OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit Committee

Thursday 23 February 2023

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Thursday 23 February 2023

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PUBLIC AUDIT COMMITTEE

6th 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)
*Craig Hoy (South Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Colin Cook (Scottish Government)
Alison Cumming (Scottish Government)
John-Paul Marks (Scottish Government)
Jackie McAllister (Scottish Government)

CLERK TO THE COMMITTEE

Lynn Russell

LOCATION

Committee Room 4

Scottish Parliament

Public Audit Committee

Thursday 23 February 2023

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Richard Leonard): Good morning. I welcome everyone to the sixth meeting of the Public Audit Committee in 2023. The first item for the committee's consideration is to agree to take agenda items 3 and 4 in private. Are we all agreed to take those items in private?

Members *indicated agreement.*

Section 22 Report: "The 2021/22 audit of the Scottish Government Consolidated Accounts" and "Scotland's public finances: Challenges and risks"

09:00

The Convener: The main business this morning is consideration of the Auditor General for Scotland's section 22 report on "The 2021-22 audit of the Scottish Government Consolidated Accounts", along with his briefing on "Scotland's public finances: Challenges and risks".

It is almost exactly a year since we held our previous session on this subject, and I am pleased that, this time, all the witnesses are in the room with the committee. I am pleased to welcome the permanent secretary, John-Paul Marks. Alongside him from the Scottish Government are Colin Cook, director of economic development, Alison Cumming, director of budget and public spending, and Jackie McAllister, chief financial officer. Welcome to you all.

We have a range of questions to put to you, but, before we get to them, I invite the permanent secretary to make a short opening statement.

John-Paul Marks (Scottish Government): Good morning to the committee, and thank you for your welcome, convener. I also thank Jackie, Alison and Colin for joining me.

I start by thanking the Auditor General for his report and assurance on the 2021-22 annual accounts. It was another unqualified opinion, but we are committed to working with Audit Scotland and the committee to develop further. I am sure that, in this session, we will cover some areas and opportunities for us to do so together. We want to continue to ensure value for money, to ensure financial management and good control, and to improve good governance, all focused on delivering better outcomes in Scotland.

Convener, as you know well, the operating context remains severely disrupted. The impact of the pandemic, the tragic events in Ukraine and the inflationary shock have severely impacted on the cost of living, our budgets, our economy and our public services. It has been a challenging year in that context, and those risks are staying with us for the near term.

The 2021-22 accounts are before us. I will make a couple of points up front on the transition from that year, which was a Covid crisis, to our attempt to deliver a Covid recovery. In that year, the response included £5.7 billion of extra support in consequential funding, but, of course, that funding did not continue. Moving into 2022-23, we needed to deliver a fiscal consolidation but continue to deal with the Covid backlogs. That impact and risk were compounded by the shock of further inflation. We have published more evaluation on Covid spending, particularly around business support, which Colin can talk about, and we will continue to look to see what more we can do.

As you know, on Tuesday, Parliament voted through the budget for the next financial year. Through 2022-23, we worked really hard to ensure that we managed those backlogs, brought the budget into balance and sought to make further progress. Two emergency budget reviews were put in place, with £1 billion of in-year adjustments, to ensure that that could be done.

Our approach is that value for money, good governance and a focus on delivery remain a priority. We have a delivery executive, which meets every week. It is focused on financial control; risk and the prioritised outcomes that we seek to deliver; a corporate transformation programme on workforce management and control, which is really getting going and to which Audit Scotland alludes; and estates and systems transformation. We will need to rebase our capital programme, given the shock and impact of inflation.

I will make a couple of final points on progress on outcomes, because I share the committee's desire to see a real focus on performance reporting and improvement in outcomes. We have record high employment in Scotland and the lowest inactivity level in the United Kingdom. Child poverty is lower than the UK average. We have 1,400 fewer children in care compared with 2020, when the Promise was launched. In the criminal justice system, crime is at its lowest levels, the prison population is 8 per cent lower than it was before the pandemic, and our courts backlog is falling in a sustainable way. We have further criminal justice reform ahead. We need to accelerate public service reform, to look across those systems and to drive better outcomes in the months and years ahead, but we have some very important strengths and capabilities in Scotland to build on. That will be our focus as well.

I thank partners across local government, the national health service and the private, voluntary and public sectors for their support this year. It has been challenging, but, nonetheless, their partnership and collaboration are essential for us to secure and deliver Scotland's national performance framework in the long term.

I pay tribute to Scotland's outgoing and longest serving First Minister. I thank her for her significant and enduring contribution to this country. We will be ready to support the new First Minister from March, keeping our feet firmly on the pedals to deliver better outcomes for Scotland.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning, permanent secretary, and good morning to the rest of the team.

Permanent secretary, I invite you to make some comments on the plans to replace European Union structural funds. As you know, the committee has been keen to try to understand whether there is a role for the Scottish Parliament, its committees, Audit Scotland and so on in the replacement and deployment of the funds on behalf of the people of Scotland. We know about the term "shared prosperity", and we know about community renewal and levelling up. Could you offer the committee any guidance or clarity on arrangements for the scrutiny, transparency and audit of those funds in relation to the Scottish Parliament and the work that we do?

John-Paul Marks: As you said, Mr Coffey, the departure from the European Union has changed the way in which European structural funds work. They have been replaced by levelling up funds. I think that we have just gone through round 2 of the levelling up awards, in which local government puts together its business cases and submits them to the Department for Levelling Up, Housing and Communities—DLUHC—and awards are then made accordingly. Scottish ministers and their officials would prefer that that money was devolved, so that it could be subject to the full scrutiny that the committee would provide and be coherent with things such as the national strategy for economic transformation. However, in the absence of that being agreed by the UK Government, our intent is to continue to work with local government on its projects that have been successful in getting funding, and to make sure that we are doing everything that we can in partnership with it to ensure that it delivers well. For example, let us see whether there can be some coherence with growth deals in parts of the country. I was in Glasgow the other day with the chief executive. We went to Glasgow airport, and we saw the National Manufacturing Institute. We then met the chief executive and talked about its levelling up bids and how we want to ensure that you get the maximum bang for your buck.

As those projects get going, we need to reflect carefully on how they can be reported in a way that allows Parliament, for example, to scrutinise their value for money and effectiveness and whether they are on track, or on time, and to be confident that the fund is working. Colin Cook has done further work on that. Colin, do you want to add anything on the scrutiny and audit of levelling up funding?

Colin Cook (Scottish Government): I saw the exchange with the Auditor General when he gave evidence. Clearly, a UK Government fund is subject to UK Government auditing arrangements. However, as the permanent secretary said, our ministers have been clear and consistent throughout that they believe that future regional economic funding should be devolved and delivered by the Scottish Government, in partnership with the UK Government, where appropriate, and other tiers of government in Scotland. That model worked extremely well for the city and region deals. It also worked to everyone's benefit for the launch of the green freeports programme. We have a track record of demonstrating that we can work together. I know that our ministers are in discussions with the Secretary of State for Levelling Up, Housing and Communities and others about future arrangements.

Willie Coffey: Thank you for that. Are you seeing any semblance of agreement from our colleagues in the UK to recognise this Parliament's role in the process? The committee has tried its best to get some clarity on that, but it seems clear to me that there remains none. Are you getting any indication at all that we will have a role, whether formal or otherwise? Will we be watching from the sidelines as this major fund is disbursed and spent throughout Scotland for our communities?

