



OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Public Administration Committee

Tuesday 28 September 2021

Session 6



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Tuesday 28 September 2021

CONTENTS

COVID-19 (IMPACT ON PUBLIC FINANCES)	Col. 1
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**FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
6th Meeting 2021, Session 6**

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*Daniel Johnson (Edinburgh Southern) (Lab)

COMMITTEE MEMBERS

*Ross Greer (West Scotland) (Green)

*Douglas Lumsden (North East Scotland) (Con)

*John Mason (Glasgow Shettleston) (SNP)

*Liz Smith (Mid Scotland and Fife) (Con)

*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stephen Boyle (Auditor General for Scotland)

Sharon Dowey (South Scotland) (Con)

Mark Taylor (Audit Scotland)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Adam Smith Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 28 September 2021

[The Convener opened the meeting at 10:17]

Covid-19 (Impact on Public Finances)

The Convener (Kenneth Gibson): Good morning, and welcome to the sixth meeting in 2021 of the Finance and Public Administration Committee.

Agenda item 1 is an evidence-taking session with the Auditor General for Scotland on tracking the impact of Covid-19 on Scotland's public finances. Audit Scotland recently published a report on this important topic; members have received copies of it, along with a note from the clerks and a private briefing paper from the Scottish Parliament information centre's financial scrutiny unit.

I welcome to the meeting Sharon Dowey MSP, who is deputy convener of the Public Audit Committee. She is joining us for this session because her committee might wish to undertake work on the report in the future.

I also welcome to the meeting our witnesses: Stephen Boyle is the Auditor General for Scotland, and Mark Taylor is audit director at Audit Scotland. I intend to allow around 90 minutes for the session. Before I open things up to questions from committee members, I invite the Auditor General to make a short opening statement.

Stephen Boyle (Auditor General for Scotland): Thank you very much, convener, and good morning, committee members. I am delighted to be here this morning to say a bit more about our work, our submission to your consultation on the 2022-23 Scottish budget and our briefing paper—to which the convener referred in his introductory remarks.

In August, I made a submission in response to the committee's call for views on Scotland's public finances. In that paper, I highlighted the issues that the Scottish Government should consider with regard to the impact of Covid-19, and how they will affect Scotland's people and financial sustainability and the priorities that the Scottish Government and Parliament will choose to implement in future years.

The four harms of Covid-19 for the people of Scotland are complex, and the Scottish

Government will need to track trends carefully and allocate resources in the budget appropriately, in order to prevent inequalities from widening.

The pandemic is also extremely challenging with regard to the stability of Scotland's public finances. The Scottish Government's future response will require effective planning for recovery and renewal over the medium term. It will be difficult to match spending to available funding in coming years, so the Scottish Government will need to make difficult decisions, but in ways that minimise disruption to individuals, public bodies and public services and ensure that value for money is maintained. Understanding the longer-term pressures on the Scottish budget will become increasingly important.

The Scottish Government will also need to be clear about its priorities following the pandemic and how they align with spending plans and the delivery of national outcomes. To achieve its goals, it must put in place decision-making processes that are transparent and co-ordinated with other levels of government.

In our response, I highlighted some of the areas in which I consider the committee's scrutiny could have most impact, including how the Scottish Government manages budget changes in-year, linking spending and people's wellbeing, and financial plans for the transition from the response phase to the recovery phase. We will, of course, be happy to discuss those areas with the committee.

Earlier this month, we published the third in a series of briefing papers—"Covid-19: Tracking the impact of Covid-19 on Scotland's public finances"—which highlights the scale of the spend on Covid-19 to date, which was around £9 billion in 2020-21—and the scale of some of the on-going financial challenges facing the Scottish Government. The response to the pandemic will therefore be the backdrop not only to the 2022-23 budget process but to the planned United Kingdom and Scottish multiyear spending reviews. This year's financial position will also continue to change, given the remaining uncertainty over this coming winter and beyond.

Audit Scotland will continue to audit the response to the pandemic, and we are committed to supporting this and other committees in Parliament. Mark Taylor and I are delighted to be here and look forward to answering the committee's questions.

The Convener: Thank you very much for your opening statement. In time-honoured fashion, I will start with some questions before opening questions up to colleagues around the table.

You have said that transparency around what is classed as Covid-19 spending across Government remains

“challenging in a fast-moving and unpredictable environment.”

Can you give me an example of where spending is ambiguous and could be better explained?

Stephen Boyle: I will do my best, convener. I am sure that Mark Taylor will wish to contribute, too.

In our briefing paper, we try to track the scale of spending. We have set out not only the sums that have been involved—more than £9 billion, in this instance—but some of the processes that have been used and the individual spending announcements that have been made over the course of the year. By the end of July, 300 such announcements had been made. The majority related to the previous financial year; those numbers have still to be audited in full; we are in the midst of that process.

When we look at how that translates to budget management and reporting, we see things becoming much more complex. Allocation against individual budget lines has been a matter of judgment by Scottish Government officials, who have had to decide which line best fits which allocation. For the most part, it will be clear whether the spending is, say, health or local government related, but in some cases, judgment will need to be applied. Mark Taylor might say a bit more about that.

What we have tried to illustrate in the briefing paper is the scale of change and volatility, and how challenging it can be to manage that. We hope that, as we emerge from the pandemic, the volume of announcements will ebb away, but that does not detract from the fundamental point about the need for transparency. Given the vast scale of spending in recent months, we need to be clear about which spending relates to Covid-related activity and what are other types of Scottish Government expenditure.

Mark—do you wish to say more?

The Convener: My question is really about how the process can be improved.

Mark Taylor (Audit Scotland): I will make three brief points to add to the Auditor General’s remarks, convener.

Something that can be improved and which the Government is working on is what I describe as classification. As the Auditor General has said, it is clear at a high level where money is going and what that high-level activity has been. Clearly, much of it has related to Covid. However, it is a lot more difficult to classify what is Covid spend on

things that sit below the waterline in individual directorates and directorate-general families, in which a lot of budget management happens at lower levels.

As you will see from our report, the Government is undertaking an exercise to work through that. Given the political commitments that have been made about how Covid funding will be used, it is important that that work be carried out and that the Government can demonstrate those things through time. Improvements are absolutely needed in that area, so work is going ahead on that.

I want to draw out two other aspects, the first of which is the change in the nature of spend through time. From a spending perspective, we are now coming out of the immediate response, and the Government is beginning to plan some of the recovery phase. As we move into that phase, what constitutes investment in recovery from Covid and investment in public services and the economy becomes much more ambiguous, and that will be increasingly the case. Where there have been political commitments to spend Covid money on particular things, the committee will need to be able to unpick that. There is scope for improvement in that area, too.

The third thing to flag up is recognition that Covid funding is largely non-recurring. The committee could consider how clearly that funding has been applied to non-recurring spending areas. There is a risk that, because it is clear that the money will be non-recurring, and that that will be applied across government, it might shore up recurring expenditure. We have not done work on that yet, but will try to do that later in the year. There is an underlying inherent risk in the need for clarity about how money that comes on a recurring basis is applied.

The Convener: I am trying to get a handle on that, because it is fundamental to the issue that we are discussing, which is about knowing where public money is going and how it is being spent—or invested, depending on how you wish to describe it.

You have said that

“In determining its budget proposals, the Scottish Government will need to have a clear understanding of how it plans to transition from its initial financial response to more of a recovery phase.”

You go on to discuss continuing uncertainties during the pandemic and the need for the Scottish Government to maintain

“a flexible approach to its financial planning”.

How can Scottish ministers grapple with that? At one point you are looking for more certainty in understanding the transition, but at another you

are trying to enable flexibility. How can we square that circle?

Stephen Boyle: That is incredibly difficult. It is important to acknowledge the circumstances that we are in; we are still in the midst of the pandemic. We can see the scale of the funding announcements that are still coming through and the scale of additional public spending compared to what we recognised as the baseline. That shows that we are still in a volatile environment.

Although we recognise that, there are two points that we would make. The first is that there is a need for continuing and improved transparency about how the budget is being managed. We previously welcomed some of the additional mechanisms that have been used, particularly the summer budget revision process. That has supported transparency. We have also had two other cycles of budget revisions.

