The Scottish Parliament

FINANCE COMMITTEE

AGENDA

6th Meeting, 2001 (Session 1)

Tuesday 6 March 2001

The Committee will meet at 8.00 am in Committee Room 1 to consider the following agenda items:

1. **Committee Business:** The Committee will consider whether to take agenda items 7 and 8 in private.

2. **Inquiry into Resource Accounting and Budgeting:** The Committee will take evidence from Professor June Pallot, University of Canterbury, New Zealand.

3. **Proposed Contingent Liability:** The Committee will consider a proposed contingent liability in connection with the Scottish National Blood Transfusion Service Protein Fractionation Centre clinical trials (SE/2001/68).

4. **Voluntary Sector Funding:** The Committee will consider a paper from its reporter, Donald Gorrie.

Not before 9.30 am

5. **Housing (Scotland) Bill:** The Committee will take evidence from—

   Geoff Huggins, Scottish Executive Development Department

   Tim Ellis, Scottish Executive Development Department.

6. **Regulation of Care (Scotland) Bill:** The Committee will consider the provisions of the Bill which introduce new or increase existing expenditure charged on or payable out of the Scottish Consolidated Fund (under Standing Orders Rule 9.12) and will take evidence from—

   Liz Lewis, Scottish Executive Health Department

   Kit Wyeth, Scottish Executive Health Department.

7. **2002/03 Budget Process:** The Committee will consider the appointment of an adviser.

8. **2002/03 Budget Process:** The Committee will consider revised draft guidance for subject committees for Stage 1.

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The papers for this meeting are:

Agenda Item 1

Paper from Professor Irvine Lapsley	PRIVATE PAPER
Paper from Professor June Pallot	FI/01/6/1
Background Paper from Professor June Pallot	FI/01/6/2

Agenda Item 3

Minute from the Scottish Executive Health Department	FI/01/6/3

Agenda item 4

Paper from Donald Gorrie MSP	FI/01/6/4 *to follow*

Agenda item 5

Members are reminded to bring copies of the Housing (Scotland) Bill; policy memorandum and accompanying documents as well as the letter from the Convener and the Minister's response issued for the last meeting.

Agenda Item 6

Regulation of Care (Scotland) Bill	FI/01/6/5
Explanatory Notes	FI/01/6/6
Policy Memorandum	FI/01/6/7

Agenda Item 7

Paper from SPICe	*to follow*

Agenda Item 8

Paper from the Clerk	PRIVATE PAPER

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SUBMISSION TO THE FINANCE COMMITTEE OF THE SCOTTISH PARLIAMENT
on
RESOURCE ACCOUNTING AND BUDGETING (RAB)

June Pallot, Professor of Accountancy, University of Canterbury, New Zealand

New Zealand now has ten years of experience with RAB (as it is called in the UK). I attach a paper outlining New Zealand's experience to date. The paper is based on twenty years as an academic specialising in public management and public sector accounting during which time I have had ample opportunity to observe the reforms. Other positions which I have held, and which are relevant to this inquiry, include:

- Director of the Financial Management Programme – a 4-week full time course for senior managers in government 1980-1988
- Assistant Auditor-General, responsible for Accounting and Financial Management Policy, on a two-year secondment in 1993 and 1994.
- Continuously since 1983, member of various boards and committees of the Institute of Chartered Accountants of New Zealand responsible for setting accounting and auditing standards for both the public and private sectors. These have included the Public Sector Accounting Committee, Financial Reporting Committee, Financial Reporting Standards Board and the Professional Practices Board.

Summary of Points

The main points I wish to make with respect to New Zealand's experience are as follows:

1. RAB was never viewed in New Zealand as a technical accounting exercise in isolation but rather as an integral part of management reform in the New Zealand public sector. The management reforms were an integral part of comprehensive public sector reforms; these in turn were part of overall economic reform undertaken in the 1980s. This had the advantage that RAB was swept up in the overall momentum of reform. It does, however, make it difficult to assess which improvements in public management are directly attributable to RAB and which to other aspects of the reforms.

2. The sequence of events in New Zealand was:

- A package of legislation comprising the *State Sector Act 1988* and the *Public Finance Act 1989* (and also legislation in 1989 which introduced RAB to the local government and education sectors) by 1989.

- An underlying performance measurement framework based on notions of the government as purchaser and/or investor in departments and on a distinction between inputs, outputs and outcomes. Budgets are supposedly based on the costs of *outputs.*

- All government departments on full accrual accounting, budgeting and appropriations by 1991.

- Audited Statements of Service Performance (non-financial performance information) since 1991.

- Amendments to the Public Finance Act (changes to the format of the Estimates, categories of appropriation, definition of Crown entities) in 1992.

- Capital charging regime introduced 1992.

- Whole of government financial statements on a full accruals basis in 1992. Extended to all state enterprises and Crown entities in 1993.

- Fiscal Responsibility Act 1994. Included "Principles of Responsible Fiscal Management", more comprehensive forward financial documents, requirement for monthly whole of government financial statements.

- Since 1995, a system of Strategic Result Areas and Key Result Areas which sets overall strategy and priorities and within which budgeting and financial decisions can take place. (The present Labour government has changed the terminology to "key goals and key priorities".)

3. There were relatively few problems introducing accrual accounting in departments. This was because:

   - Accrual accounting in the public sector had been discussed (and in some departments implemented as a parallel system for management purposes) as far back as 1978.

   - The requisite skills were available. The New Zealand accountancy profession has a single professional body and all accountants, whether in the public sector or private sector, have the same body of knowledge. The *State Sector Act* made it possible for departments to recruit from the private sector where necessary and to pay market rates. Since 1991 there has been a single accounting standards regime applying to both the public and private sectors.

   - A distinction was made between the assets, liabilities, revenues and expenses of the Crown and those of departments. This meant that departments had simple sorts of assets, liabilities etc similar to those found in the private sector and for which accounting policies, systems and software were readily available. Problematic items such as heritage assets, taxation revenues and so forth were found to belong to the

Crown and did not become issues until whole of government financial statements were produced.

4. The main theoretical and practical problems arose in accounting and auditing at the whole of government level. However, the experience in New Zealand was that more progress was possible by making a start in the first place than by trying to solve all theoretical problems in advance. Operationally useful financial statements, even if theoretically less than ideal, have long been accepted in the private sector. Part of the difficulty arose because there was no precedent for what was being attempted in New Zealand. Other countries may be able to benefit from what was done here.

5. The main benefits have included:

- A wider range of information for decision making at management, ministerial and whole of government levels.
- Improved accountability.
- A clearer understanding of what departments are doing and how much specific services cost.
- Improved management of cash, debtors and creditors and physical assets
- The longer term implications of short term decisions are more apparent.

There are a number of studies providing evidence of these benefits, although much of the evidence is based on the opinions of senior managers and ministers. The opinions of lower level managers and those who left the public service have not been canvassed to the same extent.

