OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit Committee

Thursday 7 December 2023

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Thursday 7 December 2023

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PUBLIC AUDIT COMMITTEE
32nd Meeting 2023, Session 6

CONVENER

*Richard Leonard (Central Scotland) (Lab)

DEPUTY CONVENER

*Sharon Dowey (South Scotland) (Con)

COMMITTEE MEMBERS

Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Graham Simpson (Central Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stephen Boyle (Auditor General for Scotland)
Carole Grant (Audit Scotland)
Richard Robinson (Audit Scotland)
Helen Russell (Audit Scotland)

CLERK TO THE COMMITTEE

Lynn Russell

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Public Audit Committee

Thursday 7 December 2023

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Richard Leonard): Good morning, and welcome, everybody, to the 32nd meeting in 2023 of the Public Audit Committee. We have received apologies from Colin Beattie.

The first agenda item for members to consider is whether to take items 3, 4 and 5 in private. Do we agree to take those items in private?

Members *indicated agreement.*

Section 22 Report: "The 2022/23 audit of the Scottish Government Consolidated Accounts"

09:00

The Convener: Our major item this morning is consideration of the 2022-23 audit of the Scottish Government's consolidated accounts. I am pleased to welcome our witnesses: Stephen Boyle, the Auditor General for Scotland; Carole Grant, an audit director at Audit Scotland; and Helen Russell and Richard Robinson, senior audit managers at Audit Scotland.

Today's evidence session is principally about the consolidated accounts, but we also want to take evidence on the Scottish Government's workforce challenges, which is very much part of that. Richard Robinson is, I think, the lead auditor on that.

We have a large number of questions to put to you this morning, Auditor General, but, before we get to those, I invite you to make an opening statement.

Stephen Boyle (Auditor General for Scotland): Many thanks, convener, and good morning, committee. I present "The 2022/23 audit of the Scottish Government Consolidated Accounts" under section 22 of the Public Finance and Accountability (Scotland) Act 2000. The Scottish Government's consolidated accounts are a critical component of its accountability to the Parliament and the public, and they cover about 90 per cent of the budget that was approved by the Parliament. The accounts show the amounts that the Government spent against each main budget heading and the reasons for any significant differences. They also show the assets, liabilities and other financial commitments of the Scottish Government that it is carrying forward to future years.

My independent audit opinion on the consolidated accounts is unqualified. That means that I am confident that they provide a true and fair view of the Government's finances and that they meet legal and regulatory requirements.

I will highlight several areas in my report. The first is on budget performance. Net spending for the year was £49.8 billion. That is £0.5 billion less than the budget, which amounts to an underspend of 1 per cent. Two emergency budget reviews were done during the year to manage and control expenditure to ensure that it remained in line with the approved budget.

On financial sustainability, the Scottish Government continues to face an intensely challenging period in managing its finances due to inflation, pay deals and increased demand for public services. The delivery of public services is not affordable in its current form. Public sector reform, therefore, is essential, and the Scottish Government will need to work closely with its partners to develop a clear programme of reform, including workforce redesign. As the convener mentioned, I recently published a briefing on the Scottish Government's workforce challenges, and I am happy to explore that with the committee this morning.

In 2016, the Scottish Government committed to the development of a devolved public sector account. I recognise that the original plans were impacted by the pandemic, together with challenges with the delivery and incorporation of potential sources from the whole-of-government accounts, and I bring to the committee's attention that a revised approach is currently being developed. Nonetheless, that work now needs to be progressed to address the remaining deficiencies in the overall transparency of what the Scottish public sector owns and owes.

Lastly, the review of the national outcomes provides an important opportunity for the Scottish Government to align its performance reporting with the First Minister's critical missions and to demonstrate how progress is being achieved.

We look forward to answering the committee's questions.

The Convener: Thank you very much. We are a little bit pushed for time this morning, so I will move straight to questions. I invite Graham Simpson to open up.

Graham Simpson (Central Scotland) (Con): Thanks a lot, convener. Given those words, I will try to keep my questions brief.

The Convener: They were not aimed at you in particular, Graham.

Graham Simpson: No, absolutely, but I always try to keep it brief, so I will get straight into it.

Auditor General, you mentioned a number of underspends. The capital underspend was £321 million, which was 13.5 per cent of the capital budget. Is that a reasonable amount?

Stephen Boyle: For context, with a budget of £2.4 billion, the outturn figure was £2.06 billion, so there was an underspend of £321 million. The context in which the Government is operating means that that figure is perhaps not as surprising as it might have been in other years. That conclusion is informed by our recent reporting on the Scottish Government's infrastructure arrangements, together with the evidence that the committee took from Scottish Government officials before the summer recess. In effect, they said that they could not deliver the capital programme as they had originally hoped due to factors such as build cost inflation, labour price changes and the need to reprofile and redesign capital projects so that they are affordable. That context is pretty relevant to the outturn figure in the 2022-23 accounts.

That said, there are a variety of individual factors. If the committee would like to know more detail, I can invite Carole Grant to set out some of it.

Carole Grant (Audit Scotland): On the capital underspend, there are some technical accounting elements. That has been explored in previous years in relation to student loans; that money flows through in the underspend, too. In addition, there was an underspend in the social justice, housing and local government portfolio, which we set out in our report. That was primarily due to higher-than-anticipated capital receipts coming in. More income coming in resulted in an underspend because it was set against the expenditure that was incurred.

Graham Simpson: Is that an unusual figure compared with those in previous years?

Stephen Boyle: We can give you the trend. Helen Russell can set that out for us.

Helen Russell (Audit Scotland): This year, there was a £321 million capital underspend. Last year, the figure was £166 million, which was 8.2 per cent of the budget. The year before that, it was £207 million, which was almost 11 per cent of the budget. The year before that, it was £230 million. It is roughly the same amount, although there are fluctuations.

Graham Simpson: It is higher.

Helen Russell: Yes.

Graham Simpson: It is not the same amount; it is higher.

Helen Russell: I accept that—sorry. It is higher, but, as we have heard, a lot of things are going on behind that in relation to budgeting, trying to get capital projects under way and suchlike.

Stephen Boyle: As the Government officials said, a reprioritisation exercise is on-going. We expect the results of that to be provided to the Parliament along with the draft budget later this month, when the Government will set out its intentions around the pace and quantum of its capital programme for the years to come.

Graham Simpson: I will ask about a couple of specific things that you have mentioned in your report. The underspend in the net zero, energy and transport portfolio was £62 million, which is said to be "due to lower than expected active travel schemes, low carbon and other transport initiatives."

I could not find anything more than that; there is no other explanation. Why are we underspending on active travel schemes?

Stephen Boyle: In a moment, I will bring in Helen Russell, who can provide any additional detail that we have.

The consolidated accounts try to describe at a relatively high level the budget expenditure and variances for different portfolios. Some narrative disclosure goes alongside that—you have set out some of it—but perhaps not at the level that every user of the accounts might find helpful. If the committee is interested, the Government can certainly provide you with a lot more detail on the specifics of overspends and underspends. Helen Russell might be able to provide a little more detail this morning.

Helen Russell: I draw the committee's attention to the fact that pages 121 to 132 of the report on the consolidated accounts give some context. In the net zero, energy and transport portfolio, a few of the schemes were put off until 2023-24. That is the reasoning behind part of the underspend, and there was also less-than-expected third party ask in that area. That is all the information that we have at the moment. I think that you can get more from the Scottish Government.

Graham Simpson: It is a question for the Government, not you. That level of detail is just not there.

Stephen Boyle: I will make one final point. We are satisfied that the amounts are correct, that our audit has looked at the expenditure through our testing and that the accompanying narrative disclosures briefly describe why there has been an overspend or an underspend and reasonably state the circumstances.

Graham Simpson: Okay. That is great.

I will now ask about something else entirely, which is also highlighted in the report. I suppose that it is best described as the Rangers case—most people will know what I am talking about. In relation to the amount of money that has been spent on that, some of the figures are, frankly, absolutely colossal. Do we expect any more to be spent on it?

Stephen Boyle: There are a couple of points that are important to make. You are referring to paragraph 19 onwards of the section 22 report, where we draw attention to the on-going circumstances relating to public expenditure through the Crown Office and Procurator Fiscal Service in respect of the acquisition and administration of Rangers Football Club. To date, about £60.5 million of unplanned expenditure has been accounted for in relation to claims against the Lord Advocate. Some claims have been resolved, making up £51.7 million of that, with the balance being a provision.

The provision addresses the nature of your question about what more is to come. The Crown Office looks to provide what it thinks is the most reasonable assessment, given that there remains uncertainty about whether a case will result in a liability and what it might be settled for. The auditor's judgment is that that is a reasonable assessment. Beyond that, there is no absolute predictability of what might happen at the end of any court action, but we are satisfied that a reasonable figure has been provided.