There is still some thinking to be done about how further transparency could help. The committee could consider whether there are other steps that could be taken at intervening points across the annual budget cycle that might support budget transparency.

Our other point is also about transparency. The committee might recall that my predecessor and I have been in discussion about, and have called for, a wider suite of public financial reporting in Scotland, and in particular for Scottish public sector accounts that set out a clearer picture, beyond the Scottish Government consolidated accounts, of what Scotland is spending, what its income is and the scale of its assets and liabilities. We are keen to see progress on that front.

Looking to the longer term, there is much talk about the need for medium-term financial planning that sets out the scale of volatility. None of that brings immediate certainty or predictability, but it is a good place to start. It would indicate what spending plans might look like, either for five years or as a way of progressing the work that the Scottish Fiscal Commission has said it intends to do next year and beyond on much longer-term thinking. We would welcome that.

None of that detracts from the fact that we are still in a very volatile environment.

The Convener: You say:

“The UK position is a source of uncertainty for the Scottish budget”

and you go on to say that

“The Scottish Government has been informed of a further £175 million to be allocated. However, these consequentials will not be confirmed until the UK Government’s supplementary estimates are published early in 2022.”

What kind of difficulties does that cause for the Scottish Government?

Stephen Boyle: I will happily kick off, then Mark Taylor might want to say a bit more.

The scale of change in the budget is a challenge. The wider scale of the changes and of some of the additional funding are examples of the uncertainty that has been faced. There was similar uncertainty in last year’s budget cycle, due to the considerable sums of Barnett consequentials that came through at various times, and the issues around translating spending announcements into concrete certainty.

As we capture in our briefing paper, the timing of some announcements created uncertainty. Some of them came through right at the end of the budget process, and the Scottish Government and the UK Government came to an arrangement to allocate that money to UK reserves to become available to the Scottish Government later in the year. That is an example of uncertainty coupled with what might come out of the spending reviews and the budget process across the UK and Scottish Governments. Mark Taylor can say a bit more about the estimates process.

10:30

Mark Taylor: There is uncertainty about the amounts involved, how that translates into how much money is available to spend and the timing of when that will come through, given that the Scottish Government has the challenge of managing an annual budget process with a degree of flexibility between one year and the next, but also has some plans already in place about how some of that money will be carried forward.

There are, in two respects, greater challenges in classification of the funding. First, in the obvious split between resource, capital, financial transactions and the like and where money can be used, there is uncertainty in how that might move around over the year, both in relation to additional funding and reduced funding. We do not need to look too far back to see a history of capital spend at UK level being reduced from what was planned, which has led to a reduction in funding. There is that uncertainty over how the money is batched up.

Secondly, the Scottish Government has made some commitments to use Barnett consequentials for particular purposes. The most obvious example is health: where health money flows through the system, the Scottish Government has committed to applying it to health purposes. One of the challenges that the Government faces, and will continue to face, relates to where there has been an expectation that money was coming, but the label attached to that money was not clear. It is

difficult for the Government to know how much of that money to commit to particular areas, given that subsequent events might change where the funding comes from.

Some of the challenge is inherent in the system and some of it relates to how the Government has made commitments and chosen to manage its money, which creates an extra layer of complexity and difficulty.

The Convener: In the report, you say that although addressing the pandemic was a clear priority, the Scottish Government should not deflect from some of its longer-term goals, such as addressing climate change. However, some of the measures to tackle Covid will not help us to meet the climate change goals. One thinks of the thousands of tonnes of personal protective equipment that have gone to landfill over the past 18 months. How can the Scottish Government address that, given that the pandemic is clearly the number 1 issue? How can the Government respond more effectively to the longer-term issues of climate change without having to compromise on addressing issues relating to the pandemic?

Stephen Boyle: At the risk of repeating myself, I will say that we recognise that that is complex and challenging. The pandemic will inevitably remain the focus for as long as that is necessary. The Scottish Government, local government, public bodies across Scotland and even individuals will get to the point where we move into a renewal, recovery and transformation phase, which means that a clearer direction of future spending patterns and the impact that they will have on public services will be set out.

As the committee will know, Audit Scotland has been a supporter of transparency around the national performance framework and a clearer connection between spending and outcomes in delivery of public services. We continue to make the case for that. However, we also recognise that it is challenging and that there is conflict in spending.

You made a point about PPE and environmental concerns, convener. Similarly, I could make analogies between infrastructure, economy and environmental challenges and how those spending patterns will come into conflict. As the Government and public bodies work through that, we are keen to see transparency around what spending is achieving and how that connects to the national outcomes. That is done on a regular and iterative basis, so that people can know and track the impact of spending.

The Convener: I have a final question before I open up the meeting to questions from committee members.

You note in your briefing that this committee's predecessor committee

"recommended that the incoming Committee considers inviting the Scottish Fiscal Commission ... to publish a long-term fiscal sustainability report at least once during each session of the Parliament."

When, during this session, would that be most appropriate?

Stephen Boyle: I am happy to offer a view and I am sure that Mark Taylor will be, too.

I guess that there is no right answer to that question. There is a need to capture a broader sweep, when it comes to transparency, even when there is a great deal of volatility. Over the course of the next year or 18 months, we might enter a more stable environment. I think that I read that the Fiscal Commission's thinking is that it will start to consult in 2022 and that by 2023 it will be in a clearer environment, which will enable it to publish, following consultation, a longer-term sustainability analysis of Scotland's public finances, 10, 20 or 30 years into the future. That would be an appropriate thing to do—and the biggest point that we want to make is that it will be a necessary thing to do, when the timing is right and there is clarity. That timescale feels about right.

Mark Taylor: I strongly support the proposal that such an analysis be published, to get a sense of the pressures on the public finances in the longer term. I see the value of looking at sustainability, in terms of the aggregate funding and how funding will need to be redirected, over time, to respond to some of the aspirations in Christie and the like.

On the timing, I offer a couple of reflections. Given the nature of the task, which is to look 25 or 30 years ahead, it is helpful to divorce the task from the political cycle. I think that the Fiscal Commission's proposals land the work quite nicely in the middle of the parliamentary cycle, which seems a safe space—forgive the phrase—when the immediate politics can be set to one side and people can take a longer-term perspective. The proposed timing seems about right.

The Convener: I do not know. Ross Greer will still be with us, even in 20 or 30 years' time. Maybe one or two other members will be, too.

Liz Smith (Mid Scotland and Fife) (Con): I entirely agree with the convener that ensuring transparency and accountability is the biggest job that this committee faces and—dare I say it?—the biggest job that the Parliament faces.

Auditor General, you and your predecessor Caroline Gardner have made clear that you are keen to see additional processes that would enhance transparency. You mentioned the

summer revisions and talked about what the Public Accounts Commission could do. Are there structures in this Parliament that could be improved, to enhance scrutiny and accountability? I know that you cannot comment on public policy, but will you say whether a finance bill—a procedure that has not been customary in this Parliament—is a possible way of improving transparency and accountability?

Stephen Boyle: I will comment in detail on the first two points but a bit less on the notion of a finance bill; Mark Taylor might talk about all three.

You are right. Transparency and accountability were incredibly important pre-pandemic, and the need for transparency and accountability has increased during the pandemic, given the scale of public spending and the volatility when it comes to addressing the four harms and all the factors that we have talked about.

We have said publicly that we welcome the summer budget revision, given that volatility and the scale of additional spending, as an appropriate mechanism through which there can be additional scrutiny of the new and significant forms of public spending that have taken place. Whether the Government and Parliament choose to continue with the approach is a matter for you, as is whether the approach goes further, with an additional in-year opportunity for scrutiny of public spending, in committee or elsewhere in the Parliament.

I note that there is regular scrutiny, as members would expect, in some of the individual public bodies that spend that money. That is done through their governance structures, and there are chains of accountability for regular reporting of that to the Parliament.

