OFFICIAL REPORT
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DRAFT

Public Audit Committee

Thursday 7 November 2024

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Thursday 7 November 2024

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PUBLIC AUDIT COMMITTEE
27th Meeting 2024, Session 6

CONVENER

*Richard Leonard (Central Scotland) (Lab)

DEPUTY CONVENER

*Jamie Greene (West Scotland) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*James Dornan (Glasgow Cathcart) (SNP)
*Graham Simpson (Central Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

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

CLERK TO THE COMMITTEE

Lynn Russell

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Public Audit Committee

Thursday 7 November 2024

[The Convener opened the meeting at 09:00]

Decisions on Taking Business in Private

The Convener (Richard Leonard): Good morning and welcome to the 27th meeting in 2024 of the Public Audit Committee. James Dornan joins us online. Graham Simpson has to present amendments to another committee, but may join us later, depending on how that goes.

Agenda item 1 is consideration of whether to take in private items 4 and 5. Are we agreed on that?

Members *indicated agreement.*

The Convener: Item 2 is a decision on whether to take in private our next meeting, which is on Thursday 14 November. Are we agreed?

Members *indicated agreement.*

Section 22 Report: "The 2023/24 audit of the Scottish Government Consolidated Accounts"

09:00

The Convener: Item 3 is consideration of the 2023-24 audit of the Scottish Government's consolidated accounts. I am pleased to welcome the Auditor General for Scotland, Stephen Boyle. He is joined by Carole Grant, who is audit director, and Helen Russell, who is senior audit manager, at Audit Scotland.

Auditor General, we have quite a number of questions to put to you this morning. However, before we get to those, I invite you to make a short opening statement.

Stephen Boyle (Auditor General for Scotland): Good morning. I am presenting the report on the 2023-24 audit of the Scottish Government's consolidated accounts under section 22 of the Public Finance and Accountability (Scotland) Act 2000. The Scottish Government's annual consolidated accounts are a critical component of its accountability to the Parliament and the public.

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

I highlight the following areas of my report. The first is on financial performance. The Scottish Government responded to emerging financial pressures during 2023-24 to ensure that spending remained in line with the budget that had been approved by Parliament. Net spending for the year was £54 billion, which was £277 million less than the budget. That equates to an underspend of around 0.5 per cent. That was achieved by applying measures that gave short-term relief during the financial year but do not thereafter address the underlying financial challenges that the Government faces.

When it comes to financial sustainability, the Scottish Government continues to face significant demands on its finances. Finding a path to balance in the current financial year of 2024-25 has also been challenging, and has again required the application of spending controls and non-recurring measures, such as potential use of ScotWind revenues. There has not yet been enough progress on the connected factor of moving the reform and redesign of public services to make them more affordable. Later this month, I will publish a report on the Scottish Government's approach to fiscal sustainability and public service reform.

I have highlighted that the current due diligence process for the increased costs to complete MV Glen Rosa needs to be concluded to support value for money assessments.

The report also covers the Government's progress on the implementation of the Oracle Cloud system, which went live last month. The completion of that process followed a series of earlier delays. The new system should provide better data to support decision making and deliver efficiencies. However, the current estimate of implementation costs is significantly higher than the initial assessment, due to increased timescales and initial underestimation of the programme's scale and complexity.

Lastly, the report notes that it is vital that the review of the national performance framework results in agreed national outcomes that are supported by measurable indicators, so that the Scottish Government and users of its financial information and services can be better satisfied that progress is being clearly demonstrated.

As ever, Carole Grant, Helen Russell and I look forward to answering the committee's questions.

The Convener: I will begin by turning to one of the points that you raised in opening, about the level of underspend. Do you consider the underspend that is reported in the consolidated accounts to be reasonable?

Stephen Boyle: I have a couple of points to make about that. The Scottish Government must break even. It manages a budget in excess of £50 billion and must fall on one side of the line. As the committee knows, the Scottish Government must work within the powers in the fiscal framework. Although it is able to borrow for both revenue and capital purposes, there are constraints and limits on its borrowing.

I will give some detail to support our assessment. Resource or revenue underspend was £193 million in the year, which is 0.4 per cent of the budget, and there was a capital underspend of £84 million, or 3.4 per cent. Underspends fluctuate from year to year: members will recall that the underspend was higher during some of the Covid years.

I think that that underspend is reasonable, given the overall scale of the budget. It is also important to say that that money is not lost to the Scottish budget but is transferred into the Scotland reserve for use in future years.

The Convener: One of the capital underspends is in transport, net zero and just transition. The capital underspend there is £60 million, which is equivalent to 10 per cent of the capital budget for that department. Do you know why there is such a significant underspend in particular Government departments?

Stephen Boyle: We do. I will bring colleagues in to answer in a bit more detail; I will turn in a moment to Helen Russell, who can set out some of the differences between departments.

The Scottish Government's consolidated accounts will set out larger underspends, or overspends, and the departmental analyses within the revenue and capital accounts provide a bit of detail.

You made a specific point about capital underspends. The committee has heard much in recent years about the challenging environment for capital projects due to build-cost inflation, which is partly behind that underspend. I agree in principle that that is a reasonable area for scrutiny and that the committee might wish to explore further why certain capital projects—particularly road building projects—have underspent.

If you are content, I will pause and hand over to Helen, who can say more about the various underspends.

Helen Russell (Audit Scotland): Thank you, Auditor General.

As you can see from exhibit 3, there was what you might call a giving up of a total of £300 million in funding. That relates in part to the small vessels replacement programme and to port works being reprofiled. It is important to note that much of the underspend has been reprofiled: the spending has not been stopped, but has just been paused. That is capital spending, for which it can take a while to get contracts up and running. If the processes do not start early enough, they end up taking longer to put in place. The transport department has advised that some contracts had not yet been put in place, which meant that they were recorded as savings.

The Convener: A "reprofiling" sounds to me like a delay. We understand that there has been construction inflation for a number of years, but I am not quite sure that that is a plausible reason why spending on infrastructure such as ports or the small vessels programme has been delayed, especially given the pressures on the ferry fleet.

Stephen Boyle: That is a reasonable challenge. There will be environmental factors in the round, including build-cost inflation and the availability of labour to support delivery of some projects but, alongside that, there are more local factors such as management of projects and the appetite of tenderers to submit for projects.

Our audit is not designed to give complete assurance about the management of individual projects across the capital programme. Rather, it considers whether those things have been reported correctly, and whether the analysis and description that is set out in the Government's accounts is reasonably representative of the circumstances. Our view is that it is. As you know, we maintain a key interest in the overall management of the capital programme. As I mentioned, Carole Grant and I will be speaking further about overall fiscal sustainability, which is connected to that point.

The Convener: The Scottish Government's consolidated accounts are a key component of the Scottish Government's accountability to the Parliament and to the people. The committee may well consider inviting the Scottish Government's chief accountable officer to give evidence, at some point in the future, on the consolidated accounts.

I will move on to another area that was highlighted in the report, about Social Security Scotland. As the Public Audit Committee, one of the questions for us, as a matter of interest, is to ask what action Social Security Scotland is taking to assess fraud and error in the system.

Stephen Boyle: I will bring in Carole Grant shortly, who can say a bit more about a couple of relevant factors. One is the overall interpretation that Carole, as the group auditor of the Scottish Government's consolidated accounts, makes in relation to fraud and error in the system that has been identified in other accounts—in this case, Social Security Scotland—and the judgment that the auditor of those accounts has made.

As a bit of background, the auditor of Social Security Scotland qualified their regularity opinion on the agency, which means that they were not satisfied that the totality of spending in its accounts was consistent with the approved budget, because of fraud and error in the system. The fraud and error related to amounts that were reflected in Social Security Scotland's accounts and the Scottish Government's accounts by consolidation of benefits that were administered by the Department for Work and Pensions.

Although we are seeing some elements of progress, the reason for the regularity qualification is that any fraud or error, by its nature, would be inconsistent with the approved budget. Therefore, the auditor's view was that that was not regular or legal and that progress needs to be made in order to address the level of fraud and error. Carole can take the committee through that in a bit more detail.

Carole Grant (Audit Scotland): The auditor general has captured the situation related to the error and fraud with the benefits that are administered by the DWP, which flows through into the regularity opinion. There are long-standing processes for those estimates within the benefit streams. Social Security Scotland is now developing its own understanding of the benefit streams that it is administering. Last year, in our evidence session with the committee, I mentioned that a pilot exercise for the Scottish child payment was being undertaken to look at the level of what is known as official error in that benefit stream, which is the error that is introduced by administration of it. This year, that exercise has been used to inform an analysis of the benefit stream in best start foods. The outcome of that will be published in the next week or so, I believe.

