

# Finance and Public Administration Committee

14<sup>th</sup> Meeting 2023 (Session 6), Tuesday 16 May 2023

## Public administration in government

### Purpose

1. The Committee is invited to take evidence from John-Paul Marks, Permanent Secretary to the Scottish Government on issues relating to public administration in government, including:

- progress against his ambitions for how the Scottish Government works,
- the latest update in relation to the Scottish Government's response to the three harassment reviews which took place in 2020/21, and
- the Scottish Government's Consolidated Accounts for the year ended 31 March 2022.

2. Mr Marks will be accompanied by the following Scottish Government officials:

- Lesley Fraser, Director General Corporate
- Louise Macdonald, Director General Communities, and
- Jackie McAllister, Chief Finance Officer, Scottish Government.

3. This session falls within the public administration aspect of the Committee's remit, which is to provide "oversight and scrutiny of the way in which government exercises its overall functions and the quality and standards of administration provided by the civil service in the Scottish Government".<sup>1</sup>

### Role of Permanent Secretary

4. Mr Marks took up post as Permanent Secretary on 1 January 2022<sup>2</sup>, having previously worked as Director General, Work and Health Services at the Department for Work and Pensions. He replaced Leslie Evans, who held the position between July 2015 and December 2021<sup>3</sup>.

5. The Permanent Secretary is the most senior civil servant in Scotland, leading more than 7,000 civil servants who work for the Scottish Government. The Scottish Government website states that he is principal policy adviser to the First Minister and Secretary to the Scottish Cabinet and, "as the principal accountable officer for the Scottish Government, he is personally responsible to the Scottish Parliament for the

---

<sup>1</sup> This wording is from a Parliamentary Bureau paper on establishment of committees, June 2021.

<sup>2</sup> The appointment was made by the Cabinet Secretary and Head of the Civil Service, Simon Case MP, in agreement with the then First Minister of Scotland, Rt Hon Nicola Sturgeon MSP.

<sup>3</sup> Ms Evans remained in the employment of the Scottish Government until 31 March 2022.

exercise of his responsibilities”. This includes “the management of the Scottish Government’s £49 billion budget and the economic, efficient and effective use of all related resources”. In his capacity as principal accountable officer, he gives evidence to the Public Audit Committee regarding Audit Scotland’s audit reports of the Scottish Government’s annual Consolidated Accounts.

6. Reporting to the current Permanent Secretary to the Scottish Government are eight [Directors-General](#), managing over 30 directorates and 125 public bodies, responsible for proposing legislation and putting Scottish Government policy into practice.<sup>4</sup>

7. The Scottish Government’s website notes that Mr Marks is committed to the delivery of the National Performance Framework and to “building a world-class, values-led civil service which excels in serving the public”. It goes on to state that he “works with colleagues across the UK supporting, engaging and investing in the talent and leadership of the UK civil service and wider public services”.

## Progress against ambitions

8. The Permanent Secretary first gave evidence to the Committee on issues relating to public administration in government on [3 May 2022](#). That session focused on his ambitions for the Scottish Government and the way it works. In his opening remarks to the Committee, the Permanent Secretary highlighted “three strategic risks that dominate my perspective today” of: Covid recovery, the situation in Ukraine, and the cost of living. He then went on to explain his role to the Committee in more detail—

“First, is to serve as the adviser to the First Minister and the elected Scottish Government and to deliver its programme for government and the Bute House Agreement ... Secondly, as principal accountable officer, my role is to balance the budget and assure value for money. Thirdly, my role is to lead the civil service within the Scottish Government and support partners and systems, from local government to Scotland’s private and voluntary sectors ... Finally, I seek to lead in the best tradition of the civil service: to be objective, impartial and accountable to Minister and Parliament”.

9. He told the Committee that he hoped to bring a greater focus on delivery and “having absolute clarity on supporting systems and coaching partnerships to improve outcomes”. In evidence to the Public Audit Committee on [24 February 2022](#), he explained that he had put in place a Delivery Executive which meets to “talk about the key priorities and the outcomes that we are seeking to achieve”, adding “we talk about the short, medium and long-term activities that we are delivering to achieve those outcomes and, to an extent, our confidence that those are translating successfully”. He told this Committee that “for me, success ... is ultimately about empowering systems, building capability and ensuring that we understand what is going on, with good data [and] innovation ... at the heart of that, and humility ... to ensure that we listen to feedback and respond by ensuring that is built into our policy process and delivery”.

---

<sup>4</sup> [Government structure - gov.scot \(www.gov.scot\)](http://www.gov.scot)

10. On the National Performance Framework (NPF), he noted that “there are opportunities to make progress with it” and “we should embrace transparency in data at the heart of the NPF and use that to empower systems and understand what works, ... we should then take that evidence to coach others and build system capacity for the long term”.