On the point that you mention about the Scottish public sector accounts, we agree absolutely. We have commented regularly on the need for additional public financial reporting in Scotland. There is a UK-wide mechanism—whole-of-Government accounts—which the committee might be very familiar with. That sets out the range of what the UK public services own, owe, spend and generate. However, we do not have an equivalent in Scotland. Given the scale of change that we have seen as a result of the additional financial powers and responsibilities that the Scottish Parliament has acquired in recent years, we feel that that is a missing component.

The permanent secretary has stated that the Scottish Government has publicly committed to that. We recognise that there has been plenty for the Government to be getting on with over the past 18 months that has interrupted progress. However, there is always plenty to get on with, and our sense is that progress needs to be made

on that, so that we have a much clearer picture of what is spent.

I am in less of a position to give a definitive view on the merits or demerits of a finance bill. I will make the general point that, as an organisation, we are keen to support scrutiny, accountability and transparency, and we are happy to consider giving a more detailed view in writing about where a finance bill might fit in. Mark Taylor might wish to comment on that in more detail.

Mark Taylor: To build a bit on the Auditor General's point about public consolidated accounts, I would make the link between that as additional information and the work that the Fiscal Commission might do on its longer-term look at financial sustainability. Such information provides a different look at the future, because, in essence, it takes into account the public sector balance sheet as it stands, including any pension liabilities and the asset base, so it provides a more rounded look at the current position as an eye to the future.

The other matter that I would pull out as additional information relates to the increasing importance—recently and on a continuing basis—of in-year budget management. A great deal of the focus of scrutiny, and of the focus on transparency, has been around the budget proposals. Increasingly, as those proposals change throughout the year and as actual spending diverges from what was planned, in understandable circumstances, the committee and the Parliament more generally will want to pay closer attention to those changes throughout the year.

On the nature and extent of scrutiny of the budget revision process and the actual spending information that comes to you, as part of the spring budget revision, you should anticipate the most up-to-date update on the actual year-to-date position. It is important to look at both of those, and the information around them, as an opportunity to develop that scrutiny.

On the question of a finance bill, I recognise some of the challenges. It is not fully within the scope of the Parliament to address those, because of the way in which the Scotland Act 1998 interacts with the Public Finance and Accountability (Scotland) Act 2000. One merit of a finance bill could be that it could enable you to look at the picture of both spending and revenue raising in the round. However, I recognise some of the technicalities that need to be worked through.

Liz Smith: I will pick up the point that you just raised about looking at spending in the round and trying to get an overview. One of the greatest challenges in politics today is to win the trust of the public—especially the taxpaying public—with regard to where their money is being spent, who is

accountable for that spending and what we, as a Parliament and as a committee, are going to do if anything goes wrong with that spending. What are your views on the concern that some MSPs, members of the public and bodies have that, sometimes, we make our judgments about scrutiny and public spending in relation to a specific committee and, as we are doing just now, on specific issues, rather than having a mechanism outwith the budget process that allows us to see the whole thing in the round? That is why I asked you about a finance bill. I acknowledge the concerns about how that would articulate with the Scotland Act 1998.

Do you have a view on whether any other procedures are required to enhance our ability to take an overview of Scotland's public finances, whether that comes down to better forecasting or whatever? I am interested in what you feel about that.

Stephen Boyle: I am happy to start. There are existing measures in place that support some of the scrutiny. I do not wish to repeat my previous point, but—as I am sure the committee will be aware—there is currently an audit process around all the spending that is allocated through the budget bill. The funding that flows into the Scottish Government and to associated bodies—local government, the national health service and so on—is all subject to an annual audit.

10:45

Much of that spending is then consolidated back into the Scottish Government's annual consolidated accounts. The outturn pre-audit is reported to the Parliament, as happened earlier this year, and it is then subject to an audit process and the completion of accounts.

For a number of years—around seven consecutive years, if memory serves me right—Caroline Gardner and I have prepared a section 22 report on the Scottish Government's consolidated accounts as a way of enhancing the accountability and public scrutiny around some of the spending that has taken place across public bodies, in particular those bodies that have fed into the Scottish Government's consolidated accounts process.

Unfortunately, which bodies are in and which are out, which is known as the accounting boundary, is a complex question. Some significant lines of public spending are not captured in the process. There are high-profile examples of money that has gone outside the Scottish Government to other organisations and which have been subject to Audit Scotland commentary. One example is our call for a framework for

investing in private companies as a mechanism to support additional accountability and scrutiny.

Again, I would welcome any additional measures that would allow for a more rounded set of scrutiny and audit arrangements across public spending. The Scottish public sector accounts are one example. Over and above that, as Mark Taylor mentioned, there are mechanisms that the Parliament and this committee may wish to explore that would further enhance the existing set-up.

Liz Smith: I have one more question that picks up on the point about additional scrutiny. Last week, the convener asked the Deputy First Minister about how easy it is, when we come to the national performance framework, to drill down on something that is national spend and something that is local government spend. That is very difficult, because it is not easy to see where the money is being spent and who is accountable for it.

Do you have any recommendations for how we could improve the process of understanding where the budget lines are for local government, as opposed to national spend?

Stephen Boyle: Again, I am happy to start, and I am sure that Mark Taylor will want to come in.

This is not a new theme for Audit Scotland. In 2019, we produced a report, "Planning for outcomes", in which we called for a much clearer connection between what is spent and the outcomes that have been achieved from that public spending. There have been examples of progress across the piece.

On your point about who is accountable for different lines of spend and where those come into conflict between different public bodies, I would say—at the risk of repeating myself—that it is complex. In addition, looking outside Scotland, there are not enough examples around the world of where that process is done terribly well.

Nonetheless, there ought to be ways in which we can do that, following through on the recommendations that we made in our report and tracking the spend, and looking at which organisation is most directly responsible for individual lines of public spending. Accountability can then be fed back through into the public reporting, through the medium-term financial strategy. The public sector accounts, the Scottish Government accounts and the national performance framework outcome report all feel like appropriate ways in which that can best be done, but there is no doubt that there is progress to be made on that front.

Mark Taylor: The Parliament has a relatively new budget scrutiny process, and at the heart of

its introduction was the need to deal with such questions. The turbulence that we have been through since then has thrown some challenges the Parliament's way around how to apply that scrutiny process, but the core of it still holds and works well. It enables individual subject committees and the Finance and Public Administration Committee to take on different aspects of the budget in the round. At its heart is the ability to provide committees with the opportunity to look at where money is going, what it is achieving and what is or is not working well. That can be done on a subject committee basis. Local government also has the opportunity to explore local government spend.

The process will also look at how information is made available when a spending initiative or new strategy is coming in to indicate what impact we expect it to have on outcomes in both local government and central Government, and at reports from Government and public bodies about how well that is happening.

The budget process was premised on better articulation of two things: where public money is going and what we are getting for our money. There are opportunities right across the Parliament to focus scrutiny on that, not line by line but in an overall sense and by picking out particular areas. The challenge for this committee and the Parliament as a whole will be how cross-cutting decisions are made around that.

One advantage of a finance bill would be that it would give an opportunity to focus on that aspect. The committee might wish to consider how much it can pull back from the subject committee level into considering what the trade-offs are. We can all recognise that the subject committees will generally say that they need more money for their area. It is the Deputy First Minister's role to take that cross-cutting look, which provides a real opportunity for this committee to engage on that issue, asking the Government how it will make those decisions and what evidence it can provide about the decisions that it has made.

Finally, in reference to an earlier question, there is something about clarity of priorities from Government. I think that it was the convener who asked about how we balance the here and now of Covid with the longer-term aims. That question is about priorities and transparency: how is the Government doing that work, and how is it directing the money to support it? The budget process, as it is currently designed, helps to support that activity.

Liz Smith: Thank you. That was very helpful.

Daniel Johnson (Edinburgh Southern) (Lab): I want to ask about transparency, but before I do

that I have another question, which I guess is also about transparency.

I hold my hands up and admit that I have been struggling to keep up with precisely what has come through in terms of the Covid money—what has and has not been allocated.

Exhibit 4 in your report is extremely useful, but I want to clarify what it is saying. In the current year, £4.9 billion has been allocated by the UK Government to the Scottish Government, but it is my understanding that everything that has come through in consequentials since March is yet to be allocated by the Scottish Government. Is that a correct summary? I would appreciate your view of what has been allocated and what has not of the overall £4.9 billion.