For completeness, I draw the committee's attention to the last sentence of paragraph 20, which restates that the Lord Advocate has committed to a process of inquiry to review the circumstances that have led to this amount of unplanned public expenditure.

Graham Simpson: In essence, you are saying that the Crown Office has budgeted for a further £8.8 million.

Stephen Boyle: That is correct.

Graham Simpson: You say that that is reasonable, but I do not know how we can know whether it is. We cannot possibly know that that will be it.

Stephen Boyle: If it is helpful, Helen Russell or Carole Grant might be able to set out the evidence that we draw on before arriving at an audit perspective on whether management—in this case, the Crown Office—has made a reasonable decision. The team can set out in more detail what such decisions are informed by.

Helen Russell: I will provide some context. The figure has largely stayed the same as it was last year, so the fact that the figure has not changed gives some kind of judgment. From an audit perspective, the auditor will have undertaken a review of the background papers and the evidence around that, and they will have inquired as to how the Crown Office reached that estimate. As you have heard, it is an estimate. The provision has increased slightly, by £700,000, from last year, but the auditor has deemed that to be okay and acceptable.

09:15

Carole Grant: For each body that has had its consolidated accounts audited, there is a separate annual audit report. Those reports are on Audit Scotland's website, and they give more detail on the auditor's judgments that have been drawn to the attention of those who are charged with governance of that body.

Stephen Boyle: I will add briefly that different countries have different sets of accounting disclosures. The accounts that you are considering today are based on accruals, whereas other jurisdictions use cash accounts. That is common in various parts of Europe. A cash account would not include a forward projection. The United Kingdom accounting model tries to give the reader of the accounts a wider perspective of future liabilities and their proximity.

The Crown Office's best estimate is that it has an £8.8 million liability to come. As Carole Grant and Helen Russell said, the auditors looked at the supporting evidence for that and deemed the figure to be reasonable. From a disclosure perspective, we are content that that sets out what might well happen, but it is likely to be 12 months from now before we are able to give the committee certainty on the figure that is actually landed on.

Graham Simpson: Okay. I will leave it there, convener. I might come back in later.

The Convener: Yes, of course. Before we leave that particular issue, as you relayed to us, Auditor General, the Lord Advocate has given a commitment to more public accountability and some form of "process of inquiry"—I think that that was the expression that was used—on the conclusion of the litigation. I suppose that two things arise from that. First, do you have any sense of when the litigation will be concluded? Secondly, do you know what the Lord Advocate means by a "process of inquiry"?

Stephen Boyle: I will take those questions in reverse order. No, I do not have any further information on, or insight into, the Lord Advocate's intentions, but we will continue to engage with Crown Office officials and the accountable officer so that we understand what that means.

Given the nature of the cases and that they have spanned more than one financial year, it is challenging to be definitive on the timescales. The figure of £8.8 million is a reasonable best estimate at this stage, but I am unable to be more definitive than that.

The Convener: Okay—that is fine.

I turn now to the deputy convener, Sharon Dowey, who has some questions for you.

Sharon Dowey (South Scotland) (Con): Good morning. Given the non-recurring way in which the 2022-23 changes to improve pay deals and provide cost of living support occurred, and given that increases in public sector pay will be baselined into the 2023-24 budget and beyond, how can fiscal sustainability of the public sector payroll be achieved? Do you think that that can be done without reducing the size of the public sector workforce?

Stephen Boyle: These are perhaps the most fundamental challenges that the Government currently faces. You are right: public sector pay deals are one of the most significant cost pressures on public finances, with £1.7 billion or so of unbudgeted pay deals having now been brought into future budgets. I will bring in Richard Robinson to say a bit more about how that will operate and what it might mean for fiscal sustainability.

At a high level, what we have said, both in the section 22 report and "The Scottish Government's workforce challenges" briefing paper, is that moving from the significant fiscal challenges that we have set out—again, drawing on the work of others and on what the Scottish Fiscal Commission and Government's own forecasts are highlighting—will require difficult decisions to be made. Such reform, if it focuses on the expenditure side without going into how the Government might vary its income, requires us to move to a position in which there is a sustainable level of public service.

Before passing over to Richard, I will just mention one other point. You heard similar evidence at last week's round-table session on college finances. Public sector workers deliver public services, and they play a vital role in that respect. The difficult challenge that the Government will have to take on is how it achieves that in a way that is not only fair and equitable but which delivers sustainable public services. It has set out workforce, estates and increasing use of digitalisation as the pillars of public sector reform; we have already touched on that, and I am happy to speak about it in more detail if you wish. The Government has, through the civil service, considerable work under way with public bodies to come up with an approach to public sector reform. Fundamentally, a clear plan is now needed for what will be delivered, what it will cost and when it will be achieved.

Richard Robinson (Audit Scotland): I will build on the Auditor General's comments in the context of the workforce paper by saying that, as powers have come to the Scottish Parliament through devolution, budgets and, indeed, workforce costs have increased in line, but not necessarily in a linear way, as has been set out in the report. Recently, with some Covid-19 moneys being used to address workforce issues as well as inflationary pressures, which obviously increase pay settlements across the board, there has been real additional pressure on the financial sustainability of the workforce, which makes up approximately half the budget.

As we have set out in exhibit 5 of the report, there are future challenges arising from the projections in the medium-term financial strategy anticipating slower growth in numbers and assumed pay awards. That is something to manage in the overall budget as well as in setting out what that will mean.

The Scottish Government approach to reform has, effectively, two tiers: the first is about managing short-term need to come to a position of financial sustainability, while the other, which relates to the longer term—say, over a 10-year period—is about taking a more fundamental look at services in the ways that the Auditor General mentioned, such as shared services and digitisation, to see what can be done. One of the report's main recommendations is that workforce considerations be included in that work, even if such considerations are not necessarily about reforming the workforce per se. They might include elements of staff working differently together, or elements of delivering services in ways that require less workforce input—indeed, digitisation is an example that we have used in the report.

It will be a complicated exercise. One of the starting points in our recommendations is to consider the extent of the data needed to support such a decision. As part of our exercise, we looked through more than 100 sets of accounts over a number of years and pulled out the various data, but there is more to be done to look at, say, the expected spending growth in all of these public bodies, including the core Scottish Government workforce; how all of that works together; and what the impacts of efficiencies will be. A sounder information base is needed to understand how the workforce will help the movement towards financial sustainability.

Stephen Boyle: I did not entirely address your question whether there will be changes in workforce numbers. Fundamentally, it is not for me to make that judgment; instead, it is for the Government to set out clearly and transparently how it intends to use its workforce. It very much comes back to what Richard Robinson has said about the future delivery of public services and ensuring that they are affordable and sustainable.

Sharon Dowey: We will come back to questions on workforce planning.

I want to move on to the issue of social security. What measures should Social Security Scotland take to assess levels of fraud and error in the benefits that it administers? Is it taking sufficient action to address those issues?

Stephen Boyle: I will bring in Carole Grant to answer that, but before I do so, I should say that this topic will be familiar to the committee. The administration of benefit expenditure has been devolved through the creation of the new Social Security Scotland agency, but some benefits are still administered by the Department for Work and Pensions through the arrangement that exists between the DWP and Social Security Scotland. As you have mentioned, that means that there is still something of a reliance in that respect, and it extends to the assessment of fraud or error.

I hope that that is enough context from me. I will pass over to Carole Grant to say what that means for audit judgments, risk and so on.

Carole Grant: As the Auditor General has said, we have, historically as well as in this paper, been focusing on the risk of error and fraud in the benefits administered by the Department for Work and Pensions. We have the estimate in that respect, so we know that, but there is also an impact on the regularity opinion for the auditor of Social Security Scotland. What I think that you are exploring here is what Social Security Scotland is doing with regard to the benefits that it administers.

As I have said, the annual audit report is on our website, and, in it, the auditor goes into quite a lot of detail on this. Social Security Scotland has, in year, developed an estimate for the level of official error in the Scottish child payment, and it is extending what it has learned from that to the other benefits that it administers. The auditor's report sets out the detail, which is that there was a 1.1 per cent overpayment in the Scottish child payment, amounting to about £2.3 million, and an underpayment of 0.1 per cent, or £0.2 million.

The important thing is that the right people access the benefits to which they are entitled; underpayments and overpayments need to be considered in that space, and it is good to see that Social Security Scotland is developing plans to monitor and get an understanding of both. As the Auditor General has mentioned, the auditor has said that the pace with which it develops an understanding with regard to the other benefits will be important. Discussion is on-going with the Scottish Government about the extent to which Social Security Scotland has the powers that it needs or whether it needs more powers to deal with the information that it gains from those claiming the benefits and to engage with them as part of the process of getting an overall understanding of how the scheme is being administered and what lies within that.

Sharon Dowey: Thank you.

Last year, you were critical of the transparency of Scottish Government borrowing. Are you satisfied that the Scottish Government is taking steps to improve the transparency of how it reports its borrowing decisions? If so, how has transparency improved?

