



OFFICIAL REPORT
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DRAFT

Public Audit Committee

Thursday 5 December 2024

Session 6



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PUBLIC AUDIT COMMITTEE

31st 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)

Fiona Diggle (Audit Scotland)

Carole Grant (Audit Scotland)

Richard Robinson (Audit Scotland)

CLERK TO THE COMMITTEE

Katrina Venters

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Public Audit Committee

Thursday 5 December 2024

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Richard Leonard): Good morning. I welcome everyone to the 31st meeting in 2024 of the Public Audit Committee. Agenda item 1 is for the committee to decide whether to take agenda items 3 and 4 in private. Are we all agreed to take those items in private?

Members *indicated agreement.*

“Fiscal sustainability and reform in Scotland”

09:00

The Convener: Our main item is agenda item 2, which is consideration of the section 23 report “Fiscal sustainability and reform in Scotland”, which has been produced by the Auditor General for Scotland. I am very pleased to welcome our witnesses this morning. We have Stephen Boyle, the Auditor General, who is joined from Audit Scotland by Carole Grant, audit director; Fiona Diggle, audit manager; and Richard Robinson, senior manager.

As usual, Auditor General, we have some questions to put to you, but before we get to those, I invite you to make a short opening statement.

Stephen Boyle (Auditor General for Scotland): Many thanks, convener, and good morning, committee.

This morning I am presenting my performance audit report “Fiscal sustainability and reform in Scotland”. The audit focuses on the Scottish Government’s overall approach to achieving fiscal sustainability and the important role of public service reform as a key component of that approach.

As the committee will know, the 2025-26 draft Scottish budget was announced yesterday in the Parliament chamber. We are not in a position at this stage to comment on how the budget impacts on my report, but we will return to that over the course of our work programme in the future. I will just note two or three items of interest that are perhaps relevant to this morning’s discussion.

First, two things that accompanied the budget were the publication of a tax strategy and a public sector pay policy. Those are both welcome announcements and they give clarity to public bodies and a sense of the Government’s intention around tax as a component of fiscal sustainability. The committee will be aware that each year I publish an assurance report on the Scottish rate of income tax, which will be relevant to the tax strategy. We will publish that on 17 January, alongside the usual National Audit Office report on management of the Scottish rate of income tax. We look forward to briefing the committee on that in the new year.

The other point—to pause for a moment on the budget—that is also relevant to today’s report is the Cabinet Secretary for Finance and Local Government’s announcement of a spend-to-save fund of £30 million to support public service reform. Clearly, we do not have the detail of that yet, but we look forward to seeing more of that and

what it means for the Government's approach to delivering its public service reform ambitions.

My evidence to the committee in the past few weeks on "The 2023-24 audit of the Scottish Government Consolidated Accounts" set out how the Scottish Government continues to face an intensely challenging period in managing its finances. The report that we are considering today comments further on how the Scottish Government is responding to that challenge, including my views on how well reform is factored in to its medium-term and long-term approaches.

I highlight the following areas. We note that the Scottish Government continues to take short-term budget decisions, more typically reacting to events during the year, rather than making more fundamental changes as to how public money is spent. This approach successfully balances the budget, but it risks disrupting services and progress towards better longer-term outcomes for the people of Scotland.

The Scottish Government has also not yet set out a clear vision of how it will change the delivery of public services to make them more fiscally sustainable into the longer term. The Scottish Government is clear that reform is needed—I think that you heard more on that in yesterday's budget speech—but it has not yet shown how it will reform and how those reforms will contribute to making future budgets affordable, how much it will cost to implement and when reforms at scale will be delivered. We note that more leadership is needed to better support public bodies in delivering a comprehensive and deliverable programme of reform.

Finally, a key finding from the audit is that the Scottish Government has not yet been clear enough with the Scottish Parliament or the public on the fiscal position. Key documents have been delayed, which is making scrutiny of the current uncertain financial situation more difficult. The Scottish Government has committed to producing a number of strategies and plans next year, including a new fiscal sustainability delivery plan. I recommend, as you will see in the report, that those should be published at the earliest opportunity. Although they will not necessarily be in time to support scrutiny of the current budget, I expect them to be available well in advance of next year's budget cycle and to include better data and commentary on reform, which I make recommendations on in this report.

Convener, as ever, my colleagues and I look forward to answering the committee's questions. Thank you.

The Convener: Thank you very much indeed for that opening statement, and for touching on yesterday's budget. I invite Graham Simpson to

put some questions to you now: he may well start with yesterday's budget. *[Laughter.]*

Graham Simpson (Central Scotland) (Con): I may well, convener—and it seems appropriate to do so.

Of course, Auditor General, I am not asking you to comment on what you think of individual announcements in the budget. You have made some opening remarks, but overall do you think that what you heard yesterday goes any way towards addressing the concerns that you have raised in the report?

Stephen Boyle: Maybe it would be helpful for me to put on the record the boundaries of my role. First, you are right, it is not for me to comment in any way on the merits of individual policies. As I touched on in my opening remarks, Mr Simpson, and as is reflected on in the report, until we see an updated medium-term financial strategy, accompanied by longer-term plans for capital investment and a plan for day-to-day spending and investment within the national health service, which—as the committee will be familiar with—accounts for 40 per cent, and growing, of Scotland's budget, I do not think that we are in a position to say that yesterday's developments materially change the need for more transparency on Scotland's fiscal position.

As I mentioned to the convener, we heard an announcement yesterday of a spend-to-save fund to support public service fiscal reform. The detail of that will be very important, in respect of how it aligns with the development—as we call for in the report—of a clear long-term strategy that delivers public service reform at scale.

Clearly, there are a number of opportunities that will come for the committee, the Parliament and others over the next few weeks to get into some of the detail of the budget. We will be doing likewise, but those are my headlines from yesterday.

Graham Simpson: You mentioned a medium-term financial strategy. When do you expect to see that?

Stephen Boyle: Our language around it is that we expect to see that "at the earliest opportunity". We understand that the Government's intention is to wait for completion of the United Kingdom Government spending review before completing its medium-term financial strategy and infrastructure and investment capital pipeline. Timing-wise—Richard Robinson might have more detail on this—I think that it is in spring of next year that the UK Government intends to do that. Seasons do not always give precise months as to when we can expect things, but that is not an unreasonable approach.

I think that the UK spending review will be very important to give up-to-date information on the medium-term financial strategy. As I mentioned in my introductory remarks, that will not be available for the Parliament's scrutiny of this year's budget and for getting a sense of what the longer-term implications are. It is ever more important, therefore, that the information is available before we get to the 2026-27 budget considerations. If you are content, I will bring Richard Robinson in to say a bit more on that.

Richard Robinson (Audit Scotland): Thank you very much, Auditor General.

It will be up to the Scottish Government exactly when it chooses to bring that strategy out. As the Auditor General has pointed out, with the spending review coming in 2025, that is likely to give the Scottish Government more information, which it needs, on the broader UK spending and funding plans. That is not to say that the Scottish Government needs to wait until then; it is just that that will be a benefit of doing so. Currently, that is down for the spring, although there have been conversations in the press saying that it may go into the summer. One of the things that the Scottish Government will need to consider is the best timing for bringing out its medium-term plans.

The final thing to say is that the cabinet secretary has also made a commitment, which is referred to in the report, around a financial sustainability plan. In addition to thinking about what the medium-term strategy looks like, what the scenarios look like and how the Scottish Government will respond to each of those scenarios, there is also an opportunity to think about how it might want to best align the fiscal sustainability plan to its spending. It is up to the Government, but there are a few things for it to factor into that consideration.

Graham Simpson: So, already we can see that the medium-term financial strategy might not arrive until later next year.

Stephen Boyle: Richard Robinson mentioned that indications are subject to the completion of a process. That will be in the spring. We do not have any more detail on that.

Graham Simpson: It is called a medium-term plan, so what period would you expect that to cover?

Stephen Boyle: I guess there are two parts to that. It will be for the Scottish Government to set out how long it wants the duration to be. Richard Robinson might want to say a bit more about previous iterations and whether it will be for three or five years. Of course, the further out you go, the less reliable forecasts become.

Notwithstanding whether the medium-term financial strategy is developed, any organisation—whether it is the Scottish Government, a commercial entity or a small public sector body—should always do scenario planning on iterations of how income and spending might be delivered. Richard Robinson might have more insight as to the mechanics of how the strategy might be developed.