Stephen Boyle: Mark Taylor will take us through the exhibit and explain our assessment of that.

Mark Taylor: The first thing to recognise is that the autumn budget revision was published yesterday, so the answer to that question is different today from the answer on Friday. It is to do with the episodic nature of the budget process. On a number of occasions through the year—traditionally twice, but last year there was a third, summer, budget revision—the Government balances the books as part of the budget process. In advance of that, the Government has an understanding, to different degrees of certainty, of what money is expected to flow through and where that money has come from in terms of UK decisions.

The exhibit shows that, when we pulled the report together, the Government was aware of up to £5 billion-worth of funding, in year, but it had allocated a cumulative amount of £3.7 billion through a formal budget process. Yesterday's announcement added another billion to that, giving £4.7 billion out of the £5 billion. The autumn budget revision document explains that £300 million is yet to be allocated from reserves and UK Government funding. That gives the Government a degree of flexibility over how it applies that funding, but there is also a recognition that the formal budget process always lags behind Government decisions about where the money will go. In the very fast-moving environment that we have been in, that has been much more apparent than normal.

There is a sense of that speed dropping off a little and, therefore, of getting a bit closer to that end position, particularly with yesterday's announcement. Two things are going on. One is that there is a bit of a lag before information is formalised in the budget process, and the other is a degree of contingency management and the flexibility that we would recognise as important to

allow the Government to respond. Yesterday's update took us up to £4.7 billion.

Daniel Johnson: That is very helpful. I recognise your point that, when amounts are allocated, they might be labelled, but that does not necessarily mean that you know precisely where the cheques are going. I see both witnesses nodding at that.

I will move on to why there is a transparency issue. The bullet points under paragraph 41 rang alarm bells for me. The paragraph says:

"The existing processes for monitoring the budget were not designed to separate out specific spending in areas across portfolios".

On reallocations, the report says:

"it is not always possible to establish the detail of reprioritisations within directorates."

Will you explain what you are saying? On my reading, one of two things is happening—either the Scottish Government has the information but is not sharing it or reporting on it, which would be troubling, or it is not effectively tracking the information at the sub-directorate level, which is not just worrying but downright dangerous. I expect an organisation with a budget of about £40 billion to track its spend by organisational units that are well below directorates. Which explanation applies? Are you comfortable that the Scottish Government as an organisation is tracking its spend at an effective level?

Stephen Boyle: I am happy to start, and I am sure that Mark Taylor will want to respond, too. In totality, our view is that the Scottish Government is tracking the spend. To step back for a second, all the things that we have talked about, such as volatility, are recognised, but additional transparency needs to go around that. The report mentions elsewhere some of the judgments that the Government has had to make in terms of migrating spending announcements, the flow-through of Barnett consequentials and how that is allocated to individual budget lines in directorates. That is undoubtedly complicated. Nonetheless, a clear and consistent mechanism to support reporting is one of our key asks that have come through in the process, which could be through additional budget processes in the Government for reporting to the Parliament, alongside the summer budget process. That all feels like a necessary component for going forward.

The reprovisioning arrangements should also be looked at. Are they working? A lot of the processes that the Government brought in to track from spending announcements to budget lines were deployed at great pace. We have commented previously that the fiscal arrangements in the fiscal framework were not designed for the mechanisms that we find

ourselves dealing with. What transpires will be a matter for both Governments and Parliaments to determine, but a greater mechanism could be set up to improve transparency.

Mark Taylor: Our work to date has focused on the numbers and on understanding what is happening. We have a more detailed piece of work up and running for the next few months, on which we will look to report in the spring, which is looking at exactly how the detail of the management happened. As the Auditor General said, the circumstances in which that took place and how things have developed are recognised. In time, we will have a more in-depth understanding and a greater evidence base for getting into the detail.

At a broad level, our understanding is that the Government's ability quickly to aggregate up information that it holds is the challenge. Having not designed the systems to do that at the first pass, the Government is going back to identify at a detailed level what the spend was on. In the current financial year, the Government has built more systems to enable it to do that on a more routine basis, which will make such work more straightforward—going back through the information has been quite a manual process. That is not to say that this is not being managed; it is being managed at a more detailed level in directorates and individual spending areas.

There is a protocol between the Government and the committee and the Parliament generally about what amounts get brought to the budget and what can be managed at those lower levels. As far as we can see, the Government has been working within those levels, although much more detailed in-department management has had to take place over time. We will look to work with the Government to get a better understanding of how that has worked and of some of the detail that sits behind things. The information that we are sharing today represents our best estimates for what the impact has been.

11:00

Daniel Johnson: That is helpful. I would love to go down the rabbit hole of how the Scottish Government manages its cost centres, but I will save that for another day.

I would like to explore what greater transparency looks like. Comparable-sized organisations would typically report on a quarterly basis, and they would typically be reporting how both their revenue and their costs have tracked against what they had put in an annual statement previously. In America, the Securities and Exchange Commission requires three such

quarterly updates, alongside an annual report. That used to be the case in this country until 2014.

Would it be reasonable to ask the Government to provide regular pre-scheduled quarterly updates on the budget? Critically—I am guessing that this is what you were implying in some of your previous comments—that is how budgets are revised, while tracking spend against budgets. Sometimes in this place we have a habit of focusing almost entirely on the budget and a lot less on how the money is being spent against the budget.

Is that quarterly concept something that could be applied to the Government?

Stephen Boyle: It is a reasonable starting point. As regards the scale and complexity of the spending that goes through the Scottish Government accounts and the Scottish budget, there will not be many comparable examples of private sector organisations of that size, with that level of turnover.

On the scale, and on how that translates to in-year budget management, we have touched in passing on how the Scottish Government, like all organisations, has its own in-year budget management process and its own in-year reporting, so that its executive team, Government ministers and others can have insight into progress against budget lines. As that translates into the Parliament, we have typically had the autumn budget revision, the spring budget revision and, more recently, the summer budget revision. Adding more quarterly reporting into that mix to satisfy the scale of change, to address volatility and to support transparency is a very reasonable suggestion. Whether or not it is achievable in practice, it would clearly require additional investment to get to that point. It is not beyond the realms of possibility.

On your point about the shift away from focusing on the budget, part of our role as auditors, as well as taking a backward look, is to look forward, too—and we are keen to do that, as you would expect. However, reporting on the outturn and on the consolidated accounts through Parliament and carrying out our section 22 reporting to the Public Audit Committee are all components of the backward look that we take.

On your specific point about whether one additional cycle could be brought in to support transparency, if that was felt to be an appropriate mechanism, it is something that we could see happening, yes.

Daniel Johnson: Thank you for that, and also for saying that I have made a reasonable suggestion—I think that that might be a first in this place.

I think that the committee is broadly in the same place as you regarding the importance of the national performance framework, although there is a need to ensure that it is properly embedded. One of the thoughts that were explored with the Deputy First Minister last week is whether the framework should be reported on formally, perhaps at the same time as the budget but certainly regularly.

In a sense, I understand the points that you are making about the need for such things to be reported across the Government, but we rarely hear cabinet secretaries reporting on how their bit of the national performance framework is progressing. Do you think that regular reporting on it by portfolio might help to give the national performance framework due weight and prioritisation and to change behaviours regarding how it is used?

Stephen Boyle: As I mentioned, for a number of years, we have been commenting on the importance of the national performance framework and of having a much clearer connection between what money has been spent and what has been achieved from that spending. Recognising the 10th anniversary of the Christie commission report, my one note of caution is that the measures drive a lot of the behaviours, so there is a need to think about whether the measures are the right ones to produce the outcomes, and we tried to convey that sentiment in our recent reporting. In particular, the convener made the point earlier that some of those measures will be in conflict with one another in terms of what is intended to be achieved. We see that across public bodies because, in many ways, public bodies perform to the measures—and the accompanying budget and accountability—which might not produce the right outcome for the people who use and rely on public services. Therefore, although we are absolutely supportive of there being a much clearer connection between spending and outcomes in the national performance framework reporting, we are also enthusiastic about having an assessment of the measures that are being used, in order to determine how well public spending is being done.