Stephen Boyle: I think that we are making progress. Perhaps I can narrow my response by saying that information is available on the Government's borrowing relative to its powers in the Scotland Act 1998 and the fiscal framework, but we are not yet in a position where that has been captured in a single source, as that level of information is not yet in the consolidated accounts.

The fact that it is available through the Scottish consolidated fund accounts, though, is absolutely connected with the wider point that I made in my opening remarks, which is that, for various reasons, we do not yet have a single public sector account for Scotland. Perhaps with an element of familiarity and with the signs of progress on a commitment to having a public sector account that we have seen over the past few months—with the information being available, but not, as I have said, from a single source—I feel more optimistic that we will move towards transparent disclosure of a single source of the relevant borrowing by the Government. I look forward to seeing progress on that front.

Sharon Dowey: Do you think that there is a will from the Government to be more transparent?

Stephen Boyle: Yes. I will pass over to Carole Grant to respond and to set out the progress that has been made and the nature of the engagement that she has had with the Government. The information is undoubtedly there and is being reported publicly, but, for me, there is an element missing—and that is, in order to make a set of accounts meaningful and useful, all the various reporting components should be accessible in one document. We are not there yet, but the signs of progress, which Carole Grant can describe, are encouraging.

09:30

Carole Grant: In our report, we say that we expect a proposal on the way forward; we have now received that proposal from the Government and are considering it.

As the Auditor General has said, it is important that we understand where information can be found. There is an issue with transparency. For a start, the Scottish Government consolidated accounts that you are considering today run to more than 190 pages. Will more detail improve transparency, or do we have to take a step back and think about how the information is presented? You will see that we have recommended that the performance report for the consolidated accounts be more focused; it is about striking the right balance between having the necessary information available and having it understandable and digestible, so that people can pick up the document and get a sense of things.

Again, as the Auditor General has said, we are having positive conversations on the way forward in that respect. We now have the proposal, which we are considering, and I am optimistic that we will see real progress over the next few months.

Sharon Dowey: Auditor General, when my colleague Graham Simpson was asking you about underspend, you said that, if the committee were interested, the Government could provide it with much more detail. Is that the kind of detail that should be readily available to us without our having to ask for it?

Stephen Boyle: There is a balance to be struck. The committee can be assured that the Government runs its income and expenditure operation through complex processes. There are ledger codes, account codes and so forth that set out all their transactions, and they are then compiled in the set of accounts. The Government has to strike a balance in respect of underspends and overspends. We will always recognise that the committee, and especially the public, might want more detail than is available in a set of accounts. Provision exists for more information and detail to be requested, through freedom of information requests and so forth.

There needs to be a review, and that is where we have got to. To build on Carole Grant's point, I note that the accounts run to nearly 200 pages, and the question for those who prepare them—and, to be absolutely frank, auditors—is the extent to which that information is still useful, accessible and relevant. Yes, the accounts comply with accounting and auditing standards, but, stepping back from that, I wonder, as Carole has said, whether compiling the accounts with more information would make them useful.

Again, as Carole has said, we are giving careful thought to how you get a set of public financial reports that is more useful to a broader audience than a 190-page set of accounts. It might go into more detail on underspends and overspends in different portfolio lines, but it should absolutely bring in information on the totality of Government borrowing, too, given how important that is. There is a balance to be struck between giving more information in some parts and maybe less in other areas.

Sharon Dowey: If the Government gave us more information, it would save it a lot of man-hours spent dealing with freedom of information requests.

Do you have any concerns about the increasing level of repayment charges linked to borrowing? Has the Scottish Government taken a view on what is considered to be reasonable?

Stephen Boyle: In paragraphs 23 and 24 of the paper, we set out the interest and capital repayments that the Government is making as a result of its borrowing arrangements. The total principal level of capital borrowing at the end of March 2023 was over £1.5 billion against an overall cap in the fiscal framework of £3 billion. Clearly, the Scottish Government is using the powers in the fiscal framework to borrow for capital purposes.

Our paper also updates the committee on where there has been borrowing for resource purposes. There are much more stringent rules for resource borrowing, particularly, as the committee will recall, in areas where there were fiscal shocks, many of which were related to the Covid-19 pandemic. What we have now are interest payments of £266.8 million a year and repayments of £160 million, which are quite big numbers for servicing the borrowing and its repayment.

The answer, then, is yes, there is more expenditure, but there is more complexity alongside that. I would not say that I have concerns about affordability, because that has been factored into future plans alongside future borrowing intentions, but we need to recognise the increasing complexity in the Scottish Government's borrowing arrangements. We will, as Richard Robinson mentioned a few minutes ago, expect to see that built into future projections in the next version of the medium-term financial strategy, which will be published early next year.

The Convener: One of the areas in the report that we are usually very interested in—and we are again, on this occasion—is Scottish Government investment in private companies. I invite Willie Coffey to get us under way on that section.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning, Stephen. In your opening remarks, you said that the consolidated accounts cover about 90 per cent of the budget that is approved by the Parliament. What about the other 10 per cent, which is roughly £5 billion-worth of spend? What does that get spent on? Who accounts for it? Do you get to look at that?

Stephen Boyle: I am happy to kick us off on that, and I will bring in colleagues to say a wee bit more.

The history of the issue relates to what is known as the accounting boundary, which sets out which bodies are brought into the consolidated accounts and which are not. There are complexities to that, but it is largely a matter for the Government. I will share a couple of obvious examples: the budget that is approved by the Parliament includes that of the Parliament itself—the Scottish Parliamentary Corporate Body—and that of Audit Scotland, so those do not form part of the consolidated accounts. The same applies to a small number of other organisations. Colleagues can set out why their budgets do not form part of the Government's consolidated accounts. That is for good reason, which is to do with the founding legislation.

I assure Mr Coffey and the rest of the committee that all expenditure that is approved by the Parliament is subject to external audit by auditors appointed by me or the Accounts Commission. In rare cases, a number of which we set out, some such expenditure is subject to separate audit arrangements. All that information will be reported publicly.

Willie Coffey: Thank you. Given that you mentioned the issue, I had to ask that question.

I turn to investment in private companies. Last year, the strategic commercial assets division was established. In general, how do you feel that that is going? What is its purpose? Is it effective? Is it too early to tell, or do you have a sense of whether it is doing the job that we hoped that it would do?

Stephen Boyle: The committee will recall that the arrangements that the Government had in place to support initial investment, due diligence activity, management of the investment and any potential exit from such an investment had been an area of concern for me and my predecessor. As you mentioned, the strategic commercial assets division, which is a team of civil servants, has been set up to manage existing investments and potential opportunities. We welcome that, and we think that the fact that the Government has stronger infrastructure of its own to manage current and potential investments is evidence of the progress that it has made.

It is still relatively early in that team's set-up, but it now has the set-up that it needs in order to be able to go forward on a much stronger footing than was possible previously. I hope that you will find it helpful if Carole Grant sets out some of the engagement that Audit Scotland has had with those civil servants.

Carole Grant: We have regular engagement with the new team that has been drawn together. You will recall that, last year, some of the discussion was around the business investment framework that had been developed and the on-going work to improve that. That has been updated and a revised version was published on the website last month, with strengthened arrangements that take on board the comments from the Auditor General and the engagement with the audit team. That is subject to on-going review and engagement, so if we feel that other areas need to be further strengthened, the members of that team are absolutely open to such discussion and engagement. They are also developing some intervention playbooks that provide examples, talk through them and look at case studies, so that people can understand, when things are emerging, the right steps to take and who to speak to. They are really strengthening the arrangements across that space.

Willie Coffey: Do you have sight of that team's deliberations, reports, recommendations and so on? Do we see any of that? Is it publicly available?

Stephen Boyle: We are not proactively consulted or engaged with on potential opportunities. Carole Grant might be able to say a bit more about the nature of that engagement.

In forming the judgment that arrangements are improving, it is important to recognise that the scenario planning that exists, together with the management of existing interventions, is stronger. However, the team does not—probably for good reason, to do with appropriate boundaries—come to us to say, "We've got a potential opportunity here or there. What do you think about it?" That would go beyond our role; perhaps it would be a role for advisers or consultants for the Government. That is quite distinct from our audit responsibilities. Carole might want to add to that.

Carole Grant: There is not much to add, other than to mention that part of the engagement has involved us developing our understanding of the on-going economic analysis that the team does and the depth of understanding that it has about all the strategic partners in the private sector and their importance to the economy. It has a depth of understanding of the economic environment that companies are working in and can engage with them early on around some of that. As the Auditor General has said, a range of routes to support already exist—for example, through the enterprise companies—so it is sometimes a case of pointing them in the right direction more than intervening.

Willie Coffey: Thank you for that.