It is important to note that, at the moment, Social Security Scotland can look only at official error. The legislation that would enable it to look at claimant error or fraud that might occur is not in place. That is critical to understanding the benefit streams that it is administering. Social Security Scotland's auditor stated in its annual audit report, which will be available on our website after the accounts are laid—I think that it will be in the next week or so—that significant work is still required to measure the fraud and error that exist within the full range of benefits. Its recommendation on that has been accepted by Social Security Scotland.

The agency is looking to build slowly on the work that has been done in that area, and to learn from it so that it can develop its arrangements, but there is still quite a lot that needs to be done in order to get to an accurate assessment of the official error, as well as the claimant error, that exist in the benefits streams that are administered by it.

09:15

The Convener: I am sorry to push you on that, but I would like to understand a bit more. As I understand it, 63 per cent—almost two thirds—of Social Security Scotland benefits are administered by the Department for Work and Pensions. Are you saying, Carole, that Social Security Scotland does not have proper oversight of fraud and error in that system?

My second question relates to that point. It is projected that Social Security Scotland will be administering those benefits by the end of 2025-26. Are you saying, however, that a legislative gap exists, which means that it cannot currently scrutinise error and fraud?

Carole Grant: Yes. At the moment, Social Security Scotland is not able to access the claimant-side information that would enable it to understand whether any error or fraud exists in what was submitted. What it can look at is how the information was processed and any error in that in relation to both underpayments and overpayments, because both are important in a benefits system.

Long-standing arrangements are in place for the DWP-administered benefits, which are well understood. As you know, legislative differences exist between the arrangements that are in place in relation to the regularity opinion, from an accounting point of view. That gap will reduce over time, partly due to case transfer, as you have mentioned, as more benefits come to be administered by Social Security Scotland. However, that area needs real focus in order to ensure that adequate arrangements are in place to give a robust estimate of the error and fraud that exist in the benefit streams.

The Convener: As I mentioned earlier, we may well invite the Scottish Government to give evidence to us on the consolidated accounts, because we would be keen to get a bit more detail from it about the area that you just mentioned, as well as about what its plans are.

I will move on to expenses associated with litigation. In previous years, the committee has taken an interest in the payments that have had to be made to former directors of Rangers Football Club: £60 million-worth of unplanned spend—as it is called—were paid out from the Crown Office and Procurator Fiscal Service, and the settlements left a large hole in the accounts.

This year, the payment that you have highlighted is considerably less than that—I think that it is £0.34 million, with provision for a further £7 million. Where are we in the trajectory of those cases and those settlements? Have they all been, or almost been, settled? Do you expect any further claims?

Stephen Boyle: We can probably answer some, but maybe not all of that this morning.

You are right to say that we have focused several times in recent years on the unplanned nature of that expenditure and the provisions that are included. We have reported on that figure of £60 million previously and have stopped short of going terribly much further beyond that, in recognition of on-going legal processes and inquiries into some of the circumstances.

I turn to colleagues, who might have more detail on the current position on the figures that you mentioned and where we might go next. If we do not have that detail to hand today, convener, we will get back to you in writing.

Helen Russell: I confirm that we spoke to the Office of the Auditor of the Court of Session. There has not been much change, to be quite honest, on the figures, so the claims are now coming to an end, but the COPFS still has to sort out and pay some costs in 2024-25. The next step will be, as we have said previously, our taking a look at what has gone on.

The Convener: Roughly speaking, how much has been spent on those cases so far?

Helen Russell: I do not have that total figure to hand—I am sorry. However, there has been minimal change since last year—

The Convener: Last year's figure was £60 million.

Helen Russell: It was £60 million—yes.

Stephen Boyle: It remains of that order, convener: £60 million.

The Convener: Okay—thank you.

I have a question on the extent to which the consolidated accounts reflect all assets and liabilities in the public sector, which has been a long-standing bone of contention for you, Auditor General, and for the Public Audit Committee. As far back as 2016, we were promised greater transparency and much wider coverage of the assets and liabilities—what is owned and what is owed—in the accounts.

We have received correspondence from the Government's chief financial officer, who told us that there

"is not a further set of consolidated accounts",

and that

"It has been discussed with Audit Scotland that the value that would be derived from a full set of accounts would not reflect the efforts required to deliver it."

Is that your view?

Stephen Boyle: I will bring in Carole Grant, who has been engaging with the Government's chief financial officer and her team in an effort to get to a process and output that is valuable and proportionate.

Before I do that, I will echo the judgment that we have made in today's report, which is that, after a long period, there has been progress. It was back in 2016-17 that it was first mooted that Parliament needed to have more transparency in order to better understand not just the consolidated accounts but, because the accounting boundary of the consolidated accounts that the committee has before it today excludes some really important parts of the public spending that takes place in Scotland, the associated assets and liabilities that go alongside that.

The consolidated additional information on which the committee has received correspondence from the Government's chief financial officer is, in our view, a step forward. It begins to capture the Scottish Administration, and you can see a direction of travel that brings in significant liabilities through the national health service and teachers' pension funds. It begins to disclose the longer-term or medium-term position of Scottish public spending.

There is also the final piece of bringing in the assets, liabilities, revenues and expenditure of other parts of the Scottish public sector, such as local authorities.

Carole Grant might want to say more about the fact that not all accounts in the Scottish public sector are prepared in the same way. Any committee members or users of public financial information who look at a set of local government accounts, for example, will see quite different accounting and disclosure arrangements than they might be familiar with from central Government or NHS accounts. Marrying up different sets of accounting is the next step in removing interorganisational transactions. It is recognised that that has not been done for the accounts before the committee, so there is work to do.

We wanted to recognise that, in our judgment, we are seeing progress. It might not be the totality of a consolidated set of whole-of-Government public sector accounts for Scotland, but what you are seeing, and what we have reached, is a positive direction of travel. Carole Grant, who has been closely involved in that work, can say more.

Carole Grant: Going back a bit in the history of the issue, as you will be aware, the plan was to use a whole-of-Government accounts process to prepare a consolidated set of public sector accounts for Scotland. The impact of the pandemic on the audit landscape has been significant. As part of the approach to address that, the threshold at which the information in whole-of-Government accounts is audited was significantly increased. Therefore, it felt as though the time was right to take a step back and to think about what the gap is and what could be produced from what is available, and to put that out for consultation to see whether that is enough and whether it fills the gap and the need that was there.

As the Auditor General has said, there is a lot of complexity involved in trying to bring the accounting treatment together. That would have been resolved by whole-of-Government accounts, but that is not in place for Scotland. To give an indication of the delays that exist in the system, some 2022-23 sets of accounts have still not been signed off.

I am hopeful that, almost irrespective of how the first version is created, the value will be in the trend over time, because that is where you will be able to see on a consistent basis measures such as whether the assets are outstripping the liabilities, and what is moving. It is important to consider whether how the different types of asset and liability are analysed gives enough information. At the moment, it does not include a narrative on contingent liabilities, which are a potential liability, so maybe more detail is needed in that space. It is about interested stakeholders engaging and saying what would be helpful, and seeing what is possible.

As the Auditor General said, what we have now is a step forward. People can now consider whether it addresses the gap or, if the gap still exists, what more needs to be done.

The Convener: As I understand it, and based on the correspondence that we have received from the chief financial officer, it seems to stop short of being a total whole-of-Government account. Is it your understanding that that remains the Government's ambition, or is it saying that it is not worth its while doing that, as it would not get the return on the effort that would be required? I am not quite sure where we are with that.

Stephen Boyle: Again, Carole Grant might be able to give an additional insight into the Government's thinking. However, at the moment, I do not see that unreasonable limits are being set by the Government. What we are talking about is a genuine first step, on which the Government is looking for feedback. It is probably looking to hear from the committee and the Parliament more widely, as well as academics and users of public accounts more generally, on where it might go next.

As Carole mentioned, although the initial ambition—reasonably, in my view—was to prepare whole-of-Government accounts for Scotland, some factors that have interrupted that process have required a degree of pragmatism as to what we can achieve without letting day-to-day factors derail the process.

It has taken a long time, but the fact that we now have something to work with is positive. We in Audit Scotland want to continue to engage with the Government, to hear the feedback of other stakeholders and to see what the next iteration looks like.

The Convener: Thank you—we get the message.

I invite the deputy convener to put some questions.

Jamie Greene (West Scotland) (Con): Good morning. I have a broad range of areas to cover. I will start by taking us back to something that Carole Grant said about outstanding accounts from 2022-23 that are still to be produced, published and made available. In correspondence from the chief financial officer just last week, we received a summary of the final outturn for 2022-23. I want to have a quick look at that, because it is relevant to this year's consolidated accounts.