Ross Greer (West Scotland) (Green): To return to Daniel Johnson's initial line of questioning, I am still trying to understand the relationship between the underspend of Covid-specific funds in 2020-21 and the reallocation of non-Covid budgets towards Covid-related purposes in that year. In the report, the Auditor General identified a £700 million gap between the amount of money that was specifically allocated for Covid-related purposes and the identified spend in that area. However, simultaneously, more than £1 billion was reallocated from non-Covid budgets to Covid-specific purposes. How

much of that £700 million was spent but has not yet been identified as Covid spend, for the reasons that you noted earlier? How much of it was simply not spent in that year because, presumably, it came too late and other money has already been allocated to meet that need?

Stephen Boyle: I am happy to kick off, and I will invite Mark Taylor to come in in a minute. On a high level, the tracker, as Mark mentioned, is our best estimate—subject to some of the numbers that are yet to be audited—before we are able to be definitive on what was spent and what was reallocated. It notes the complexity and volume of changes that took place, some of which happened late in the year.

With regard to the allocations, at a high level, in addition to its commitment to use Barnett consequentials to fund Covid-related expenditure, the Scottish Government also reallocated spending from some of its existing budgets and, generally, that tended to follow a portfolio-related activity. One example that we referred to in the report is that subsidies for travel arrangements were allocated to travel operators to support their costs. That similar point about some of the moneys coming very late in the year also added to the complexity. I will pause for a moment to see whether Mark Taylor wishes to address the specifics of the numbers that Mr Greer asked about.

Mark Taylor: The short and fundamental answer to the question is that we do not know yet. The work that the Government is doing to uncover and identify the spending at a lower level will help us and it to identify that. As I said at the outset, there is an importance to that, given the political commitments that have been made about the use of that funding.

There are a number of moving parts in relation to the additional redeployment of money—money coming through from the Barnett consequentials, money moving from other spending areas to Covid areas, and the use of the reserve both to draw down money and to carry it forward to future years. When we look at the rounded picture that is set out in the outturn statement about where that money lands and, in detail, at the autumn budget revision that was published yesterday, we can see how that money was reallocated in the current year, as it flowed through from the reserve. There are a lot of moving parts in there, but the short version is that, at this stage, we cannot answer Mr Greer's question, and it is more important to consider the work that the Government is doing to identify all its Covid spend.

Ross Greer: What timescale has the Government given you for the work that will get you the more granular information that is required?

Mark Taylor: The short answer is that we do not have a firm timescale. My expectation is that, as the Government moves towards the next budget round in the autumn budget revision, it will look to pull that together.

I think that we are unlikely to get to a definitive position; I think that there will be diminishing returns. When we look at 2020-21 as opposed to 2021-22, we have a degree of realism about how difficult it is to get that information, given the environment in which decisions were made, particularly at the start of the pandemic.

Stephen Boyle: The only point that I would add—Mark Taylor referenced this earlier—is that we have work under way as part of our following the pandemic pound programme of audit activity. I look to report in the spring of next year on how well some of the money has been spent through the Covid process by both central and local government. That is a joint piece of work that I am doing with the Accounts Commission to give a sense of moving beyond just what has been spent and getting into the territory of outcomes and value for money, given the scale of spending that is taking place.

Ross Greer: We will probably book you in for an appointment in spring to talk about that.

You mentioned some of the money for transport, which is a useful example of another issue that I want to raise in relation to the explanation that Government provided for underspend. Your report mentions that the explanation that was given for some of the underspend on money for buses, for example, was that some operators moved back to a place of viability more quickly than was expected. No explanation is mentioned in your report for the underspend on rail. Is that simply because it is a relatively high-level report and you were just looking to provide some commentary, or are there areas in which you have not been given a sufficient explanation from the Government for underspends?

Stephen Boyle: It is the former rather than the latter. Again, Mark Taylor might wish to come in on that question, but it is a high-level report. It is part of our series of trackers.

As well as auditing accounts, part of our wider role is to contribute information on the scale of spending that is taking place. In the report, we have sought not to set out all the reasons for underspend and overspend but just to give broader examples.

In addition to the work that we do, the Government has a very clear role to play in relation to transparency over why there are overspends and underspends. Some of that will come through the consolidated accounts, which usually include narrative against individual

spending lines where there has been an underspend. I pause, Mr Greer, but I think that a variance of £5 million or more is usually accompanied by an explanation. As well as through our own report, there will be space for the Government to set things out.

Mark Taylor might wish to say something about the conversations that we have had with the Government.

Mark Taylor: We used that example in the report to illustrate the challenge here. The challenge for the Government is that it has quickly had to make announcements on spend. It has had to assess the likely demand for that spend, assess the affordability of that spend, make an announcement and start getting money out the door to people who need it. Then, as the Government experiences how much demand there is for that particular area of funding and to what extent that sector or industry has recovered or is able to meet the requirements, it will refine its estimate. What you are seeing is the refinement process.

Critically, when that has happened, one thing that we will look to investigate in more detail in the audit work that is coming is the job of Government to then understand where money is freeing up and make the best decisions about where to redeploy it. In exhibit 2 of our paper, you will see that the first and second tranches of business support are an example of that. The initial estimate was above what was required, but the underspend, if we use that term, was recycled into the next set of announcements. There is real value in that way of working.

The difficulty of it is that, when you add up those numbers, it looks like there is an underspend. We are trying to explain in the report the dynamic nature of the way in which that budget is managed through time.

Ross Greer: I think that “£5 million underspend” is probably not the most useful phrase for us to use, and the business allocation might be the best example of that. The money was spent and it was spent quite well, just not in exactly the same way.

I have a final, potentially quite daft, question. You mentioned some of the reallocations, such as money that had been initially allocated for bus passenger subsidies being moved over to support operators directly. I take it that, in terms of the budget lines that list spend on buses, that is the same money appearing in the same place, and it does not create the appearance of an underspend in one area, because that money has been allocated to spend in another.

11:15

Stephen Boyle: I think that that is the case in that example, but there are other examples where it is more complicated and budgets become harder to track, for example if a budget that does not relate to Barnett consequentials is reallocated to another budget line, perhaps because the existing budget was not required due to a drop in demand or a change in spending circumstances. I am pretty sure that there will be examples of both things in the budget process.

Ross Greer: Thank you. That is all from me.

John Mason (Glasgow Shettleston) (SNP): Most members have asked about the tracking of Covid expenditure. I will continue with that theme.

Is tracking Covid expenditure possible? Is it helpful or necessary? For example, if someone's operation—a hip replacement, say—has been postponed because of Covid and they now need more painkillers while they wait and they have to see a nurse or a general practitioner, how do we track the cost of the painkillers and the appointment with the nurse or GP? The nurse and the GP are there anyway, and the appointment is not directly related to Covid, but we could say that those costs came about because of Covid. There is never going to be a right answer to how that spending is tracked. I can see arguments on both sides, so surely a judgment has to be made. Will you comment on that?

Stephen Boyle: I will be delighted to do so.

The Government sought to frame the four harms of Covid. The direct health implications of the pandemic are seen in NHS budgets and spending lines, but some of the indirect implications, too, will be captured in health spending. Things are much harder to track when it comes to the societal and economic aspects. We have seen and commented on some direct budget lines—for example, on support for businesses and support for education through additional funding for local authorities—but you are right to say that a judgment is made as we consider what is and is not Covid related. The complexity becomes quite overwhelming before we get too far into that exercise.

Let me step back slightly and say that, while the pandemic is going on and we are still in a very clear spending phase of the pandemic, it is necessary, given the sheer impact on Scotland's public finances, that we do our best to make those judgments and that the Parliament is as clear as it can be about what is and is not Covid related. As you suggested, Mr Mason, the further out we get, as the direct spending ebbs, the harder it will be to be clear in that regard.

John Mason: Does that matter, though? Should we be worried about that, or do we just have to accept it?

Stephen Boyle: It matters, and we should deploy a clear mechanism for as long as we are able to do so. What comes next, in the recovery, renewal and transformation phase, will probably be of equal interest, and it is important that that phase is also supported by appropriate mechanisms for making transparent the way in which public spending is undertaken.