I turn to the specific intervention at Prestwick airport, which again features in your report, Auditor General. The airport is now in its fourth year in a row in profit. The strategic importance of the airport was illustrated only last weekend, when it dealt with multiple diversions, emergencies and other events because of the weather that was experienced across northern Europe. For people in Ayrshire, it is a really strategic and important asset.

However, looking at the broader picture and the investment that the Scottish Government has made, are you seeing any progress in attracting a buyer for the airport? Can we look forward to that happening?

Stephen Boyle: That is a topical question, Mr Coffey. I understand that the chair and chief executive of the airport gave evidence to the Economy and Fair Work Committee earlier this week and advised that a new potential buyer had been sourced, although they could not—for good reason, to do with commercial confidentiality—say more. The Government has been down this road before and, as the cabinet secretary stated in his evidence, the Government is not a distressed seller. There is an appropriate balance to be struck between financial support and the airport's profitability, which you mentioned, in seeking to recoup the public investment that has already been made in the airport.

From an audit perspective, we will continue to track that through Carole's engagement with the strategic commercial assets division. That is where our interest will be. However, given that Prestwick airport has been a prominent investment, we will perhaps monitor the difference between any valuation and the investment that has been made in the airport, and report further as developments happen.

Willie Coffey: Okay. Thank you.

The Convener: Graham Simpson would like to come in. Is this a follow-up to Willie Coffey's earlier line of questioning?

Graham Simpson: It is more about Prestwick.

The Convener: Okay—go on then.

Graham Simpson: That is handy. There have been a number of attempts to buy the airport—a number of expressions of interest. Of course, as we heard yesterday, I think, at the Economy and Fair Work Committee, there is another potential buyer. By the way, all the previous expressions of interest have been rebuffed, for whatever reason.

Do you think that the process by which such expressions of interest are dealt with is the right one? Initially, they are dealt with by the board of the airport. My understanding is that, sometimes, an expression of interest does not go any further—it might not even get to a ministerial decision. Now that we have the new strategic commercial assets division, do you see it having a role in deciding what to do with such assets? We are talking about not just Prestwick airport but Ferguson Marine (Port Glasgow), for example. Should it step in at some point?

09:45

Stephen Boyle: I do not have any insight into the specifics of how bids arrive at or are assessed at the initial stage by the management of Prestwick airport, but it is clear that the Government has a role. As for that new team, it is important to point to a few words in paragraph 27 of our report that capture the end-to-end process that the Scottish Government has and about how it provides

"support across the whole lifecycle."

Therefore, the Scottish Government has a role in the process of disposal—after all, it was the investor—and that is captured in the relationship between the airport and the Government.

We are probably one step removed from the specifics of how that role and that relationship are discharged. I will turn to Carole Grant to see whether she has any further insight. It remains an area of audit interest for us, which we will continue to report on, but if you want any more specifics about the mechanisms, the Government itself might be able to provide those details to the committee. I will check with Carole first.

Carole Grant: I do not have anything to add to what the Auditor General has said, but we can continue to engage on that and to pick up a bit more detail. I think that it would be best to approach the Government.

Graham Simpson: Okay—that is probably true. We could have a position in which a board just does not want to sell an asset, whatever it is, yet the Government says, “Well, we believe that this asset should be returned to the private sector.”

Stephen Boyle: At the risk of speculating on the matter, my expectation would be that the Government, as the owner, would set out its intentions and requirements to the management of the airport. You could perhaps have taken that assurance from the cabinet secretary’s words yesterday, which suggest that the Government is not a distressed seller of the airport and that, therefore, it will have a clear expectation of what requirements must be met at the point of sale. However, I am only speculating on that, Mr Simpson; I do not have any further insight. The Government or the airport management could perhaps update the committee on that.

Graham Simpson: Those are questions for the Government. Thank you.

The Convener: One of the recurring questions is: why did the Government step in to buy Prestwick airport but not step in to save the Glasgow Caledonian railway works in Springburn? It owns Prestwick airport, and there has been speculation in the past week or so that other Scottish airports will be put up for sale by their present owners. Is there any consideration, under the Scottish Government’s business investment framework, of whether it will step in?

To what extent is the strategic commercial assets division concerned just about managing the here and now and the enterprises that are currently owned by the Scottish Government? To what extent is it looking across the whole Scottish economy and saying, “Well, that enterprise is strategically important, but it is in trouble—maybe we should consider stepping in and taking over ownership of it”? What is your sense of how that works in the new landscape, with, as you described it, the new infrastructure that has been created to look at those issues?

Stephen Boyle: The Government has a stronger framework than it had when it made those investments. The investments, including those in Prestwick airport, Burntisland Fabrications Ltd and Ferguson’s, are set out in exhibit 2. Some of those were made when that investment framework was not in place, and there was certainly no strategic commercial assets division in place to manage them.

As I recall, the committee has taken evidence on the matter on various occasions. You have always had evidence that suggests that the Government has a number of levers at its disposal, one of which is an investment framework. It is not an entirely prescriptive approach that sets out the only opportunities that the Government will take and the ones that it will decline. From an audit perspective, we have seen progress, in that the Government now has a better understanding of the risks—it weighs up the opportunities—and of how it will manage and dispose of interventions than it did perhaps five or 10 years ago, but we must recognise that such matters are complex.

As Carole Grant alluded to, it is not just about the Government. The Government was not really invested in that territory, because it had enterprise agencies and other mechanisms that typically engaged in such opportunities, and those still exist.

A clear understanding of how the process works is still evolving. That is why I gave a qualified response to Mr Coffey. Although we welcome the approach, you can never say that it is definitive or foolproof. There will undoubtedly be test cases to come, with people asking, “Why this airport and not that one?” and “Why that business and not the other?”

The Convener: Okay. We will, no doubt, have the accountable officers from the Government and, possibly, the permanent secretary before us in the new year to talk about some of those things.

The committee has also concerned itself with Ferguson Marine (Port Glasgow) Ltd. As you highlight in the section 22 report on the consolidated accounts, a written authority was required this year for the first time since 2007. The director general for the economy sought a written authority from the cabinet secretary, because he did not think that continuing to construct vessel 802 in the yard represented, in his assessment, value for money. That was based on some external reports, as well. To what extent have you had access to the documentation that informed the Government’s decision making on that?

Stephen Boyle: We had access to and saw the documentation that the Government considers to be commercially sensitive, which informed the judgments that we made in the report on the written authority that the director general—the accountable officer—requested from the cabinet secretary. We needed to have access to that documentation in order to make that assessment.

I will bring in Carole Grant to provide more detail, because she was the auditor who explored those circumstances directly with the Scottish Government. As we set out in the report, we reached the conclusion that the process that the accountable officer followed was consistent with the requirements in the Scottish public finance manual.

Carole Grant: The approach that we adopted was almost like a show-and-tell. We had really good engagement with the Government team involved in the due diligence work and with Ferguson Marine. We had a meeting at which we asked them to go through everything—the entire timeline since the Government got involved with Ferguson Marine, the different AO assessments and the due diligence exercises that took place—and we then selected the evidence that we needed to access. That was provided to us so that we could view and assess it. We formed our conclusions on the basis of that evidence.

The Convener: As a committee, we still have outstanding requests for access to that information and for as much of it as possible to be put into the public domain. We recognise that there probably are commercial sensitivities around some of the information, and we do not want to compromise the yard's position in any way, but our position remains that there must be maximum transparency. I will not ask you to comment on that, unless you want to.

Another area that has been of routine concern to the committee—again, it is mentioned in your report—relates to the arrangements concerning the Lochaber aluminium smelter, which is owned by the Liberty Group, which is owned by the GFG Alliance, to which there are various subsidiary parts. In exhibit 2, you state:

> "There continues to be uncertainty regarding the financial stability of GFG Alliance".

Would you care to elaborate on that?

Stephen Boyle: Yes, I would. Our understanding is that the GFG Alliance is in the process of refinancing its group following the financial difficulties of the Greensill Capital group, which was its primary funder. That process is on-going.

The difficulties extend to the audit arrangements, which you touched on when we spoke about this matter in an evidence session last year. From a review of Companies House submissions, we can see that the most recent submission from the company that runs the Lochaber smelter—we refer to the company as SIMEC Lochaber Hydropower Ltd, but there is also Alvance British Aluminium Ltd, which is part of the group following a name change—is a set of unaudited accounts for the year ending 31 March 2021. Therefore, the audited accounts are late. That is a matter of concern, and I am sure that the group is looking to get auditors for the audit of the Lochaber smelter organisation.

Therefore, there is uncertainty, and that uncertainty is reflected in the consolidated accounts in relation to the quantum of the provision for the Scottish Government's potential liability, which relates to the guarantee that it has provided. That provision increased by £21 million during the 2022-23 financial year, and, at the year end, it sat at £135 million. That reflects the level of risk and uncertainty that exists.