6. The main ongoing concerns have been:

- The costs to small departments of meeting accountability requirements. A working party set up to investigate this issue developed a set of protocols to help control this problem.
- Accountability requirements for non-departmental entities could be stronger given that these are a large and increasing proportion of parliamentary appropriations.
- The operation of the capital charge e.g. awareness of it outside head offices, how to pass on the costs to third parties who may not be able to pay.
- The inability to retain surpluses may work against the positive motivational effects RAB has otherwise had.
- A growing suspicion that, once initial fat was removed from the system, some departments have become undercapitalised in the pursuit of short term efficiency.
- The appropriateness of performance measures; in particular, the link between outputs, outcomes and Strategic Result Areas. Performance measurement based on

outputs may be suitable for assessing the accountability of departments to "purchasing" Ministers but accountability to Parliament and the public at large also requires performance measurement based on outcomes.

It should be noted that not all the above concerns are inevitable features of RAB; some are peculiar to the particular policies (regarding incentives etc) adopted in New Zealand.

7. The Audit Office has recently produced a report titled *The Accountability of Executive Government to Parliament* in which it proposes, some revisions to the purchaser-owner/outputs-outcomes framework which underpins New Zealand's RAB. Points made in the report include:

- Parliament needs better information on: the reasons why the State should own a particular organisation; the nature and purpose of government spending; the impact and outcomes of government spending; the capability and performance of State-owned organisations; the Executive's use of imprest supply; and the assessment and management of risk.

- Government expenditure should be classified as *current* and *capability* expenditure rather than as expenditure that reflects purchase and ownership interests. At present, many categories of expenditure (classes of appropriations) do not fit the purchase-ownership dimensions.

- Maintaining capability is important and goes beyond capability as expressed on balance sheets to include human resources, production methods and information and control systems.

- Outputs should be specified in sufficient detail in the legally binding descriptions of appropriations for Parliament to have sufficient control. Descriptions in purchase agreements can be more specific, but they should be well-aligned with descriptions in the estimates and departmental forecast reports.

- Outcomes should actually be measured, and the impact of the outputs purchased by the State should be evaluated.

8. Probably the relevant question is not whether RAB is ideal but whether it is an improvement on the old system. In New Zealand, nobody has detected a desire, at any level of government, for a return to cash accounting and input controls.

The attached paper provides more detail. I am also happy to elaborate on these issues when I appear before the Committee.

June Pallot
Professor of Accountancy
February 2001

A DECADE IN REVIEW: NEW ZEALAND'S EXPERIENCE WITH RESOURCE ACCOUNTING AND BUDGETING

June Pallot
University of Canterbury
New Zealand

In 1989, the Public Finance Act (PFA) ushered in a new era of financial management in New Zealand central government. By 1991, the appropriations, accounting and budgeting of all government departments were on a full accruals basis and in 1992 New Zealand became the first country in modern times to produce whole of government financial statements on a full accruals basis. The significance of these whole-of-government statements for both planning and accountability purposes increased in the wake of the Fiscal Responsibility Act of 1994. Just as the United Kingdom enters the brave new world of RAB, New Zealand reaches a ten year milestone with its accrual accounting regime and it seems an appropriate time to reflect on the experience of the last decade. Whilst the change to accrual accounting has been largely beneficial, it was not accomplished completely without difficulty and there remain some ongoing issues to be resolved. Accordingly, this article explains how theoretical and practical difficulties in implementation were overcome, evaluates the contribution of RAB to public management, and explores some of the issues and problems yet to be addressed. Before doing so a brief description of the system in New Zealand is provided[1].

Building the Foundations

Central to the redesign of the appropriations and reporting requirements under the PFA was a new framework for thinking about performance. The first set of ideas was a distinction between *inputs* (resources such as labour, materials, electricity) *outputs* (goods and services such as policy advice, administration of regulations, administration of transfer payments, education, prison management) and *outcomes* (impacts on the community such as lowered incidence of disease or a lowered crime rate). The second set of ideas was the notion of two types of *contractual* relationship between departments and the Government. In the first type of contract, the Government was seen as a *purchaser* of outputs from departments or, alternatively, from organizations in the private sector. In the second type of contract, the Government was viewed as *owner* of its agencies interested in getting the best possible return on the assets invested.

It was in light of the purchase and ownership interests involved in the assessment of chief executive performance and the appropriation process that accrual-based information was considered necessary. Such information is needed if parliament and ministers are to know the full costs of outputs to be purchased and if relevant comparisons are to be made with private sector suppliers. Information on assets and liabilities, which accrual accounting provides, is needed to monitor aspects of the ownership interest such as financial viability, return on investment, and maintenance of capital. Based on these notions of ownership and purchase interests and departmental accountability for outputs, the PFA redefined the appropriation process, shifting the emphasis from inputs to outputs, and established departmental and whole of government ("Crown") reporting

1 Further detail can be found in McCulloch and Ball, 1992; Boston et al 1996; Pallot 1994; 1996.

requirements. These were more extensive than the reports produced by private sector firms and included audited Statements of Service Performance (SSPs), describing planned and actual quantity, quality and cost of outputs[2]. The shift to a full accruals-based appropriations and accounting system made possible the introduction of a capital charging regime to encourage better asset utilization (McCulloch, 1991).

By 1991, a mere two years after the passage of the PFA, all departments were accounting, costing and budgeting on a full accruals basis. This facilitated the production of combined financial statements (covering departments, offices of Parliament and the Reserve Bank) on a full accruals basis in 1992. In 1993, the Crown reporting entity was extended to include all entities owned by the Crown of which there are nearly 3,000, ranging from large state enterprises to small primary schools. Accrual-based Crown financial statements are now produced monthly (as required by the PFA Amendment Act 1994).

The information contained in these "whole of government" financial statements exceeds that produced by companies in the private sector and includes an operating statement and separate statements on financial position, cash flows, borrowings, commitments, contingent liabilities, unappropriated expenditure or costs incurred, emergency expenditure or costs incurred, accounting policies, trust money held by the State and such other statements as are necessary to fairly reflect the financial operations and financial position of the State. For most of these statements comparative figures for the previous year must also be provided. The financial statements are accompanied by extensive commentary and charts which indicate trends over time. Financial statements at all levels in the New Zealand government are described as being on a "modified historic cost basis" although effectively they are close to being on a current cost basis. For example, all fixed assets (including infrastructure and heritage assets) are revalued at least every three years. The New Zealand government has therefore moved further towards current value accounting than most organisations in the private sector in New Zealand. Pallot (1994) provides a more detailed description of the "whole of government" financial statements and analyzes the accounting and valuation issues involved.

Changes to the budget process were the next whole of government initiative. In part these initiatives reflected a concern that loosely bound governments under the impending new electoral system (Mixed-Member Proportional or MMP) might be less able to resist temptation to adopt short-term fiscal strategies which were inconsistent with longer-term goals (Richardson, 1994). The reforms to the budget process were introduced through the Fiscal Responsibility Act 1994 (FRA). This Act requires governments to state their fiscal objectives and report progress towards achieving those objectives in the belief that this will "encourage the Government to take a longer term perspective to fiscal management". Furthermore, the FRA is expected to allow better and more focused debate about fiscal policy as a result of the improved information available. This information includes a budget policy statement, a fiscal strategy report and a series of regularly updated economic and fiscal forecasts, including one prior to a general election.