That takes us back to the earlier line of questioning about what all that public spending has achieved and what outcomes are associated with it. Whether that is shown through direct lines on a medium-term financial plan or the budget, the intended outcomes from the spending should be clear and there should be a process of transparency and accountability so that we can track what was achieved.

John Mason: We need to be able to understand how the decision was made, even though it could have gone either way. That is helpful.

In your briefing paper, you made the point that there have been 300 spending announcements in the context of Covid. Was there an implied criticism there? Have there been too many announcements and too many funds? Has it all been too complex? Would we have done better to have just two funds—one for the health service and one for business—and just got on with it?

Stephen Boyle: It was not intended as a criticism; it is a factual comment. Through the series of trackers, we tried to provide information, as opposed to making judgments. The scale of the announcements across the range of initiatives addressing the four harms and where money needed to be spent at great pace captured the circumstances that we are in and has followed the pattern that we would expect at this stage of the pandemic's evolution. We got to 230 spending announcements in the 2020-21 financial year. I do not have the up-to-date figure but, as we see in the report, at the end of July, we were at 70, so we are probably seeing a reduction in the scale of spending.

What that means in future is to be determined. The point that we made in the report is that it is more complex when there is such a scale of additional spending announcements. As we move to a more steady state through recovery and renewal, we would expect that to be far less than we have seen.

John Mason: Sometimes tax gets more complicated because we are trying to make it fairer and, if we make it simple, it is not so fair. Do you agree with that dichotomy?

Stephen Boyle: It is an interesting analogy. The simplicity of a system has benefits, but that can rub up against fairness or even transparency. There is a trade-off as we move into the steady state of renewal, recovery and future budgets.

I would not underestimate how complex the issue is. It is challenging to translate what public spending is achieving from outcomes, particularly as some of those outcomes may be in conflict. Nonetheless, clarity and transparency are important.

John Mason: We have spent time before on the links with national outcomes, and we will spend time on that in future, but I will leave that for the moment.

One of your other suggestions, which is in paragraph 26 of the report, is:

“future updates should include better information about planned spending options and how these could affect outcomes.”

What do you mean by that? Local government often has options in its budgeting. A council will say something like, “If we close all the libraries, that will save us £1 million.” The public then get excited and react, the libraries are saved, and that is good news. That is not the way that we have tended to do Scottish Parliament and Scottish Government budgeting. Do you mean that we should throw out options for people to comment on or do you mean something else?

Stephen Boyle: That is an interesting example. It is not one that we had necessarily intended, although we recognise that the type of spending and revenue-generating decisions that local authorities make—whether they relate to libraries or the setting of the council tax, for instance—represents a mechanism. I do not know whether the Parliament would wish to employ a similar mechanism for its income tax-raising powers and spending approaches, but it is one of the options. We are a bit more neutral about some of the options that the Parliament might wish to deploy.

Mark Taylor might wish to add something to that.

Mark Taylor: The root of the point relates to the medium-term financial strategy. Historically, there have been cases in which the Government knew that a budget adjustment mechanism—a reconciliation—was coming, but the medium-term financial strategy gave no options for, or indication of, how the Government planned to address the impact of the adjustment. It could go the other way: the Government might ask how it can use a windfall that is coming to it.

When the Government spells out its medium-term financial strategy, as well as looking at the core mid-point expectation, it should say

something about what is coming, what sort of issue it needs to deal with, and what range of demands that places on the public finances. It should lay out the options that it has to deal with that, such as reducing expenditure or increasing revenue. The medium-term financial strategy should give a bit more of a sense of how the Government thinks it will address some of the challenges that are inherent in the next few years.

John Mason: So the ball would start to be in the Government's court. It would propose three or four options in a particular area, and then committees, the Parliament and perhaps the public would discuss those options. Is that the kind of approach that you envisage?

Mark Taylor: There is an opportunity for that. In essence, we have called for at least one option to be set out, recognising the challenge and the anticipated response to it. If there is ambiguity about what that response might be, a range of options would provide an opportunity for a bit of discussion about it. A point that we have made and on which we have reported previously is that budget pressure has not been responded to in the material that has been set out.

John Mason: In the section of the report on the transition from response to recovery, paragraph 28 says:

"the Scottish Government will need to have a clear understanding of how it plans to transition".

Two lines further down, it says that the Scottish Government

"is also likely to need to maintain a flexible approach".

It strikes me that those two points are somewhat in balance against each other. Is it possible to get a balance there?

Stephen Boyle: Time will tell if that is possible. I am not sure that we are in a position to give that level of certainty at the moment, given the volatility that there is.

Our point is about clarity on priorities. We have all seen in recent reporting that Scotland's public finances dealt with many priorities before the pandemic. Some issues have been exacerbated following its impact. We have talked in some of our reporting about the challenges that the NHS and our justice system face to recover to levels of service and throughput that the public will want, and about some of the harms that the pandemic has exacerbated, such as inequalities. All those things are true. However, a conversation about transparency on how those priorities will be set, how they will be funded, and what will be achieved from them needs to take place.

John Mason: I want to follow up on what Mr Taylor said to Liz Smith about looking at changes

during the year. I get the point that was made by Ross Greer—or whoever made it—that we should maybe have four reviews or that they should happen at fixed times. Will Mr Taylor unpack that a bit more? If we got a bit of extra money from Westminster through Barnett consequential and the Government announced that it would be put into childcare or something like that, do you think that the Education, Children and Young People Committee or the Local Government, Housing and Planning Committee, for example, should then do a bit more work on that announcement? Would you suggest that committees might examine such matters more than they have done in the past?

Mark Taylor: I am supportive of the important shift from reporting on plans to reporting on actual spend. Having said that, there is an opportunity for this committee, through its work on budget amendments, to look in more detail at the specifics of that.

If we consider the most recently published budget amendments—about £1 billion was added in yesterday's announcement—alongside the underlying budget position, we see that the committee has an opportunity in its scrutiny of the budget revision to investigate where that money is planned to go and how that fits with the sort of issues that we talked about earlier, such as who needs the money and what difference has been made. I would start with that opportunity to build on the approach that the committee already takes, in order to get into that type of work more generally.

The question of the extent to which that work is shared around is interesting. There could be an investigation and inquiries into some of the big spending platforms that are part of the Covid response across committees. There are opportunities for committees to do that work as part of their pre-budget scrutiny. Local government was mentioned earlier. That is an obvious example.

The root of my comment was the opportunity for this committee to look at the dynamic nature of budgeting through the year. We have been through two years in which the actual spend at the end of the year has looked very different from what was planned in the budget at the start. If we look at the balance of where scrutiny happened, we see that 95 per cent of it—probably more—was on the initial budget position. There is an opportunity to broaden out that scrutiny through the year, in relation to both changed plans and the actual spend that is coming through.

John Mason: That is quite an interesting thought. If the Government announced more money for health, who would then challenge it not to spend so much on health but to spend more on education? I do not know whether that is the role

of this committee, but maybe it is up to it to consider that point in the future.

I will leave it at that. Thank you very much.

The Convener: I think that we will all take the fifth on that one.

Douglas Lumsden (North East Scotland) (Con): Auditor General, when Liz Smith asked about transparency in external organisations, you said that, in terms of audit, some are under the Scottish Government umbrella and some are not. As a new member, I would like you to explain that a bit further.

11:30

Stephen Boyle: I am more than happy to do so. Let us start from a high level. The Scottish budget sets out what will, with the Parliament's approval, be spent. Much of that flows to Scottish public bodies, the Scottish Government itself, the national health service and local government, and all those bodies in the public sector will prepare their own accounts. They will all be subject to audit, and public reporting will go alongside that.

Some of those bodies' accounts are then brought back into what we call the Scottish Government consolidated accounts. There is an accounting boundary—I apologise for the technical description—that is determined in combination with the Scottish Government, and the financial reporting guidelines give an indication of which bodies fall within that.