The Convener: I want to check something with you. We previously referred to SIMEC Lochaber Hydropower Ltd as SIMEC Energy. I do not know whether SIMEC Lochaber Hydropower Ltd is another incarnation of it, or whether that is the correct name that it has always had. It has not submitted audited accounts. Has the Liberty Group submitted audited accounts? Has the GFG Alliance submitted audited accounts?

Stephen Boyle: Carole Grant had recent communication with the Government to check the status of that. We understand that work remains to be done to source new auditors. Our focus has been on the Government's relationship with that part of the GFG Alliance group, so we might need to come back to you with more detail on the totality of it. Not having a set of audited accounts and the remaining uncertainty about the funding arrangements for the Government's partner, for which the Government is providing a guarantee, are matters of concern. We see that through the increase in the provision.

I will pause for a minute to check whether Carole Grant has more detail on that.

Carole Grant: To be honest, Auditor General, I think that you have covered everything from the engagement that we shared yesterday.

The Convener: Two years ago, the House of Commons Select Committee on Business, Energy and Industrial Strategy was fairly direct in its conclusions. It said:

> "we believe that until Mr Gupta restructures his GFG Alliance companies into a more acceptable corporate structure and publishes consolidated accounts that are adequately audited ... he fails to fulfil the criteria that we believe should be applied to define a fit and proper person

for the purposes of receiving any form of Government support."

That is a pretty direct assessment of where we are, is it not?

Stephen Boyle: It reflects the on-going uncertainty and the level of risk relating to the guarantee that the Scottish Government has made to the smelter. An uncertain, challenging and unpredictable set of circumstances exists. It is not just about the investment of public funds; I am sure that the situation is a matter of concern for the workers and people in the local area.

10:00

The Convener: Absolutely. I will throw into the pot the fact that the GFG Alliance is being investigated by the Serious Fraud Office.

Before we move to another area of questioning, I will take you back to what you told us on 27 January last year. You said:

"there is an increasing likelihood that the guarantee will be called upon."—[*Official Report*, *Public Audit Committee*, 27 January 2022; c 7.]

Do you have an update on where you stand on that question?

Stephen Boyle: Circumstances have not changed materially from what they were 11 months ago. There is still uncertainty. The Government still receives payment from the GFG Alliance group for the provision of the guarantee. That money is being paid, so that might marginally offset the overall unease about the risk that exists, but that the provision has grown, that there are unaudited accounts and that there is wider uncertainty about the group's funding are all matters of concern.

The Convener: Okay. Thank you. I will move things along. Sorry—Graham Simpson wants to come in.

Graham Simpson: A question has just occurred to me, convener. According to your report, Auditor General, the Government's exposure is between £14 million and £32 million. Is £32 million the maximum that the Government could be hit for?

Stephen Boyle: That is the annual exposure.

Graham Simpson: That is the annual exposure. Right.

Stephen Boyle: The total exposure is £135 million.

Graham Simpson: It is £135 million. Potentially, the contract could cost the Government £135 million.

Stephen Boyle: That is correct.

The Convener: Okay. We have some questions about the European structural and investment funds that Willie Coffey wants to lead on.

Willie Coffey: Auditor General, we are in the European structural and investment funds process until June 2024; Scotland is still benefiting from that. However, your report notes that there have been some changes to the methodology for reclaiming costs from the various schemes that have resulted in the Scottish Government writing off £36 million. Will you give the committee more detail on what that is all about?

Stephen Boyle: I will pass that to Carole Grant in a second, so that she can set out the details for the committee.

As the committee will recall, there has been a long tale about the European structural and investment funds, which is a process that comes to an end, as you mentioned, in June next year. The history is that there was an interruption and suspension as the European Commission and its auditors were not satisfied that the Scottish Government and its partners were correctly following its processes in the awarding of grants. As you mentioned, the methodology has been reviewed, which has resulted in changes to the level of exposure. That exposure exists because the Scottish Government continues to pay public and other bodies that provided services while the process was interrupted. The Government has identified that it will not be able to recover all the amounts that it paid out while the interruption and suspension took place.

Carole can give a bit more detail on where we are now and what the future might hold.

Carole Grant: As the Auditor General said, since the suspension was lifted, there has been an improvement in and strengthening of the arrangements for the funds. The Scottish Government recognises the issue as a significant risk and it features heavily in the risk-management processes and on-going discussions. As it is a key feature, work is on-going with partners in order to ensure that claims will be submitted by the deadline, are compliant at the point of submission and are then subject to checks. Things are dependent on partners to an extent, but the Scottish Government is working with them in order to ensure that submissions comply with the requirements.

The Government is also looking at the scheme that can be applied to meet some of the costs that are associated with the resettlement of Ukrainians. It is looking at where it can use that funding and is moving projects about in order to ensure that it gets the maximum benefit from the funding before it concludes.

Willie Coffey: Thank you for your answers.

In my seemingly annual question to you, Auditor General, about the programmes that will replace European funds, such as the shared prosperity fund, the community renewal fund, the community ownership fund and the levelling up fund, are you any clearer now about your audit arrangements for scrutinising the spend from those funds?

Stephen Boyle: We are fairly clear, Mr Coffey, that I have no statutory powers or provision with which to audit expenditure by the UK Government. It is pretty clear that the auditing of expenditure that is undertaken or grants that are awarded by the UK Department for Levelling Up, Housing and Communities are matters for the National Audit Office.

However, as I have set out in correspondence to the committee, we understand and appreciate the long-standing interest of the Scottish Parliament and this committee in European structural and investment funds and what might follow them.

Our intention is that, alongside my colleagues in the Accounts Commission—they audit local government and local government bodies may well be significant recipients of levelling up funding—we find an appropriate reporting mechanism through which to recognise this committee's interest. I make it absolutely clear that that will stop short of an audit. We are following up that work and will bring it to the committee's attention at an appropriate point.

Willie Coffey: That is helpful. On the question of scrutiny, transparency and accountability, does that mean that Scotland's councils are reporting to a UK Government department?

Stephen Boyle: They will potentially be grant recipients from a UK Government department, as they might be for other sources of funds, so I would not say that that would be a unique set of circumstances. Indeed, there is a process that the Scottish Government, local authorities and the UK Government will follow for various sources of funding. We want to satisfy the Parliament's interest in the matter and to find a way in which we can do just that. That, however, will fall short of an audit of levelling up funding to Scottish local authorities or other public bodies here.

Willie Coffey: You mentioned that the Accounts Commission will have a role to play in that.

Stephen Boyle: That is absolutely right. The Accounts Commission and I will have a role to play, because it will not be exclusively local authorities that will receive grants. Other public bodies might do so, and it is a case of finding a way that recognises the interest in, and transparency around, the amounts of money that have come to Scottish public bodies and how they are being used. What we do not yet have is a prescriptive model with which we could do that, but it remains our commitment to do so.

Willie Coffey: When might we expect to see what you consider to be an appropriate level of observation, scrutiny or otherwise?

Stephen Boyle: I will probably need to come back to the committee on that. Financial-year timescales would seem to be the most obvious and appropriate period in which to do that. Audit activity runs alongside financial-year timescales, so that will vary. In 2024, at the appropriate point, we will be able to update the committee further.

Willie Coffey: Okay. Thanks very much for that.

The Convener: One of the areas that you mentioned in your opening statement was the long-standing request for whole-of-government accounts to be produced. There have been delays, talk of alternative proposals and so on. Will you give us an update on where we are at with the issue in a little bit more detail?

Stephen Boyle: I am very happy to, convener. You are right that it is a long-standing issue. My predecessor and I have sought from the Scottish Government a clearer and more comprehensive set of financial reporting that captures, fundamentally, all the assets and liabilities but also revenue and income across the public sector. I understand that that is complex and that there is no single source or mechanism with which to do that. Both permanent secretaries who have given evidence on the issue have supported and recognised the importance of having whole-of-government accounts, but they have not yet been delivered. We had interruptions due to the pandemic, of course, and, more recently, there have been challenges with the compilation of the whole-of-government accounts at a UK level, which has added complexity.

Alongside that, the reporting threshold for the whole-of-government accounts was changed recently. At the moment, in the Scottish context, auditors who work for me and the Accounts Commission will also undertake work on behalf of the National Audit Office. They audit the whole-of-government accounts and then submit returns so that the information that has been provided to the NAO is consistent with the accounts. The threshold for that is increasing to £2 billion in revenue. That will knock out the vast majority of Scottish public bodies—you will be left with the Scottish Government and some of our largest health boards and councils. The process for establishing an approach to the compilation of public sector accounts for Scotland seems to be closed.

I will pass over to Carole Grant in a moment. I referenced my earlier optimism, and the Government has come to us with a proposal that gives us a route to a meaningful and relevant compilation of assets and liabilities from the wider public sector in Scotland. We need to see progress on that. That is where I am at now. We have had the best part of eight years of delay in finalising what seems to be the missing element of Scottish financial reporting.

Carole can set out what is coming next, and the timescales, hopefully, but we need to see meaningful progress quickly.