John-Paul Marks: I am happy to take away the challenge to meet Sue Gray, who is the permanent secretary who leads on levelling up. I met her and the new first permanent secretary, Sarah Healey, a couple of weeks ago. There is new leadership in the department to whom to reinforce the importance of the point. Like you, I want to secure the very best value for money from that fund. I have seen some of the media coverage on how local government feels about the process. We would like the process to be empowered as closely as possible to the communities that the fund serves, and, as Colin Cook said, our ministers have been very clear and very consistent in saying that they would prefer it to be devolved.

On your point concerning how we can now work together, I will say that green freeports are a good example. We have, as Colin said, joint governance and a joint programme board. Could we not achieve the same on levelling up? We could then provide the committee with more regular updates, including the opportunity to scrutinise projects in order to be confident that they were indeed delivering what their business cases said, that they were achieving the benefits and that the funds were being optimised. Like you, I would like to see as much transparency as possible. I am happy to meet Sue Gray and/or Sarah Healey and report to you in writing.

Willie Coffey: If you have that meeting and share with us what you can about its outcome, that would be greatly appreciated. We are keen to pursue this.

John-Paul Marks: The only other thought that I have is that the committee could invite the Secretary of State for Levelling Up, Michael Gove, to come and tell you how it is going.

Willie Coffey: I think that he has been, and may be coming again, to the Finance and Public Administration Committee.

John-Paul Marks: Great. He could bring his permanent secretary with him. That would be lovely.

Willie Coffey: That is an option for us, convener. Thank you very much for your responses, permanent secretary.

The Convener: Before we move off this point, can you help us understand whether the green freeport projects, of which there are two in Scotland, will be the subject of scrutiny and audit by the Auditor General for Scotland?

John-Paul Marks: I will need to double-check precisely how we can do that. From my perspective, I would have no problem enabling that. My understanding of the governance is that it is a UK programme in which we have good joint working to deliver the Scotland freeport elements—the two ports for which we are getting devolved funding of £52 million. If there is a mechanism whereby we can enable Audit Scotland to audit the £52 million for the two projects in Scotland, I would be totally comfortable with that, but I need to understand the governance around that programme and the UK position in order to understand whether that is problematic at all.

Colin Cook: To reiterate, from an official, working level, we have collaborated really effectively with UK Government colleagues throughout on preparing the prospectus, on assessing the bids and on the way in which we communicate. We are starting to plan and work on the roll-out of green freeports. We have done that together, we have shared responsibility and we have been open. I think that that is a very strong position. As the permanent secretary said, we need to check the precise nature of the auditing arrangements, given the relative contributions that the different Governments are making to the programme in Scotland. I am sure that we can do that and carry on in that spirit.

The Convener: Thank you. For us, it is not just about the £52 million but about the governance arrangements, the outcomes, the whole way in which it operates and whether there is any displacement effect, for example.

09:15

Sharon Dowey (South Scotland) (Con): Good morning. Can you confirm the amount that was transferred to the Scotland reserve at the end of 2021-22?

Jackie McAllister (Scottish Government): In the provisional outturn statement, which was presented to the Parliament in the summer of 2022, we transferred £650 million in total. That was a combination of resource, capital and financial transactions funding through the Scotland reserve. The final outturn for 2021-22 is still to be reported to the Parliament. We hope that that will be imminent, but we have to wait for all the bodies that feed into the Scotland reserve to complete their 2021-22 accounts and audit process, and some of that work is still outstanding.

Sharon Dowey: Will that money be used to support the 2022-23 budget plans?

Jackie McAllister: Indeed. The 2022-23 budget statement set out and included quite a significant proportion of the Scotland reserve. The remainder—the additional carry-forward—has all been deployed and utilised within 2022-23.

Sharon Dowey: What plans does the Scottish Government have to increase transparency in relation to the Scotland reserve?

Jackie McAllister: We are keen to continue to explore with Audit Scotland how we can increase transparency around the Scotland reserve. We think that there is a good degree of transparency. As I mentioned, we report periodically to the Parliament the provisional outturn, the final outturn and the fiscal framework outturn. That includes a full reconciliation of the reserve, the funding that goes in and how that is drawn down.

Within the consolidated accounts, we also refer to and acknowledge in the performance report the difference between the consolidated accounts and the Scotland reserve. They are not quite the same thing. We can look at how we can disclose that information and be more transparent in the narrative that we provide. We can also look at the information that we provide in the final outturn report to the Parliament to, again, see how we can increase transparency. I am aware that the committee does not routinely see that report. I am sure that we could look at providing that.

Sharon Dowey: That would be excellent.

Who in the Scottish Government agrees with ministers any funding that is announced? If a Scottish Government minister announces money for a specific project, how does that come about? Who agrees that the amount is available?

John-Paul Marks: Compared with what I have seen before, we have a comprehensive accountable officer template process for all spending decisions. It would start within the portfolio. If the portfolio minister or cabinet secretary wants to make an announcement, there is an accountable officer process to go through to assure them that what is proposed is proper and regular, that we have the legislation and budget in place and so on. It is for that director general and accountable officer to do that with their minister. If there was a level of contention about that—for example, it might not be affordable within the existing budget—the templates would be signed off by Jackie McAllister and me and, ultimately, by the Deputy First Minister as acting finance secretary.

That control process has been critical through the past financial year because of the level of risk. Audit Scotland was very fair in its challenge on that in its report last November, in which it said that the level of risk relating to whether the budget would balance was significant. That was the case. In the past year, we have put a lot of effort into being in control of the decisions and spending.

Sharon Dowey: I am thinking specifically about the £156 million for the teachers' pay offer. It was broken down into £30 million for this financial year and £123 million for the 2023-24 financial year, and it is coming from the education and skills budget. However, at the Education, Children and Young People Committee, Shirley-Anne Somerville stated that she was still working through the details of where exactly the money is coming from. Would that not be set in stone before the announcement was made? Obviously, that has huge implications for education and skills.

John-Paul Marks: There are two different budgets in play in relation to that announcement. The £30-odd million that you refer to is in the 2022-23 accounts. We had a provision for it that was agreed through our accountable officer process with the cabinet secretary and the Deputy First Minister, and it will be in the next annual report and set of accounts.

The cabinet secretary then alluded to the second part of the pay offer, which is for 2023-24 and was a future spending commitment at the point of being announced—the budget was passed by the Parliament only on Tuesday. It is a commitment to a future liability on pay that is affordable within the education budget, but it will be for the cabinet secretary to balance her 2023-24 budget based on the allocation that the Parliament voted for on Tuesday.

Sharon Dowey: When will it become transparent to us where the cuts have been in education and skills?

John-Paul Marks: That will become clear either through the scrutiny that the Education, Children and Young People Committee will provide or through future annual reports and accounts and in future financial reporting. To be clear, we have budgeted for the pay deals, so we do not want to have consequential cuts to fund them. We are trying to achieve a balanced budget for next year. As I said, that is not easy, given the context and the fiscal position. Obviously, quite a lot will depend on what comes out of the March UK budget in relation to any consequentials for the block grant. There is uncertainty, but the pay deal that was announced by ministers is funded in our budget.

Jackie McAllister or Alison Cumming might want to add to that.

Jackie McAllister: The autumn and spring budget revisions will provide full transparency on all budget movements that are agreed and actioned through the year.

Sharon Dowey: I have been looking at the track record of quite significant underspends, including, most recently, the £2 billion underspend. What processes are, or should be, in place to ensure that we, as parliamentarians, can provide scrutiny and see what money has not been spent and why it has not been spent?