The reason why that has come into focus in recent years is that there are some bodies that are not part of the accounting boundary that have been quite high profile in their work and their use of public money. The issue stems from the fact that we did not think that that was a strong enough position for those bodies to be in as it does not support accountability in respect of how well public money is spent.

That led us, a number of years ago—we have made this point repeatedly in recent times—to set out why we think that there is a missing component, and also why it feels necessary to set out in the Scottish public sector accounts the whole scale of assets and liabilities, and what Scotland generates and what it spends.

Douglas Lumsden: I guess that that includes bodies that were given money to allocate in Covid funding. As an example, I am thinking of Creative Scotland, which had a cultural organisations and venues recovery fund from which it could allocate between £10,000 and £250,000 in each case. There is a list of the organisations that received money from that fund, but I cannot see a basis for how it was allocated. Is Creative Scotland an

organisation on which the public could be given more transparency?

Stephen Boyle: You are right—there are a range of public bodies that have been responsible for spending Covid-related moneys. There are two components to that. One is where bodies have spent the money themselves, and the other is where they have taken on more of an agency-style function and allocated the spend to onward recipients. A lot of the business grants have been in that space.

I do not think that there is necessarily an accountability gap around Creative Scotland. It will prepare its annual report and accounts, and it will be subject to audit and scrutiny that will set out in clear detail what money it spent and, importantly, what was achieved from that. As we have already mentioned, in order to supplement that audit and scrutiny, we have a programme of work on following the pandemic pound. That will cover not just central Government bodies, but the enterprise agencies, Creative Scotland and local government bodies, and it will look at how well that money has been spent. That work will build on the tracker papers that we have been producing, and we will be publishing the results into the spring of next year.

Douglas Lumsden: That is good. You answered the question that I was going to ask next, which was on following the pandemic pound. Will organisations such as Creative Scotland be part of that work?

Stephen Boyle: Yes. I will hand over to Mark Taylor in a moment, as he is leading that work on behalf of Audit Scotland. However, I note that it is a broad suite of work and a lot of organisations are involved. It affords us an opportunity, with the public audit set-up that we have in Scotland, to bring in organisations in central Government, which I am responsible for auditing, and those in local government, for which the Accounts Commission is responsible. Public spending of Covid moneys is a really good example, given its scale, as we can look across the panoply of public bodies. That work involves central Government, the NHS and local government bodies. Mark Taylor can say a bit more about where we are going on that.

Mark Taylor: Our overall approach is initially to look at where the money has gone, how it has been used, whose pocket it has ultimately ended up in and what the decision making and accountability arrangements were around all of that. That last aspect will deal with some of your questions. Through time, as the Auditor General suggested, we will increasingly shift towards asking questions such as “How well did that work?” in evaluating the spend. However, it will inevitably and necessarily take some time for us to

get to that stage, given the nature of the pandemic and how Government has worked through it.

With regard to bodies such as Creative Scotland, the question for us is about the degree of granularity at which we look at the individual body, alongside the overall picture. For an initial piece of work, we have picked a number of bodies that have been the largest recipients of funding. We will look at how the arrangements have worked in those bodies, and we will report on that. As time goes on, we will think on a risk basis about how we drill down into some of the detail. As the Auditor General mentioned, we will do that alongside the reporting that we will already be doing on Creative Scotland and the reporting that it will do on its arrangements.

A longer-term programme of work is under way, and you should expect reporting to come out of that over the next months and years as we get into the detail.

Douglas Lumsden: When will the “Following the pandemic pound” reports start to come to us?

Mark Taylor: A quick answer is that you are looking at one of the first reports today. As for specifics, we expect to take an initial broader look at how pandemic spending has been managed and to begin to exercise some of the judgments that the Auditor General mentioned next spring.

Douglas Lumsden: In paragraph 23 of your submission, you say that

“The Scottish Government has committed to produce a consolidated account to cover the whole public sector in Scotland, including ... assets, investments and liabilities”,

and that you have

“recently highlighted that there is a need, more than ever, for”

that work to be done. When was that commitment made and do we have any idea when it will be met? Why is it so important?

Stephen Boyle: It is a number of years since the Government made that formal commitment. There has been progress behind the scenes with various iterations.

Returning to my earlier point about the accounting boundary, I note that there are complexities with regard to the different styles of financial reporting in public bodies in Scotland. For example, the way in which local government sets out its accounts is quite different from that of the national health service and central Government. I absolutely recognise that the process is not straightforward. However, our sense is that progress has not been what it ought to have been given the significance of this component of financial reporting in Scotland.

We were pleased to hear the permanent secretary reaffirm at a meeting of the Public Audit and Post-legislative Scrutiny Committee at the beginning of the year the Scottish Government’s commitment to this work and the progress that it intended to make. The pandemic activity and response has slowed progress, but we are calling again for this component of Scottish financial reporting to be completed as soon as possible. In our reporting on the Scottish Government later this year, we will look at how well that is going. It is necessary and we hope to see progress soon.

Douglas Lumsden: Why is the information so important?

Stephen Boyle: We do not have a single reference point where we can see all the Scottish public assets and liabilities along with what revenue is generated and what is spent. Various documents set out different aspects of that, but there is no single source. For example, we know that public sector pensions are a significant liability and that Scotland’s roads are a significant asset, but they are not set out in the same document. For ease of public scrutiny and understanding and to help with Parliament’s awareness and ownership of the issue, it is really important for this work to be taken forward.

Douglas Lumsden: In paragraph 5 of your submission, you mention “disruption to education” and say that it is “most likely” that

“those who are already economically and educationally disadvantaged”

will be affected more by the pandemic, and in paragraph 7 you refer to “increasing inequality”. I believe that someone mentioned £300 million that has not been committed yet. We all think that such matters are important. Am I right in saying that there is money available that the Government can spend quickly if it chooses to do so?

Stephen Boyle: I will ask Mark Taylor to talk about the extent to which the £300 million is available in the way that you suggest.

With regard to our comments about the disruption to education, the Accounts Commission and I published our report “Improving outcomes for young people through school education” earlier this year, and we gave evidence to the Public Audit Committee on that report and the impact of Covid on Scotland’s children and young people. In our previous suite of “Following the pandemic pound” reports, we touched on aspects of inequality that had been exacerbated by the pandemic, and in our report on the NHS we mentioned some of the groups in society that will be more adversely impacted by the direct implications of Covid. All those factors bring us back, through this report, to the priorities that the Government and the Parliament wish to set for

public spending and the need to ensure that they are clear and the money is used as quickly as possible.

Mark Taylor: The point about the uncommitted £300 million is a concrete example of the tension between flexibility and plans, which John Mason and the convener asked us about. A job for the committee is to understand whether the Government has plans up its sleeve for that money, whether it is a rainy day fund or whether it is somewhere between the two.

The flipside of committing all available funds as well as all funds that are expected is that you minimise your flexibility. Holding a contingency and having a degree of flexibility allows you to deploy money later in the year in response to events. A judgment or policy decision is made to trade that off against spending that you can identify now. That is the stuff of Government and politics and it is absolutely the stuff of scrutiny for this committee.

Douglas Lumsden: It is all about urgency and priorities. Thank you.

Michelle Thomson (Falkirk East) (SNP): We have spent a large part of this evidence session looking at and evaluating the complexity of Audit Scotland's scrutiny and our scrutiny. As Mark Taylor pointed out, it is the case that we can start to understand a lot of spending only once it is in the past.

I will ask about something that I am struggling to get my head around. In my former life in management, there was a clear difference between accountability and responsibility. I see that difference writ large here, because the Scottish Government is accountable for spend outcomes via the national performance framework, which we have talked about, but it has no responsibility in certain areas. We have the curious situation where the Scottish Government is accountable for the outcomes but it has no responsibility for efficient and effective delivery. The UK Government is responsible, but it is reluctant to be held accountable, or it has no accountability in the area.

It is on the record that the replacement for European Union structural funds will be spent by the UK Government and administered by a local government minister—I think that it is the English communities minister—direct to local councils. How on earth can you audit that effectively? I can see that Mark Taylor thinks that that question is a belter. How are you reflecting on that additional complexity and linking it back to outcomes?