Richard Robinson: Normally, the medium term is three to five years. Over time, there have been a few iterations of the process and of what exactly the medium-term strategy looks like. We have commented on that, and the previous Auditor General commented on it in the past. It is an opportunity to set out the best information that you have about what the medium-term picture—three years to five years—looks like, with the understanding, as the Auditor General said, that the further out you go in time, the more events could happen and, therefore, the more prepared you have to be to react to changes. That is important because it allows the Scottish Government to set out how it would respond to change in a proactive and responsive way.

Some of the findings in the report are about the need for reactive in-year responses and about lack of clarity or transparency about the impact of changes on outcomes and priorities. The medium-term strategy is an opportunity to think about those things in advance and therefore to plan how to react to increases or decreases in funding. It is as much about being shovel-ready for new projects as it is about knowing where you can flex the budget if times are harder. It is a key strategic document that allows you to consider almost a path towards a medium-term financially sustainable position and your longer-term joined-up priorities in cross-cutting areas of Government.

Graham Simpson: If we think the issue through, given the timescales, we will be getting fairly close to the next Scottish Parliament election, at which there could be a change of Government. The next Government could have a different strategy. Is there a risk that, by leaving it so late—if I can describe it in that way—the strategy could be overtaken by the election? We might have to produce a new one.

Stephen Boyle: It will be for the Government of the day to determine its approach to fiscal sustainability and transparent reporting. From our perspective, perhaps supporting parliamentary scrutiny and transparency ought to be a feature of effective financial planning, regardless of the budget. In the report, we make reference to the opportunities that exist, as the Scottish Government develops its financial forecasting and reporting arrangements, to draw on the experience of other jurisdictions. For example, the Scottish

Government might wish to adopt the way in which the Welsh Government undertakes forecasting and reporting.

Graham Simpson: I am sorry—could you describe that for us?

09:15

Stephen Boyle: I will bring colleagues in, because that was part of the analysis that we did. Fiona Diggle might want to say a bit more about some of the documents and strategies that have been used in Wales and elsewhere. In the period before the next medium-term financial strategy comes out, the Scottish Government has a chance to cast its eye more broadly. Fiona Diggle can tell the committee about that.

Fiona Diggle (Audit Scotland): As part of our review, we were particularly interested in the way in which the Welsh Government assesses the impact of its budget on different groups. For the 2024-25 budget, the Welsh Government published a strategic integrated impact assessment that looked at the impact that reductions in spending or the reprioritisation of spending might have on different groups. We thought that that was a useful and positive development.

Graham Simpson: Perhaps that is something that we could look at here.

Auditor General, you are very critical—and you have been for some time—of the short-term nature of the budgetary decisions that are taken here in Scotland. You said earlier that that means that we balance the budget, because we must balance the budget every year, but is that approach fit for purpose, in your view?

Stephen Boyle: You are right—the Scottish Government has successfully balanced its budget each year. I would not want to underplay the importance of that. We are talking about a £50 billion-plus spending operation and a fiscal framework that confines the Scottish Government's ability to carry forward moneys from one year to the next. Within those confines, it has delivered a balanced budget, and it has received—as the committee will know through the reporting on the Scottish Government's accounts—a clean audit opinion on those accounts. That is significant. However, in order to do that, as we set out in the report before the committee today and the report on the Scottish Government's accounts, in recent years, it has had to rely on short-term interventions.

I will bring in Carole Grant to say a bit more about what we have seen through the audit of the Government, but, in our view, one of the factors is the fact that the Scottish Government does not have a clear enough understanding of its cost

base. As part of the scenario planning that we discussed, when the Government has to adopt an emergency budget approach or emergency interventions, it cannot easily say which areas it will target and what impact those decisions will have on people who might be using that part of the public service. We think that there is a gap in that approach. Although it might meet the base requirement of delivering the budget, it is not an optimal approach.

I will bring in Carole Grant to set out what that means in practice and where we would like the Government to get to in order to have a more rounded approach.

Carole Grant (Audit Scotland): As the Auditor General has said, we have spoken in previous evidence sessions about the short-term nature of the Government's decision making and the fact that we cannot see how that prioritises certain areas.

From what we can see, each of the portfolios is asked to look for areas where spend could be pushed out into future years or where savings could be made, but it is unclear what consideration is given to the priorities that impact on outcomes. That process also moves pressures from the current year into future years. In other words, the Government is not taking the slightly longer-term approach that we are looking for here. As the Auditor General has said, it is necessary to be clear at the start about where you can flex your budget and where you can take out opportunities and move them forward while having a minimal impact on outcomes.

Graham Simpson: To go back to yesterday's budget, it felt to me as though there were a lot of short-term announcements and not too many long-term announcements, which is what you are looking for. Is that how it felt to you?

Stephen Boyle: We want to have clarity on the longer-term position, but we are still referring to the Government's most recent medium-term financial strategy, which was produced in spring/summer 2023. Lots of events have happened since then that will have influenced the reliability of those forecasts. The same will be true of more recent events. In the report that we are considering today, for example, we refer back to the emergency budget. Back then, the Cabinet Secretary for Finance and Local Government's intention was to use ScotWind moneys to support fiscal balance and the implications of public sector pay deals and so forth.

Yesterday, the cabinet secretary made it clear that, while those moneys will not now be required to support financial balance in the current year, the additional moneys that were intended to be used this year—£360 million, if I have that figure

correct—will be carried forward to be used as part of capital programmes in the 2025-26 budget. There are a lot of moving parts, but I reiterate the point that, until the annual budget is accompanied by clear scenarios and medium-term financial strategies, we will have a gap.

Graham Simpson: I have a couple more questions. First, exhibit 1, which is a graph, shows that there is a growing gap between spending and projected funding. That gap is getting bigger. Do you see that situation simply getting worse? Is the Government taking any action that would address that problem? That growing gap is undoubtedly a problem.

Stephen Boyle: There is such a gap, as we set out in paragraph 11. That information is based on the most recent forecasts, which go back to 2023. Therefore, notwithstanding yesterday's budget announcements, we are still unclear as to whether the extent of the projected financial gap will change in the light of the budget. I suspect that it will, but we do not know whether yesterday's budget will have a positive or a negative impact on that. Although the Government is required to manage its budget on a 12-month basis, one of the key points in today's report is that it is becoming harder and harder for it to do that, as we have seen in recent times.

The other variable that is now part of the mix is the fact that additional moneys have come to Scotland over the past few months as a result of the UK budget. What we got yesterday was a projected balanced budget for 2025-26, but we do not know what will happen beyond then. We will not have clarity about what the impact of those decisions will be beyond 12 months from now until the medium-term financial strategy is published in the spring of next year.

Graham Simpson: One of your recommendations is about mandate letters. You say that, by September next year, the Government should review and update the mandate letters that were issued in September 2023. Could you explain what mandate letters are, why you think they are important and whether the mandate letters that were issued in September 2023 had any effect whatsoever?

Stephen Boyle: Certainly. I am happy to set out the context of the recommendation and to bring in colleagues to say a bit more about what was intended and the substance of our recommendation.

As the committee may recall, the former First Minister issued mandate letters to cabinet secretaries as part of the process of providing clarity of intent on public spending and the delivery of portfolio objectives, as part of the long-running thread of making a clearer connection between

public spending and outcomes. Together with various strategies and the updated programme for government, the mandate letters were the Government's attempt—the Government might be better placed to explain this—to give clarity on the connection between spending and intended outcomes.

As events developed, what was set out in the winter of 2023 evolved. We had a change of political leadership, and events may have overtaken what was in the mandate letters. The point that we are looking to make is that the content of the mandate letters becomes less relevant the further out you go. Is it the Government's intention to continue to use the mandate letters, or does it intend to use an alternative mechanism to provide clarity on the outcomes from spending? I will bring in Richard Robinson, as he might want to develop that further.

Richard Robinson: That is right. The ability to maintain the thread from the strategies and the programme for government to the decisions that were made within portfolios was aided by having mandate letters in place, which is why we call in our recommendations for that to be replicated or for an alternative means to be adopted that provides the same information.

In paragraph 85 of the report, we give a little more detail. The mandate letters that came with the programme for government were about each of the portfolios setting out the aims of the Government, the objectives of portfolios and the priorities for the remainder of the parliamentary session. That is useful because, during a year, a lot of decisions on spending and managing budgets will be taken within portfolios. The mandate letters provide an opportunity for each portfolio to be clear about how it should prioritise the decisions that it makes during the year.