Does that financial outturn take into account best guesstimates for those departments that are yet to report? Is it your understanding that there may be another version of the final outturn—a final final outturn, if you like?

Carole Grant: Almost all the accounts that are still to be signed off are in the local government sector. As you may or may not know, there is a requirement in that sector to publish unaudited accounts. That consolidated financial information was therefore publicly available and was able to be used. It is absolutely true that there could be audit adjustments in that space, but that information was produced to give the opportunity for others to look at it as a starting point.

Jamie Greene: It is interesting that you picked up on local government. That is the only line in the accounts that seems to suggest an overspend—of £5 million. Every other budget line that has been presented to us has a considerable underspend, totalling £509 million—half a billion pounds. Is that normal? I am new to the committee, but a £0.5 billion underspend, in the final outturn versus the budget, seems like an awful lot of money.

09:30

Stephen Boyle: Can you give me a page reference?

Jamie Greene: It would probably be helpful to do that. Before I start talking about this, I presume that it is all in the public domain. I am looking at page 13 of the correspondence from the chief financial officer, rather than at your report, but it is relevant. If you do not have that, we can look at it some other time.

I imagine that the same will be true when we have the conversation about 2023-24. What are you looking for when you see huge underspend figures in the final outturn?

Stephen Boyle: I recognise the complexity. The Scottish Government must break even or produce a surplus in order to record a regular outturn. As I said to the convener earlier, the Scottish Government is able, within the confines of the fiscal framework, to engage in revenue and capital borrowing. Significant requirements must be met for revenue borrowing—for example, it can be undertaken if it is needed to address a fiscal shock or to meet a budget reconciliation for the fiscal framework outturn.

Within those constraints, the Government must break even, which requires really careful budget management. Our report touches on the fact that the Government has had to deploy interventions to ensure that it has broken even and delivered the path to balance each year. We make wider points about how the Government does that. Although I recognise that any underspend comes with the opportunity cost of not delivering a public service that was intended to be delivered, the Government must deliver an underspend of some description. We are talking about figures of less than half a per cent in overall terms, which probably allows for some margin of error.

I do not want to be overly critical of the Government for producing an underspend, because that is the nature of how public accounting in Scotland works, but—without labouring the point—I recognise that an underspend of any description means that a public service has not been delivered as was intended. We are talking about big numbers. The public will look at underspends of hundreds of millions of pounds and think that that money could have been used to deliver vital public services. All those things are true.

Jamie Greene: That is diplomatic.

The point that I am making is that we hear evidence of projects being put on hold, reprofiled or moved into future years to make ends meet, as is required of Government, and we hear about moratoriums on new capital investment. It is right for the public to ask us why schools or ferries are not being built and why hospitals are not being replaced when we are producing bits of paper that show £0.5 billion of underspend in the final outturn. I appreciate that the answer probably lies in complex accounting, but that straightforward question is asked of Parliament, which is why I raise it.

Stephen Boyle: Exhibit 3 in our section 22 report sets out some of the funding changes that took place. The "path to balance" project was repeated in this financial year. Quite early in the new financial year, the Government identified that the direction of travel was such that it was unlikely to deliver balance and that emergency spending controls would be required.

As we say in our analysis of exhibit 3, and as we know from some of our engagement with the Government, it is not always clear why some budgets, and not others, are targeted for spending reductions or pauses. Similarly, the connection between Government priorities and the spending changes that take place is also less than apparent.

If I may repeat a point that I touched on in my opening statement, connecting that to the Government's priorities would be a step forward. In that way, with regard to the budget, the national outcomes and the update to the national performance framework, there would be a much clearer loop between spending and outcomes. If changes were needed in the financial year, those would be more evidently consistent with the Government's stated priorities—as opposed to budget changes that are likely to relate to underspending—and there would be better exploration of those changes.

Jamie Greene: That is helpful feedback. You mentioned the concept of borrowing. We are frequently told that the Scottish Government has no ability to borrow money, but can you talk us through the national loans fund and how that is used? The presumption is that the Government cannot get itself into debt per se. However, it has an ability to borrow when that is required. Where does that money come from and what can it be spent on?

Stephen Boyle: You are right that the Government has the ability to borrow within the confines of the fiscal framework between the Scottish and United Kingdom Governments, and we set some of that out in the report. Exhibit 4 shows the trajectory of the borrowing that the Scottish Government has undertaken, dating back to 2017-18. There are limits each year. We have reported that, in 2023-24, the Scottish Government borrowed £300 million to support the delivery of its capital programme, which is lower than the £450 million cap in the fiscal framework.

Equally, as you rightly mentioned, the Government borrows from the national loans fund. The terms vary, depending on the nature of the projects or what is agreed between the national loans fund and the Scottish Government. In our report, we set out the increasing amounts that are being borrowed. Of course, borrowing comes with interest and principal repayments.

To address your point directly, the Scottish Government has borrowing powers and is able to borrow for capital project purposes. As I mentioned earlier, in more restrictive circumstances, the Government also has some limited resource borrowing powers.

Jamie Greene: I see from your report that, as of the end of March this year, the total outstanding capital borrowing was £1.76 billion, and the amount that was borrowed for capital projects was less than the cap. Therefore, there is still a bit of wriggle room, so if the Government wanted to borrow more money for capital projects, more money would be available.

Stephen Boyle: That is correct. I will bring Helen Russell in to say more about the totality of it, because there have been some recent developments. For example, some of the caps are now inflated; that was not the case in previous iterations of the fiscal framework.

Helen Russell: The fiscal framework was announced in August 2023, when it was updated. As the committee has heard, going forward, the figures are all uprated for inflation. The fiscal framework says that the Government can borrow up to £3 billion for capital, with an annual limit of £450 million. For on-going day-to-day expenditure, the Government can borrow up to £600 million.

Therefore, there are controls in place that mean that the Government cannot overspend those limits. The issue is the interest rates that are incurred as a result of taking out those loans. All loans are processed via the Scottish consolidated fund, which is a separate set of accounts. That is why you do not see the outstanding loans in the accounts that we are discussing today.

Jamie Greene: That is really helpful. Perhaps those are questions for Government departments to answer in the future.

I will move the conversation on to strategic commercial assets, on which your report helpfully provides some analysis. The strategic commercial assets division is a fairly new venture, in governance terms. My understanding is that it employs around 40 staff and spends a considerable amount of money on external consultants. I use the word “considerable”, which is subjective. It spent £1.6 million last year. Is there any indication of the cost of that operation to the Government? In your opinion, does it represent good value? It is a fairly new set-up.

Stephen Boyle: There are a couple of things to respond to in that question. Casting my mind back, I think that, three or four years ago, we recommended in our audit reports to the Scottish Government that it needed to develop a stronger set of internal arrangements to manage its financial interventions. As the committee has heard from the director general for economy, that led to the creation of the strategic commercial assets division, with much closer monitoring of the interventions that it has made and perhaps, having better expertise to allow it to consider future opportunities. I think that the Government has done that.

What we have not done yet through our audit work is make an assessment of whether that represents value for money. Are there alternative ways of doing that sort of thing? Yes, there are. I am sure that they would come at a different cost. What we have not done is say how effective the operation of SCAD has been so far. That remains open to us, and indeed we will duly reflect—either through the audit of the Scottish Government or in our forward work programme of performance audits—on how the Government is delivering on its ambitions for economic growth, in the round. I am sure that SCAD, and the expertise that lies within it, will play an important part in that. It is an issue for us for the future, rather than something that we can make an assessment of today.

Jamie Greene: Okay. This is an observation, more than anything—I am not necessarily criticising the presence of the division—but 40 people is a lot of folk. Really, there are only two strategic commercial assets that are wholly owned by the public, and another two that have had public financial intervention. Therefore, it is not a huge portfolio to manage—if that makes sense. We often hear that those are independent self-managing organisations with their own executive management teams, directorships and reporting mechanisms. The question, then, for a future date is whether this is just overkill or the division is doing its job effectively. I understand that the division is a response to your recommendations.

Stephen Boyle: Yes, I think that that is where we are, in that respect.

Perhaps I can broaden this out, if you are content for me to do so. In the report, we talk about growth in the public sector workforce, the progress of public service reform and the need for fiscal sustainability to be addressed in the years to come. Inevitably, in our view, management of the workforce will have to play an important part in that. That reflects the Government's own reporting, in which it has identified the need, in its words, to

"right-size the public sector workforce"

in Scotland, but the extent to which that incorporates the strategic commercial assets division or otherwise is something that we have not yet seen and to which we will return in due course.

Jamie Greene: I look forward to that.