Stephen Boyle: I am happy to answer that first, and I am sure that Mark Taylor will want to comment as well.

It is undoubtedly complex. You gave the example of the changes to European funding following the UK's departure from the European Union and what will replace those funding streams. We are tracking the situation closely because we do not yet know the answer or what the associated audit arrangements will be. We have had a clear role in the area up to now. Part of our work took us into auditing how the common agricultural policy funding was spent in Scotland, and we worked closely with the other UK audit agencies to do that. We do not yet know whether the replacement for the structural funds will be spent directly by the UK Government into local authorities, or what role the Scottish Government will have.

We are clear that we will continue to track and monitor spend, and I had a conversation with the Public Audit Committee in recent weeks about the audit arrangement. However, that is an example of a volatility that remains in the system as to how public money will be spent and whether it will be spent by the UK Government, the Scottish Government or local authorities.

That question led us to the point that we make in our submission about the importance of effective communication and co-operation between the different spheres of Government, where that is possible, so that there is clarity and transparency about what public money is being spent and what is being achieved. We recognise Ms Thomson's point but, currently, the answer to her question is complex.

11:45

Mark Taylor: When Ms Thomson asked her question, I recognised the point about how complex the issue is. There is no getting away from that complexity, and there is also an increasing ambiguity—a wavy line, if you like—about what is devolved and what is reserved and how those two spheres of government interact with each other. Indeed, we heard an example of how things have been blurred further in some funding streams. The Parliament, we at Audit Scotland and others who are involved in these matters face an accountability challenge in unpicking that and working our way through it.

Some of that work will be relatively straightforward, given that our devolved spending bodies, wherever they get their money from, will fall within the remit of either the Auditor General or the Accounts Commission. They will have opportunities to look at how those bodies manage and spend the money that is available to them. In other areas, however, things get more difficult, which brings me back to the root of the question about aggregating things and what government in the round is responsible for. There is a partnership

agreement involving the work of the Government, local government and other bodies to deliver on the aims of the national performance framework and produce outcomes, and that is where the real challenge lies.

A recommendation that the Auditor General has made touches on this and one or two earlier questions. He has suggested—the Deputy First Minister touched on this when he gave evidence to the committee recently—that what the system is missing at the moment is an annual report that shows how things are going from a Government perspective, what the particular year's narrative is and an assessment of performance in the year.

We recognise the difficulty and complexity of accountability, but we believe that there is a real opportunity to pull back and, as the convener suggested, look at the Government's contribution to outcomes. There is an opportunity to add a further layer of reporting to help to explain that. That is not simple, as has been highlighted, but it is important.

Michelle Thomson: Thank you for those responses. The problem is that, as we all agree, we do not know anything until the data is there. Obviously, your function fits in with that. However, how do we strike the right balance between retrospective assessment and future forecasting, particularly if we are to adhere to good principles of accountability and responsibility? Do you have any plans to put some meat on the bones? How will that make your scrutiny role—and ours—more complex? It may be that, as you start to get more information coming through, you will also consider reflecting on that. The situation is beyond complex already, and this will make it complex cubed, in my humble opinion.

Stephen Boyle: We need to consider all the things that you have mentioned. It is about finding the right balance between the retrospective look, which has traditionally been the role of audit, and consideration of the financial sustainability of Scotland's public finances, in which we, alongside others, have a role to play. We have already talked about, for example, the Fiscal Commission's plans for a longer-term analysis of that financial sustainability, and then there is the Government's reporting through the medium-term financial strategy and the improved connections that it makes to the national outcomes. That component is necessary.

We will always try to strike that particular balance through our traditional audit work on the 200-plus public bodies that spend the money that the Parliament approves. Much of that is reported directly through those public bodies, and we complement that work with a suite of performance reports. Mark Taylor has drilled into some of that but, whether they relate to the NHS, education or

other aspects of the pandemic pound, those reports explain some of those budget lines in a bit more detail.

You are quite right: we are in a volatile environment and the nature of accountability is changing. We will continue to track and report on that. As we have mentioned in previous tracker reports, we have recently flexed our approach. Historically, we had a relatively fixed annual programme of performance reports, in which we set out the lines of budget spend and the various areas that we planned to report on. It became clear in the early stages of the pandemic that that approach was not going to serve us well in reflecting the volatile environment that we were in, so we now have an opportunity every quarter to refresh that programme and prioritise or deprioritise areas. We keep that under review through our regular reporting.

The Convener: I have a couple of questions to finish the evidence session. In the report, you noted that the Scottish Government said:

“the tracking of spend is more straightforward across health and social care and the larger support schemes; outside of these, judgements have been made about how Covid-19 disruption to spending on services has been recorded.”

How has that varied? Has the approach been consistent or inconsistent across the directorates during the Covid-19 pandemic?

Stephen Boyle: I am happy to start. I am sure that Mark Taylor will say a bit more about some of the conversations and evidence that we have received from Government. Tracking of spend has been much clearer in health and social care. Where there are Barnett consequentials, spending announcements are tracked in health and social care. That could be PPE spend, for example, which would clearly be health and social care related. Similarly, some of the support for local government, which accounts for a significant amount of the spending, has been much more clearly ring fenced and identifiable against previous budget heads. With some of the other directorates, we think that the position is reasonable and that there has been a reasonable reflection of the spending, but it has been necessary to make judgments in order to map some of the 300-odd spending announcements to particular budget lines. There is a sense that it was fair that that had to be done, but, once the volume of those changes ebbs, there will be a need for a clearer process to provide some of the specifics. Mark might want to say more about how we arrived at that judgment.

Mark Taylor: As part of the work that we want to do, we will look to get more evidence on such questions and work through them. Inevitably, given the degree of judgment that has been

exercised, we anticipate that there has been a degree of inconsistency. However, we also recognise that the way that that developed changed over time, and we will look to test that in evidence. For example, when the pandemic hit, there was a need to spend money on and support public services quickly, but we would expect a different environment to be evident 12 to 18 months into the pandemic. We will look to uncover how that changed over time and how reasonable an approach that was.

The Convener: [*Inaudible.*—my last question. First, Stephen Boyle, you said that there has been variation through necessity as much as anything else, but, with regard to what you have just said, Mark Taylor, have reporting mechanisms and transparency improved, stayed the same or deteriorated over the pandemic? Earlier, you said that another layer of reporting would be helpful, but you also said that the situation has improved over the past 18 months. Is it fair to say that? If so, could it have improved more?

Stephen Boyle: I think that we will both offer a view on that. It would be difficult to say that the reference point is a fair comparator. If we compared where we are now with 2019, we would see a range of improvements and deterioration, given the scale of change. At this stage, it is difficult to form definitive judgments about the quality of budget management and reporting. That is just a reflection of the complexity of the situation. My sense is that it is too soon to make that sort of judgment. We are trying to bring a degree of empathy to such assessments, in recognition of the scale of change and the pace of spending. It will be a while yet before we are in a position to say whether there has been an overall improvement or deterioration.

Mark Taylor: I absolutely recognise that issue. We are doing the work that will give us the evidence base to report a conclusion on that and some other areas. I will share a couple of observations, one of which is that there are different responses to different elements of the list of things that you asked us about, convener. I will pick out a couple of those. With regard to financial management and how the Government has managed, I would expect—we are yet to gather the evidence—that that will improve over time. Through our engagement with the Government, we have seen some evidence that that will be the case, and we will look to explore that a bit more.

I also reflect that there was a particular period—from around December last year, through the last budget process and into February and March this year—when the level of transparency and detail that the cabinet secretary was able to share about spending plans and Covid-related matters reached its peak. We have yet to digest the autumn budget

revision, but I recognise that the level of information perhaps dropped off a bit, for understandable reasons, including that there was a new Parliament and a new Government. I hope that it will return to that level of articulation and transparency of where the money is going and what it is being used for.

The Convener: Thank you. That was very helpful. Indeed, I am sure that I speak on behalf of the committee in saying that all your evidence has been helpful. Without further ado, I will terminate the public session of the committee, to allow our witnesses and the official report staff to leave. We will reconvene at noon.

11:55

Meeting suspended until 12:00 and continued in private thereafter until 12:18.

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