The other benefit of something of that ilk is that it allows people to have a clearer understanding of the cross-cutting nature of the work that portfolios do. In the report, we talk about the fact that many of the objectives that the Scottish Government wants to achieve, such as addressing poverty and addressing climate change, will rely on a number of different areas of Government working together. Having something that more systematically sets out how each portfolio is contributing to that will aid better understanding of how they can work together.

Carole Grant: I emphasise the public accountability nature of the mandate letters. The Government will often have internal mechanisms for accountability, but, with the mandate letters, it was making a public commitment that people could see and hold it to account for on delivery.

The Convener: Thank you. We might return to that theme a bit later on.

Colin Beattie has some questions to put to you, so I will hand over to him.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Unsurprisingly, I will talk more about the budget. Paragraph 24 on page 12 highlights the timing of the UK budgetary information as one of the pressures that the Scottish Government has to deal with. Your report states:

“The funding that the Scottish Government receives from the UK Government is not finalised until near the end of the financial year once the UK Supplementary Estimates are known, usually in February”,

which, given the timing, is difficult for the Scottish Government and means that it has to manage potential impacts of changes to its funding, even at the last minute, throughout the entirety of the financial year.

The latest UK Government spending review was in 2021, which means that, after 2025-26, it is not clear what funding the Scottish Government will receive, and that obviously impacts on its ability to plan its budgets. We are urging it to plan its budgets several years in advance, but that situation virtually prevents it from doing so.

How does the timing of the UK budget and the spending review impact on the Scottish Government’s ability to plan its budgets? What steps could it take within the powers that are available to it to mitigate that particular pressure?

Stephen Boyle: Good morning, Mr Beattie. I will start and then I will pass to Richard Robinson. I will set out the mechanics of how the flow of information and funds between the Scottish Government and the UK Government operates.

As we set out in the report, the timing is a pressure and a key variable that the Scottish Government has to deal with in terms of the precise clarity of funding that it gets from the UK budget. Some of that is a consequence of Barnett consequential, which I know the committee is well versed on, and there can be positive and negative transactions in the flow of funds between the Scottish and UK Governments. One example that the committee might want to come on to is the UK Government’s decision on winter heating. That money—£160 million or so—is currently sitting in the Scottish Government’s budget, but, because of the decision that the UK Government has made on the application of its winter heating budget, that money would, in theory, be a negative Barnett consequential, which is a decision that the Scottish Government can make over the course of the year.

The wider point that I will make before bringing Richard Robinson in is that the timing is undoubtedly a variable and a pressure. Where there is a published medium-term financial strategy with the various scenarios at play, none of those would necessarily be perfect, in our view, but it would give the Scottish Government, the Parliament and the public a clearer understanding of how the Government can interpret and apply some of the changes in variables to the application of its own financial position.

09:30

You asked about the spending review. Clearly, that is material. There has not been a UK Government spending review for more than three years, and it will be four years by the time that we know the results. Being able to anticipate what its income and spending is likely to be is relevant to the Scottish Government’s ability to have a reliable medium-term financial strategy and a central forecast. The Scottish Government has adopted a reasonable position, given the proximity of the next spending review, in that it intends to wait before it updates its next medium-term financial strategy. We are clear that that needs to be available as soon as possible to support parliamentary scrutiny, particularly for the next budget cycle.

Colin Beattie: Doing any planning beyond the current year would surely just open up the Scottish Government to all sorts of variables that come from the UK Government, meaning that it would be chopping and changing its budget all the time. The changes that have come out of Westminster have been fairly frequent and fairly sweeping. If the Scottish Government does its projections, hopefully into the medium term, it is just a nonsense.

Stephen Boyle: It is not an either/or. You still require a medium-term financial strategy. As a scenario, the publication of the medium-term financial strategy in spring next year will include the most up-to-date information available because of its proximity to what we can expect to be the conclusion of the UK Government spending review. It would not be reasonable to wait for the next spending review that follows, if that mirrors the current approach with a four-year period. It has to be done on a rolling iterative basis of a medium-term financial strategy. As I just mentioned, it might not be perfect, but it would perhaps be the best available evidence to support longer-term decisions about tax and spending and public services that inform the approach to deliver fiscal balance.

As Mr Simpson said, there is a potential gap of nearly £2 billion between income and spending projections over the course of the next few years.

A medium-term financial strategy will help planning, prioritisation and scrutiny.

Both those things are relevant and necessary to deliver what is perhaps not an entirely accurate set of forecasts but is perhaps the best available evidence. Richard Robinson might want to say a bit more.

Richard Robinson: Part of the question is about how the Scottish Government manages the risks and uncertainty that it faces through the budgets. Undoubtedly, as Colin Beattie has pointed out, the fluctuations in UK funding is one of the risks that the Scottish Government has to manage. We set out in exhibit 2 of the report some of the UK fiscal environment risks that the Scottish Government must manage, alongside its own.

What are the things that can help? As the Auditor General says, the MTFS gives an opportunity to set scenarios about how you might respond to increases or decreases in funding. That might include changes in taxes that you were expecting to receive, which can also fluctuate and must be managed by the Scottish Government; the same is true of spending being higher or lower.

On specifics, Colin Beattie mentioned the end-of-year funding situation and how to react to that. The fiscal framework contains some provisions for those things, such as how the Scottish Government can set its reserves policy to move money between years or use money from reserves, as well as the borrowing powers that it would have in relation to other things such as forecasting risk of outturns of taxes. That is why we raise the importance of having flex in the budget, needing to keep a close eye on the Scottish Government budget and requiring communication with the UK Government around end-year positions. There have been occasions when additional money has been received extremely late—into March—and that has been carried from one year to the next outside of the budget. We referred to that in our previous papers on the operation of the fiscal framework.

The overall point is about the Scottish Government understanding the variety of its risk management options. That is everything from its medium-term understanding to how it will use the powers in its fiscal framework and what it understands about its cost bases, budgets and big-ticket items such as pay, which we refer to in the report.

Colin Beattie: Perhaps we can move on a little bit. In paragraphs 28 and 29 on page 13, you say:

“During the process of developing the 2024/25 Scottish Budget, no portfolio accountable officer was able to provide assurance that they would be able to fund their existing commitments with the initial allocations provided to them.”

Subsequently, they were

“able to provide these assurances as funding was finalised, and after identifying savings and reprioritising spending”

and so forth. What does that mean? What is your assessment of the impact on public services of this prolonged funding uncertainty and in-year budget changes?

Stephen Boyle: This feels quite stark—the circumstances reflect a very tight fiscal position. Some of those discussions took place before the UK budget, which would have been a significant factor in easing some of the stretch that was anticipated to be in the Scottish budget. Carole Grant can say a bit more about the insight that she has from leading our audit of the Scottish Government.

As you said, paragraph 28 states:

“no portfolio accountable officer was able to provide assurance”.

The committee will be well versed on what happens if an accountable officer is unable to offer assurances on the regularity of expenditure. There must be consideration of requests for written authority or ministerial directions to proceed in the event that there would be significant risks to balancing the budget. Inevitably, there is a degree of iteration. If an accountable officer is unable to offer ministers that level of assurance, you can see the to and fro that can happen. What it spells out is the extent of stretch, the challenging decisions and the risks in the Government’s ability to deliver a balanced budget.

Carole Grant can say more about this. The budget was developed during a particular period in time, and events evolve, whether that is the UK budget or the finalisation of the Scottish budget. The affordability of spending plans was compromised when they were initially produced. At the risk of labouring the point, had there been a more up-to-date medium-term financial strategy, that might have helped in a wider understanding of decisions and of where the flex in the budget would be to inform some choices. Carole can say a bit more about the insight that we have on that.

Carole Grant: As has been pointed out, in paragraph 28, we say that

“no portfolio officer was able to provide assurance”

on the initial budget position. It is not unsurprising that, in those discussions and negotiations, people would be looking for investment in certain areas. However, what is quite stark is that not one accountable officer was able to do it. It comes back to prioritisation. We would perhaps expect there to be areas in which the budget was sufficient, based on their contribution to outcomes and the priorities of the Government, but that was not the case. Therefore, each area had to identify

savings to enable the balanced position to be achieved.