John-Paul Marks: You are right to draw out the scale of underspend in the 2021-22 accounts, and we have just looked at some of the big drivers of that. For the resource underspend on education, the student loans revaluation accounted for £600 million of the change. Another £180 million related to business support—as I said, that was very much driven by Covid consequentials being discontinued—and there were further underspends of £250 million from not heating buildings due to pandemic impacts and demand factors.

I can say with a high degree of confidence that there will not be that underspend in our 2022-23 accounts, unless my two finance officers and I do not understand each other. We meet every week to go through our budget and squeeze every inch out of it.

The process of balancing the budget in the past year has been very challenging. We have, quite rightly, and as you would expect, sought to protect our cost of living package by expanding eligibility for the Scottish child payment and doing everything that we can to mitigate the impact of the inflationary shock on households. In-year, we created more than £700 million of additional spending in order to afford public sector pay awards for 2022-23, and that has, in part, enabled us to avoid, to date, industrial action across our health service.

You are right that a set of factors drove underspends in 2021-22. Many of those factors, such as inflation and the war in Ukraine, have persisted, but I do not expect those underspends to be repeated.

Does Jackie McAllister want to say anything more on that?

Jackie McAllister: Yes. First, the £2 billion underspend does not represent a £2 billion underspend in the spending power of the Scottish Government and the bodies that are part of the consolidated accounts. Indeed, almost half of that underspend related to non-cash valuation, technical accounting adjustments. It is important to note that the accounts reflect not just the spend in-year but the assets, liabilities and provisions that we have to revalue every year, and we need budget to do that.

As the permanent secretary said, quite a bit of the underspend was due to some very late changes to some of the index-linked assumptions that drove the valuations for our provisions and liabilities. That was after the spring budget revision and the last opportunity to change our budget assumptions in 2021-22.

As we discussed, the spending power is reflected through the Scotland reserve, and the provisional outturn for that was £650 million. We will report a final outturn, which we expect will be closer to £700 million. That is the spending power that we carried forward into the year. We included in the budget for 2022-23 more than half of that, and the rest, as I said, has been fully deployed in 2022-23.

Sharon Dowey: Finally, what plans do you have to be more proactive in publishing comprehensive Covid-19 spending information? Will that make clear links between budgets, funding announcements and actual spending?

John-Paul Marks: I will ask Colin Cook to say more about that, because the committee gave us that fair challenge last year. We published a significant evaluation on business support grants and Covid spending. If there are suggestions about particular additional areas, such as the vaccination programme or personal protective equipment, we are obviously happy to take them away.

Finally, there are two Covid inquiries under way—the UK one and the Scottish one—which will cover a range of issues. We will, of course, ensure that we submit all the evidence relating to the support that we tried to put in place to mitigate some of the impacts.

Colin Cook might be able to say more about the business support evaluation that we published.

Colin Cook: We published the report in June 2022, and it is an evaluation of the outputs and indicative outcomes of schemes until summer

2021. We continue to work with our colleagues in the analytical service to refine and update that report. The report looks at the investment of about £3 billion in rates relief and schemes that were administered by local authorities or our enterprise agency. It looks, first, at the emergency response that we put together between April and October 2020 and, then, at the strategic business framework that was introduced in October 2020. We will update the report, which includes detailed information. The report was published on the Scottish Government's website.

The Convener: We have quite a lot of questions to get through, and I am anxious to press the accelerator a little bit. I invite Willie Coffey to come in.

Willie Coffey: I will be as brief as I can with the questions. I invite the panel to say something about the plans to produce the public sector consolidated accounts. First, can you explain what they are? What is the difference between the public sector consolidated accounts and the consolidated accounts we are looking at just now? There is an interface with the UK's whole-of-Government accounts and the plans to produce those. Briefly, permanent secretary, can you explain, for the benefit of the committee, what those accounts are?

John-Paul Marks: You said it exactly right. The accounts bring together everything that the Scottish Government funds and audits in the national health service, social security, justice et cetera. We have made good progress on stage 1 of the whole-of-public-sector consolidated accounts thanks to the team that we share with Audit Scotland, and that includes accounts for the Parliament, executive public bodies and Audit Scotland itself. Stage 1 will show a broader scope of the spending, so that you can see the whole picture.

The challenge with the next stage, as you say, will be the delays and the recovery plan that the Treasury has for the whole-of-Government accounts for the whole of the UK, which we need to draw on for the data for local government in particular. Jackie McAllister and the team will work with the Treasury on that and with Audit Scotland for the next stage of the accounts.

09:30

Willie Coffey: Have you a revised timetable for the final production of, let us call it, the draft?

John-Paul Marks: As I understand it, the Treasury is saying that the 2021-22 whole-of-Government accounts for the UK will be produced in two to three years from now. Unfortunately, there will be a fair time lag, which is frustrating for utility. Jackie, will you say a bit more?

Jackie McAllister: When we spoke at committee last year, we articulated a staged approach to the public sector accounts. As the permanent secretary has stated, we have completed stage 1 for 2020-21 and shared the draft with Audit Scotland. We are lined up to do the same for 201-22. The issue will come when we move to stage 2 and bring in other bodies such as local government. We are relying on the UK whole-of-Government accounts process. A recovery timeline is in place for that, and that will drive when that information is available to us. However, stage 1 has been completed for 2020-21 and will be completed for 2021-22. The committee may be interested in having sight of that, and we would be happy to share it.

Willie Coffey: Are the information technology issues at HM Treasury resolved? Have we enough resources to pull everything together in a timeous fashion?

Jackie McAllister: The IT issues have been resolved. The issue now is the catch-up, if you like, and the Treasury has set out a timeline for that. We have the resources to approach the public sector accounts in the way that we presented, which is relying on the whole-of-Government accounts process. To do otherwise, we would need to consider the implications and the resources, and we would want to engage with Audit Scotland on that.

The Convener: The reason why that is important is not least that, as we reminded you last year when you had just arrived in your post, permanent secretary, it has been on-going since 2016. We were promised whole-of-public-sector consolidated accounts in 2016, and here we are in 2023 at stage 1. In his report, which we are discussing this morning, the Auditor General says:

> "The continuing absence of a devolved public sector consolidated account means it is difficult to assess the overall health of Scotland's public finances at a time of greatest need."

There is quite an urgency—this is quite imperative. Will you reflect on that after today's session? I do not sense the urgency that we think is necessary to be applied so that we can get a full picture of what we own and what we owe, which is the expression that the Auditor General has used.

I move on to another area, which is capital borrowing. Back in 2018, I think, the then chief financial officer—it was not you, Jackie McAllister, but one of your predecessors—was able to provide to the committee a list of assets that attracted capital borrowing. Is the Scottish Government able to provide a list of underlying assets for which it uses capital borrowing today?

John-Paul Marks: Do you want to take that, Jackie, given that your predecessor has set it up?

Jackie McAllister: Yes, I am happy to take it. The first thing to say is that we do not set our capital borrowing policy on the basis of specific capital projects or programmes; we do so on the basis of the capital portfolio as a whole. That is set out in the medium-term financial strategy document, which is publicly available. That said, there is significant transparency around the capital portfolio and the programmes that sit within it. There is regular reporting to Parliament on those; I think that there is six-monthly reporting of all the infrastructure and capital programmes that the Scottish Government is funding.