Rather than setting mandatory fiscal targets which experience suggests might merely result in misrepresentation to create a favourable impression, the FRA (section 4:2) sets out principles of responsible fiscal management: ensuring operating surpluses until State debt falls to "prudent levels"; maintaining zero operating balances on average over time, once prudent levels have been

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[2] For a discussion of auditing SSPs see Pallot, 1999.

reached; achieving and maintaining sufficient net worth to act as a buffer against adverse impacts in the future; prudent management of fiscal risks; and, predictability in the level and stability of future tax rates.

The introduction of a formal strategic phase, culminating in the production of a budget policy statement openly discussed prior to the drawing up of the budget itself was an important new initiative in whole of government priority setting. From 1995, this strategic phase (see Boston and Pallot, 1997) required ministers, individually and collectively, to be explicit about their priorities and to translate the government's broad vision statements into specific strategies to be pursued by the public service in major areas of social policy (e.g. economic growth, enterprise and innovation, education, community security, social assistance, protecting the environment). These Strategic Result Areas (SRAs) were established for the following 3-5 years in discussions between ministers and officials and agreed to by the Cabinet as a whole at a full-day strategic planning retreat held about three months into the current financial year. As well as forming the basis for the budget policy statement, the SRAs were linked to Key Result Areas specified in the performance agreements between chief executives of departments and ministers. The hope was that the budget would be developed *within* a more clearly articulated set of priorities rather than being the *de facto* driver of strategy (Fancy and Matheson, 1995). The National government of 1996-1999 subsequently proposed "SRA networks" aimed at enabling trade-offs to be made across outputs which contribute to the same outcome and providing an opportunity for the middle ground between SRAs and KRAs to be mapped out. The present Labour government has changed the terminology to "key goals" and "key priorities".

Overcoming the Difficulties

Aside from specifying outputs clearly and allocating costs to output classes, which took a number of years to settle, implementing RAB in departments was reasonably straightforward for several reasons. First, the notion of accrual accounting was not new. As far back as 1978, the Controller and Auditor General had advocated accrual accounting to ensure cost responsibility, encourage ongoing monitoring of assets and enable systematic costing and charging for services (Audit Office, 1978). The New Zealand Society of Accountants[3] in the early 1980s had made a commitment (much earlier tha many of its overseas counterparts) to accrual accounting for public sector entities and the inclusion of non-financial performance measures in external reports (Pallot, 1991). Second, the requisite financial skills were available. Under the State Sector Act 1988, chief executives in New Zealand gained the freedom to hire and fire staff, and to set remuneration rates as they see fit. This made it possible for the public sector to set competitive salaries and attract accountants from the commercial sector, thus increasing the pool of qualified staff available. The existence of a single professional body, with a single body of knowledge and a single set of accounting standards applied to all sectors, facilitated this movement.

Third, knowing from the outset that there was to be a set of Crown financial statements clarified a number of conceptual issues related to the financial statements of departments. In particular, it enabled a distinction to be made between assets, liabilities, revenues and expenses of departments and those of the Crown. For example, national parks could be seen to belong to the Crown (and therefore to be reported in the Crown financial statements). The responsibility of the Department of Conservation was to manage those assets, not to own them, and it was therefore inappropriate for them to be reported in the department's own balance sheet. Similarly, taxes collected by the Inland Revenue Department or benefits paid by the Department of Social Welfare were revenues and expenses of the Crown not of the

3 Now called the Institute of Chartered Accountants of New Zealand.

departments. The task of implementing RA was therefore considerably simplified for departments as the more difficult accounting issues tended to be those concerning the Crown as a whole. Setting a deadline in legislation for the introduction of accrual-based Crown financial statements also had a tactical advantage in that each department felt, or was made to feel, that it had to successfully implement RA on time to avoid holding up the collective project.

While implementation in departments was reasonably straightforward, however, extending RA to the whole of government level posed interesting new challenges for accounting policy makers and auditors.

Development of Accounting Policies

The Public Finance Act 1989 specified that Crown reporting be in accordance with generally accepted accounting practice (GAAP). However, as this was the first time internationally that accrual-based financial statements had been prepared for a national government as a whole, GAAP had not been codified anywhere for issues such as definition of the reporting entity, the method of consolidation, infrastructure and heritage assets, defence assets, taxation revenues, and welfare obligations (Pallot, 1994).

In the absence of GAAP dealing specifically with accounting by national governments, the task of resolving accounting issues and determining accounting policies to be adopted in the preparation of Crown financial statements was undertaken by the policy group within the financial management branch of the Treasury. The Audit Office was also able to provide valuable input given its accounting expertise (particularly as applied in government) and its knowledge of the entire public sector. However, in the wake of the accusations of being “both judge and jury” when it had attempted to provide guidelines on SSPs which it then audited, the Audit Office was extremely conscious of avoiding being seen to set reporting standards. The Office was prepared to participate in general discussions of principles and concepts, to comment on draft proposals (particularly the implications for the collection of evidence) but insisted on standing back from actual decisions on policies. Instead, it insisted that any policies were set by other parties - the Treasury or, in specific areas, relevant professional groups (for example, by librarians in the case of library valuation standards).

Where equivalent circumstances in the private sector could not be found, accepted accounting principles were followed. Agreement on these principles therefore formed a major part of early discussions between the Treasury, the Audit Office and relevant experts. At roughly the same time the Institute of Chartered Accountants of New Zealand was developing its *Statement of Concepts* to guide standards setting. Not dissimilar from private sector conceptual framework projects elsewhere, the *Statement of Concepts* covered such matters as objectives of financial reporting, definition and recognition of elements, underlying assumptions and desirable qualitative characteristics of accounting information. Those working on the Crown accounting policies were able to both draw on the emerging S*tatement of Concepts* and test its usefulness, providing suggestions for improvement where appropriate. Particular use was made of the definitions of elements; for example, in distinguishing between liabilities from contingent liabilities or commitments in the case of pensions, accident compensation payments and welfare benefits.

In some instances a trade-off had to be made between the conceptual and the practical. For example, revenue from the Goods and Services Tax should, in theory, be recognised when the liability to the Crown is incurred. In the first two years, however, the information systems of the Inland Revenue Department were not developed to the point where this figure could be reliably estimated and the payment due date was adopted instead. Where the Treasury and the entity involved had differing views. the auditor was able to play a useful role as arbitrator between the two. The differences tended to be along conceptual versus practical lines with the Audit Office able to understand both points of view. If, for example, a department declared that its current technology meant that it could not produce information to the degree of reliability required by a proposed accounting policy, the Audit Office was able to provide independent assurance to the Treasury that what the department said was true. Conversely, the Office was able to provide assurance to the department that what Treasury was proposing was conceptually sound and in line with generally accepted accounting practice.