Colin Beattie: Certainly, I would agree that it is quite startling that it was right across the board—from what you are saying, it was every accountable officer. In your report, you note that

“Financial pressures are already impacting on the quality or level of services and affecting the long-term objectives of the Scottish Government.”

You highlight that

“The long-term impact of ... reductions in spending has not been consistently and publicly set out. This restricts the Scottish Parliament’s ability to understand and ... scrutinise the budget”.

In paragraph 31, on page 13, you further state that

“It is not clear how activity to reform services, and the savings and costs involved, is taken into account when making decisions on the budget.”

What types of information did you expect to see in the budget yesterday? Was that information missing? How should that information be properly set out?

I realise, Auditor General, that you have not had a chance to scrutinise the budget in detail yet.

Stephen Boyle: Thank you for saying that, Mr Beattie. Just to manage expectations with the committee and many others, we will be looking at the detail in all the various budget documents. Clearly, it is a draft budget at the moment, so as it progresses through Parliament over the course of the next few weeks, we will continue to track our understanding of what it means. Sometimes what information is included in the detail might not be initially apparent, so we need to go through that whole process.

I will bring in Fiona Diggle shortly to speak about our wider thoughts on the clarity of public spending and public service reform intentions, which I think is at the heart of your question. It is about how the Government is setting out perhaps a clearer direction of travel than we have seen thus far in terms of reforming public services so that they are sustainable and there is a clearer connection to outcomes.

In the report, we touched on the Government’s intention to be clear on the national performance framework and the national outcomes—which again will be a central part of sustainable public finances—and what spending is delivering for outcomes, so that there is clarity around the affordability of public services and public service reform in the round.

I will make one other point before I bring in Fiona. There are many good examples of public service reform and we can get into some of them later, if the committee wishes. What we have not

seen is a clear enough strategy or approach that maps out how the Government plans to move from the current model of public service delivery. We have heard cabinet secretaries reiterate their intention to reform public services over the past few days but we need to see a clear plan that maps out how we go from where we are today, with a model for the public service that provides clarity on the outcomes.

We will be examining the budget documents very closely to see how that reform maps to our recommendations, whether that comes through in these papers or over the course of the next few months.

Fiona Diggle: In terms of the information that the Parliament and the public have received on reform, the Finance and Public Administration Committee has received two updates, the most recent in September 2024, setting out the approach to and the objectives of reform.

In our review, we could see the plans—what we felt was missing was around the timelines and costs of reform. The Auditor General made a recommendation that the next update on public service reform should set out more about how reform will contribute to the Scottish Government’s objective of fiscally sustainable public services, along with a commentary on the costs involved, some clear milestones and timescales for delivery, and the likely impact on people.

Colin Beattie: Lack of information seems to be a common theme right through the whole budget process. We are not seeing the workings—how the answers are arrived at in terms of budget allocations and so on. How should it be set out? We know from what you are saying that there is information missing. Can you tell us how you would expect that to be set out in a budget—without referring to yesterday?

Stephen Boyle: Well, quite. As we said, we will do that analysis, while being mindful that this committee and the various committees across the Parliament will have the opportunity to go through the pre-budget and post-budget scrutiny process to support their understanding.

In terms of moving beyond the in-year budget, clearly Parliament and the public will want to have clarity of understanding about what is beneath the numbers in the in-year budget, but I do not think that you can make a fully informed decision about a budget and its implications without casting your eye slightly further forward, with reliable information.

09:45

In my view, what would inevitably help is if the budget was accompanied by an up-to-date

medium-term financial strategy and clarity about the intent for capital spending of the infrastructure investment pipeline plan, which is anticipated to be updated alongside the medium-term financial strategy.

We touched on the national health service. It, too, requires an updated medium-term revenue spending programme. Although these documents might feel quite dry and there are a number of them in terms of plans and strategy, they are integral to a wider understanding and scrutiny of public spending that goes beyond the budget document itself. Again, I will turn to Richard Robinson and Fiona Diggle to see whether there is anything further that they want to add.

Richard Robinson: If I may be so bold as to slightly reset the question, I would ask, “What information would be useful for scrutiny?”, as that is at the core of what you would expect in any documentation on what is happening in a financial year and what is happening between financial years.

From our point of view, what we have found when we have been looking at the in-year movements on budgets is that more information—Fiona Diggle has referred to the Welsh example—about what the impact of changes on people will be would aid scrutiny of the decisions that have been reached during a year—for this committee and the Finance and Public Administration Committee, for example. A sense of how the priorities are being considered together would also be useful with in-year documentation.

Moving on to the medium-term position and considering why that is important in relation to reform, our exhibit 1 comes from the medium-term financial strategy from 2023, with the three lines of scenarios, showing that that is an issue. There is something about working out what the gap is that needs to be closed over the medium term—what is the size of the gap and what is the sufficiency? How much work does reform have to do? How much of that gap will be made up by reform as opposed to, for example, reducing services or increasing taxes or the other levers that the Scottish Government might have?

Within that, it is about understanding how much reform will cost to do, how much it will return in savings and efficiencies, and how long it will take to accomplish. Some reform may take several years; some of it you may be able to do within a couple of years, for example. It then comes back to the question of what the impact on people will be and how that will be mapped out.

We mention in the third part of the report some of the monitoring frameworks that we can develop around equalities and human rights and people

who might be particularly affected by decisions on reform.

Stephen Boyle: By way of example, the committee will have heard yesterday about the cabinet secretary’s intention that there be a £30 million spend-to-save fund to support public service reform. What is unclear is whether that is a one-off or whether there will be more money next year or the following year, because public service reform will have to be a rolling programme. We make recommendations about having clear milestones around outcomes and intentions. Had the fund been accompanied by a medium-term financial strategy that set out those things, that would have aided scrutiny and parliamentary decision making.

On the one hand, we know—as public bodies have told us—that one of the barriers to effective public service reform was the absence of a change fund, so I am sure that they will welcome that. On the other hand, it is less clear whether that is enough, what it will be used for, and how that connects to a medium-term programme of spending to support reform.

Colin Beattie: Just before paragraph 32 of your report, you state:

“The Scottish Government regularly makes large in-year changes to its budget to break even”.

You are making similar points to those made by the Finance and Public Administration Committee, which published a report on 7 November this year, stating:

“There is little evidence that medium- and long-term financial planning is taking place, and year-on-year budgeting has also become challenging, with significant emergency controls being required in each of the last three years.”

Are emergency controls becoming the new normal? Has that now been adopted as the way forward? How sustainable is the regular use of in-year changes to address budgetary pressures, and what are the risks?

Stephen Boyle: It is perhaps too soon to say that this is an established pattern and that we will forever be in a cycle of interventions that see the Scottish Government having to adopt an emergency approach, but the fact that we have had two significant interventions in the past three years suggests that there is an emerging pattern.

I will say a bit more on the risks—colleagues should feel free to contribute to this. As we say in the report, the Scottish Government does not have a clear enough understanding of its cost base that it knows where to go to in the event that significant intervention is required. The causes of that will inform whether these are inflationary or changes to its budget beyond its control. What it has tended to do is to target those.

We set out some examples in exhibit 5 of where the Scottish Government has approached particular lines of spending to balance the budget. We touched on ScotWind revenue being used, which seemed at odds with the original intention that ScotWind would be more climate and biodiversity orientated. Instead, the revenue was a significant contributor to supporting public sector pay deals.

That does not quite lead us to a point of saying that it is inevitable that there will always be an intervention required in terms of emergency spending controls. It is clearly suboptimal. One of the paths out of this approach is to have a better understanding of the cost base and to have that as part of your scenario, so that if there is a financial challenge, the Scottish Government and the Parliament will clearly know which budget line will be approached and what the implications of that are.

As we set out in the report, one of the factors that we are unclear about is whether the Government has a strong enough understanding of the implications for outcomes and equalities implications more widely, if it stops spending on a particular budget line. Those decisions tend to be done on a portfolio basis as opposed to having a more cross-cutting assessment of spending implications.

A stronger path out of this would be to have more detailed scenarios, with medium-term strategies across the piece that the Government can draw down as it needs to. Richard Robinson might want to comment further.

Richard Robinson: I might bring in Fiona Diggle to talk about the fiscal risks side of things, which we cover in the report.