Carole Grant: As the Auditor General said, it felt appropriate for the Scottish Government to reflect on the plans, given the changes in the whole-of-government accounts. We would not want to be in a space in which the audit regime is overly onerous in terms of production or preparation. As I said earlier, it is about striking the right balance.

We have received the proposal and are considering it. We plan to have a day with the Government early in the new year to explore it further. I was going to say that what we are looking at is a starting point, but that is not the case. It is not about starting with the full set of accounts, as you would expect them, but about building the picture, seeing what works and seeing what is accessible. We said earlier that the accounts that are in front of us today are more than 190 pages long. Would another set of accounts of that magnitude improve transparency?

I have said “balance” many times today, but it feels like that is the important element. It is about capturing the right information in a way that is transparent but also meaningful. Once we have the proposal bottomed out, the Auditor General will consider the audit regime that sits round that to ensure that independent assurance is provided on what the Government produces. We have some steps still to take, but, as the Auditor General said, there is optimism about the way forward.

Stephen Boyle: We also recognise the committee’s long-standing interest and role in the production and scrutiny of an additional set of public financial accounts for Scotland. We will, of course, engage with you regularly as matters progress over 2024, and we would be very happy to have further engagement beyond any discussion that we have today.

The Convener: Thank you. That assurance is very welcome. We have heard about road maps, processes, alternative proposals and so on. Your patience is exemplary, but ours is running out a little bit. We will see what response we get from the Scottish Government when we approach it.

I will move things along. We wanted to spend some time looking at the workforce reform agenda and, more broadly, at the public service reform agenda. I will invite the deputy convener back in, and Graham Simpson might want to come in on this issue as well.

10:15

Sharon Dowey: The Finance and Public Administration Committee recently produced its pre-budget scrutiny report. Do you agree with the criticisms that were made of the Scottish Government’s public service reform programme?

Stephen Boyle: I reference the comments from our report: there is work to do to deliver sustainable public services with the financial resources that the Scottish Government has. It has been well referenced that there is a projected budget gap of £1 billion, which could rise to £1.9 billion. That leads me to the conclusion that I make in the report and which I referenced in my opening remarks: the current model is not sustainable. Reform is a must.

The Government’s pillars for reform around workforce, estate and digitalisation all have merit and all those aspects must be tackled, but we need to move from the absolutely appropriate steps of a civil service team engaging with public bodies and gathering information, ideas, templates and so forth to a very clear plan. We have not yet seen that plan.

We hope to see more detail in the draft budget and then in the publication of the medium-term financial strategy, but we really need to get a plan for how we move from where we are now on to a sustainable path for public service delivery. That is the thrust of not just the section 22 report but our workforce paper, “The Scottish Government’s workforce challenges”, that you have in front of you today and our infrastructure paper, “Investing in Scotland’s infrastructure”, from a couple of months ago.

Sharon Dowey: You state in your section 22 report that:

> “The Scottish Government must develop a clear roadmap of how the design and delivery of public services will be transformed to be financially sustainable.”

What would that road map look like? How quickly would you like to see it?

Stephen Boyle: There is an urgency; no question. There must be a clear plan for sustainable public finances and public service delivery. As I mentioned, we would expect to see that in the draft budget. It is helpful that the Government’s intention is that a three-year indicative budget will come out later this month, together with more detailed longer-term forecasts in its medium-term financial strategy.

We know that work is in progress. We recognise in our paper that the civil service is engaging with public bodies. As I mentioned, the Government has set out the broad themes on which it will operate, one of which is the intention to progress public sector reform. We want to see the next step of that. It is appropriate for the public, Parliament and people who work in public service to have a clear idea of how financially sustainable high-quality public services will be delivered.

Sharon Dowey: You mentioned the budget. What else—what details—should we expect to see in the upcoming budget in that area?

Stephen Boyle: The Government will decide what it wants to set out in the budget. I alluded to three-year sets of figures and more detail beyond that in the medium-term financial strategy.

I should also mention—Richard Robinson might want to comment on this, too—that the medium-term financial strategy was and remains a very appropriate document. It sets out the Government's intentions for its use of fiscal resource and the challenges that it will face. Not all Governments do that. When that was brought in, we thought that it was an appropriate step that increased transparency around the level of opportunities and risks in public finance.

Richard can say more about that. Fundamentally, we want to see how will get from where we are now, with a budget gap of £1 billion, rising to £1.9 billion, and what the intention is for how that will be met, with supporting detail that people can understand and scrutinise so that they have a feel for where the next steps go.

Richard Robinson: There are probably a couple of points to make. One is around priorities. "Reform" is often used as a byword to talk about financial sustainability and reduction of budgets, but it may well be that areas of reform, in the programme for government or what have you, are not necessarily getting the same level of funding. The budget amounts may change, for example, in the medium-term financial strategies in expectation of increases in national health service budgets and workforce overtime in order to meet some of the capacity issues.

One of the issues in that regard is around clarity of those priorities, which the Government sets out in the medium-term financial strategy as its critical missions, and on how it is looking to corral or manage its resources towards those priorities. Seeing that in practice and what that means for budgets would be useful.

The second point is probably around collaboration. As we set out in the workforce paper, one of the reasons for the need for better data is that budgets are held by more than 100 different public bodies, and, when budgets are given, they are not given in a way that says, "Here's your budget. This much is for the workforce and this much is for everything else". A decision will be made about how to balance and shape that budget depending on what the reform strategy will to be.

The Scottish Government's ability to act in a convening role, to pull that together and to understand and plan the extent of reform that is being planned by others as well as by itself, and over what timescales that is due to return a dividend—for want of a better word—will be really useful in setting out in more detail that longer-term plan.

Sharon Dowey: The workforce challenges briefing highlights the need for

"better data on the size, cost and skillset of the workforce in over 100 of its public bodies"

to better understand how workforce reforms will impact services. Can you give us any more detail on any work that you are aware of that is under way to address the data gaps?

Stephen Boyle: Richard Robinson can say a bit more about the background to this and the work that is under way. This is a significant challenge, and I do not want to give the impression of being glib about this. It is and will be a significant undertaking to reform the workforce in the Scottish Government and its bodies. As we set out in the paper, some of the changes that have taken place since devolution, including the growth in the Scottish public sector workforce and events such as preparations for a no-deal Brexit and Covid, have all impacted on the workforce numbers that exist. Our paper draws on the NHS workforce as well.

The context is that the Scottish Government has already committed to growing the NHS workforce. If that area is protected, delivering a sustainable plan might impact more significantly on other parts of the Scottish public sector workforce. That requires a detailed comprehensive workforce plan both for the NHS and for other areas. As Richard mentioned, this is not about the Government or any other body in isolation but about the totality of plans for how bodies are going to work together in relation to where workers might be required in years to come. That has to be underpinned by high-quality data. We have gaps at the moment, so the steps to address that will have to be factored in to the Government's plans. Have you anything to add, Richard?

Richard Robinson: There are a couple of points. The first one is about understanding the variety of bodies and that the amount of costs and services that are delivered by actual people will vary from body to body. An example that we mention in the report is the NHS as opposed to social security, where the budget is large, but a lot of it is, obviously, benefit payments as opposed to workforce costs. Understanding that variety and difference centrally and collegiately is important because the challenges around inflation, pay costs and capacity will vary from body to body. Part of it is about the ability to collate and have a better and more nuanced understanding of where the workforce-related risks are.

Part of the question was about what is happening. The Scottish Government wrote to public bodies to get more of an understanding on how many people those bodies employ, how much they cost and what the plans are for reform. My understanding is that further letters were sent for clarity. Having gone through the various accounts ourselves—in the appendix, we have the caveats for what we are able to say and not able to say on that basis—we know that it is a complex exercise. You are factoring in pensions, the extent to which you can get information on GP practices where the money goes to GP practices and the complexities around how much public bodies have considered whether workforces will change. There is work for them to do to understand and pull that together, but that is the benefit.

Secondly, the point is that there are bigger organisations where smaller changes will make a bigger difference. We set that out in the report when we talk about the size of, for example, the NHS workforce compared with some of the other sectors of public spending.

Sharon Dowey: I do not underestimate how complicated it will be, but we have known about it for a wee while now. Do you think that there is enough focus on it and enough pace to get that actioned as quickly as possible?

Richard Robinson: I think that the Scottish Government understands that it is a big challenge and work is on-going. I refer to what the Auditor General said: it is an urgent challenge, and we would expect to see more plans in detail, which is why we have made those straightforward recommendations about what we would expect to see from the Government to manage that properly.