There are good reasons why we set our capital borrowing policy at a capital portfolio level rather than by individual programme, including lots of value-for-money reasons. Borrowing is less than 10 per cent of our overall capital funding. Capital funding is predominantly set by the UK Government and Barnett funding, which, of course, can vary in-year. It is, therefore, important that we have that flexibility, as we move through the year, to accelerate or decelerate our capital borrowing plans, depending on the funding factors and the spending.

When we look at the past few years and the level of slippage that there has been in capital programmes in not only the Scottish Government but UK Government and other organisations, due to the pandemic and supply chain issues, we see that, if we had taken an approach of borrowing on a programme or project basis, we could have borrowed too much, too soon and, effectively, lost that flexibility as we moved through the year.

We think that the capital borrowing policy provides the best value and gives us the most flexibility to manage in the fiscal framework within which we operate.

The Convener: Can you tell us more about the timescales that you work to for your borrowing? The fiscal framework has a default position of 10 years, has it not? Do you look at shorter or longer periods than that? How do you come to settle on that?

Jackie McAllister: A significant amount of modelling goes on when we take decisions on the value of capital borrowing and the tenure. That will be determined by a number of factors, including the cost of borrowing. Indeed, we have seen a shift in the cost of borrowing, and that has influenced our decision making and borrowing strategies. We do that modelling on an on-going basis, and all that information feeds into the advice given towards the end of the year on the final amount of borrowing and the tenure.

I suppose that that reinforces the point about not locking in borrowing to particular programmes and assets. We need to keep taking that portfolio approach to deliver the best value for Scottish funds.

John-Paul Marks: I want to get this right: under the fiscal framework, there is a maximum tenure of five years in which to pay back resource borrowing. Therefore, as Jackie McAllister said, for us to be using borrowing for a particular project or announcement is sub-optimal. When there is an announcement of a project to be funded, I expect to have the budget line, so that I can be confident that it will be deliverable. If we are depending on borrowing for such projects, from my perspective, that means increasing costs, because, obviously, we will have to pay back the borrowing. Resource borrowing is an in-year flexibility, for a short term, depending on movements, some of which we cannot forecast or happen to us because of external factors.

However, your question was on tenure. There are five years in which to repay resource borrowing and between 10 and 15 years to repay capital borrowing. We have a longer window on the capital borrowing, if we need it.

The Convener: The watchword for us is transparency. Regardless of whether we are looking at the reserve balance, which is not disclosed in the accounts, the failure to produce significant progress on the whole-of-public-sector consolidated accounts, or the extent to which there is transparency about capital borrowing, the view of the committee and the Auditor General is that much more could be done to improve levels of transparency. I hope that you will reflect on that.

John-Paul Marks: To reiterate, we are happy to meet Audit Scotland, particularly on the point around borrowing and what more we can do to improve the understanding of how we are utilising it and transparency on the rationale. Furthermore, later this year, Alison Cumming will seek to set out again the medium-term plan in respect of the medium-term fiscal strategy. We will be as transparent as we possibly can be on capital allocations to projects, so that you can be clear on what is funded, over how many years and to deliver what benefits.

The Convener: Thanks. In the end, this is about accountability to Parliament.

John-Paul Marks: It is. To be honest, that transparency and scrutiny help to drive value for money, and that is what I want to see.

The Convener: Good. Craig Hoy will now ask some questions.

Craig Hoy (South Scotland) (Con): Good morning, Mr Marks. Will you reflect on Covid-19 support payments and the issue of fraud? In 2021-22, the Government allocated £5.3 billion in funding to Covid response activities. The estimate that we were working with for fraud and error equated to 1 to 2 per cent of that. Are you in a position to say to the committee how much has been recovered from fraud and how much has been recovered from payments made in error during that financial year?

John-Paul Marks: I will ask Colin Cook to say a bit more, but your assumption is the same as mine. As you said, there was an estimate of 1 to 2 per cent for fraud and error, which ranged from £16 million to £32 million of loss. One of the reasons why we were assured that the percentage was low was because of the way in which the support mechanisms were delivered: via local government using existing systems and data sets, through following its processes and through public agencies other than local government. I do not know whether there is anything more that we can say today on recovery, but I am very happy to follow up on that for the committee.

Colin Cook: The figure quoted in the accounts for business support was £504,000 recovered as of July 2022. That is the most recent figure that we have published. We are continuing to work with our delivery partners in local government and others to monitor that, alongside doing work with Audit Scotland and others to get underneath the skin. That is as far as we have got. The figure is in the public domain, and we will continue to look at it.

Craig Hoy: What more can you or other agencies do to accelerate recovery of that money? What are your plans to provide regular updates so that we can get assurance on what, although it is a relatively small percentage, is a percentage of a very large sum? We are talking about a significant amount of public money. What plans do you have to speed up its recovery and to ensure that there is greater transparency on the numbers?

Colin Cook: As I said, we continue to work on that with partners. We are always committed to transparency, so, when the numbers become available and we have verified them, we will publish them in due course in our accounts, or outwith that process, if that is a more acceptable way of doing it. We will continue to do that.

Craig Hoy: The answer will probably be a guesstimate, but do you have an idea of the percentage that you think that you may be able to recover?

Colin Cook: I am afraid that I cannot speculate on that.

Colin Beattie (Midlothian North and Musselburgh) (SNP): One of the key issues in connection with the budget is sustainability, especially in the present climate, yet the Scottish budget is allocated only annually. We do not know for sure how much money we will get until well into the budgeting process. Earlier this week, we witnessed the fact that the Cabinet Secretary for Finance and the Economy was able to announce a small amount of additional money coming from the UK. If we are looking at having sustainability in the short and medium term, how do you factor that in? How do you have a sustainable budget with reliable allocations in support of those areas that need to be supported when you do not know how much money you will have and your entire allocations might be turned upside down?

John-Paul Marks: It is a great question, Mr Beattie, and, sadly, it is the underlying challenge that we face. I have been in this role for just over a year, and I find it deeply uncomfortable that those are the facts, but the bottom line is as you said. The Auditor General and I were reflecting on that the other day. For an organisation and a nation that is running a £50 billion budget, the flexibilities that we have to manage shocks and/or to adjust for in-year changes are limited, but we try to maximise them to the best of our ability.

Jackie McAllister and the team do a brilliant job of trying to monitor all the outturns as carefully as we can so that we know what we are spending, and we work very closely with His Majesty's Treasury to give us a sense of what might be coming. However, as we have seen over the past year, that can change pretty quickly, depending on events in Whitehall. We need to be able to respond to that, to have those relationships in place and to understand UK Government choices. As you said, the Deputy First Minister was able to do something with some additional supplementary income that we received for resource, which is welcome. Alison Cumming might say a bit more about that and the budget for 2023-24.

09:45

We are in the process of a fiscal framework review, and we would like to improve the flexibilities that are available to the Scottish Government and to this Parliament to be able, as you said, to manage those risks so that we can hedge for uncertainty more and smooth those disruptions. As an accountable officer, I think that that would, clearly, make life feel a little more stable and in control.

In the end, we take a level of risk. As I said, last year, we ended up with a significant risk in the summer as a function of the impact of the inflationary shock and the war in Ukraine. That led us to two emergency budget in-year reviews and £1 billion of adjustments. All those adjustments disrupt programmes and change agreed plans. That is not optimal, and, clearly, I would prefer us to not have to operate in that short-term way. Our getting more flexibility would be helpful.

Is there anything that you would like to add to that, Alison?