It is fair to say that, with Covid-19, the past few years have been disruptive. We have reported on the fact that a large number of movements happened. We have also reported on the cost of living crisis that followed—the inflationary pressures and the knock-on effect on reform. What that highlights is the importance of planning and of knowing the levers that exist so that you are able to respond, rather than react, to events.

One point is about learning the lessons from things that have worked in the past. We mentioned the mandate letters. There are things that have worked that are worth considering continuing. However, we should also keep a focus on the level of fiscal risk that remains. I will hand over to Fiona Diggle, because we touch on that in the report.

Fiona Diggle: Yes, that is right. In paragraphs 53 and 54, we talk a little bit about the risk management that Scottish Government is undertaking. We highlight that we think the Scottish Government has a clear assessment of

the risk to fiscal sustainability. However, the corporate risk registers continue to identify risks to fiscal sustainability and score them highly, and that is not moving over time.

Colin Beattie: Can I ask a daft-laddie question? You talk about the Scottish Government not understanding its cost base. We know what we spend the money on. What exactly do you mean when you say that it does not understand the cost base?

Stephen Boyle: Carole Grant is probably best placed to set that out clearly.

Carole Grant: What we are looking at is what you get for the money—what the cost base delivers, and therefore where the opportunities are within that for efficiencies to be driven out that can inform future decision making.

Good data is so key to so much of the Government's work, but it is also important across the Scottish public sector. I know that on a number of occasions the committee has explored the lack of good data to inform decision making. That is what we are touching on—that deeper understanding of the data that sits underneath. What does it tell you about the public services that are being delivered at a certain cost? Where are the efficiencies that could come from that? Where should reform be focused so that we get the same or better outcomes in the future at a lower cost base?

Colin Beattie: You would hope that the people running these areas would have a good knowledge of their cost base when the pressure comes to save money and so on. I think that the Scottish Government itself operates at that higher level; the people in the trenches who deliver the services should be able to make those assessments.

Stephen Boyle: I will perhaps go back to a couple of things. The structure of the budget has been mentioned already, and you will be familiar with the fact that it tends to be presented on a portfolio basis. Inevitably, there is a cascade down in the budget-setting process. As we mentioned, portfolios were asked to identify savings even before the budget-setting process. In the midst of a budget year, portfolios will be asked where they can make savings. There might need to be a broader understanding that it is not just about individual portfolios; it is across the piece and across different types of spending—both up and down and across, as it were.

The other factor that makes the process more challenging is that so much of the Scottish budget is consumed by pay costs or allocations to local government. When you take those out, it is hard to identify where you can flex, whether that be in relation to allocations or grants. It is that level of

challenge that has brought some very tough decisions. Inevitably, it will be tough in year if you have to make emergency interventions and bring in spending controls. Having a more ready-made plan will make that a more seamless process.

The Convener: Thank you very much. I will press straight on and invite the deputy convener to put some questions to you.

Jamie Greene (West Scotland) (Con): Good morning, Auditor General. I am very surprised that you were not up all night studying the budget like everyone else was.

Yes, a draft budget was announced yesterday, but I want to look at the context, given your report and some of the wider issues around financial sustainability of public spending relative to revenue that you have been talking about for the past few months. I will reflect on some of what happened yesterday, but in that context, rather than in relation to the specifics of policy. I hope that that is helpful.

Over the 24 hours since the budget announcement, I have struggled to dig below the headlines. You will see a lot of media reporting around cash spend increases and promises to spend more in specific portfolios, but where that money is coming from is particularly unclear. That transparency issue is something that you raise in your report. How do we, as a committee and as parliamentarians, and the public get to the detail? How do we know where the additional money is coming from? I do not know where it is coming from.

Stephen Boyle: There is a lot in your question in terms of the basis of information. That will be supported by the budget documents, committee scrutiny and the advice of the Scottish Parliament information centre and others. There will be analysis to support clarity for decision makers about the various strands of where the revenue is coming from: the tax forecasts and the block grant funding from the UK Government. I do not doubt that the numbers add up—I think that they will add up and that the forecasts will be reliable. You will also be supported by the Scottish Fiscal Commission's assessments, which will give you a rounded picture of the source of funding. Fundamentally, there are only two sources: tax forecasts and block grant funding from the UK Government, as the basis for public spending in Scotland.

10:00

I think that there is still a gap. What happens after the 12 months? Spending continues. Public sector pay is a huge factor—people are employed. We know that public service reform still needs to be a key component, but it is that lack of clarity

beyond the 12-month process that is central to the decisions that must be made. This year there is still that gap, so although you will have reliable information to make an assessment of this year's budget, I do not think that it gives you enough of a picture about what happens thereafter.

Jamie Greene: That is the point, though. You talked about the two areas where you can get additional money. The first is via the block grant, which presumably is either money that has been pre-promised from the UK Government through top-up funding from the UK budget or Barnett consequential due to decisions that have been made in Westminster, or block grant asks of the UK Government, which are not guaranteed to be met—the two are very different. Alongside that sit revenue projections from tax intake under devolved taxation. What happens if neither of those increases or if there is no likelihood of them increasing? For example, early projections show that the tax increases announced in yesterday's statement are less than £100 million, so it is nominal and nowhere near enough to scratch the surface of the spending commitments—the cash spend commitments. Surely the only other option would be for portfolio increases that happen in one area to require cuts in other areas. In other words, to balance the books, the money is just shuffled around from one set of portfolios to another. Either you have new money or you are just shuffling around existing money. It is very hard to determine which it is, and I guess that that is what I am struggling with.

Stephen Boyle: I recognise that, and even in some of the early analysis that we have done on the budget we see that there are movements. There are real-terms increases for the national health service, as indicated in the draft budget, and also anticipated growth in social security spending—members across Parliament will have heard about the intention to support winter heating payments, which will have financial implications. What will the position be during the course of the year if funding does not arrive? To go back to talk about the scenarios that will be necessary, I hope that those can be avoided and that there is sufficient clarity to support the reliability of the forecasts before settling on the budget before the start of the new financial year.

There is a degree of uncertainty about what might happen as we move through the year. As we touched on earlier, the UK spending review will be a key part of providing clarity.

Jamie Greene: Just to throw a spanner in the works, some of the early analysis of yesterday's announcement paints a bigger picture around how we get our heads around the transparency issue when ministers make announcements about new money. I was particularly struck by the summary

from the Institute for Fiscal Studies. I am not sure whether you have read that yet, but it left me with more questions than answers. To summarise it briefly for the benefit of others, it paints a picture of announcements that are made on paper—by the way, this is backed up by the SPICe graphics that came out this morning—suggesting around a 5 per cent cash-terms increase or 2.9 per cent after inflation, so a real-terms increase. However, and this is key, it excludes £1.3 billion of funding that the budget documentation implies the Scottish Government still has to allocate to services this year. If that was to be taken into account, you are looking at a flat-cash settlement next year.

Where do I start with this? There is either a 5 per cent cash increase or there is not. I am of the understanding that the Government is unable to roll over money year on year, so how can unallocated money from this year be spent in next year's budget, for example? Again, that all just raises questions about the veracity of some of the top-line figures that people are seeing in the newspapers this morning, which is why I think that it is important to dig under those figures. Do you have any view on that?

Stephen Boyle: You are right. Forgive me for being trite, but clearly there is a lot of complexity that I hope will be eased through some of the scrutiny done by this committee and others across the Parliament over the next few weeks. I am sure that there will be discussions about absolute insight, supported by SPICe, the IFS and others, into the detail that exists within the budget and the supporting documents.

It perhaps reinforces the point that we have been making in this report and in others—indeed, this is echoed by the Finance and Public Administration Committee—that clarity of information is required to support effective scrutiny, and what we have seen up until now could be improved.

Jamie Greene: You talked a little bit about the budgets for the NHS, social care and social security. We all know the direction of travel for those budgets—they are becoming an ever-increasing chunk of expenditure for the Government. Presumably, any announcement—whatever the numbers are or whether they are increases of 1, 3 or 5 per cent—will either cannibalise the wider Scottish budget and the total pie available, or is reliant on some additional cash, the value of which is unknown, although we know roughly the value of the spending commitments. You talk about balancing the books. That may be the case, but big spending announcements are being made where there is no clear, backed-up and identifiable source for how those will be funded. Are we able to follow the money, or is there still a lack of transparency and clarity?

