office recommendations on corporate governance and financial management in the Scottish Further Education sector

Figure 14

Colleges should review the extent to which their governance arrangements reflect best practice, and in particular should ensure that:

- They have open and transparent arrangements for recruiting new board members.
- They adopt a code of conduct for board members.
- Their register of interests is up-to-date, covers members of the board and staff with significant financial responsibilities.
- They introduce whistle-blowing policies and procedures.
- They establish self-assessment procedures to determine how effectively boards are discharging their responsibilities.

Colleges should review their development planning and financial management arrangements to ensure that they contribute effectively towards the achievement of colleges' educational and other goals, and in particular should ensure that:

- Boards play a more active role in the ongoing development planning process and in monitoring progress against strategic objectives.
- Objectives contained within the development plan are clearly defined providing timescales, responsibilities for implementing and criteria for success and there is systematic monitoring and review of objectives and targets during the year.
- There are explicit links between the development plan and budgets to ensure that the financial implications of development objectives are considered at a sufficiently early stage.
- The board receives sufficient, regular and reliable information, including information on cash flows against forecast, to enable them to assess the current financial health of the college.
- They have up-to-date and comprehensive financial regulations and procedures and that there are effective systems in place to ensure these regulations and procedures operate as intended.
- In the case of any college companies, appropriate financial and managerial relationships exist between the college and the company.

Developments since completion of the National Audit Office report

8.11 In parallel with the National Audit Office examination and before their report was published, the Department and the Association of Scottish Colleges (which represents the interests of the majority of colleges in Scotland) were seeking to develop and promote best practice in college governance.

- In September 1997, the Department commissioned a postal survey of all college principals and board members concerning boards' recruitment, retention and operating procedures. The results confirmed that colleges were implementing improvements in procedures in these areas.

- In October 1997 the Association issued fully revised good practice guidance on governance, superseding guidance which the Scottish Further Education Unit had issued in 1993. This reflected current experience of good governance practice, including the work of the Committee on Standards in Public Life and good practice emerging from the further education sector in England and Wales.

8.12 In 1998 the Association surveyed its member colleges to follow up their revised guidance, including questions on progress with the good governance recommendations in the National Audit Office report. The results showed that in general colleges were steadily implementing improvements in good governance (Figure 15).

Figure 15

Association of Scottish Colleges survey of governance issues 1998

The Association surveyed chairs and principals of all 41 member colleges in April 1998. The results reported in September 1998 (84 per cent response rate) were that in general colleges were steadily implementing the National Audit Office good governance recommendations.

- Open and transparent arrangements for recruiting new board members. 59 per cent of colleges reported that they had publicly available written procedures, 81 per cent reported regular advertising/canvassing for recruitment.
- Code of conduct for board members. 78 per cent of respondents reported that they had a code and the majority of the remainder intended to remedy that as soon as practicable.
- Registers of interests of board and senior staff. 95 per cent of respondents already had a register of interest for board members, slightly less (70 per cent) had a register for staff with significant financial responsibilities. Colleges without a register intended to remedy that as soon as practicable.
- Whistle-blowing. 62 per cent of respondents already had a whistle-blowing policy/procedures. The rest were in the process of developing and agreeing this.
- Self-assessment procedures. Self-assessment was revealed as an area that required more attention from colleges. Around half of colleges had developed a procedure and undertaken a process of self-assessment during the last year.

The survey authors were confident that colleges would have made further progress in the period since the survey was taken in April 1998.

Source: Association of Scottish Colleges

8.13 The newly created Scottish Further Education Funding Council took up their responsibilities for the sector in July 1999. It is the Council's responsibility to assist colleges to achieve the highest standards of financial and management control underpinned by sound governance arrangements. At the request of the Minister for Education the Council are conducting a review of the management of colleges in Scotland for completion by May 2000. This review will seek to assess the effectiveness of the existing management arrangements in colleges, how performance can be measured and monitored and how best practice can become the norm across the sector.

8.14 With regard to the National Audit Office recommendations on colleges' development planning and financial management arrangements, in November 1998 the Department established an advisory group with college representatives to address means of improving college planning procedures. The group issued guidance to colleges in March 1999 on requirements for the next set of college development plans for the period 1999-2002. Recognising that once the Funding Council took up responsibility they would have their own priorities and requirements, the guidance did not seek wholesale change. Nevertheless it sought to improve the quality of plans, for example it included an illustrative model development plan, to help ensure colleges would prepare the most meaningful, consistent and comparable plans.

8.15 The majority of colleges submitted development plans by the required date of July 1999, and the Funding Council have since taken the lead in analysing the plans and are giving a high priority to assisting colleges to improve development planning. The Council are visiting all colleges in 1999 to give feedback on the latest plans, and to consult colleges on future requirements for development planning. In December 1999 the Council's strategic development committee and the full Council are considering an overview of the 1999 planning process. For future years the Council envisage issuing detailed development planning guidance each year and making a regular programme of visits to colleges to give and receive feedback.

Conclusion

8.16 The National Audit Office findings reinforced by the Department's earlier research indicated there was some scope for achieving improvements in governance and financial management in colleges, so that the sector as a whole achieves best practice. Since the National Audit Office report was published there is evidence, particularly from the results of the survey conducted by the Association of Scottish Colleges, that individual colleges have responded positively to the specific areas for further improvement that the National Audit Office identified. The Department and the Funding Council have also responded positively, and the Funding Council are now undertaking a review of college management.

Appendix 1

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