Theoretical ideals and practical possibilities also had to be balanced in assessing the costs and benefits of independent valuations of military equipment and Crown land. (Indeed, the *Statement of Concepts* identifies costs and benefits as a pervasive constraint and suggest that the benefits derived from information should not exceed the costs of providing it.) While independent valuation of assets is preferred in principle, in the case of defence assets, there was little relevant expertise outside the department while issues of national security (not to mention cost) constrained the ability to obtain a valuation from elsewhere. In the case of Crown land, independent valuation was considered prohibitively expensive and unlikely to contribute much additional benefit over the valuation already prepared by the Government Valuer. In all instances where theoretical ideals had to be moderated by practical considerations, the Audit Office insisted on full disclosure of the situation to readers of the financial statements. Following enactment of the Financial Reporting Act 1993 the Crown has been required to follow GAAP defined as standards approved by an independent Accounting Standards Review Board or, in the absence of an approved standard, policies that are appropriate to the reporting entity and have authoritative support within the accounting profession in New Zealand. Both forecast information and subsequent reporting must be in accordance with generally accepted accounting practice (GAAP) established by an independent body under the Financial Reporting Act 1993. In most countries the government is reluctant to give away the power to choose its own accounting rules. The New Zealand government, by contrast, saw value in committing itself and future governments to a regime in which their fiscal plans were as transparent as possible. Transparency would be diminished, however, if governments could manipulate accounting policies.

The measurement of public expenditure poses many theoretical and practical problems. Nonetheless, much can be learned, and much progress can be made, simply by embarking on the process. While further work on these issues continues, the experience in New Zealand was that more progress was possible by making a start in the first place than by trying to solve all theoretical problems in advance. Operationally useful financial statements, even if theoretically less than ideal, have long been accepted in the private sector.

Audit Issues

Faced with new forms of accountability statements, there were a host of issues confronting the legislative auditor, quite apart from completing an unheard of task in an extremely short period of time. In addition to the development of accounting standards against which to audit, they included evidence and completeness, the definition of materiality, and the format of the audit opinion.

Evidential criteria did not, for the most part, differ from those normally applied in the private sector. There were, however, at least two issues which created difficulties in obtaining evidence. The first was the quality of the accounting and internal control systems in the various entities given the recency of the shift to accrual accounting, significant restructuring of departments and changes in personnel. Fortunately, the departments had been operating accrual accounting systems and reporting on a full accruals basis for two years by the time the Crown financial statements were produced so that most problems had been ironed out, consistency had been secured and it was possible to concentrate on issues specific to the Crown as a whole (e.g. infrastructure and heritage assets, taxation revenues) or issues arising from the consolidation itself (e.g. consolidation method, eliminations). Another problem with new systems was that there was little prior history or trends to assist in analysing the reasonableness of figures such as provisions for bad debts. Analytical review techniques were therefore severely limited. The auditors had to rely on examining the processes and assumptions used in estimating the provision as well as their knowledge of other businesses; in retrospect the figures turned out to be sufficiently close.

The second problem was that assets such as roads, archives, the National Library collection, much defence equipment, and the conservation estate had either not been valued before or the recording and control systems for them were unsophisticated and unreliable. While managers were used to keeping evidence such as invoices, it had not occurred to them to keep evidence on, for example, the valuation procedures and methods they had followed. Similar problems applied to liabilities (in particular, the Crown's pension liability with respect to its employees). The auditors dealt with these problems by asking the departments to keep the evidence, working alongside them as much as possible and encouraging them to put in appropriate systems over time. Fortunately, an inquiry by the Finance and Expenditure Committee in 1991 and Treasury's development of draft accounting policies provided forums for early identification of the major accounting and valuation issues well before the actual audit commenced. It was inevitable, however, that some items could be controversial given theoretical and practical problems of valuation and, in some areas, the absence of established GAAP. Where there were problems or controversies, the Audit Office adopted the practice of insisting on full disclosure and also explaining the situation in its own report to Parliament.

For a number of reasons, completeness was a particularly crucial and high-risk issue in the audit of the Crown financial statements. First, cash-based accounting systems had not encouraged systematic recording of assets with the result that there could be no assurance that asset registers were complete while some items had not been recorded at all. Second, historical accident and considerable restructuring of government departments meant that records could be scattered across several departments or Crown entities; in this respect the fact that the Audit Office had knowledge of the entire public sector was helpful in identifying and locating information. A third issue was that required statements such as the Statement of Commitments did not have an in-built check provided by a double entry book-keeping system.

In general, the Audit Office used its own knowledge of the public sector together with the knowledge of relevant experts (for example the Valuer General in the case of land) to identify assets and liabilities which should be included. Audit directors who had worked with the relevant department in the previous year were asked to identify items which needed to be included. Responsible managers were asked to sign off on the completeness of asset registers. Old files and records were reviewed and databases run against one another to check for completeness. Elimination of inter-entity transactions also provided some measure of assurance as to consistency and completeness

Internationally, there was no guidance available on the appropriate materiality levels to use for accrual-based financial statements for whole governments. The Audit Office decided to adopt two materiality levels for the financial statements - one for the operating statement and another, higher level, for the balance sheet. Parliamentary concern over expenditure had traditionally meant a low materiality level for expenditure statements of governments and it seemed appropriate to maintain this level used for cash-based statements for accrual-based operating statements. To have adopted this level for the balance sheet as well would have required far too much work without any equivalent benefit in terms of judgments made by parliamentarians or other readers. The Auditor-General provided Parliament with a short explanation of materiality in his 1993 report accompanying the audited Crown financial statements.

Viewing the objectives as improved accounting and financial management and public confidence in the systems and reports, the Audit Office was keen to avoid a qualified audit opinion if at all possible. As a result the Auditor-General has not raised controversial issues in his short form audit opinion. Instead he has produced a succession of commentaries on accounting policies in which he has praised achievements to date while indicating to Parliament areas where further developments can be expected in the future.

Reaping the Benefits

Given that the introduction of RAB is likely to require a considerable investment of time and resources, is there any evidence from New Zealand that the benefits promised by the proponents of RAB are likely to materialize?

There are a number of difficulties in obtaining "hard" evidence on the success, or otherwise, of RAB in New Zealand. First, some of the changes (such as the Fiscal Responsibility Act and the SRA framework) are intended to address the longer term, and it may be too early to evaluate their impact. Second, it is impossible to obtain consistent trend data on public expenditure amid radical restructuring and changes to the bases of measurement; indeed one of the objectives of RAB is to overcome deficiencies in information previously available. In many cases there is no clear benchmark or counterfactual against which the policies can be assessed, yet the costs of *not* changing the accounting and budgeting system may be as relevant a question as the net benefits of changing to RAB. Third, RAB formed part of a much wider public management reforms. Most departments have been restructured, have different responsibilities and operate in a radically different personnel and industrial relations environment. Thus improvements in the efficiency and effectiveness of departments, even if they could be measured, cannot be attributed to RAB alone. What "hard" evidence has been collected has been favourable (Morris, 1995). At the whole of government level, it is even more difficult to isolate the effects of RAB from the effects of wider economic reforms such as deregulation, the removal of subsidies and tariffs and tax reforms.