At this point, I have to ask you to help me to understand what is reasonably complex auditing language, and to put it in layman's terms for politicians and the wider public who, perhaps, are not qualified in that regard. I am looking at exhibit 2, which is about the specific strategic commercial assets—that is, Glasgow Prestwick Airport Ltd, Ferguson Marine (Port Glasgow) Ltd and, of course, the Liberty Steel smelter and Burntisland Fabrications Ltd. I wonder whether you can help me to understand what you are reporting there, given the strong interest that this committee and others have shown in the matter for a number of years.

Each of the entities will have a perceived value, as the Government has stated that there is an intention to return them to private ownership in the future. Alongside that, though, there is the issue of the money that has already been invested by the public purse in those businesses, normally by way of loans, some of which appear on the balance sheet in the consolidated accounts. Can you talk us through what you are seeing at the moment? What is the bigger picture with those assets? Shall we start with Prestwick?

Stephen Boyle: I am very happy to do so, and Carole Grant will come in if there is anything that I do not cover.

The intention behind the reporting is for consistency, first of all. For a number of years, we have been reporting, through section 22 reports on the consolidated accounts, on the investments that the Scottish Government has made in private companies, their value and how they are recording changes to the nature of those investments thereafter. There are some changes this year, particularly in valuation, as a result of circumstances that are relevant to individual bodies.

09:45

Glasgow Prestwick Airport is a wholly owned investment of the Scottish Government. Our specific point today is that the value of the asset, as recorded in the consolidated accounts, has changed. The similar table in last year's report shows that it was valued at £11.6 million, which has increased to £21.2 million. You rightly mentioned the loan financing that the Scottish Government had made available to the airport: I am reporting that the recoverability of those loans is higher than it would have been at this point last year.

I will hand over to Carole, because one key thing that we need to do in the annual audit is make an assessment of whether the Government's valuation process is reasonable and robust, and whether it has taken advice from suitably qualified valuers. If you are happy for me to pause, I will bring Carole in.

Jamie Greene: I guess that that is the question. We know the total value of money invested from the public purse and we know what it was thought might be recoverable, or what the value of the loan was, which is not necessarily the value of the business itself. That would be a whole other conversation. That value seems to have jumped up massively. Are you confident that there is sufficient rationale for what is almost a doubling of the recoverable value of the loans?

Carole Grant: For each of the financial interventions, the final column in exhibit 2 shows the value in the consolidated accounts. We have done the audit work that you would expect. We have looked at the judgements that I made and at the estimates that were included in those and we have drawn on our own expertise to challenge them.

I do not know whether you have our annual audit report, which gives more detail. When we are reporting to those who are charged with governance, we go into more detail about all the key judgments and estimates. We have done specific accounting work, because we recognise that there is a risk of material misstatement—which is a term that we use when auditing accounts. We do detailed and focused work on each estimate in the accounts and are content that they are accurate and not materially misstated.

Jamie Greene: To put it in simple terms, what rationale would the Government present for the increase in the numbers? The value of Prestwick has doubled whereas, for Ferguson Marine—albeit that it is a small percentage of the money that has been invested—the £304 million that has been invested now sits at a value of £94 million, which is less than a third. What factors are you seeing that give you comfort that those are true and accurate assumptions?

Carole Grant: We look at a suite of audit evidence to support that and we speak to our own experts in specific areas. When we look at asset valuations, such as for vessels, we consider other areas where we deal with valuations.

The issue with Prestwick is recoverability of the loan. We take a broad audit approach, but look for specific evidence in each case. That is not about presenting a rationale—it is about the specific audit evidence that we can see, such as the value that a loan is currently sitting at, what the market looks like or, as in this case, how the airport is performing. All those things feed in to our assumptions.

Jamie Greene: This is reminding me of "The Antiques Roadshow", because things are only worth what someone is willing to pay for them. How do you marry that with the value of the loans in the consolidated accounts? At what point would you, as auditor general, say that the Government is not being realistic about the opportunity to recover its investments? It could very well just say up front, "Look, we're going to write these assets off, because we don't expect any future owner of the assets to give us any of the money back." Is there some pretence that it might get some of the money back, and this is just a risk assessment of how much it might recover? It just sounds like a very subjective approach to what has been invested and how much might be lost.

Stephen Boyle: It is generally the latter—it is an indication of the recoverability of the loans. There are no guarantees. Circumstances will dictate, if and when the asset is disposed of, how much will be recoverable of the investment that the Government has made. As you have rightly pointed out, that can depend on the willingness of the buyer and the seller to agree a mutually satisfactory price.

What you have before you is a balance-sheet judgment. The balance sheet—the set of accounts—is a snapshot right up to the date of certification of the accounts. When the principal accountable officer signs off the accounts in early October, and I certify the audit opinion, that is to say that they are true and fair. There is no guarantee that it will be what will happen 12 months from now or beyond.

Inevitably, there will be a degree of fluctuation, as you will have seen from valuation of the recoverability of the loans 12 months ago. This is just giving the reader of the accounts the best figure that can be arrived at today, although, as you will probably hear, there are caveats around that figure.

Jamie Greene: While we are on the issue of commercial assets, I might well jump ahead to the issue of Ferguson Marine and the assets in that respect. Your report specifically picks out MV Glen Rosa and MV Glen Sannox. The estimate for completing the vessels still sits at around £300 million. I think that that is your understanding, too, but in your report you make some criticism of the due diligence process with regard to value for money. Can you talk us through your concerns?

Stephen Boyle: Yes, I am happy to do so. Again, I will turn to Carole Grant to set out the nature of the concerns in a bit more detail for the committee.

What we reference in today's section 22 report—and, indeed, what Carole Grant and Helen Russell have covered in the underlying annual audit report that they present to the Scottish Government—is the due diligence exercise that, as the committee will recall, led to a request for written authority from Scottish ministers and the director general for economy, who was not satisfied that the value for money test for continued investment in what was vessel 802, and is now the Glen Rosa, had been met. Today's report brings to the committee's attention the fact that the cost has increased. Since the initial accountable officer assessment of £203 million, the cost has increased to a projected £299 million.

In our view, that should have led to a further value for money assessment, and that has not yet happened. That should have been an important step for the Government to take to ensure that it was satisfied that it was still the case that written authority and the associated continuation of the project represented value for money.

Carole Grant can say a bit more about that process.

Carole Grant: When the cost to complete both vessels increased to £240 million in September last year, the Scottish Government requested that FMPG carry out detailed scrutiny, because it was looking for confirmation that that was an accurate total figure for completing both vessels, before it did due diligence. As a result of that detailed analysis, the cost increased to just under £300 million—£299 million—in February. What the Auditor General is saying in the report is that that increased cost—which appears to have stabilised at that level and has not increased since—should, at that point, have been subject to due diligence to ensure that continuing with the build of MV Glen Rosa represented value for money.

We understand that part of the delay in that respect arose from the Scottish Government assessing whether it could complete the due diligence internally with the expertise that it had from the previous work that had been done—which, as you know, was supported with the use of consultants—or whether there was a need for it to use consultants again. However, as the Auditor General has said, it is critical that it is concluded for insight into the value for money assessment for continuing with the MV Glen Rosa.

Jamie Greene: Auditor General, you will be aware that the vessels were supposed to cost under £100 million—that is, for both. The latest figure, back in March, was £300 million. My suspicion is that it might have gone up since then, given the further problems that have been encountered at the yard. You do not state that that does not sound like value for money, but you allude to it. Is that your assessment?

Stephen Boyle: We are not in a position to make that judgment yet, which, in the sequencing, should come from the accountable officer—the director general for economy—first. We understand that that process is due to be completed soon, which will allow me to progress with my stated intention to complete further work about the delivery of the two vessels. I have been clear about my intention to do so at the end of the project, which will make for a more rounded assessment of it, including of value for money. Although it depends on timescales, I anticipate that that work will take place during 2025 or early 2026.

Jamie Greene: From a public expenditure point of view, if that £100 million becomes £350 million or £400 million, is there not a risk that costs will endlessly spiral? Is there a mechanism for intervening and saying, “Look—you can’t just keep chucking money at something endlessly”? Those figures seem to show massive jumps, not little increments of overspend, so when you look at budget versus what is actually being spent—when things are going massively over budget, by hundreds of millions of pounds, in a very short space of time—what is the cut-off?

Stephen Boyle: The process for checks and balances and, ultimately, intervention, takes place in the Government. You have seen fair evidence that an accountable officer reached a view that continuing to spend on a particular capital project—in this case, the on-going investment in the Glen Rosa—would not deliver value for money. In such circumstances, a request is sent for written authority from ministers to continue to spend in whatever way they choose—whether that is spending the totality of the budget, moving funds or prioritising other projects.