Stephen Boyle: There is more to be done on those points. Social security is an important example, as we set out in paragraph 15 of our report. These are all Scottish Government spending choices, and it is for the Scottish Government and the Parliament to consider them. Sometimes the choices follow UK Government decisions and the resultant Barnett consequentials, but they are matters for the Scottish Government. The Fiscal Commission forecasts that the Scottish Government will spend £1.5 billion more on social security than it receives from the UK Government in Barnett consequentials, so there is not always a direct link back to the UK spending review.

Both the report that we are considering today and, especially, our NHS overview report, which we published earlier this week and which I look forward to briefing the committee on shortly, show that the NHS, too, is consuming an ever-growing part of the Scottish budget.

The need for reform across the public sector is the Government's intended ambition to deliver sustainable public services that are affordable. What we are missing is the detail of that. How do we move from the in-year budget process—the budget cycle and the process of approval—to a clear plan for having both high-quality and affordable public services?

I think that we have set out quite clearly in the report that we are considering today that missing are elements that would allow both the public and the Parliament to effectively scrutinise some of the commitments. They will not just be 12-month spending commitments; they are long-term decisions.

Jamie Greene: What are some of the elements that you think are missing in terms of transparency from the Government that would allow the public to make an informed decision as to where the money is coming from?

Stephen Boyle: I think that we are quite clear: a medium-term strategy; a clear capital programme and infrastructure and investment pipeline; and the detail of what the Government intends with its stated plan to produce a fiscal sustainability delivery plan, which will be vital. Together with that is the separate but equally important medium-term financial framework for the NHS. All those documents will support better understanding of and transparency around how public services will be affordable beyond the 12-month cycle.

Jamie Greene: You said in your last answer that the report highlights that social security spending will be £1.5 billion more due to devolved spending decisions, which again are policy decisions for policy makers. I understand that, and I am not asking for comment on the policy itself,

but the facts are that they are spending more than they are getting in that portfolio. Presumably, that is unsustainable—the money must come from somewhere.

Stephen Boyle: I am not sure that we have reached that position. These will be spending decisions for the Scottish Government; Richard Robinson might want to say more, but I think that there is a tale and a history to all of this. They relate to the fiscal framework, the intention of which is to balance in revenue and expenditure terms the Scottish Government's ability to make separate spending choices, supported by the levers that it has to develop the Scottish economy and growth.

When it comes to the Fiscal Commission's forecasts, they will inevitably be subject to change themselves, deputy convener; indeed, as the commission itself announced after the budget, it had not factored in what was happening with the two-child benefit cap, so that aspect will change. The fact is that there are many moving parts, but there is an important opportunity to have a broader assessment of the medium to longer-term implications of some of these important decisions to support effective scrutiny of the budget as it goes through.

Jamie Greene: Just before I bring in Richard Robinson, I have to wonder whether we have a problem here. All the news headlines last night were about this particular policy, which I will not comment on the specifics of; however, despite all the focus on that policy announcement, we have since discovered that we do not know how much it will cost, if it is passed as part of the final budget and implemented. In fact, there is some dispute over those costs.

How can ministers stand up in Parliament or go on TV and say, "We are introducing this policy but no one has a clue how much it costs"? Any estimates that there might be—and we have heard from one independent source that it might cost £200 million to £300 million per annum—have not been fed into the budget process and therefore not been factored into the wider budget assumptions. What if you were to do that with every policy and just announced what you like? Having nothing in the small print that says, "This is how we came to that number. This is how much we as a Government know it will cost the public purse" does not feel like a sustainable way of running a budget in the long term.

Stephen Boyle: As we have said in the report, there are significant risks to sustainable public spending, and we have made it clear that there is not enough reliable high-quality information beyond 12 months to support effective scrutiny and to ensure that the public is aware of and understands the current fiscal risks. Clearly, that

feels like a gap for parliamentarians. There needs to be a medium-term financial strategy, a capital plan and an NHS plan as well as clarity on the fiscal sustainability delivery plan to support parliamentary scrutiny and understanding of financial decisions, and that sort of thing should not apply for just 12 months.

For example, when it comes to the challenging area of public sector pay and workforce, we have identified in the report public sector pay awards as one of the key drivers of the need for financial intervention to balance the books through the emergency budgets. Inevitably, given the Government's commitment to no compulsory redundancies, these awards are baked in from one year to the next, but we do not have clarity about how those things will be bridged, whether it be the nearly £2 billion in the most recent forecast or a larger or smaller number—a number that we do not yet know, as we have not seen the medium-term financial strategy. These are all missing parts of the suite of information that we think is necessary in order to make informed choices.

10:15

Richard Robinson: I have a couple of things to add, but I want to touch on the point about transparency, too.

An issue in previous budget years has been that budgets have often been compared with the next year's budget and, as the Finance and Public Administration Committee commented in last year's budget scrutiny, such an approach does not reflect whether things have gone up or down in the middle. Any move in that direction would add something alongside the budget-to-budget approach and give a bit of an understanding about how these things fit together.

On the fiscal framework and social security spending, as the Auditor General has said, the key facet of the fiscal framework and the devolved powers that flowed from it was the Scottish Government's ability to do things differently from the rest of the UK. The Auditor General mentioned the most notable aspect of that when he referred to the report coming next month on Scottish income tax. That has resulted in block grant additions to the budget, while social security and differential social security policies have led to an increase in spending from it. That is okay if it is in line with how the Government would like to spend its money and what its priorities are, but the overall challenge is how sustainable it is over the medium term, and whether we know that.

That is why setting things out over the medium term is important; it highlights what the future costs would be and the associated consequences

for other areas of spending, which then allows you to plan against various scenarios. This is why it is important to understand those elements of reform with regard to medium-term and, indeed, longer-term planning. After all, we talk in the report about what the SFC has said in respect of what will happen over the next 50 years.

Jamie Greene: Are you surprised—or, indeed, disappointed—that we do not have medium-term financial strategies from our Government? It seems to me that producing this kind of high-level strategy is a really basic aspect of the governance of public finances, but year after year, we hear these criticisms that it does not exist.

Stephen Boyle: I think that that is a question for me rather than for Richard Robinson.

I think that it is a necessary feature of a transparent suite of financial reporting. As I said to Mr Beattie, the UK spending review, when it is produced, will allow for a more up-to-date, accurate and perhaps reliable assessment of future forecasts, but I am not sure that that is a strong enough justification for not producing such a strategy, especially given that UK spending decisions will not always reflect the decisions that the Scottish Parliament will make. We have touched on the divergence of social security approaches and more broadly, we highlight in the report the fact that the Scottish public sector workforce model does not, in terms of size and pay, flow directly from the choices made by the UK Government either, as is entirely appropriate. Not having such forecasts is a missing component and a barrier to effective scrutiny by the Parliament.

Jamie Greene: Finally, do you have the feeling or the impression that the Scottish Government is, year on year, firefighting in the way that it makes in-year changes to the budget? By that, I mean emergency measures that move money from one budget to another. Over the past two years, money has been pumped into pay awards, pensions, social security and health and social care at the expense of agriculture, energy, housing, ferry services and education. Money is getting sucked out of other portfolios in the middle of the year to plug gaps as a result of policy decisions and spending commitments that must be fulfilled not just annually but, as you have rightly said, over the medium term.

To me, that feels like a very short-term way of managing your budget year on year. It is a bit like getting up in the morning and deciding how much you will spend that day, instead of looking towards the rest of the week or month. Again, does that indicate a picture of stability or good governance of public money?

Stephen Boyle: Clearly it is suboptimal to apply emergency spending controls and interventions in

the middle of the year in order to balance the budget. I do not think that it creates a system of effective public spending and clarity either for budget holders or for those relying on and receiving public services. Events can happen, whether they be inflation shocks, public sector pay decisions or other things, but it would be much more preferable if we had the ability to deploy a scenario that was clear about the implications of such spending decisions. Indeed, having those medium-term forecasts would better support the setting of a budget that was robust enough to be steered through a 12-month period.

Jamie Greene: Thank you.

The Convener: You will be delighted to learn that I have only one budget-related question for you before I move on to some other final areas.

Earlier, you touched on the ScotWind leasing revenues. Yesterday, it was announced that over £300 million of those revenues will be spent on their intended purpose, which, presumably, is reinvestment in the green agenda, renewables and so on. However, in exhibit 5 of your report, you identify that the revenue raised from that was not £300 million, but £756 million. Therefore, my question is this: what is your sense of where the rest of the money has gone? Has it been spent as part of general in-year expenditure, or has it been earmarked for something else in the future?