Stephen Boyle: I have no doubt that this is understood by the Scottish Government to be a key component of public sector reform and fiscal sustainability. We have seen and the committee has heard, over the past couple of years and continuing into the current financial year, that the Scottish Government is deploying workforce controls. It has recruitment measures in place with which to consider vacancy filling at pace so that it is consistent with delivering a balanced budget. That is absolutely fine, appropriate and within its responsibilities, but those are short-term measures. They need to be underpinned and accompanied by a detailed, robust workforce plan. The pace of that has to match the financial plans, because if you deliver a financial plan that is not supported by a road map, you risk delay. These things have to align.

The Convener: Can you just confirm what the strategy is? You have described how the Government has stated that, for understandable reasons, it wishes to grow the national health service workforce. Exactly a week ago, we had representatives from the further education sector talking about pretty drastic reductions already and contemplating even more drastic workforce cuts in the future. A couple of weeks ago, the Cabinet Secretary for Finance stated on the BBC that the public sector workforce will have to shrink. If the public sector workforce has to shrink, the policy is to grow the NHS workforce and we have seen one component of the public sector in front of us describing some pretty catastrophic decisions that it is contemplating, what is the overarching strategy?

Stephen Boyle: That is what we are calling for at paragraph 52. The Government should have a comprehensive workforce strategy

"that factors in the impact of growth in the NHS."

That is one of our report's recommendations. If there is a commitment to grow the NHS—and that is a policy matter—that will have an opportunity cost for other parts of public service delivery. In the report, we are calling for that to be delivered in a planned manner.

The Convener: Fine. Thanks for clarifying that. Graham, do you want to come in on this area, or will I go to Willie Rennie to talk about shared services?

Graham Simpson: Yes, I have a question for Stephen Boyle on this area.

You have said that reforms are needed and that you want the Government to set out a workforce strategy. What kind of reforms do you think are required in order to deliver public services better?

Stephen Boyle: Ultimately, those are policy decisions. It is for the Government, subject to parliamentary scrutiny of its budget, to decide how public services are delivered.

10:30

Graham Simpson: I will just stop you there. I accept that it is for the Government to set out what it thinks, but you have made a direct point that reforms are required. You are identifying areas of weakness that need to be addressed. What are those areas of weakness?

Stephen Boyle: I will elaborate on my acceptance of the need for reform. The pillars that the Government has identified are, in my view, appropriate. There needs to be a reform of the workforce, which we have talked about. The estate very much needs to be looked at. Is it the estate that is necessary to deliver public services over the next five to 10 years, relative to an estate that was designed, in some cases, 50 years ago? As the committee heard from college representatives last week, we are not using public buildings the way we once were. The pandemic has absolutely changed patterns. Connected to that, the Government's plans for adoption of more digital technology will affect the estate and the workforce. It is not my role to comment on policy, but the pillars are appropriate. The strands on which the Government is basing its public sector reform requirements are the right ones. We are looking to see what comes next.

Graham Simpson: So, it is about potentially having fewer buildings, using buildings better, going digital and having fewer workers. What about the number of public bodies that we have? Should we be seeing fewer of them?

Stephen Boyle: There is a fine line between policy and what is appropriate for me to comment on. The point that I will draw on is that the Government, in its resource spending review of 2022, indicated its intention to reduce the number of public bodies. I am neutral on that. It is a matter for Government to determine how its services are delivered. Could I see circumstances in which we could have fewer public bodies? Absolutely. As a country, we have gone through cycles of different models of public service delivery, whether in the changes in regional and local authorities through the local government reorganisation in the 1990s or in the move from regional police bodies to national police and fire services around 10 years ago. We have different models. I am less concerned about organisational structure than I am about the quality of public services and their fiscal sustainability.

The Convener: Thank you. We have a couple more areas of questioning for you, Auditor General. For the first of those, I will hand over to Willie Coffey. It is about shared services and the experience of that so far in relation to capital expenditure and revenue possibilities.

Willie Coffey: Stephen, you have spoken to the committee about corporate transformation on many occasions. The Government is to have a new human resources and finance system, Oracle Cloud. Its original estimated cost was £22 million. Your report suggests that the estimate might now be £52 million. On the positive side, a substantial saving is expected if we combine and deliver the service, but, once again, it looks like a familiar story of the cost estimate for an information technology development project initially being far too low and then the estimated price of delivering it more than doubling. Will you give us a flavour of the background to the reasons for that and of what our expectations might be going forward?

Stephen Boyle: I will start and then bring in Helen Russell. It is a Scottish Government corporate transformation programme to deliver back-office services such as finance and HR. The services are not just for the Government itself: those systems support about 30 public bodies. I do not think that it is unreasonable for me to say that the Government has not invested sufficiently in its back-office IT infrastructure, so it is playing catch-up to get a system that is fit not just for the current day but for probably five to 10 years ago.

There are a number of strands, and Helen can set those out in a bit more detail, but the programme is not moving at the pace that we had hoped and is costing more than was initially forecast. That is primarily due to underestimating the scale, the complexity and the costs. Project assurance is in place, which is appropriate. The strands are subject to gateway reviews and governance arrangements, but this needs to be resolved at an affordable price that delivers value for money. There will, potentially, be nearly £26 million of savings at the right point, depending on where the overall spend gets to, and that will increase efficiency and de-risk some of the existing arrangements.

On a number of occasions in recent years, the committee has heard about risks around IT systems, cyber risks and so forth. That is not quite the nature of this system. This is about business efficiency, so it is about the more traditional risks. A lot of manual interventions in the Government's IT systems are required. Having manual interventions in a system can bring more traditional internal control risks, and Government officials have to make a lot of checks and take many steps just to ensure the running of the system.

There is work to be done, Mr Coffey. It is a critical component of just how Government functions behind the scenes. The Government has to invest, but it has to know when it will deliver this and at what price. That work is under way. I will stop there and invite Helen to provide further information.

Helen Russell: The initial investigation of the system started about four years ago, and, at that point, it was identified that it was necessary to bring down the level of risk around the HR and accounts systems, which were, basically, seen as an increasing source of organisational risk, as you have just heard. The systems were no longer fit for purpose and did not, over that period, get investment that had been asked for a few years back.

Willie Coffey asked about the increased time and cost. You have heard that the complexity of the project and the effort involved were more than had previously been estimated. Organisational capacity and capability were issues, as well, and there was a lack of specialist knowledge. The Government had not done anything like this for quite some time, so experience was missing.

Over and above all that, the Government had to cover normal business while a lot of things were happening in relation to the old system that almost had to be translated into a new business case for making it fit into the new system. In addition, the Government had to get a team together to work properly and optimally. There were a lot of issues around that, including issues with continuity of staff. Despite the process having started in 2022, which was the year of the first outline business case, there has been a slow start. I think that that is agreed and accepted.

The revised business case was approved in, I think, September 2023, and the Government is working to implement the new systems in accordance with HR and finance coming online in April 2024.

However, there are some risks. It is a major programme, and the Government has taken the view that it will adopt and not adapt, so everyone has to change their current ways of working and, in essence, work with the new system. That requires a lot of training and assessment, and it requires working with partners. It is all part of the drive for efficiency and reform.

Bringing on board the Scottish Government and over 30 partners is just phase 1; phase 2 will involve going further into the public sector to try to bring more of it on board. That, too, will, we hope, bring efficiencies and savings.

Willie Coffey: That has a familiar ring to it. The committee is probably blue in the face asking questions about IT projects. We felt that we had heard the worst of the stories, but here is another one. It is always pointed out at the start of the process that we seem to underestimate the complexity of such programmes and realise their complexity only later, by which time the costs have doubled. When it comes to understanding complexity, why have we not learned the good lessons of some of the more recent major IT projects that have been developing correctly, at pace, in budget and so on? Why have we not embraced all that experience and used it in this project?

Stephen Boyle: Helen Russell touched on some of the reasons why the project is taking longer and costing more, and we have set them out in the paper. Having said that, I understand the root of your question, Mr Coffey: the Government sponsors other public bodies to deliver effective IT arrangements, but it is experiencing difficulties, too. There is perhaps not much more assurance that I can give you at this stage other than to say, as I touched on in the report, that we will remain close to the project and report further as it progresses to, we hope, a satisfactory conclusion.

I cannot overstate how much the project really matters. It is an important project for the safe and effective running of Government services. More detail on it will follow from us, but the committee might want to follow up directly in upcoming meetings and, I am sure, through opportunities that you have to explore the matter with the Government through the major capital IT projects.

Willie Coffey: June 2024 was mentioned. Is that when components of the programme will be activated, approved and actioned, or will the whole programme will be up and running by June 2024?

Helen Russell: April 2024 is the expected go-live date for the HR and finance systems and all 30-plus partner bodies.

Willie Coffey: You said that there is more to come after that.

Helen Russell: There will, potentially, be more at phase 2, as the project extends into the wider public sector.

Willie Coffey: Is detailed examination of complexity requirements for that phase under way?

Helen Russell: I do not know the answer to that; I am sorry. We could ask.

Willie Coffey: We do not want to repeat the experience, do we?