Soft evidence, on the other hand, has been somewhat easier to obtain. There have been a number of studies by academics, consultants, central agencies, the Audit Office, government appointed working parties and overseas observers (e.g. Logan 1991; Boston et al 1991; Price Waterhouse 1993; Canadian Audit Office 1995; Audit Office 1994). These reports rely heavily on the on the opinions of ministers, senior officials and key players in the reforms. RAB has been heartily welcomed by these parties. Managers and politicians on the whole share the view that the specification of outputs has been improving progressively with the result that objectives are clearer, expenditure is better targeted and transparency is enhanced. While the views of operational managers and those displaced from the Public Service have not been canvassed to the same degree, there does not seem to be any support at any level for a return to cash accounting and input controls.

The PFA has meant a shift from detailed centralised *controls* over *inputs* to ministerial *control* over *outputs*. Performance is now viewed in terms of results rather than cash spending. With improved control over *what* departments do, ministers can feel relaxed in giving departments freedom to decide *how* they do it. Having discretion over the choice of inputs contributes to better performance because decisions (such as whether to acquire, replace or dispose of assets) can be made by people with first-hand knowledge of the assets. Being freed from centralised input controls has had beneficial effects on motivation and helped to attract good managers (e.g. from the private sector) who had hitherto been discouraged by the extent of detailed administrative controls. Decentralisation of accounting systems and the shift to accrual accounting have also improved the information available to departments for the management of debtors and creditors. Savings from improved cash management (including better accounting for, and use of, supplier credit and improved debt collection) were some of the earliest benefits to be realised from the reforms (Morris, 1995). Ministers believe that they are able to make more informed choices about outputs and there is less tendency to think of expenditure in terms of existing organisational structures. They are now in a better position to target their expenditure and it is no longer necessary to employ crude mechanisms like "across-the-board" expenditure cuts. Correspondingly, select committees feel able to ask questions more relevant to what departments and ministers are trying to achieve.

At the whole of government level, the range and clarity of information available has been enhanced dramatically. The set of financial statements now available to Parliament exceeds in comprehensiveness those provided by private sector companies. The shift to RA gives a much more complete picture of assets, liabilities, revenues and expenses, extending the range of information for assessing the government's fiscal position and providing a better view of longer-term fiscal consequences of current decision making[4]. Balance sheets make governments more likely to recognize, and less likely to pursue, strategies of high fiscal risk. RB for the whole of government has been introduced in a manner which enables actual performance to be compared against plan and the ownership interest to be monitored. Even if there could be doubts about the value of Crown financial statements by themselves, such scepticism is difficult to sustain when they are an integral part of an accountability cycle for the whole of government. Ultimately, however, accountability will depend on Parliament, select committees, and the public at large having the skills, time, resources and motivation to make use of the enhanced information now available. Also of considerable value was been the *process* of producing Crown financial statements. Having to define the Crown reporting entity forced a close examination of accountability relationships and clarification of these in legislation. Difficulties in deciding whether an entity was to be included in the whole of government reports were invariably found to stem from inadequately specified or confused relationships between entities and the Crown. Clarification of the relationships, an ongoing process, has resulted in significant improvements in accountability.

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[4] Consider, for example, the position of Cabinet ministers contemplating the settlement of some claim against the government. Under a cash accounting system, ministers might have considered that if the other party were content with a payment spread over a number of years, they could afford to be somewhat more generous with taxpayers' funds. In terms of political visibility a cost of $10 million per annum over ten years is a far more attractive option than $100 million (or even than the present value equivalent of $10 million per year) right now. The immediate impact on the cash deficit would be only $10 million; furthermore, much of the cost would be incurred after the next election. In short, the effect of the decision would be deferred for up to ten years and therefore heavily discounted. Under RAB, the accrual result would be decreased by $100 million immediately, irrespective of how the cash payments were spread. Neither could the costs be deferred until after the next election; with Crown financial statements prepared on a monthly basis, the settlement would show up within about eight weeks at most. This changes the incentives on the Crown, encouraging settlement at a level less than is likely to occur under a cash basis of accounting. Conversely, on the asset side, RAB is likely to remove the bias against capital investment which might have existed under cash accounting because it would have appeared as an expenditure of the immediate period (Pallot and Ball, 1997).

Identifying the Concerns

While ministers, members of parliament, chief executive officers, chief financial officers and operational managers believe that financial management reforms have improved the way that central government operates (Audit Office 1994), there have been some persistent concerns some of which have begun recently to receive closer attention.

First, there have been concerns about the time and cost involved in meeting the information requirements for purchase agreements and monitoring reports. In response to these concerns, especially on the part of small departments, a working party was set up in 1994 to review accountability requirements. It developed a list of protocols which it thought the central agencies and the Audit Office should observe so as to keep demands for information at a reasonable level (SSC, 1994); nonetheless the issue is likely to persist as the natural tendency is for accountability requirements to be added as new situations and problems arise. Schick (1996) notes the danger of a multiplicity of informational requirements breeding a compliance mentality of passivity, reluctance to take risk and initiative, dependence on detailed specification and an inclination to "work by the book". While this is something to be on the alert for, there is no evidence of it happening in New Zealand to date and in the Crown entities sector there is even a concern that information demanded of them may be insufficient given that these represent a large and increasing proportion of Parliament's appropriations. The latter concern extends to the adequacy of contracting, monitoring and accountability arrangements for benefits and outputs supplied by parties other than departments in general (Audit Office, 1994;1997)

Second, there are a number of issues relating to the operation of financial management incentives. With respect to the capital charge there is a need for greater awareness of the capital charge outside head offices if it is to have an incentive effect on the managers who actually use many of the assets. Another issue is how government departments which provide services to low-income clients are to recover the charge. Also of concern is the incentive effect of the requirement in New Zealand that all operating surpluses be returned to the Crown rather than be retained by departments. Barring departments from retaining at least some portion of the unused money shortens the budgetary perspective of managers, creates friction between departments and the Treasury, fosters a "use it or lose it" attitude and reduces incentives to make efficiency gains. Schick (1996, chapter 6) questions why New Zealand should have been bolder than any other country in liberating managers but so restrictive in this area. He suggests that the cause is a view that Government should stand in relation to its departments as a buyer would to a seller in a market exchange; this separation leads to the logical conclusion that the government should get what it bargained for and that operating surpluses belong to it. There is a growing suspicion that the combination of output prices that may be too low, the capital charge and the non-retention of surpluses may have resulted in short term efficiency gains (especially where departments were initially over-capitalised) but this may be at the expense of long term capacity.

Third, there has been concern about the appropriateness of performance measures; in particular, the link between outputs, outcomes and strategic result areas. There is little dispute in New Zealand about the merits of output *budgeting* the reason being that, while it is possible (although sometimes difficult) to assign costs to outputs, it is normally impossible to assign costs to outcomes in any meaningful sense (Pallot & Ball 1997). However, there has been quite heated debate in New Zealand over whether reporting performance in terms of output delivery is sufficient for accountability purposes. The Treasury has argued that it is not possible to hold departmental chief executives accountable for outcomes because they are not under their control, although it is acknowledged that outcome information is required for decision making (Scott et al 1997). The Audit Office, however, has questioned from the beginning the lack of ministerial accountability for outcomes (Tyler 1989).