I do not have any powers of intervention on a particular spending or policy decision, which, I think, is the right process. The audit function is a retrospective activity to make a judgment about how public spending has been undertaken and to make a value for money assessment of my own, in due course. However, when a project is live, those responsibilities rest in the interaction between accountable officers, as is set out in the public finance manual, and ministers, for the policy intent.

Jamie Greene: Here is the conundrum. If the accountable officer identifies that there will be a fairly substantial additional cost and that, in their view, the project does not represent value for money to the public, yet ministers decide, as is their prerogative, to put more money into that project, what is your role in that process? Clearly, a process is being followed, but it is not necessarily leading to a good outcome in terms of value for money. What are you looking to see from the Government should there be further cost overruns?

Stephen Boyle: I will perhaps draw on my and the committee’s experience—the committee has a key role in the process. The minister will write to both the clerk of the committee and to me to bring it to our attention that an accountable officer has requested a written authority, and give the detail and circumstances of ministers’ judgments as to whether to grant written authority or to change the terms of a project. Through that process, we have public transparency.

10:00

I have discretion over my forward work programme and I am clear that there is sufficient public spending and public interest in the Scottish Government’s investment in its ferry fleet to warrant further audit work. It is my intention to do that work through my on-going audit and the appointment of the auditors of Ferguson Marine (Port Glasgow) Ltd—which is now a public body—as well as through the Scottish Government consolidated accounts, which we are discussing. After that, my intention is to do further audit reporting on the totality of the project to support the Parliament’s public scrutiny and its understanding of how well public money has been spent on those projects.

Jamie Greene: I look forward to that work, if it occurs.

The Convener: Before we move away from this area, can you update us on whether the GFG Alliance has appointed auditors and whether it has filed audited accounts?

Stephen Boyle: Colleagues have been engaging with the Scottish Government in more detail, so Carole Grant might want to say a bit more, but we do not yet have confirmation that that is the case. I understand, through reading some of the communication from Companies House, that some enforcement action was initiated against the GFG group for not filing accounts, but I do not have an up-to-date position on whether that has yet changed. I will turn to Carole for more detail.

Carole Grant: My understanding is that that has not changed, and that the refinancing process is still under way.

The Convener: As the Auditor General, do you have a view on that?

Stephen Boyle: I repeat what I stated publicly to the committee 12 months or two years ago—I am not sure which. The Scottish Government will need to be satisfied about the financial position of one of its key partners and the nature of the financial guarantee.

Audited accounts give investors, such as the Scottish Government, additional forms of assurance. The absence of those accounts would be a matter of concern for the Government and the Parliament. My position remains the same; it remains a matter of concern. We are keen to understand how, in the absence of those accounts, the Government is satisfying itself, through the SCAD or other methods, that the financial position of its key partner is understood. Accordingly, we want to understand what plans the Government has.

The Convener: The company has also been investigated by the Serious Fraud Office for money laundering, suspected fraud and fraudulent trading. Is that factored into the assessment that is made about the exposure to risk of the investment arrangement? You previously described the transaction in relation to the Lochaber smelter between the Scottish Government and GFG Alliance as "complex".

Stephen Boyle: You will probably not expect me to comment on the nature of on-going investigations by the Serious Fraud Office, but it confirms that, where there is uncertainty about the financial position of a key partner, the Government should be clear about how it is valuing its investment and about any contingency scenario planning that it is doing in relation to the sustainability of that investment. We have captured that in our auditing of the investment and the disclosure of the Lochaber smelter.

A wider point is that, through the SCAD, the Government has increased the expertise with which it is able to make a more rounded assessment of how it selects its partners and then the on-going monitoring of that partner. That does not detract from the point that the absence of filed accounts for any company is clearly a matter of concern and one that the Government would want to take a view on.

The Convener: We have been told that the Government is carrying out a transparency review of its commercial assets. Have you had any input into that?

Stephen Boyle: I have not had any input, and the audit team has not yet had any either. We would be happy to engage with the Government, should it so wish. However, as I mentioned to the deputy convener, one of the intentions of our reporting on the interventions was to improve transparency about that. I have not seen the terms of reference, but I can say that that feels like a positive development.

The Convener: I will bring in Colin Beattie.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Thank you, convener.

First, I will have a wee look at financial pressures. Over the past few years, I have thought that financial pressures have been increasing year by year. I was interested in your comment that the funding challenge for 2023-24 was lower than that in 2022-23. Why was that?

Stephen Boyle: You are right that, in 2023-24, it felt as though there was something of a lull in the pressure on the Government's finances compared with 2022-23, as well as in comparison with what we are observing with interventions during the course of the 2024-25 financial year. In particular, the difference between the 2023-24 year and the current financial year is the extent of public sector pay. Those settlements have been agreed to and have been factored in to the baseline, and were not in place during the 2023-24 financial year. However, to an extent, it is all relative. Again, I refer the committee to exhibit 3, which illustrates the scale of changes that have taken place across the Scottish Government's departmental budgets, and shows that it has had to deploy close and careful management of its financial position to ensure a break-even position.

Colin Beattie: Quite obviously, as has been touched on already, the financial pressures, including pay deals and inflationary pressures that are just as harsh on our budget, have been met through one-off reductions. How feasible is it for the Government to make the structural changes that are needed? Doing that usually requires capital in order to enable a long-term step change in the way in which the budget is put together and administered.

Stephen Boyle: I would not want to present to the committee that that is an easy or straightforward thing to do, but we think that it is possible and we absolutely think that it is a necessary step to support financial balance in the years to come, so that there is clarity about how public services will be delivered and about what is affordable. There are various strands to that. We are finalising our work on what we think is one of the key components, which is progress on public service reform and, to use your word, the structural nature of how those services are delivered.

Up until now, we have seen that, generally, financial balance has been delivered by taking one-off non-recurring steps, rather than through the necessary clarity of a longer-term plan on financial position and public service delivery. There are some excellent examples of public service reform, but there is no clarity on a longer-term direction of travel for how public services are delivered. I agree that it is complex, but the sustainability of public services requires that complexity to be worked through.

Colin Beattie: It seems to me that, if I look not just at the Government's consolidated accounts but across the public sector at all the organisations that I have come into contact with, including local government, they all seem to be using one-off fixes to get them through each year. It seems to be endemic, wherever there is public funding, that people are trying to save money, but the bulk of that is not being done on a recurring basis. If that continues unchanged, what will happen?

Stephen Boyle: First, I recognise the characterisation of the challenges that public bodies are facing, which echoes much of my reporting over the past few years. The committee will be familiar with our annual reports on the NHS in Scotland. The next iteration of that report will be published in the next few weeks.

Non-recurring savings have been a prolonged feature of the delivery of fiscal sustainability and financial balance in-year. That is consistent with the reporting of the Accounts Commission on local government in Scotland and references the judgments that auditors and public bodies make in their own annual reports and accounts.

It is clear that if we do not address both non-recurring savings and the very challenging fiscal position for public bodies, we will remain in a cycle of in-year interventions on the financial position in order to deliver financial balance. There is not necessarily clarity on whether that is the best decision on delivering financial balance, but it is perhaps the most straightforward. Equally important, if not more so, is the lack of connection with the outcomes that we want to achieve from public spending. We are not making progress in moving to a preventative approach that delivers benefits for people, communities and societies more widely. If we do not make progress on the matter, the picture is pretty dark.

Colin Beattie: Looking at the shorter term—I hate the term "challenge"—but how much of a challenge will it be to address the funding pressures in the 2025-26 budget cycle?

Stephen Boyle: Our most recent information draws on the Government's projections, which are informed by the work of the Scottish Fiscal Commission. It deploys a range of scenarios and the mid scenario, which would be considered most likely, is a £1 billion gap. Some of that will be updated because of the UK budget in the past few weeks, but I have heard the Cabinet Secretary for Finance and Local Government confirm that the financial position is still very challenging.

Crudely, £1 billion is less than 2 per cent of annual public spending, but it is important and difficult to bridge the gap. Much work is to be done. A clear programme of medium-term financial reporting will help. I reference the judgments over the past day or so by the Finance and Public Administration Committee about the need for improvements in medium-term financial planning and reporting, which will help in the making of some of those decisions.

Colin Beattie: You touched on the UK budget. There are still many uncertainties over how that will work when it comes to how much we will get at the end of the day—or how much will be taken away after it has been given to us. Is there any indication that it will alleviate some of the pressures, or will it simply be absorbed by pay rises that will not contribute to public services?

Stephen Boyle: Probably all that I can say in an informed way is that it remains to be seen how the in-year benefit will be used and whether additional financial headroom will become available for some of the choices to address the challenges that the Scottish Government faces. We will consider that from an audit perspective as we finalise the reporting on our fiscal sustainability work, and build it into our assessment of public spending in the 2024-25 audit year, which we will report on next year.