Stephen Boyle: Carole Grant can say a bit more about this, because it is something that we have been tracking through the audit of the Scottish Government as well as this report. It is fair to say that what came through in the budget and, indeed, in the emergency spending controls was that the ScotWind funding was identified first of all as a key component of what the Government termed its path to balance. It was intended to support the Government's revenue position, which was largely driven by the public sector pay awards. That was, in a sense, the balance of the moneys, because you are right—the revenues related not just to this financial year. Some of the money had already been used.

I think that that is all we can say today. If we need to come back to you with a bit more detail, we can do so.

Carole Grant: I do not know the exact figure, but I think that just over £200 million was built into the 2024-25 budget from the beginning and was used as part of the setting of that budget. As the Auditor General has said, the remaining £460 million was used as part of the plans for the emergency savings and the additional spend during the year. That would have used up all the funding available through that route.

The Convener: I am sorry, but I was never very good at arithmetic. You mentioned £200 million

and £460 million, but the figure in the report is £756 million. Is there a missing £100 million somewhere?

Carole Grant: I think that a small amount was used in previous years, but Fiona Diggle might know about that.

Fiona Diggle: I can confirm that additional ScotWind funding had been used in previous emergency budget review processes, but we can come back with more detail on that, if that would be helpful.

The Convener: Thanks. That would be helpful.

Stephen Boyle: We can give the committee something of a reconciliation, as it were, to show how much was raised, how much was spent and how much is left.

The Convener: Great. I will turn to what you have said about progress on public service reform. There is a certain clarity in what you have said about that in the section 23 report. You are fairly blunt after paragraph 68 in saying:

“The Scottish Government does not know what savings will result from reform, or what reform efforts will cost”.

You also say that

“The Scottish Government’s governance arrangements for reform were ineffective and have recently changed”

and that

“The Scottish Government is not providing effective leadership on reform”.

In paragraph 87, you say that

“the impact on outcomes is not currently considered or monitored as part of the reform process”,

so it is not considered at all and neither is it monitored.

Those are fairly fundamental criticisms of the Scottish Government’s approach to public service reform, are they not?

Stephen Boyle: Yes, that is a fair characterisation. There has not been enough progress in the adequacy of the arrangements to support delivery, in the leadership that the Scottish Government has provided to public bodies on public service reform and in providing clarity on where it intends to get to in relation to milestones and the details of the plans that are needed. As I mentioned, although we have reported effective examples of public service reform by public bodies, there is not yet the scale of progress that is necessary to support the transformation that is required to deliver high-quality and sustainable public services.

In our report, we make recommendations—which, we hope, will be helpful to the

Government—to support a more structured and transparent programme of public service reform.

The Convener: You highlight a familiar theme for the Public Audit Committee and in your reports: what is, to all intents and purposes, an implementation gap. There is a stated Government ambition, but delivery on the ground does not match up with that. That is the summation of what you are saying in the report, is it not?

Stephen Boyle: Yes, it is, and it is not just us who is saying that. It is important to highlight exhibit 9 in our report, which draws on examples that public bodies have cited of barriers to effective delivery of a public service reform programme.

We have already touched on the idea of a spend-to-save fund, and there should be clarity on the size of the public sector workforce. The Government has noted that it needs to rightsize—to borrow its language—the public sector workforce, but there is no clarity on what that means and what will be required of different people working in the public sector over time. Inevitably, part of that will involve investing in capital programmes as we safely adopt more digital services, taking members of the public with us and avoiding digital exclusion, which are issues with which the committee will be familiar.

There should be coherence on a rounded programme, with a clear plan and milestones, rather than what seems to be the Government’s intention: a rolling, consultative and bottom-up programme that draws on ideas. As I mentioned, there are examples of public service reform by individual bodies, but there is no overarching clarity on the Government’s intentions, with specific dates in the future, on a meaningful scale to support fiscal sustainability.

The Convener: As I read it, the Government’s strategy is that it is opposed to a top-down approach, as it describes it, which is an interesting idea. However, I think that your conclusion is that that leaves a bit of a vacuum and a lack of leadership. Would that be a fair assessment?

Stephen Boyle: Yes, that is a fair assessment. Notwithstanding the barriers that have been set out, it is not clear where we plan to get to through a programme of public service reform, what the vision is for what public services should look like and what size of workforce there should be.

The Scottish Government has set out various examples of workstreams, and it might be appropriate to bring in Fiona Diggle to say a bit more about our assessment of them. For example, work is progressing in several areas, but there is a lack of clarity on the overall vision of what is intended. It is fair to say that there is work to do to

build on some of the successes by thinking about whether they can be applied at scale across public services. The dominance of a convening bottom-up approach is perhaps not providing clarity on the end point in relation to the Government's intention to deliver fiscally sustainable public services and use public service reform as a model for that.

Fiona Diggle: As we set out in paragraph 67, under the workstreams, there are about 30 activities, which range quite widely in scale. In our review, it was hard to identify the progress with each activity and the details on costs and timelines.

10:30

The Convener: One of the things that really struck me was what you say a couple of paragraphs later. You say that, despite the Scottish Government contacting public bodies three times since January 2023 to assess their ability to carry out reform,

"These requests did not generate concrete information on the quantity, quality or anticipated impact of public bodies' collective work on reform."

Again, that is a fairly basic requirement, is it not? What is your understanding of the reason why the requests did not elicit any useful answers from the public bodies that the Government spoke to three times?

Stephen Boyle: There are a couple of factors, one of which we have touched on already to a degree. In relation to the budget-setting process, accountable officers were already saying that budgets were stretched. Some parts of the public sector have not had the real-terms increase in spending that others have had. If you have not been working in the NHS or social security but have been working in a portfolio that has not received real-terms increases in spending—there might have been flat cash and so on—you might not have the capacity to support public service reform or a clear understanding of the Government's intention, which is one of the points that we make in the report.

Without detailed information or clarity on the vision, I am somewhat sympathetic to public leaders asking what is being asked of them. Many will have ideas about the public service reform that has come through—we can give some examples—but it is quite telling that, over the past six to 12 months, there has been a real drive from the Minister for Public Finance to make progress in being able to make a broader assessment of the corporate spending information that is available. That goes back to the point that Carole Grant made about the need for clearer data to support public service reform decisions.

There are a variety of factors, but that sums up our assessment. The Scottish Government might be better placed to give the committee an understanding of why it has not had the momentum that it might have expected. If you are content, convener, I will ask Fiona Diggle to bring some colour to what I have said.

Fiona Diggle: I think that the third of those commissions was the corporate cost information that was published around the same time as our report. That was a positive step forward in relation to aggregation and providing clarity of intent on the information that was requested, but significant information on the reform agenda was not included.

The Convener: A couple of weeks ago, the committee took evidence on digital exclusion, which you produced a report on several months ago. I would have thought that, if a public body had been asked by the Scottish Government three times to give evidence of the action that it was taking to implement public service reform, it would have at least looked at digitalisation or a change in the way that services are delivered, whether we agree with that or not. I would have thought that that would be an obvious go-to place for lots of the public bodies that were asked for information about what they were doing to reform the services that they provide.

Stephen Boyle: I do not think that that is unreasonable. Digitalisation and the use of the public sector estate are among the themes that the Government has identified as supporting its public service reform agenda, but there is perhaps a tension between a bottom-up approach and the Scottish Government providing overarching clarity on its strategy. A leader of a small public body might not be sure whether they have the capacity or the skills to deliver a digitisation approach for their organisation. They might not have clarity on what their budget will be two, three or four years down the line or on whether they will be expected to deliver the programme on their own or whether they will need to work with other public bodies.

That speaks to the tension between individual public bodies taking local approaches and the Government providing clarity on, and leading, an overall approach to public service reform, whether that relates to digitalisation or the use of the public sector estate, which we spoke about with the committee last year. The challenging part relates to whether that will have any implications on structures. That is referred to in a number of places, but there is no clarity on what the overall shape and size of the public sector will look like.

The Convener: Again, you reference in the report that there is a lack of data on workforce, estates and so on. I know that it is not completely analogous and I may be stretching things a little

bit, but Scottish Canals was in front of us a couple of years ago, in consecutive years, because it failed to carry out a proper asset audit to comply with the standards expected. Yet, in a sense, in your report you are saying that the Scottish Government does not know what assets and what estate it has, never mind the valuation of it. There appear to be big gaps in information here.