At a more detailed level, the Audit Office has noted the degree of sophistication and accuracy in the application of cost allocation systems in departments, the nature and materiality of risks borne by the Crown through its ownership of Crown entities and consistency in the application of accounting policies across the central government sector as issues warranting further investigation (Audit Office 1994, pp 35-36).

Revising the Framework

In 1999, the Controller and Auditor-General issued a report titled *The Accountability of Executive Government to Parliament.* This represents the culmination of several years of thinking about the working of the financial management and accounting regime in New Zealand central government and is the most significant proposal for revising the underlying framework to date. The purpose of this report is, firstly, to promote Parliament's awareness of issues relating to the way in which it scrutinises and controls the Executive and holds it to account and, secondly, to point to opportunities for improvement and to stimulate debate about them (Audit Office 1999, p. 11).

The report concludes that Parliament generally receives adequate financial information about what the Government is buying (outputs) and the financial performance of state agencies. However, it questions whether all transactions for the provision of non-departmental output classes should be viewed as purchases. For example, a number of State entities are required by statute to undertake certain tasks and, in doing so, to act independently (e.g. the Police Complaints Authority, Privacy Commissioner). The sums appropriated are simply intended to fund those entities and it is quite wrong to categorise the economic relationship as that of purchaser and provider. *The Accountability of Executive Government to Parliament* also concludes that Parliament needs better information on: the reasons why the State should own a particular organisation; the nature and purpose of government spending; the impact and outcomes of government spending; the capability and performance of State-owned organisations; the Executive's use of imprest supply (temporary spending authority prior to receiving regular appropriation) ; and the assessment and management of risk. Throughout, the Office proposes possible solutions, placing emphasis on *better* information rather than *more* information (while recognising the potential of improved information technology).

The 'possible solutions' include revisions to the financial management framework of the last decade with its private sector conceptions of 'purchase' and 'ownership'. The purchase-ownership framework is criticised because the expenditure categories in the *PFA* (e.g. transfers) do not fit well with this classification and because the scope of government's interest is much wider than that of a private sector owner. It also identifies the relative lack of information on ownership compared to the information on purchasing/outputs. The Audit Office suggests that government expenditure be classified (the change of language is perhaps significant) as *current* and *capability* expenditure rather than as expenditure that reflects purchase and ownership interests. Current expenditure is defined as that which the Government must incur to discharge its day-to-day business. It includes expenditure on outputs, transfer payments, debt servicing and expenditure to maintain capability. Capability expenditure is defined as that which the Government must incur to establish or extend an agency's ability to produce outputs.

The Audit Office believes that this categorisation has a number of advantages. First, it provides a comprehensive classification since all expenditure can be placed in one of these categories. Second, it would foster realistic judgments about the relationship between expenditure and outputs. For example, it would avoid false impressions of efficiency gains by concealing or absorbing costs in output prices or by consuming capital or otherwise depleting capability. Third, it avoids any implication that that ownership interest can be fully reflected in balance sheet assets. Much of the information needed about key dimensions of ownership is not simply information about expenditure. Accordingly, the Audit Office proposes wider information requirements with respect to ownership including: the fundamental reasons why the State should own a particular organisation (as opposed to purchasing from, or regulating, an organisation it does not own); the particular contribution that owning the organisation is expected to make to the public good; the appropriateness of the organisation's corporate form (e.g. department, company, statutory corporation); and the organisation's capability.

Considerable attention is paid in *The Accountability of Executive Government to Parliament* to the notion of capability. The Audit Office suggests that Parliament may wish to consider 'defining more precisely the role of a responsible minister in relation to capability – in terms that go beyond the narrow scope of financial management'(p.75). Also suggested is information on existing capability, the funding of changes to capability and information that relates changes in workload to changes in capability. Information on capability is important for accountability because it is difficult to establish accountability if it is unclear whether the organisation had the resources to do the job required of it. The Audit Office has given careful consideration to ways in which organisational capability might be comprehensively described, and how assurance about capability might be provided. It is currently undertaking work on how capability should be measured and reported. Although this work is not yet complete, the Audit Office believes that it is now possible to give Parliament some useful information on at least four dimensions of capability – balance sheet assets, human resources, outputs production methods, and information and control systems.

As well as challenging the purchaser-owner categorisation, *The Accountability of Executive Government to Parliament* identifies a number of issues with respect to outputs and outcomes – the other leg of the performance measurement framework. In the case of outputs, it is largely a matter of finishing up. The Audit Office notes that the contents of purchase agreements are not regulated by the *PFA* and can be changed at the discretion of the Minister. On the other hand, descriptions of outputs in the Estimates and departmental forecast reports (which are legally binding) are too vague, resulting in a reduction in Parliament's ability to exercise effective control over expenditure. The Audit Office proposes that outputs be specified in sufficient detail in the legally binding descriptions of appropriations for Parliament to have sufficient control. Descriptions in purchase agreements can be more specific, but they should be well-aligned with descriptions in the estimates and departmental forecast reports.

The criticisms of reporting on outcomes are much more severe. The Audit Office concludes that the Government's statements about the overall effects (outcomes) of its spending are generally high-level and vague, that the Public Finance Act does not say how outcomes are to be specified or measured, and that there is no requirement to indicate their strategic priority. Linkages between outputs and outcomes are generally not clearly explained, several outputs from several agencies may contribute to the same outcome, and any particular outputs may contribute to the same outcome. Other forms of expenditure (e.g. transfer payments), and other forms of government involvement (e.g. regulation) may also contribute to outcomes. While successive governments have tried to address some of these difficulties through 'strategic result areas' and 'strategic priorities and overarching goals', these ancillary statements were first developed as tools to be used within the Executive, are not regulated, and are generally not measurable.

The Audit Office proposes a number of possible solutions, not least of which is a statutory requirement that outcomes actually be measured, and the impact of the outputs purchased by the State be evaluated. *The Accountability of Executive Government to Parliament* contains a section on impact evaluation (and its limitations) based on overseas experience. The Audit Office has since published a report titled *Impact Evaluation: Its Purpose and Use.* The intention of the report is 'to demonstrate the value of impact evaluation as a practical tool to enhance the quality of decision-making by the Government and Parliament'(Audit Office, 2000, p. 101). The Audit Office is currently preparing a report designed to stimulate discussion about how public entities set direction, and measure and report performance (Audit Office, 2001).