Colin Beattie: In response to Jamie Greene's question, you talked briefly about how the decisions of the Scottish Government to balance the budget feed into policy priorities, and how that is evidenced. If I remember correctly, you said that there is no evidence as to whether that is happening. How will the Government handle the issue? Clearly, there will be budget pressures right across the board, no matter what the UK budget contributes. Is the Government aware of that, and will it work out how to align those cuts?

10:15

Stephen Boyle: We say in the report that it is difficult to see how the reductions in portfolio spending align with the Scottish Government's clear priorities. There are a couple of milestones coming up, and the Government is targeting those and hoping that they will give it better clarity on how it can profile its spending in-year and in the years to come.

The UK Government spending review process that is due to take place next spring is noted as an enabling factor for the Scottish Government to produce an updated medium-term financial strategy and a revised infrastructure investment pipeline plan, as well as a third strand, which it refers to as a fiscal sustainability delivery plan. As the committee will be, I am familiar with the first two of those as the approaches that the Government intends to use to manage its financial position. However, the fiscal sustainability delivery plan, which the Cabinet Secretary for Finance and Local Government announced, is a new component that signals recognition of the fiscal sustainability challenges that the Government faces and the steps that it hopes to take.

We are looking for additional clarity with regard to how public service reform fits into that suite of plans. The first few months of next year will be fundamental with regard to bringing clarity to how the Government plans to address longer-term fiscal sustainability and the delivery of public services.

Colin Beattie: In response to a question from Jamie Greene, you spoke about Government borrowing, including the extent to which the Government can borrow and has borrowed. I am more concerned about the financial pressure of repayments and interest payments. In 2023-24, the total for loan repayments was going to be £217 million, which compares with £160 million in 2022-23. If I am interpreting those figures correctly, they are just for the loan repayments and not for the interest—no, I see that, in fact, they include the interest as well as the loan repayments. That is quite a big increase—£57 million. Although it is not much as a percentage of the whole budget, it adds to the pressures that the Government is under. How affordable is it to fund resource expenditure in particular from borrowing?

Stephen Boyle: Helen Russell can say more about the detail and the arrangements for borrowing. On the point about resource borrowing in particular, those amounts are being repaid, which is an indication that the Scottish Government is managing its obligations for capital and resource borrowing and is making both interest and principal repayments to the national loans fund in accordance with those agreements.

The wider point is true: the more that it borrows, whether for resource or capital, the more that principal and interest repayments must be factored in to the Government's wider priorities. However, resource borrowing remains a much smaller component of borrowing and it is subject to tighter sets of arrangements with regard to what it can be deployed for. Resource borrowing is typically used to respond to fiscal shock. For example, it was used during Covid times. Alongside that, it is used where there is a significant reconciliation for block grant adjustments once the fiscal outturn is known a number of years down the line, which is something that the committee will be familiar with.

Helen Russell might want to say more, but the borrowing is another component that has to be managed with regard to the Government's financial position, and that will continue as further borrowing takes place over the years to come.

Helen Russell: I confirm that the figures that were given—£217 million and £160 million for 2023-24 and 2022-23 respectively—include the principal and accrued interest payments in each of those years. As I said, the Government is constrained by the fiscal framework, which was updated in August 2023. The level of debt that is set out in exhibit 4 in the report reflects the fact that the Government is starting from such a low base, and it covers a very short time period, which is why there is quite a steep rise.

The repayment of all loans is built into the budget process to ensure that the Government can pay off debt each year. Page 18 of the consolidated accounts shows that a total of £1.8 billion of capital borrowing and £476 million of day-to-day borrowing are outstanding. That is all tightly managed and, as I said, it is built into each year's aims and plans for how the Government will spend its funding.

Colin Beattie: As a matter of interest, what are the interest rates on the resource borrowing and so on? Do we have figures for that?

Helen Russell: I am sorry, but I do not.

Stephen Boyle: I think that the figure varies depending on the prevailing interest rates, and it is informed by UK gilts and so forth, Mr Beattie.

Colin Beattie: So there is no, say, three-month period in which the rate is fixed—it is literally borrowing by borrowing. It is different in that way.

Stephen Boyle: We will need to check the detail of that, unfortunately. I will come back to the committee with any additional information that we have on it, but the rate will fluctuate. Clearly, the totals are built up from a succession of many different loans, some of which have different interest rates and, indeed, different terms. As you know, the terms that the Government borrows on can vary between 10 and 25 years. Unfortunately, we do not have with us any detail on whether an additional interest rate is applied over the course of the loan or whether there are any trigger events. We will certainly look into that, and the Government might be able to give you more detail.

Colin Beattie: You said that there are a lot of different loans. Does the Government hypothecate them against particular budget streams, with the money being taken from there, or is the money just taken from a big pot?

Stephen Boyle: Helen Russell can say a bit more about that, but your question reminds me of a point that we have discussed with the committee on a number of occasions. What we have not seen in the Scottish Government's borrowing—this is particularly the case with capital—is whether it is allocated against a particular project and whether that investment is aligned with departmental capital spend. I remember that the committee received evidence from the Scottish Government that the money is used more in the round for capital purposes, instead of a particular loan being drawn down to a project in a way that could be mapped. Our position was that there should be better clarity on what public borrowing was being done and what it was being used for, in order to support transparency and parliamentary scrutiny.

Helen Russell: As you have heard, capital borrowing is used in the round. The Government decides on the amounts that it wants to take on board as it gets towards the end of the year and is clearer on the outturn position. Trying to map expenditure and the funding that is needed to pay for on-going work is very much an on-going process.

Colin Beattie: It seems to me that it should be possible to link borrowing to either one project or multiple projects, because there must be some correlation between what you are borrowing and what you are spending it on.

Stephen Boyle: That was our position, Mr Beattie. We felt that there was scope to be clearer about how much was being borrowed and what it was being used for. I have some sympathy with the Government's position that it gives flexibility if it does this sort of thing in the round, but I think that there is scope to have better clarity on what is being borrowed. Again, that might be something that the committee will see next year in an updated infrastructure investment plan, which might set out how it is going to be funded as well as the progress in delivering individual projects.

Colin Beattie: Indeed. Private finance initiative projects that will mature over the next year or two could carry a certain amount of capital costs, depending on which options are taken under the agreement. They could be quite substantial, and it would be good to be able to see them coming down the line.

Stephen Boyle: Yes—we would agree with that.

Colin Beattie: Lastly, I have a couple of quick questions. The increased borrowing and the interest payments and so on that go with it must be hitting the Government's headroom for things such as pay deals.

Stephen Boyle: In the funding round, borrowing and repayments in particular are an increasing cost to or requirement that is placed on the Scottish Government and its overall financial position. Pay deals require resource and there will be restrictions on Government, which we have touched on. It will not be able to borrow to fund them. That is perhaps illustrative of the increasing complexity of and pressures on the Scottish budget.

As we touch on in the report and as has been mentioned this morning, pay deals are baked in and they become the new bottom line for Government expenditure as we roll from one year to the next. Our report sets out, we hope, that that increasing pressure and complexity are all the more reason for there to be greater clarity on the Government's intended management of the financial position in the years to come, together with clarity on public service reform.

Colin Beattie: Is there any sign of a link between the increased borrowing and the decrease in availability of financial transactions?

Stephen Boyle: I am not sure that there is a direct connection between those aspects. I have not seen the UK budget. I think that a small amount of financial transactions is still available to Scotland, but the terms and conditions of financial transactions mean that they have to be given outside the public sector, so their presence is significantly reduced.

It might be that the Scottish Government looks to deliver on its priorities in a different way. However, it is clear that financial transactions will not be a dominant feature in how it delivers capital projects.

Colin Beattie: I was wondering whether there is a correlation as, if I recall correctly, financial transactions were used extensively by the Scottish National Investment Bank. With their withdrawal, the capital to top up SNIB's funding pot will have to come from somewhere else.

Stephen Boyle: We can share more detail on that with the committee as part of the audit that we are undertaking of the Scottish National Investment Bank. We will report next spring on the bank's funding and progress on its missions. If you are content, Mr Beattie, I will get into a bit of the detail on that with the committee once we have finalised that work.

Colin Beattie: Okay.

The Convener: That is great. Thank you very much. I will bring in James Dornan, who has some questions for you. James is joining us online.

James Dornan (Glasgow Cathcart) (SNP): Stephen Boyle mentioned public sector reform in response to a question, I think, from Jamie Greene. I have a couple of questions on that. To what extent have the updates from the Scottish Government provided a clear road map for the design and delivery of Scottish public services?