Stephen Boyle: Effective information is a gap and we have touched on some of the reasons for that and the steps that are being taken. My colleagues might want to say a bit more on this, but I will first talk about the estate itself. If memory serves me correctly, about 12 months ago we produced a report and the committee took evidence on the use of the Scottish Government's infrastructure. A key part of that is about public service reform, but the intent remains. Much of that reform is confined to administrative buildings, rather than operational assets, some of which have been in use for 50 or 60 years, and whether they will be part of how we will deliver public services in the future. There are various strands and threads to this, convener, but our overall view is that we have not seen enough clarity and leadership to support an effective programme of public service reform into the future.

The Convener: Okay. You also mention governance arrangements in the report and say that a new PSR board has been established. Can you tell us a bit more about that? Who is on it? What are its terms of reference? What is its plan of action?

Stephen Boyle: Yes, certainly. Fiona Diggle can say a bit more about that. As we have set out in paragraph 71 of today's report, there is a need for improvement in public service reform governance, but there have been some developments under the leadership of the director general for communities. Fiona Diggle can set that out.

Fiona Diggle: In spring this year, it was agreed that a more formal governance arrangement was required. There were some delays to that and the first meeting of the group was in September. The difference between the new governance arrangements and the previous governance arrangements are around the powers of the board, which will have the authority to direct PSR work and establish existing areas of work, and, significantly, it will also be able to draw on resources from across Government. The board had only met once, at time of reporting, so it is too early to say whether it will have a significant impact on speeding up the progress of the programme.

The Convener: I do not think that "speeding up" and that sentence really fit. Not for the first time, the committee is hearing about a structure that

has been established that is not really meeting, which rather belies the priority that it is being afforded, I would have thought. Are the minutes of the board published?

Fiona Diggle: They are not published, as far as we are aware.

The Convener: Forgive me, these are matters that we will probably raise with the Scottish Government, but to help us to understand what the answer might be, we have some questions that we are putting to you.

Stephen Boyle: If I may, convener, I think that you can be forgiven for thinking that there is a pattern in terms of adequacy of implementation of policy intent and the effectiveness of governance that is necessary to support the implementation of key strategies. It is not the first time that the committee has heard this. Something as fundamental as public service reform ought to have had, right from the outset, more effective governance around it than we have seen up until now. As far as welcoming the changes that are intended, as Fiona Diggle reasonably says, it is probably too early to say yet whether those will be effective.

The Convener: Thank you. I have a couple of final questions and I think that Graham Simpson also wants to come in. I will bring him in shortly, but I want to touch on a couple of things. We think that it is important to get your answers to these questions on the record.

One of the weaknesses that you cite is the way in which equalities and human rights impact assessments are dealt with and whether or not they are built into the beginning of decisions about public service reform. Do you want to outline for us how you think that decision making is being enacted and whether or not equality and human rights impact assessments are part of that or an afterthought or are not given sufficient priority at all?

Stephen Boyle: I will happily start off and then I will bring colleagues in. Perhaps I can draw to the committee's attention exhibit 1 of today's report. The issue is about considering the impact of changes to spending, whether those changes are made on an emergency basis, as we have seen and explored in recent weeks with the emergency spending controls and how adequately they are approached, or whether they are made on a more planned basis, such as through public service reform. Colleagues can talk to that, but what we are keen to see as, I guess, the next iteration of such consideration is that there is a much clearer connection between spending, reform and the intended outcomes in relation to the national outcomes.

We are clear in today's report, referencing paragraph 94, that as the Government moves forward with its programme of public service reform it must be able to clearly track the implications of those changes for different groups in society. You referenced, for example, digital exclusion. There is an inevitability that as a society we will adopt digital more and more and that public services will be delivered in a digital way, but people must have equitable access to public services and there must be a clarity of approach to deliver on that. I will pause because Fiona Diggle and Richard Robinson might want to say a bit more about that.

Fiona Diggle: As part of our evidence collection for the audit, we found that at an overall level for the PSR programme there was not a consideration of equalities and human rights. Our understanding is that that consideration is happening at a lower level, but we are not seeing it all pulled together at the programme level. The Auditor General has made a recommendation that equalities and human rights should be built into decisions about public service reform to understand the impact of that reform on people.

Richard Robinson: There is a general theme there about the Scottish Government's leadership being about bringing together some of those things. It probably also relates to your previous question on activity. It is fair to say that reform will be delivered by public bodies and the Scottish Government working together, which means that each needs to understand what the other needs. The Auditor General has pointed you towards exhibit 9, which sets out some of the requests from public bodies about needing capacity and digitalisation and so on. Conversely, the Scottish Government is saying, "We need better data about your corporate costs, your workforce costs and therefore what the opportunities are to make efficiencies or reform within that."

Finally, we highlight as well on page 31 a case study of the emergency budget review. Again, it is about learning the lessons from things that we believe were good practice and that worked. The ability to set out more clearly what the effects on outcomes could be of making those immediate decisions is an example of something that we think the Scottish Government could do more of.

The Convener: Yes. A view has been expressed in the past that equality impact assessments are part of the red tape that we need to get rid of. Is it your understanding that the Government's position is that it thinks that it is important that there are equality and human rights impact assessments of changes?

Stephen Boyle: Yes. I think that that is a fair assessment. I do not detect any glib approach to equalities impact assessments from the Scottish

Government. It is important that they are done in a rounded way and at the right time, rather than, as the committee has seen on a couple of occasions and as we have reported, that there was a retrospective approach to equalities impact assessments. They need to be done right at the front of the process to inform the decision-making approach, rather than as an afterthought. I certainly would not characterise the Government's approach as being one that feels like a bolt-on, no.

The Convener: Thanks very much. That is very helpful. Those are all my questions, but Graham Simpson has a final one to put to you.

Graham Simpson: Thanks, convener. I want to go back to the whole issue of reform. I suppose that we could probably agree that reform is not necessarily about saving money, although it might save money. Ultimately, it is about doing things better, I think, so that there are better outcomes for the people we are all here to serve. That might save money, which would be a benefit.

10:45

The convener has already touched on paragraph 70 in your report, but I will point to paragraph 69, where you say:

"The Scottish Government required all portfolios to lay out their savings and reform plans by the end of the financial year."

Then in paragraph 70, you talk about public bodies being asked three times to assess their ability to carry out reform. I am concerned that both those paragraphs give the impression of departments, portfolios, or public bodies refusing to play ball on reform. They are not giving the information required. Is that your assessment?

Stephen Boyle: I think that that would probably be a step beyond what we are saying in today's report. It is not a deliberate attempt to obfuscate the Government's requests or intention but, as we say in paragraph 70, the Government's requests did not generate concrete information on the quality of Scottish public bodies' intention to deliver reform. It perhaps goes back to the point that we are making in the report, that there needs to be not just a bottom-up approach but a real clarity of intent from the Scottish Government about what it wants to achieve to deliver those outcomes that, as you quite fairly say, Mr Simpson, are not just about saving money.

If I may, I will stray into the NHS for an example. One of the reforms that the Cabinet Secretary for Health and Social Care outlines and part of his vision is to move to a preventative-based model—a primary care-based model rather than an acute setting. That will deliver, if it is applied and works well, more cost-effective and better outcomes for people. The clarity of vision around public service

reform in the round is the next step, so that public bodies are better able to engage and bridge what there are examples of in today's report: a gap in implementation and understanding of what is expected of them.

Graham Simpson: Is what is required more leadership from the top, from the Government, telling either its own departments or public bodies what it is looking for?

Stephen Boyle: Yes. One of today's report's key findings is that there needs to be clearer leadership from the Scottish Government in order to support public and parliamentary understanding and to support public bodies' ability to engage in public service reform. The Government must be clear about what the longer term outcomes will be, and there must be a clear plan with milestones attached to it so that the Government can engage effectively and the Parliament and the public can scrutinise it alongside that plan.

The Convener: Thank you very much. That brings to an end this evidence session. Thank you, Auditor General, for your time and input. I also thank Carole Grant, Fiona Diggle and Richard Robinson for their contributions. It has been greatly appreciated and you have set a useful platform for us upon which we may stand and ask some questions of the Scottish Government. Again, thank you very much indeed for your evidence.

I move the meeting into private session.

10:48

Meeting continued in private until 11:14.

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