Alison Cumming (Scottish Government): I will return to the point about planning and how we seek to mitigate the risks. The introduction of the medium-term financial strategy, which we publish annually, is key in helping us to identify the fiscal sustainability risks and the tools and strategies that we can put in place to manage them. The Government published the resource spending review in May last year. That set out our best planning assumptions at the time around the financial envelopes down to portfolio level and below. It also set out the actions and workstreams that we are putting in place to support improved sustainability over the medium term. We might come on to talk about some of those.

The other element is that we have a helpful reference point through the Scottish Fiscal Commission's forecasting work. Those forecasts are published alongside the budget, and there will be refreshed forecasts alongside the medium-term financial strategy. Those forecasts examine the economic outlook, provide the SFC's best forecast projections for the period ahead and look at the Office for Budget Responsibility estimates for UK spending to predict the Scottish Government's expected spending envelopes. We respond to those forecasts in how we approach the medium-term financial strategy and the annual budget processes. That can also feed into the in-year management strategy.

Colin Beattie: The permanent secretary mentioned that you were engaged in discussions with the Treasury. Does the Treasury understand the risks that the Scottish Government must take in its budget and the instability that that creates? That instability is not just at national Government level; it permeates down to local level, because local government cannot be sure what funding it will get.

I talk to many community groups that say, "Please give us three years of funding. Tell us what we are going to get for the next three years". That cannot happen, because local government does not necessarily know what it will have; nor does national Government. That is not good government; it is not a good process. What is the Treasury saying? Does it have a solution for that? Does it have something that might support our Government better?

John-Paul Marks: As a former Treasury official, I have to be fair to my colleagues. They absolutely understand the fiscal framework. I suspect that the teams are meeting every week, all the time. Certainly, I am talking to my colleagues in Whitehall every week, and we are seeking to optimise the existing devolution settlement as best we can to deliver the very best outcomes and to serve our respective ministers.

I agree that there is an opportunity in the fiscal framework review to improve the in-built flexibility. There is some flexibility, of course. We have a level of certainty regarding our expectations of, for example, what we will plan for next year on tax revenues and around social security outturns, particularly as we devolve more social security to Scotland, because it sits in our resource budget, whereas, in Whitehall, it sits in annually managed expenditure, where there are in-year fluctuations because of unemployment being higher or more people claiming a disability benefit. That is managed flexibly in Whitehall, whereas, for us, it is managed through an in-year fixed budget, so we must make end-year adjustment provisions for changes in social security spending and ensure that we are really precise in our understanding of take-up and eligibility. It is quite right that we do that because we want to be in financial control of social security spending, but nonetheless that adds risk.

There is an opportunity in the fiscal framework review. Treasury colleagues totally understand how it works, and I hope that we will see ministers working together in the year ahead to see what more we can do to improve that flexibility.

Alison, is there anything that you want to add to that?

Alison Cumming: No, that was very comprehensive. I do not think that there is anything further that we can say about the fiscal framework review at present, but we certainly hope that we can address some of our concerns around those flexibilities, and we go into those discussions with the experience of having operated the fiscal framework for the past few years.

Colin Beattie: Now we can look at one or two of the issues around sustainability. You published a briefing paper on the Scottish Government's financial sustainability for 2022-23. In light of that, how is sustainability being managed? How has that developed? How has that moved on to be better managed than it has been in the past? I recognise that there are all sorts of issues to consider, including the Scottish rate of income tax. Sometimes, the estimates of how much we would get from that have been fairly dramatically incorrect. How are you managing the sustainability position, going forward?

John-Paul Marks: Alison Cumming will say a bit more on the topic. I highlight that we have a director in our exchequer team who is focused on fiscal sustainability projects. We are working with Audit Scotland on that and are very happy to keep doing so.

When I stand back and think about the long-term trends for Scotland, it is very important that, with the Scottish Fiscal Commission, the universities and others, we understand the underlying drivers of our economy—labour market participation rates, an ageing population and our underlying growth rates—so that we are clear on what our forecast long-term tax revenues are, given the decisions that have been made. Of course, in the latest budget, ministers made decisions to increase our taxation, which gives us additional revenues in the short and the long term. For example, earnings assumptions in the latest Scottish Fiscal Commission report were critical and very material to the envelope for the 2023-24 budget. Choices that we are making around pay, fair work and the performance of our labour market are all critical factors that inform our understanding of Scotland’s long term.

We then have to understand those assumptions and work with the Scottish Fiscal Commission and Audit Scotland to make sure that the assumptions are prudent, and then plan on a multiyear basis. I think that our medium-term fiscal strategy will seek to do exactly that, given our understanding of what our statutory commitments are, what our consolidated pay deals are and what, therefore, our long-term resource baseline is expected to be. That, of course, will leave headroom for discretion where ministers have choices. The more that is baseline, consolidated and statutory, the less that is left for further choices, subject, of course, to how big the envelope is.

In my opening remarks, I mentioned needing to rebase our capital programme, given the impact of inflation. That is true for every Government around the world, given double-digit inflationary shocks that were not forecast in business cases before last year. Again, that will be critical to long-term sustainability and understanding in this country—what projects can we deliver in a sustainable way in the future, given the envelope available to us?

Alison, do you have anything to add?

Alison Cumming: On tax performance, I would also flag up that the fiscal framework creates incentives for Scotland to improve its relative economic performance through the elements that the permanent secretary has outlined in relation to driving earnings growth and having more high-value jobs to grow our tax base and tax revenues. That is certainly a significant factor for us, and the national strategy for economic transformation has programmes in it that are designed to do that. We look at fiscal sustainability very much through these two lenses: the taxes that we can raise and how we can work the fiscal framework to our advantage to improve underlying economic performance to enhance the net revenue position; and how we can derive maximum value from our spend, which relies, largely, on prioritisation.

I draw attention to three elements that we are looking at and being very thoughtful about in considering how we get that balance, recognising that the fiscal outlook is challenging for the remainder of the resource spending review periods and beyond and that we need to drive out some of the expenditure that is in the system in order to manage those pressures that lie ahead. The Deputy First Minister reiterated, in his stage 3 speeches on the Budget (Scotland) Bill, that the Government will produce a pay strategy for 2023-24 before the end of this financial year. There are very careful considerations to be made. The cost of living pressures faced by the public sector workforce must be weighed against the inflationary pressures and the funding challenges in our overall budgetary envelopes.

I will just flag up some of the workstreams in the resource spending review. There is a focus on digitalisation and improved digital methods of delivering public services to improve efficiency as well as the user experience for citizens. We have the single Scottish estate programme to look at how we are using the public sector estates. Our public procurement strategy for Scotland is due in April. That will look at how we are maximising value through procurement across the public sector.

That leads me to make a final point on public service reform, which is imperative to securing a fiscally sustainable future. That is partly about how we use resources more efficiently, but it is also about recognising that, if services are person-centred and preventative, we can reduce failure demand and save money on some of the interventions that we make in other parts of the system.

Colin Beattie: Mention was made of headroom, which I interpret as keeping a margin so that, if there are fluctuations in funding and so on, we can remain within our balanced budget—which, as a Government, we have to do. To what extent is that headroom or margin impacted by sustainability issues in relation to allocations of funding from the UK Government? In other words, are we saying, “We have this budget, but we’ll have to keep 5 per cent of it in case there’s a change during the year”? Is it only at the end of the year that we can allocate the funding, because we know that we will have to keep it until then? Are we in that situation?