Stephen Boyle: You are right: we have touched on public service reform this morning, and it has been a theme of our reporting over the past few years. We have been looking for greater pace in relation to and clarity on the Government's intentions to deliver on its stated view that public service reform is a key component of how it will deliver effective public services, together with the role that it will play in delivering outcomes. I refer the committee to the judgments that we make in paragraphs 39 and 40 of our report. In effect, we are saying that we do not think that there is a clear plan for how the Government will deliver public service reform or how it will achieve the associated timescales.

The Government set out in the funding round that there will be a 10-year programme. As I mentioned—I hope reasonably—we have seen, and the Government has reported, some very good examples of public service reform, including some of the work that Disclosure Scotland and Registers of Scotland have undertaken. However, there is not yet a clear view about the shape, size and nature of delivery mechanisms for public services for the years to come. That is a vital missing piece of how the public can understand public service delivery, how people who work in public services can have clarity and what that means for public spending.

James Dornan: You have kind of answered a question that I was going to ask about your understanding of the outcome of the actions. Your understanding seems to be that the outcome has not been clear enough yet. Is that a fair description of what you think the Government has done?

10:30

Stephen Boyle: Yes. I would describe the Government's approach so far as a bottom-up one in which there has been extensive engagement with public bodies that has involved looking at and reporting on examples of how those bodies are transforming their services. I mentioned a couple of public bodies that are doing that, and I am sure that there will be many others. However, what is missing is a wider vision of the direction of travel, in the round, in relation to how public service reform will progress and what it will achieve.

As I mentioned, we are in the final throes of finalising our additional work on public service reform, and we will produce our report and engage with the committee on it over the next few weeks.

James Dornan: Between now and that work being finalised, what detail would you like the Scottish Government to provide on the progress of the reform programme, including in the upcoming budget?

Stephen Boyle: I will bring in Carole Grant to set out some of our engagement with the Scottish Government. I do not think that it is a case of our asking for detail and not being provided with it. We welcome our extensive engagement with the Government, but it should provide clarity on its overall vision for public service reform. During our work, we have talked about how public services are delivered, the shape and size of the workforce, what people are asked to do, the investment in digital technology and how public bodies work together. We are keen to report on all those factors and to explore them further with the committee.

Carole Grant: I confirm that there has been engagement. Reform has been a key theme for the Scottish Government, and its engagement has resulted in a wider acceptance and recognition of the need for reform. However, as the Auditor General said, we are looking for clarity on the shape and size of the Scottish public sector in the future, on what it should be delivering and on the milestones to enable people to track progress and understand the steps that are being taken and the ultimate longer-term aim.

James Dornan: Do you expect to get any clarity in the near future? Is there any suggestion that clarity will be forthcoming?

Stephen Boyle: We hope so. A number of fiscal events are pending, not least the Scottish Government's draft budget, which the Scottish Parliament will consider early next month. Thereafter, following the UK Government's spending review in the spring, there will be the medium-term financial strategy, the fiscal sustainability delivery plan and so on. We hope that those enablers will allow the Scottish

Government to build on the work that it has done so far and provide clarity on the medium-term fiscal position and on how public services will be delivered. Our focus remains on providing the committee with assurance in that regard this year and into next year.

James Dornan: Are you convinced and comfortable that the Government is taking public sector reform as seriously as you would like it to and as is required?

Stephen Boyle: The judgment that we reach in the report that we are discussing today is that there is more work to do. In our report later this month, we will say more about the need for national clarity on the shape, size and ask of Scotland's public services in the years to come. As I mentioned, we see many excellent local examples, but there is no overarching vision of what public services will look like in the years to come. I do not want to pre-empt our report later this month, but that is our position today.

James Dornan: I have a couple of questions about the Oracle Cloud system, which was launched last month after a six-month delay. You have stated your intention to report in 2025 on its implementation, but do you have a sense of how successful the initial implementation has been?

Stephen Boyle: I will bring Helen Russell in on that. The early indications are that the project has gone as the Government intended it to, since the launch date at the start of October. We have heard that Oracle Cloud has completed a successful pay run for the Government's employees and has paid bills and invoices, as expected, to its suppliers.

As Mr Dornan mentioned, our interest, which we will return to over the course of this year's audit, is in how the project went with regard to governance, leadership, project management, cost and progress. As I touched on in my introductory remarks, our initial view is that the Government underestimated the scale and complexity of the programme. As we set out in exhibit 5, the cost growth of the project is significant. In our view, that warrants closer scrutiny from the external auditors of some of the circumstances that led to that outturn.

Helen Russell: As the committee has heard, the programme was implemented throughout October. Let us just say that we have not heard anything too bad about it, although we have not looked at it in depth or detail.

Returning to the cost side, I note that the costs increased from £22 million to £66 million over the space of the two years. As you have heard, the inaccuracy of the Scottish Government's first estimate was due to a lack of expertise in the area. The system that was being replaced was well over 10 years old, so the Government had not introduced a new system for quite some time. The cost also increased as a result of the Government taking a view that it was not a good time to introduce the new system as there was still work to undertake. We reported in previous years that the new system was meant to be introduced in 2023, during the period from June to the end of the year, but the date was moved to April 2024 and then October 2024 to ensure that the system was brought into play with the least points outstanding. Extending all those deadlines added costs, and that is why the cost has risen.

In the refreshed business case that we talked about last year, the aim was for the cost to be between £46 million and £52 million, but it has increased since then. As I said, that is due to the extension of the project's launch date. Looking forward, a care team will work with the new system for the next few months to ensure that things keep going. It is anticipated that the care team will be in place for up to three months. Of course, there are costs associated with that.

We said last year that the new system should bring cost savings in the future, but there are risks as well. It is not all plain and straightforward yet.

James Dornan: That is great. Your report talks about VAT recovery, which would reduce the initial cost of the project from £65.5 million to £58 million. What is the process for securing that VAT recovery? Is there any risk that it will not materialise or be at a lower value than is assumed in the accounts?

Stephen Boyle, those questions are probably for you.

Stephen Boyle: I was planning to pass that to Helen Russell, actually. [*Laughter*.] I will let Helen lead on that one, and then I will come in after her, if there is anything to add.

Helen Russell: The process involves identifying the cost and working out how much VAT the Government can claim back. The Government would have to talk to His Majesty's Customs and Excise, if that is the title now—I am not 100 per cent sure. The Government would have to talk to the right people in the right place to get that confirmed.

We have been advised that the Government has received some money back, and discussions are still on-going as to how much it will get back in due course. The SG could perhaps help out on that point.

Stephen Boyle: I do not have much to add to Helen Russell's answer. I guess the point that you are making, Mr Dornan, is that you do not have the money until you have it. Careful management is required, with engagement with HMRC and the

Scottish Government's tax advisers, I would expect, on the recovery of the amount.

From our perspective, whether the spend on the project is £66 million or £58 million, the Government has made a significant capital investment. We want to look at how the project was managed in terms of delivery and implementation, and it feels right for us to come back next year and report on that in a bit more detail, not just on the cost growth, although that is an important factor, but on whether the project is releasing some of the efficiencies that the Government needed, which is why it was conceived in the first place. I recall informing the committee a couple of years ago that the project was necessary, given that the Government was running quite considerable risks with the system that it had in operation. It was considerably past its useful life in terms of operational efficiency, and the older the system, the more cybersecurity risks it will encounter.

We have not yet finalised the scope of what we will look at, but those are the wider factors that we are keen to explore.

James Dornan: As part of your report, will you look to see whether the delay represented value for money in that it enabled the completed project to be put in place, as opposed to having to go back and sort things out later on?

Stephen Boyle: We will look at those factors. We want to explore how the Scottish Government satisfied itself that it was delivering value for money with the investment and that it remained value for money as costs grew, with the various gateways that were followed through to finalisation of the project. As I mentioned, we have not completed the scope yet, but those factors are very much in our thoughts.

James Dornan: Okay—thank you.

The Convener: Graham Simpson has been able to join us, and I will bring him in in a moment to ask the final few questions. Before I do that, I turn to the final section of the section 22 report, which is headed "Performance reporting". It starts off with your usual diplomatic tone, Auditor General, when you say:

> "The complicated landscape of priorities is hindering the achievement of outcomes".

However, when we go on to look at paragraphs 66 and 67, you are a bit harder hitting. You say:

> "There is an absence of clearly defined performance measures with measurable targets for all priority areas."

You also say that

> "It is unacceptable that six indicators for the previous NPF remain in development."

That is quite a stiff judgment. What are the reasons that the Scottish Government gives for those deficiencies?

Stephen Boyle: I will bring in both Carole Grant and Helen Russell on that point. I will ask Carole to give a bit more detail on the progress that the Scottish Government is or is not making in the national performance framework and the detail on the national outcomes, and Helen can say a bit more about the performance reporting that is contained in the annual report and accounts.