Stephen Boyle: I agree. We do not want a repeat of any concerns that have existed in earlier parts of the project, but we need to follow up on the detail of the plans for future roll-out. If we have that, we will share it with the committee.

Willie Coffey: Thank you for that, for now.

The Convener: We have just a couple of final areas to cover. The first is governance arrangements. You say in paragraph 70 of this year’s report:

> “I reported last year that many of the main governance groups are attended by the same individuals (both executive and non-executive) and cover similar topics, themes and risks. This increases the risk of duplication, inefficiency, or blurred lines of responsibility between the different roles and remits of each group.”

What progress has been made since you drew that picture last year?

Stephen Boyle: There has been some progress. It largely remains the case that a lot of governance exists in the Scottish Government.

Much of that is understandable. It is a large and complex organisation.

The permanent secretary and accountable officers need assurance that they are delivering services as intended and that public money is being spent appropriately. The mechanisms by which they discharge governance responsibilities, though, lead us to the conclusion that we touched on last year—I will say a bit more about what has changed—that there is duplication and, perhaps, unhelpful blurring.

Many individuals sit around the various tables wearing what they call different hats. That can lead to inefficiency, complexity and a risk of there not necessarily always being an appropriate balance between challenge, scrutiny and accountability. Those factors remain largely the same as they were 12 months ago.

10:45

What has changed—it is welcome—is that the Government is piloting alternative approaches to governance. We hope that the pilots are successful, but that does not amend the overall conclusion that we reach in paragraph 71 of the report, which is that there is a need for a wider review of governance that is “refined and streamlined”, and which gives the permanent secretary and ministers the level of assurance that they require on public service delivery that is the responsibility of the Scottish Government. Helen Russell can say more about the pilots, but there is work to be done.

Helen Russell: I will give the committee an idea of the types of meetings to which we are referring. There are quarterly corporate board meetings, assurance board meetings, of which there are eight, and executive team meetings, which can be twice weekly. Those meetings fully cover place, people and performance. Our concern, as you have already heard, is that the same people might attend a lot of those meetings with different roles to play, so there is an opportunity for duplication and overlap. Perhaps the roles of all those groups could be thought through a bit more carefully.

The pilot meetings—this relates to the assurance group meetings—are trying to focus on key areas on which the director general is asking for assurance. Instead of covering a set agenda and the three lines of assurance, meetings are now starting to focus on what the group views as being the key risks. It is a welcome step but, as you have already heard, there is a way to go.

The Convener: What you are saying, if I understand it, is that, notwithstanding the pilots, you still think that there needs to be a more comprehensive review. Have you had a response from the Government to that call?

Stephen Boyle: Carole Grant and Helen Russell can say a bit more about the clearance arrangements for the report and the reaction to that. Carole will also have referred to that in her annual audit report, which informs the section 22 report, so I will pass to her in a second.

We are not saying in today’s report that governance arrangements are fundamentally not working. That is evidenced by the governance statement in the consolidated accounts, which we think is fair. It is part of the auditor’s responsibility to take a view on whether that is consistent and whether overall arrangements are effective.

There is an opportunity here to bring in efficiency and speedy decision making and to give assurance to the permanent secretary. In the context that we have discussed this morning of the challenges that the Government faces on fiscal sustainability and public sector reform, I am sure that it would want to be assured that governance is effective in order to support the level of change and challenge with which it is dealing.

Carole Grant will talk the committee through the Government’s response to those points.

Carole Grant: I confirm that there was, in the annual audit report, a specific recommendation on review of the governance arrangements, and we have had a response on agreed action about progress on that by the end of March next year. At that point, we will be able to assess what has taken place and what progress has been made.

I reiterate the Auditor General’s point that it is not that we have specific concerns about the appropriateness of the governance arrangements; it is really about efficiency and potential duplication. It is not that there are weaknesses in the governance arrangements; it is more about whether more efficiency can be driven out and whether more can be done to support that.

The Convener: Okay, but there is mention in the report of associated risk, which would be of interest to the committee.

May I just check something, Carole? You mentioned March: will you get an answer by March on whether the Government will conduct a review, or will it have conducted the review by March?

Carole Grant: The commitment is to have completed the review by March and to have reflected on the six good governance principles. We will take a view when we receive the report.

The Convener: Okay. That is helpful.

I will move on to the final area, which is climate change. You mentioned some of the difficulties—to put it diplomatically—that surrounded the deposit return scheme. Do you have a view on the likelihood that the new projected timeframe of implementation by October 2025 will be met?

Stephen Boyle: That remains to be seen. We will track progress. There are challenges, and we have set some of them out in the paper. We touch on a couple of factors, one of which is the circumstances with the scheme administrator, Circularity Scotland. It entered administration at the time when the Scottish Government was unable to progress its deposit return scheme at the intended pace, due to the UK Government's application of the United Kingdom Internal Market Act 2020. As ever, the Scottish Government will have a clearer indication than we do, from an audit perspective, of its next steps. There is a potential risk from delivering the scheme without the planned infrastructure around it. I do not have any further insight into its ability to deliver that or its next steps.

Our paper sets out some of the financial implications of the scheme, given the amount of money—£219,000—that was spent on setting it up. We refer to the parliamentary commentary by the Scottish National Investment Bank, which has written off its £9 million investment in Circularity Scotland. I might need to check the written-off statement, but, as we say in the paper,

"full repayment of the loan is unlikely."

There were financial circumstances as a result of the first scheme, and I am sure that the Government will want to manage that closely, regarding its investment and the revised timescales.

The Convener: As I understand it, you audit the Scottish National Investment Bank. Is that correct?

Stephen Boyle: I appoint the external auditors of the Scottish National Investment Bank.

The Convener: Do you publish a report on the audit of the Scottish National Investment Bank?

Stephen Boyle: We do. I have appointed KPMG as the external auditors of the Scottish National Investment Bank, and its annual audit report will be published on our website. It is a matter that we are keeping under a close eye: we recognise the significance of it. The Scottish National Investment Bank more widely will have a portfolio of investments alongside its missions: green investment and addressing climate change are pillars of its missions. That information is available publicly.

The Convener: We all understand that an institution such as the Scottish National Investment Bank will back some winners and some losers, but it is quite unusual for the loser to be directly under the ambit of the Scottish Government, is it not?

Stephen Boyle: You are right that, whether we are talking about the Scottish National Investment Bank or the development agencies, some investments will pay off and others will not. Such bodies set out in their accounts the gains and losses that they have made.

In answer to the other part of your question, we have not done any audit work on the specific circumstances of how Circularity Scotland came to receive investment from the Scottish National Investment Bank. I have no reason to doubt that the investment was made according to the investment criteria and governance of the Scottish National Investment Bank's investment committee. If that was not the case, I am sure that it would have been brought to my attention.

The Convener: Is it part of your audit function to look at whether those criteria were applied in a case like that, especially where £9 million of public money has had to be written off?

Stephen Boyle: I do not think that KPMG would specifically review, as part of its annual audit, the mechanics of one investment relative to another. That is not to say that there is not the potential for further audit activity on that point. That is something that I can give some thought to, if it is of public interest or of interest to the committee.

Beyond that, the remit of KPMG and, indeed, any other external auditor of a Scottish public body, is to give an opinion on the annual report and accounts and then to comment on the wider scope, including financial sustainability, governance, leadership, and financial management arrangements. That is what is set out in its annual audit report. Again, we can explore that further with the committee, if it is of interest.

The Convener: Judging from the reaction around the table, it probably would be of interest.

I will finish with a fairly easy question. Is the Government on track to meet its legally binding net zero targets by 2045, which would be five years ahead of the rest of the UK?

Stephen Boyle: I am not sure that I will be able to give you a definitive answer to such an extremely complicated question.

The Convener: It is a simple question, Auditor General; it is a yes or no question.

Stephen Boyle: Forgive me, convener—it is simple question, but there are very complicated parts to it. We have set out in the report that there are 43 indicators with which we can measure progress. Of those, 21 are on track, 9 are off track, and for 13 it is too early to say. We also note that it can be challenging to ascertain the direct contribution that the Scottish Government makes;

knowing that would improve progress monitoring and tracking of its plans to deliver its targets.

As you would expect, matters will evolve over the next few years. That is a very firm part of our audit activity through the annual audit of the Scottish Government and our wider programme of audits. In today's report, we just want to signal that there are risks to meeting the climate targets. That is the case for all public bodies and jurisdictions.

The Convener: Thank you. Of course, the progress that we are making towards the net zero targets and decarbonisation remains central to the considerations of the Public Audit Committee.

On that note, I thank you, Auditor General, and I thank Richard, Helen and Carole, for the evidence that you have given us this morning. It has been very useful, as always. It has triggered some potential areas into which we might dig a little deeper, and it has given us plenty of information to consider if and when we have an evidence session with the permanent secretary. Thank you very much.

I now move the committee into private session.

10:57

Meeting continued in private until 11:21.

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