Several underlying themes can be detected in *The Accountability of Executive Government to Parliament*. Behind the emphasis on capability is a concern that the cost-cutting and apparent efficiency gains of the previous decade may have been at the expense of long run efficiency and effectiveness. There also seems to be a recognition that in a rapidly changing and uncertain environment rigid planning-and-control models may not work, that risk is inevitable and that capability is crucial to organisational success. Given that 'it is fruitless to hold individual to account for events or outcomes over which they have little or no control', the Audit Office (p.93) argues that the key consideration for accountability in relation to risk management is not that some unfortunate event has occurred. Rather, it is whether or not someone who had the *capacity* to mitigate that risk in a prudent and cost-beneficial way was negligent in not doing so.

Throughout, there are references to an accountability *dialogue* between Parliament and the Executive, suggesting that accounting (in its broadest sense) is not just a matter of measurement but also of communication; that measures are not exact but a basis for discussion and negotiation. *The Accountability of Executive Government to Parliament* also recognizes that the changing environment poses problems for traditional hierarchical models of accountability. For example, government organisations often establish both formal and informal working groups ('virtual departments') to deal with specific issues or to pursue collective objectives. It may be that 'no one agency is primarily accountable and that not external reports acknowledge the existence of the objectives, the resources applied collectively to pursuing them or the group's performance in doing so' (Audit Office, 1999, p.20)

Summary and Conclusions

In the decade since the introduction of RAB, New Zealand has had the opportunity to see whether the reality has lived up to the rhetoric. Although RAB was an integrated part of a much wider package of public management and economic reforms, and it is not easy to determine what effects are attributable to RAB alone, its effects on efficiency, accountability and priority-setting appear positive. Certainly there is no wish anywhere in the public sector for a return to cash accounting and input controls. However, many of the evaluations of the financial management regime have been by Treasury officials responsible for the reforms (e.g McCulloch and Ball, 1992; Ball, 1994; Morris, 1995; Warren, 1996; Scott et al, 1997) and they therefore, not surprisingly, tend to be highly supportive. Furthermore, the speed with which the reforms were introduced may suggest to outsiders that the task was unproblematic; other countries may attribute this to New Zealand's small size.

Without denying the immense improvements to public sector management to which RAB has contributed, this paper has attempted to show that there were indeed a number of accounting and auditing difficulties to be overcome (most of which arise irrespective of scale) and there have been some ongoing issues yet to be resolved. Some of these ongoing concerns (in particular, the need for accountability for outcomes) were identified from the outset but given insufficient attention in a primarily managerial model. Others became more apparent with the passage of time; in particular, the possible damage to long term organizational capability. While strictly speaking, the latter is not a direct consequence of accrual accounting but rather of the associated incentives regime, these are all part of the same underlying managerialist models and assumptions which themselves require evaluation and re-evaluation. Some issues are perhaps perennial tensions for which there may never be any simple answer; for example, the appropriate balance between managerial freedom and parliamentary control or between the short term pursuit of efficiency and long term maintenance of capacity.

The revised framework recently suggested by the Audit Office (and consistent with the thinking of the State Services Commission) attempts to overcome some of the ongoing concerns. It remains to be seen how many of the Audit Office's suggestions will be taken up in practice although the groundswell of thought is now such that it is unlikely they will lack significant influence. But these suggestions are in no way a panacea; indeed, they raise new or more complex issues about the measurement of outcomes, and the difficulty of defining accountability relationships in the context of flexible and changing networks and partnerships. We have experienced a decade in accounting attempted to meet the needs to manage *governments*; in the decade to come accountants will need to face of the challenge of meeting the information of community *governance.*

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CONTINGENT LIABILITY: CLINICAL TRIAL OF BLOOD PRODUCTS PRODUCED BY THE SCOTTISH NATIONAL BLOOD TRANSFUSION SERVICE PROTEIN FRACTIONATION CENTRE

1. APS/Minister for Health and Community Care confirmed in his minute of 5 February that the Minister was content to approve the laying of the attached minute informing the Parliament of the above contingent liability.

2. As discussed, I would be grateful if Mr Dickson would arrange for the minute, which is numbered SE/2001/68, to be laid on 6 February, if possible.

3. I would also be grateful if Mr MacDonald and Mrs Catterall would draw the minute to the attention of the Clerk of the Finance and Audit Committees.

SANDRA FALCONER (MRS)
Planning and Performance Management Directorate
2(E) North
SAH
Ext 42434
5 February 2001

MINUTE FROM THE SCOTTISH EXECUTIVE HEALTH DEPARTMENT

CONTINGENT LIABILITY: CLINICAL TRIAL OF BLOOD PRODUCTS PRODUCED BY THE SCOTTISH NATIONAL BLOOD TRANSFUSION SERVICE PROTEIN FRACTIONATION CENTRE

1. When a Department of the Scottish Executive proposes to undertake a contingent liability in excess of £1m, for which there is no specific statutory authority, it is appropriate to report the circumstances to the Scottish Parliament. This minute gives particulars of such a liability and explains the circumstances. Under arrangements between the Finance and Audit Committees and the Scottish Executive on in year changes to expenditure allocations, the Finance Committee should approve, or propose an amendment, within 20 days. Accordingly the Scottish Executive undertakes to take no action during this time.

2. Clinical trials of new and safety-enhanced products produced by the Scottish National Blood Transfusion Service's (SNBTS) Protein Fractionation Centre is an essential part of the process for the SNBTS to obtain a licence for each product. In 1993, the Scottish Home and Health Department informed the Westminster Parliament that it intended to enter into a contingent liability (with prior Treasury approval) to pay any legal and other costs of those medical staff working on the clinical trials approved by the Department unless there was negligence on the part of these staff or it was demonstrated that they had not followed the written protocol for the trial. The resulting liabilities encompassed the cost of any damages claims from patients arising from the said clinical trials of the said new products. It is not possible to quantify the costs, which might arise from these liabilities. A total of 30 clinical trials have been approved since 1993 and 125 letters of indemnity have been issued. No claims have so far been received.

3. Clinical trials form an inescapable part of SNBTS business. Scottish Ministers are of the view that such trials could not proceed without indemnification. In terms of the Scotland Act 1998, functions in relation to supplies of blood (and blood products) have devolved to the Scottish Ministers. Accordingly, the Scottish Ministers consider that the 1993 Westminster Minute is no longer relevant. It is now appropriate to inform the Scottish Parliament that contingent liabilities of this type will be entered into.

4. The purpose of this Minute is therefore to make Parliament aware of the liability and to provide details of the trials proposed during the next twelve months (see attached Annex) for which indemnities may be granted. Departmental approval for the trials of new products will be given on a product by product basis on an assessment of the need for the product and the risk of any ill effect. All of the trials will have prior approval from the Medicines Control Agency under the Clinical Trials Exemption Scheme and are also subject to Ethics Committee approval. The indemnity is of a standard type given in the course of trials conducted on behalf of pharmaceutical companies.