John-Paul Marks: I do not think that we are. Jackie McAllister will make sure that I get this right, but I think that we are taking quite a risk-based approach. It is not that we are holding money back because it might be taken off us. If anything, we are taking a level of risk for which we are planning that something might change.

Over the years—we are looking at the 2021-22 accounts—there has been significant in-year consequential funding. As you said, Mr Beattie, it feels like a windfall but, particularly when it arrives late in the financial year, it is quite difficult to use it in an optimal way.

As an example, I note that the Deputy First Minister can allocate money to local government, and people there can use reserves to smooth out expenditure over multiple years.

We programme in a level of risk, but we do not hold money back to mitigate that risk. That is the bit that creates a level of anxiety—managing the risk down through the year. Jackie, do you want to say more on that?

10:00

Jackie McAllister: The permanent secretary is absolutely right. If we look at recent history, we can see that there has been a trend of in-year funding changes. During the pandemic, those were exceptionally large. There have been increases in funding, particularly in resource, in recent years. We certainly do not anticipate those, but we work really closely with Treasury colleagues throughout the year to understand what is happening in the UK Government space because, of course, our funding is driven by UK Government spending, generally speaking.

Through the emergency budget review and the various stages of the 2023-24 budget process, the Deputy First Minister has been transparent about the fact that the Scottish Government has been managing a pressure down. The permanent secretary spoke earlier about the drivers of some of that pressure—the cost of the pay deals and the inflationary increases. We have a number of levers, if you like, that we use in year, including the emergency budget review and other areas of our spend that we would go to if there were changes in our funding arrangements.

Indeed, this year, we received a not insignificant amount of negative capital consequentials from the Treasury, so we had to look at our capital plans and our borrowing plans, which brings me back to the point that we spoke about earlier. We have to use all those flexibilities to manage adjustments, which can go up or down.

Colin Beattie: Typically, what percentage of the Scottish budget would be held back or would fall under the term "headroom"? What percentage would you keep there as a margin?

John-Paul Marks: When I used the word "headroom", what I really meant was that, when we talk about long-term sustainability and we do the forecasts, we start by asking what statutory commitments and liabilities are baked in, and that gives us the statutory baseline. Those are things such as pay and pensions. We can reduce those things, but we cannot do that easily in the short term. It is more about controlling that, rather than reducing the statutory baseline. Clearly, we have a commitment to no compulsory redundancies and all the rest of it.

In that way, we are able to forecast the statutory baseline. We can then see what headroom remains, which is the pot, if you like, for which there are choices. The choices are allocative, subject to prioritisation, and that is what the budget process is all about. Ministers, the Parliament, stakeholders and partners will all have their views, and ministers are offered advice on those choices.

Clearly, the more that is statutory, baselined and consolidated, the less is available to be put into other programmes. As Alison Cumming said, we want to address the underlying causes of fiscal sustainability. For example, we want to drive down levels of inactivity, support more people into work, reduce health inequalities, reduce child poverty and reduce homelessness. Those are all things that we want to do, but they are all programmes that have costs. There is a limit to how much we can invest in them, and that is the headroom over and above the statutory liability.

Colin Beattie: You talked about risk and the fact that the Government accepts and manages risk when setting the budget. Clearly, there is a risk that you might overspend because you might get reductions in funding in year and so on. Is there a risk matrix as such? Who makes the decision on whether the risk is acceptable?

John-Paul Marks: For the budget, ultimately, the decision is made by the Deputy First Minister with the Cabinet. The Deputy First Minister will get collective agreement on the budget package—obviously, with the First Minister and then with the Cabinet. I will provide assurance on that based on advice from my budget team and chief finance officer, and the Deputy First Minister will seek that assurance as well.

I also look to have that from my accountable officers for each of the portfolios. For example, in recent weeks, I have met accountable officers for net zero, transport, communities, health, education and justice to review their 2023-24 budget allocations, their programmes and our statutory commitments, and then to review the choices that remain for them to balance their budgets. Ultimately, it is for them and their ministers to provide advice and to deliver those balanced budgets if they can. That is what we seek to achieve in collective accountability, and Parliament votes on the budget accordingly.

Last year, the planning assumption was 2 per cent for public sector pay in the resource spending review. Clearly, we are now some way off that, given inflation and the quite reasonable ministerial choices that have been made to seek to deliver fair but also affordable pay awards, to protect sustainable public services and to try to prevent the disruption of industrial action. We want to do that, of course. We work closely with our trade unions, and our ministers are in constant dialogue to try to secure that. However, that in-year adjustment due to an external shock was a significant change to the plans, and it required us to then deliver the two emergency budget reviews and the £1 billion in-year adjustment.

Jackie, do you have anything more to say on that or on accountability?

Jackie McAllister: I assure the committee that the risk is actively managed in year with the executive team. At the start of the year, we agree with the Cabinet the flight path, for want of a better expression, and the milestones within the year. The emergency budget review is a really good example of that active management, because it was clear that we were not on track to meet that particular milestone and we therefore had to take corrective action and identify further savings. It is something that is very actively managed through the year.

As the permanent secretary said, there is a significant portfolio of spending. A lot of the programmes can be demand led, so we expect volatility when we set the budgets at the start of the year, and we provide forecasts through the year. We expect them to shift: some will go up and some will go down. Part of the active in-year management is about understanding those movements, calibrating the risk and taking the decisions at the right time in the year. As I said, 2022-23 is a good example of that.

The Convener: Thank you. We have two or three more critical areas that we want to cover before the session ends. One of those is public sector reform, which I think Alison Cumming alluded to a few minutes ago.

We know that, following the resource spending review, last May or June, an outline of public sector reform priorities was set forward by the Government that spoke about

"New approaches to public services (such as the development of the National Care Service)",

"Reforms to public sector capacity and pay",

"Efficiencies for the public sector, including further use of shared services and efficiencies in the management of the public sector estate",

and

"Reform to Scotland's 129 public bodies."

What progress have you made with that agenda?

John-Paul Marks: Alison Cumming alluded to the fact that this will be critical to long-term fiscal sustainability in Scotland, but there are also a lot of opportunities around improving outcomes and delivering better value for money for the taxpayer.

You referenced the example of the estate, convener. Across the Scottish Government, we have put in place an estates programme. We have leases that will come to an end in the next couple of years and we will leave those buildings as we right-size our footprint.

On the workforce, if we look at the permanent and contracted resource across the Scottish Government, we are forecast to be marginally smaller overall than we were when I appeared before you this time last year. We have put significant workforce controls in place across the Scottish Government to seek, ultimately, to control the pay bill by controlling head count.

Across the estate and workforce, we want to make sure that we are living the public sector reform principles in the resource spending review and that our sponsor teams are working with our sponsor bodies to enable them to do the same. Their budget allocations are, I am afraid, challenging because of the fiscal sustainability point that we have made. Colin Cook could say a bit about that and give some examples from the public bodies that he is working with.

We are seeking to do more online; to deliver digital services; to enable that channel shift so that citizens can get a better service at less cost; to control the workforce; to right-size the estate; and, as Alison Cumming alluded to, to better drive value for money from, for example, public sector procurements.

I will give an example. The other day, I was looking with the new Crown Agent at our end-to-end criminal justice system. In the past few years, Police Scotland has gone through a significant transformation as it came together as a single national service, driving up efficiency. We have seen good delivery in what the chief constable has been able to achieve on investigative work, crime prevention, work in the community and keeping crime rates low. Our courts service is doing some really great stuff with digital transformation and the use of evidence, which is enabling us to speed up the process for trials and bring down our courts' backlog. We hope to get back to pre-pandemic levels in the current session of Parliament.