Although the two things appear to be contradictory, I think that they are both true. I reiterate and draw the committee's attention to what you have just noted, convener. The national performance framework and the national outcomes were designed to give a rounded picture of how Scotland's public spending is achieving outcomes, but there has been a recurring theme of an absence of measurable indicators and clear targets for many of those indicators.

As we note in the report, six indicators in the national performance framework are still in development. If the Scottish Government is unable to produce a meaningful indicator to measure progress, that leads us to question how it wishes to measure its performance. I think that that is where we are heading.

10:45

I know that the permanent secretary has taken a personal interest in the national performance framework and outcomes, which will involve progress to a manageable and measurable suite of indicators that allows the Parliament and the public—users of the public services—to see what is going on. That feels overdue, convener. Progress is needed on that front.

I will say a final word about performance reporting before I bring in Carole Grant and Helen Russell. There has been progress on performance reporting in the Scottish Government's consolidated accounts. By way of mitigation, I will say that there are many strands to how the Government spends its money, and discipline and skill are required to capture all that in the performance framework at the front end of the accounts and to make it an accessible read. There has been progress, but there is still a bit more work to do to better link what the numbers report to what has been achieved. There is also, of course, a degree of overlap with the national performance framework. We hope that both those factors will come together next year, so that the consolidated accounts of the Scottish Government can show—not necessarily at a glance, but without a user of the accounts having to root around as thoroughly as they have to do at the moment—a clear picture and narrative about what is being achieved.

If you are content, convener, I will first bring in Carole Grant, then turn to Helen Russell.

Carole Grant: The “complicated landscape” terminology is about the number of documents that contain the many hundreds of commitments that sit alongside the national outcomes and how they contribute to those. To pick up the earlier point about budgeting, we are looking for streamlining and clarity in that space that will support budgetary decisions and can show how they contribute to a smaller number of desired outcomes and commitments.

As we said in the report, the current review of the national performance framework feels like an opportunity to clarify that landscape and provide a cleaner picture that will support better financial decisions to achieve the necessary decisions and outcomes.

Helen Russell: Everything that you have heard from Carole Grant is what is being looked for in the front end of the accounts. There are more than 50 pages of writing—a lot of it, to be honest. The guidance says that the front end of the accounts should be clear, readable and understandable and that it should help the reader to get an idea of how things are going—for instance, whether outcomes and targets are being achieved. As we have heard, despite that being set out, it is difficult to find it in the front end.

We have seen a big improvement in the front end. This year, there has been an attempt to link the missions that were there for 2023-24 with actions that are to be taken. However, there is no talk of targets or achievement. It is about what the Government has spent the cash on. It is therefore difficult to build up a view of how well it is doing. However, arrangements are definitely better than previously and, from talking to staff, I understand that there is a hope and intention that they will improve again.

The Convener: The Government’s performance reporting might not be as clear as it could be, but your answers to those questions were very clear and contained a distinct message, which I hope the Government is listening to.

I ask Graham Simpson to come in with a final couple of questions.

Graham Simpson (Central Scotland) (Con): Auditor General, I apologise for being away for most of the meeting. As has probably been explained, I was moving some amendments to a bill at stage 2. Anyway, I am here now.

I want to ask about sponsorship arrangements. In your report, you note that the Government has

“implemented the recommendations set out in the independent review of its relationships with public bodies.”

We on the committee are all aware of the work that you have done on the Water Industry Commission for Scotland. Have you seen any evidence of the implementation of the recommendations following the independent review of the Government’s relationship with public bodies? Are those recommendations leading to any changes?

Stephen Boyle: You will see in the judgment that we make in the section 22 report that sponsorship needs to remain a key focus for the Scottish Government. There was an independent review perhaps three years ago now, and I think that in my reporting I have noted that, before our work on the Water Industry Commission for Scotland, there had been progress. Carole Grant can say a bit more about how the process is manifesting itself in some of the Scottish Government’s internal governance arrangements and in the oversight that director-general groupings are applying to public bodies within their remit. However, we have still seen a high-profile example of where sponsorship has not worked.

The Scottish Government will clearly want to satisfy itself that its sponsorship arrangements in the round are working effectively day to day and that it does not take an example of a failure of public spending or poor sponsorship to result in a new series of actions. The process should just work effectively, day in and day out. The Government should have proper oversight and risk management and the right balance between interacting with a public body and not micromanaging it, but not letting issues arise. There is no doubt that there is work to do. I might come back in on that, but it is important for the committee to hear from Carole about the day-to-day changes resulting from the review.

Carole Grant: Following the Auditor General’s section 22 report on the Water Industry Commission for Scotland, there was significant activity across the DG portfolios in the Scottish Government. A red, amber, green—RAG—rating system is in place for each of the sponsored bodies, and there is an assessment within that. However, what we saw, and what was reported in the annual audit report, was that that was not giving sufficient depth of information to allow the non-executive members and others to scrutinise the situation. Over the summer, each area has done deep dives into the specific arrangements. That has highlighted a number of things, including in particular a lack of clarity in some of the framework agreements about exactly where responsibility lies. All of that has been taken forward.

You mentioned paragraph 55 of the section 22 report, which is on the independent review and the internal review of sponsorship arrangements. My understanding is that information on that will be published shortly, which will enable the committee to consider the results of that work.

Graham Simpson: Have you seen that deep-dive exercise in any detail?

Carole Grant: Yes, we have. We have seen the questions that were asked. The Government is compiling the actions that will flow out of that for each of the portfolios.

Graham Simpson: Other than WICS, which we know about—our work on it is continuing—have any other bodies been flagged up as being of concern?

Carole Grant: A number of bodies are flagged as being of concern. Generally, those concerns are in the financial space and are about bodies' ability to manage their budgets and deliver savings. The process considers everything that a body is doing. The RAG status is not about the quality of the sponsorship; it is about how the public body is performing and whether the sponsor team has any concerns in that space. Some of the lessons that will come out of the sponsorship review will also drive changes in the sponsorship teams.

Graham Simpson: Can you name any of those bodies?

Carole Grant: No, I would not name any of those bodies in this space. We have spent a lot of this meeting discussing the financial challenges across the Scottish public sector. There are many bodies that are, I would say, not struggling but working hard just now to get a safe path to balance for this financial year.

Stephen Boyle: I would add that it remains our view that WICS is an outlier in terms of behaviours and value for money. As Carole Grant is describing, the Scottish Government is responding to that to bring in better arrangements, which should afford the Government the opportunity to intervene without the need for Audit Scotland to produce a statutory report on a public body on which it has an insight. It is fair to say that the Scottish Government and the relevant director-general grouping were taken by surprise by the events at WICS, and the Scottish Government is now in the process of satisfying itself that there are no other arrangements like that.

There is a parallel with the national health service. The Scottish Government's department for health and social care does not operate on its own in this respect, but it tends to have slightly modified versions of oversight of health boards. Compared with the approach in other parts of the Scottish Government, I think that that department is further down the line of having a stronger assessment and intervention framework, and the committee has heard about that in recent years.

We see this as a bit of work in progress, but it has to remain a core focus for the Scottish Government. An audit report should not be required for the Government to intervene—it should do that at a much earlier stage if it becomes aware of information.

Graham Simpson: WICS is one of 43 non-departmental public bodies. Have you done any work to assess whether we are getting value for money from all those bodies and whether there is any overlap between what some of the bodies do? Is there any merit, in terms of value for money, to amalgamating any of them?

Stephen Boyle: Ultimately, the size and shape of public service delivery is a matter for the Scottish Government, and much of that will be a policy decision that is outside my remit. To refer back to some of the earlier conversation, the Government has indicated that the issue of the size, shape and structure of the Scottish public sector is part of its thinking around public service reform.

On the value for money of the bodies, each accountable officer has a duty of best value on them and, each year, they have to report that they are satisfied that the public spending that is allocated to the body has been used properly and has delivered value for money or best value.

Stepping out of that, it is a matter for the Government to determine how public services are delivered and to be satisfied that public services are delivering the right outcomes and value for money. We can report on the progress that the Government is making on public service reform, and we will come back to the committee on that over the next few weeks.

The Convener: We have had a long and detailed session. There are areas that we would ask you to clarify for us, Auditor General, and it is pretty clear that there are some outstanding questions that we should direct not at you but at the Scottish Government, so we will have to consider how we can best do that.

Thank you very much, Auditor General, Helen Russell and Carole Grant, for your willingness to give us such comprehensive evidence this morning. It is greatly appreciated.

I close the public part of the session and move the committee into private session.

10:58

Meeting continued in private until 11:24.

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