Scottish Executive Health Department
February 2001

List of Planned SNBTS Studies (as at 1st February 2001). **Annex to SE/2001/68**

Product	1.1 Study Title/ clinical area / Rationale	Details of Study	Planned start date
Fibrin Sealant (unlicensed) Clinical Studies have already been conducted on this product – further data required.	**2 FS-011 – An Open Clinical Study To Assess The Efficacy And Safety Of SNBTS Fibrin Sealant In Elective Liver Surgery** Study of the ability of Fibrin Sealant to restore haemostasis in patients undergoing liver surgery Patients will be monitored for adverse events and followed up for virus safety	Aim to recruit 25 patients Expected Duration: 9 months Location: Birmingham, due to it being a centre of excellence, and a 'last line' treatment centre (i.e. patients are referred there from a range of clinics that cannot treat them). Scottish centres are involved in other SNBTS studies.	March 2001
	FS-015 – Influence of Fibrin Sealant on biliary leakage after Liver Surgery for hepatic malignancy Biliary leakage occurs in 25% of patients undergoing this type of surgery. This complication leads to an increase in morbidity and the need for further surgical intervention. This study aims to demonstrate that Fibrin Sealant reduces the incidence of biliary leakage. Patients will be monitored for adverse events and efficacy of treatment	Aim to Recruit 90 patients Expected Duration: 3 years Location Dundee only	March 2001

Fibrin Sealant (cont'd)	FS-016 – Occurrence of thrombocytopaenia after use of Fibrin Sealant for cryoablation of hepatic malignancy Liver metastases are often difficult to treat surgically, and are treated by freezing the malignant tissue. However, this can result in significant blood loss, and also activation of the coagulation cascade. This leads to significant morbidity and mortality. This study aims to demonstrate that Fibrin Sealant reduces the incidence these complications. Patients will be monitored for adverse events and efficacy of treatment.	Aim to study 20 patients and compare with 20 uncomplicated procedures Expected Duration: 18 months Location: Dundee only	March 2001

UV Albumin (unlicensed) This is an improved version of the already licensed ALBA product, and incorporates an additional virus inactivation step during manufacture.	UVA-001 A Study to Evaluate the Efficacy and Immediate Safety of a 4.5% Human Albumin Solution Incorporating a UV Virus Inactivation Step Manufactured by the Scottish National Blood Transfusion Service To evaluate the tolerability, efficacy and safety of a 4.5% Human Albumin product incorporating a UV virus inactivation step in patients requiring therapeutic plasma exchange Patients will receive a single or repeat infusions over the six month period of the study as deemed necessary by their consultant to treat their clinical condition Dosage schedules will be equivalent to those licensed for SNBTS ALBA 4.5% (Human Albumin Solution 4.5%) (PL3473/0031) Patients will be monitored for adverse events and followed up for virus safety	Aims to recruit 20 patients and follow up for 6 months. Expected Duration: 18 months Study to be carried out in several centres within Scotland	March 2001

3 S/D HT DEFIX (unlicensed) This is an improved version of the already licensed DEFIX product, and incorporates an additional virus inactivation step during manufacture.	DF-001 A study to assess the safety and efficacy of a new double virus inactivated prothrombin complex concentrate (S/D DEFIX) manufactured by the Scottish National Blood Transfusion Service in patients requiring reversal of oral anticoagulant treatment To evaluate the safety and efficacy of a double virus inactivated prothrombin complex concentrate (PCC) in patients requiring reversal of oral anticoagulant treatment Single infusion based on 50IU/kg bodyweight with monitoring of coagulation. Further infusion(s) if necessary to achieve normal values of prothrombin time. Dosage schedules equivalent to currently licensed single virus inactivated PCC (PL 3473/0008) Patients will be monitored for adverse events and followed up for virus safety.	Aims to recruit 20 patients and follow up for 6 months. Expected Duration: 18 months Study to be carried out in Scotland	March 2001

Liquid Immunoglobulin **(unlicensed)** **This product is a new formulation of the existing licensed product Human Immunoglobulin for intravenous use.**	LIG-003 A study to assess the efficacy and immediate safety of a liquid formulation of intravenous immunoglobulin manufactured by the Scottish National Blood Transfusion Service in patients where treatment of their medical condition with IVG is deemed appropriate by the consultant in charge. To assess the efficacy and safety of SNBTS Liquid Immunoglobulin administered by the intravenous route. **Patients will be monitored for efficacy, safety, adverse events and followed up for virus safety.**	Open study to be carried out in about 5 sites within Scotland. Maximum 40 patients to be recruited and follow up for 6 months.	March 2001

Human Normal Immunoglobulin (unlicensed) This is an improved version of the already licensed Human Normal Immunoglobulin product, and incorporates an additional virus inactivation step during manufacture. One study (VIM-001) has already been conducted on this improved product, but the planned study will examine a different route of administration.	SCIG-001 A study to assess the efficacy and safety of a pH4 treated Human Normal Immunoglobulin preparation manufactured by the Scottish National Blood Transfusion Service when administered by the subcutaneous route To assess the efficacy and safety of SNBTS pH4 Treated Human Normal Immunoglobulin administered by the subcutaneous route in patients with primary immunodeficiency syndromes. Patients will receive regular infusions over the 6 month period and will have their trough serum IgG levels monitored and wellbeing assessed throughout. They will also be monitored for adverse events and followed up for virus safety.	Aims to recruit 15 patients and follow up for 6 months. Expected duration: 18 months Study to be carried out across the UK	March 2001

Paper by Finance Committee Reporter on Voluntary Sector Funding

Points to be covered in a Report on the Funding of Voluntary Organisations

1. To identify what figures are available to show the funding of national and local voluntary organisations each year since the last year of Regional Councils for

(a) core funding
(b) project funding
(c) service level agreements
(d) services put out to competitive tendering

and the sources of the funding:-

i. national government
ii. local government
iii. Health authorities and Quangos
iv. the Lottery
v. European funds
vi. charitable funds.

2. To identify the present arrangements among national and local government, Health and other public bodies on the allocating of grants to voluntary organisations in the categories (a) to (d) above.

2.1 Who decides?

2.2 On what criteria?

2.3 How do they decide which groups will receive core funding?

2.4 How far do all groups being funded have to contribute to the priority policies of the government department, council and other public body concerned and how far are they funded to provide worthwhile services to the community seen as a priority by the voluntary organisation?

2.5 How do the grant-givers evaluate or monitor the performance of the voluntary organisations?

3.1 To investigate the basis on which decisions made about which services (eg in Health or Social Work) are kept ‘in-house’, which are put out to competitive tender by voluntary organisations or others, and which are the subject of a service-level agreement without competitive tendering.

3.2 Does the system of competitive tendering give Best Value, when the time, effort and resources put into unsuccessful tenders, successful tenders

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and setting up and deciding the outcome of the whole procedure are taken into account?

4. **How to develop a better system of funding voluntary organisations which will, subject to proper scrutiny,**

   (a) **secure continuity of core funding;**
   (b) **provide ways of continuing the funding of successful short-term projects;**
   (c) **reduce the abortive effort involved in unsuccessful competitive bids and applications for charitable or European funds;**
   (d) **create a system of allocating grants to local bodies which involves the council and the local voluntary organisations and maintains the level of grants, despite ups and downs in the council's finances.**

5. **To look at ways of involving voluntary organisations more in national training schemes, so that their volunteers can gain qualifications through their voluntary work.**

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