We are trying to use innovation and join up systems across the criminal justice system so that we can see the prison population fall, get crime rates lower, bring the courts' backlog down, reduce the cost of the system to the taxpayer and deliver better outcomes overall. Ultimately, that system transformation is exactly what we need to see across other systems so that we can reduce the cost of the public sector in relative terms but also improve outcomes in the years ahead.

The Convener: Okay. Do you accept the Auditor General's critique in his briefing on public finances? He said just a couple of months ago:

"The pace and scale of reform required across the public sector needs to increase."

John-Paul Marks: Over the long term, we have a fiscal sustainability risk. If we are going to mitigate that, progress needs to accelerate and increase so, yes, I probably accept that. The only reason why I am sounding slightly cagey is that it has been a relentless and very hard year.

Do I think that everybody is working flat out to try to manage the really disruptive and severe impact of double-digit inflation on budgets? I think that they are. I have the privilege of regularly visiting a lot of local councils, and some incredible work is going on to balance budgets, transform services and deliver better services. The same is true in our health boards and our Prison Service. Our public bodies are responding, of course, to the impact of what they are seeing in their budgets with the real-terms impacts of inflation and the need to afford their pay awards.

We need to continue to build momentum on transformation. I look at a public body such as Scottish Water and I see a significant reduction in baseline costs and a significant improvement in outcomes. I am interested in focusing on the role models, talking about what good looks like and encouraging others to follow their example. We have some wonderful examples in Scotland and we should be proud of them, but I agree that we need to accelerate if we are to fulfil all our potential in the years ahead.

The Convener: Yes. I do not think that I was suggesting that people are not working hard, permanent secretary; I was asking whether we are prioritising, whether the strategy is right and whether the leadership is there. Many of us remember the Christie commission, which had a full-scale agenda for reform involving early intervention, doing things differently and investing at the right time in order to have the most effective outcomes. Much of that remains underutilised. To quote the Auditor General again, I note that he has spoken at various times about the "implementation gap". The stated aims are very worthy, but the question that we are bound to ask is what is going on out there on the ground.

We are short of time, so we will move on to questions from Craig Hoy.

10:15

Craig Hoy: In March 2022, the Scottish Government published its business investment framework, outlining the principles for investments and decisions that it might make in the private sector. Mr Marks, can you bring us up to speed on whether the Scottish Government has used the framework in practice yet?

John-Paul Marks: As you said, we published the framework in March, as promised at our last committee appearance. We are building capability—it is a bit like the point that we were making on transformation—to ensure that we can manage our strategic private investments optimally to secure best value for money. Colin Cook has brought together that unit on strategic assets, and I thank him for that.

The framework talks about bringing expert capability to bear, whether that be commercial, legal or financial, and, yes, we have been doing that in the past year. We have brought in experts to help scrutinise things such as productivity in one of our private assets; to help with delivery plans by baselining our understanding of budgets in those assets; and to help us understand and reflect on future options, subject to scenarios that might occur. The capabilities are being used, and we are building them all the time.

Colin, would you like to add anything to that?

Colin Cook: As the permanent secretary referenced, we have introduced and developed a new division in the Scottish Government to lead on such matters. The principles that are inherent in the framework—the need for a clear policy rationale behind any decisions and for a strong and comprehensive business case for investment—are applied every time that we consider an investment in a business. That includes the ones with which we have a current relationship, such as Ferguson Marine (Port Glasgow) and the like.

There has been no case over the past six to nine months—I know that you had a discussion with the Auditor General about it—where we have looked at an investment or a potential investment in a business, applied the framework and then decided not to do it, so I am unable to tell you about that. However, other public sector organisations, not least our enterprise agencies, work with businesses day in and day out and will make those judgments about the degree of public sector support that we can offer. That might come in different forms, including grants and support with training.

Craig Hoy: Am I correct in assuming that the framework has not yet been used in relation to a particular investment decision?

Colin Cook: No isolated investment proposal has come to the team that leads on such things, gone through the framework process and received a decision to not go ahead. The principles under which we operate, however, are used day in, day out on every decision that we make, and those flow through into the way in which our enterprise agencies and others operate.

Craig Hoy: Obviously, the Auditor General has looked at the framework and made recommendations on how it could be strengthened. What plans do you have to respond to that, particularly in relation to strengthening the link between risk tolerance and risk appetite for investment in the Scottish Government?

John-Paul Marks: We are happy to do that work. I want to continue to develop that capability. I suspect that some of the learning from the past suggests that that would be wise for us all and would take us forward with increased confidence. Risk tolerance is a good capability to develop. From my perspective, if we will be taking those decisions in the future, we need to make sure that we have robust and transparent legal, commercial and financial scrutiny to be confident that any decision is optimal for the taxpayer in what are often distressed asset situations. I think that Colin Cook met the Audit Scotland team this week to put that plan together to do that work and will be happy to say a bit more about that.

Colin Cook: Yes. That is an area where collaboration between Audit Scotland and the Government is strong—I am sure that the Auditor General agrees. As the permanent secretary said, I met the Audit Scotland team earlier this week. We continually look for areas in which we can refine and improve that business investment framework. It is in all our interests that we get decisions right and have a clear rationale for making any decisions.

Craig Hoy: You will note from our meeting on 19 January that we have a significant interest in the financial interventions in Prestwick airport and the Lochaber aluminium smelter, in addition to our on-going inquiries in relation to Ferguson Marine. How is the Scottish Government managing the heightened financial risk with the Lochaber smelter, given the reported issues that are facing the Liberty group?

John-Paul Marks: After we talked about this last year, I really appreciated spending the day at Lochaber with the team. I pay real tribute to the team there. They were fabulous; they do an incredible job. I really appreciated the time with the engineering team seeing the hydro operation, its scale, its impact and the opportunity that that presents. We think that Lochaber's business performance continues to be robust and resilient and is improving. It is operating profitably. Of course, it has succeeded in increasing employment at Fort William: around 200 people are directly employed, and there is a significant supply chain of hundreds of associated jobs. No financial loss or public expenditure has been incurred. There is a £94 million plan to obtain planning permission for the construction of billet plant. We hope that construction will commence this year. As you know, there is significant security in terms of the land and the estate. I met the estate manager there last year, and there is clearly huge potential to diversify that and generate future revenue.

As for the wider point about GFG Alliance, the team is in close contact. Obviously, I cannot really say much more, given the commercial sensitivity around all of that, but we monitor it carefully. Colin Cook might say a bit more about the security aspect, but I think that Lochaber is making progress.

Colin Cook: As we said last year, it is always worth recalling that there has been no call on the Scottish Government guarantee and that GFG Alliance has made all of the payments to bondholders that it anticipated making. In that sense, we want to see that position continuing. We maintain a close on-going working relationship with it, particularly with the local management around the smelter, which gives us good access to an understanding of how those businesses have been performing. They have been performing very well recently, largely due to external factors around power prices and the like, and will continue to do so. I am aware that, as you allude to, there have been issues around the auditing of CFG Alliance's accounts. The selection of auditors is a matter for it, but I understand that it is close to selecting an auditor for the future, and we hope to get back to that kind of relationship.

Craig Hoy: Do you have a timescale yet for the recovery of the investment in Prestwick airport?

Colin Cook: A timetable for the potential return of Prestwick airport to the private sector?

Craig Hoy: The recovery of the investment.

Colin Cook: There is no timetable for returning that asset to the private sector. We remain open. We have conducted Official Journal of the European Union processes in the past. We continue to discuss that. I was able to visit Prestwick a few weeks ago. We have a strong management team and board in place. The business is performing extremely well and is profitable. That is a really strong position in which to try to recover that. In addition, as we have discussed with Mr Coffey in the past, the presence of a strong and robust asset at Prestwick is starting to pay dividends for the rest of Ayrshire.

We see that in things such as the Mangata Networks announcement recently.

Craig Hoy: Are you in a position to make a full value-for-money assessment of the intervention in the airport?

Colin Cook: We continue to assess the value for money of that investment, and, as I said, the understanding of what value for money represents is a lot wider than the specifics of just the airport. As I said, we are in a position with that asset where it is trading profitably and where I am sure that we will, in due course, be able to find people who will wish to take that back into private ownership. I look at the success that it has had with ground-based operations and its success in re-attracting Ryanair flights to Marseille and elsewhere. We are in a good position with that asset.

Craig Hoy: My final question is on Ferguson Marine. Obviously, the construction of the vessels is under way. Have you or are you making provision for any additional cash calls from the yard separate to those that are to fund the construction of the vessels?

Colin Cook: As you know, the latest projections around the vessels were set out to the Net Zero, Energy and Transport Committee in September. We are completing our due diligence on that, and we have employed external advisers to help us on that. We will be coming to conclusions on that shortly. We are also in discussions with the yard about the level of investment or the plans that it has to continue to improve the productivity of that facility and give it a long-term sustainable future. That is a separate set of discussions but one that we are actively involved in, and we will take decisions in due course on that.

The Convener: I am afraid that you cannot get away with mentioning Prestwick airport without Willie Coffey wishing to come in with a question, so I invite him to put his point.

Willie Coffey: Thanks very much for allowing me in, convener. My colleague Craig Hoy mentioned Prestwick, and the issue of how we determine value for money came up in discussion. For me, it is perfectly clear that the impact on the Ayrshire economy—the investment by Mangata; Ryanair's developments, not only in more flights but in more maintenance jobs; and Spirit's announcement this week of more recruitment—show the value for money in the investment. Is it incumbent on the Government to say something about that formally? It has to be said that some members of the Parliament say that Prestwick is a waste of money and should have been closed. I think that it is important that the Government or its agencies say something to counter that because the people of Ayrshire certainly do not think that. They are very proud of the airport and want to see it grow and develop.

Colin Cook: We share that view, and we work with partners, particularly the local council, to that end. The aerospace and space programme in the Ayrshire growth deal is a critical element of the economic development priorities of the region, and the presence of Prestwick airport and the ability to attract investment such as that being made by Mangata is testament to that kind of approach, where you work with the local region, you allow regional economic development priorities to be represented and you find a way of working in partnership to support that. That is a really good example of regional economic development in practice.

John-Paul Marks: To add to that, Mr Coffey, I am happy to take away the thought of whether there is an impartial value-for-money evaluation that, in time, could be done, as you said, to reflect on the journey that Prestwick has been on, the economic benefits, the jobs, the supply chain and what that has meant for the area. When I visited, I thought that the chair was very ambitious for the airport and for diversifying the growth plan. There was a good team, and, like Colin Cook, we are hopeful that the airport will continue to make further progress. I am very happy to have a think about whether there is a case study evaluation on value for money that we could do in time to confirm what we think the overall gross benefits are.

The Convener: I have a couple of quick final questions. First, going back to the GFG Alliance deal, you seemed to suggest that there was no cost to the public purse and that everything was fine, but the Auditor General's report points out that £13.5 million of Scottish Government loans were written off during 2019-2020 and 2020-21. So there has been some debt write-off there. The provision for the guarantee arrangement is valued at £114 million. I accept that that is less than it was when you sat before us last year, but it is still 300 per cent greater than it was two years ago. There are things going on, and I am sure that you will have seen the Auditor General's comments about the volatility of the situation and how things can unravel quickly. Can you give us your views on that?

10:30

John-Paul Marks: The volatility needs to be managed, and that is why the security is essential. As you said, we need to be confident that the security covers the liability. That is still our financial judgment, but the relationship with GFG and the asset team at Lochaber is key to it continuing to invest, grow and build revenue and to our continuing to assure and protect the taxpayer against the risks. I share your view that there is a level of risk, which is why we attach a level of security to the asset.

The Convener: It is a higher-than-normal level of risk, is it not, given that the supply chain banker of the organisation went into administration and the Serious Fraud Office is investigating the company because of concerns about fraud and money laundering? Unusually, the auditors that they had resigned, and the finance director walked. It is not just another company; it has been under considerable scrutiny from parliamentary committees, this one included, because there are real, grave concerns about the business model that it operates on.

John-Paul Marks: That is totally why, going back to the conversation on the business investment framework, we need to learn from those experiences, and things such as risk tolerance and financial impact assessments need to become core to the framework going forward. In the meantime, we need to manage the Lochaber risks as best we can. We hope, ultimately, to secure and support that asset to a sustainable future and a value-for-money outcome, but I agree with your points about the risks: they are real.

Colin Cook: We are conscious of the developments—the wider issues—facing GFG Alliance. We are conscious of them, we are monitoring them and we are talking to the business all the time. As the permanent secretary said, the securities that we have over the Lochaber assets are sufficient to cover the liabilities that we have, but we are not blind to the risks, and we continue to work with the business to understand and respond to them.

The Convener: Did you have conversations with the business about the fact that its accounts would not be audited?

Colin Cook: We were aware of that position. It is not for us—we do not own the business at Lochaber; we are not the selector of the auditor—but it made us aware of that.

The Convener: My final question is about sponsorship arrangements, which the committee has taken a keen interest in. We have dealt, over the years, with good and bad examples of such arrangements. A review carried out in 2021 made 14 recommendations, and, permanent secretary, you gave an undertaking that those recommendations would be implemented by, I think, the end of December 2022. As we meet on 23 February 2023, have you met your ambition of implementing all 14 recommendations?

John-Paul Marks: We have. I am really grateful to the team. I have a lovely letter about it from the director general for communities, who is off to become chief executive of Public Health Scotland next month—we wish Paul Johnston well in his next role. Paul led the strategic sponsorship implementation. We have met all 14 recommendations, and, I think, he updated the Public Audit Committee on that on 6 October 2022. Rightly, the committee said that that was not the end of the journey. It is the end of the beginning, if you like. We have done the review, and we think that we have the recommendations in place, but now it is about establishing best practice.

Perhaps that is a point that comes out of the whole conversation today: it is about building capability, with good chairs, non-execs and chief execs challenging, stripping out optimism, managing risk, developing good strategies and plans and transforming to reduce costs and improve outcomes. It is all about building capability. That is what we are trying to do in the Scottish Government; it is what I am trying to coach my sponsor teams to do; and it is what we want our public bodies to do. As you said, there are bumpy roads ahead for a few of them, but there are also wonderful role models doing incredible things. We will use the learning and the experience of the review to make further progress.

The Convener: On that positive note, I draw this morning's evidence session to a close. I thank the witnesses—the permanent secretary, Colin Cook, Jackie McAllister and Alison Cumming—for their input. We did not quite get to some areas because of time, but we might follow those up in writing, if that is okay, and I think that you have undertaken to look at some of the issues that we have raised in the session and come back to us. I thank you very much for your time and your contributions.

10:35

Meeting continued in private until 14:00.

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