11. In relation to record-keeping, he acknowledged that “a huge amount of progress has been made”, adding “the systems are very robust now in terms of people being able to search for all the records on all the decisions, but you will appreciate that, in my early days in the role, I want to assure myself of that and I will continue to do so”. He later said: “we need to be confident about ensuring that the recording and minuting of ministerial considerations is consistent and robust”. This followed a [Review of corporate information management](#) in response to recommendations from the [Scottish Government’s Committee on the Scottish Government’s Handling of Harassment Complaints](#). The Permanent Secretary also stated that “significant improvements to governance and procurement have been undertaken within the Government”, since the decisions taken in relation to vessels 801 and 802. Mr Marks further states, in relation to the handling of freedom of information requests, that he is “looking at the end-to-end process and at the checks and controls to assure myself that they are robust”.

12. Progress in “mainstreaming equality and diversity as an employer and as a decision maker” is set out in the Scottish Government’s [Equality Outcomes and Mainstreaming: report 2021](#). While this report was published prior to Mr Marks’ appointment, the actions and outcomes apply until 2025. In response to a question on diversity of the civil service working for the Scottish Government, the Permanent Secretary told the Committee on 3 May 2022 that the number of women in the workforce had increased from 53.4% to 55.8% between 2019 and 2021. He also noted that progress had been made in increasing the number of civil servants from a minority ethnic workforce from 2.4% to 2.8%, adding “we want to continue to sustain that trend”. He went on to say that the figures on bullying and harassment and discrimination “perhaps gives me the most confidence”, reducing from 11% and 9% respectively in 2019 to 7% and 6% in 2021.

13. [The Permanent Secretary wrote to the Committee on 19 May 2022](#) with information he had committed to provide in writing when giving evidence on 9 May. This letter details the measures put in place to drive “further improvements in relation to record keeping and the recording of Ministerial decisions, as well as working with colleagues to embed best practice across the organisation”, while recognising that “there is more to be done to achieve consistency and instil confidence”. He also provides figures on Ministerial correspondence response rates. 77% of correspondence items sent to Scottish Ministers were answered within 20 working days between May 2021 and April 2022. Mr Marks recognised that this performance data “clearly shows room for improvement” and he has therefore commissioned an improvement plan “to boost our performance in this area”. He commits, with his Executive Team, to continue to monitor quality and performance across correspondence as well as Parliamentary Questions and FOIs “to ensure we have the processes, skills and culture in place to deliver a consistently high level of service”.

## Scottish Government's response to Session 5 Harassment Reviews

14. The Committee, as part of its public administration remit, has led on scrutinising progress against the Scottish Government's response to the three harassment reviews<sup>5</sup> that took place in late Session 5. The Scottish Government's response focused on three broad areas of improvement:

- rebuilding confidence in its complaints process,
- improving the robustness of, and compliance with, its document management and storage processes, and
- improving the effectiveness of its internal arrangements for managing issues involving propriety and ethics.

15. As part of this work, the Scottish Government published on 24 February 2022 an updated process for civil servants making a complaint about a Minister or former Minister. Further changes aimed at bringing greater transparency to the process, were brought into effect in late 2022<sup>6</sup>. These changes included a commitment to publish at the end of the process the name of the Minister or former Minister subject to the complaint, along with the outcome. The Scottish Government has also now committed to proactively publishing the number of ongoing cases, if any, being taken forward under the procedure on the Scottish Government website every six months. The then Deputy First Minister confirmed on [22 November 2022](#) that there were no ongoing cases raised under the procedure. On 3 May 2023, the First Minister said he was happy to check if he could legally reveal findings of a previous investigation into allegations of bullying by the former Cabinet Secretary for Rural Economy, which had been undertaken under a previous complaints process.<sup>7</sup>

16. The Scottish Government's response to the harassment reviews included an [Implementation Plan of actions to be completed by the end of 2021, and a broader Continuous Improvement Programme](#), which set out a further set of measures to be reported on by the end of 2022. The aim of this broader work was "to ensure that the updated complaints procedure is not seen in isolation but is set within a wider context that fosters a culture of openness and inclusion".

17. The Committee took evidence from the former Deputy First Minister on [25 January 2022](#), [26 April 2022](#), and [22 November 2022](#) on the Scottish Government's proposed updates to the complaints process and on his quarterly written updates, which outlined progress against the Implementation Plan and thereafter the CIP. [The former Deputy First Minister wrote to the Committee on 14 February 2023 with his](#)

<sup>5</sup> [Report from the Committee on the Scottish Government's Handling of Harassment Complaints \(SGHHC\)](#) published on 23 March 2021, [Report from Laura Dunlop QC on her review of the procedure for handling harassment complaints against former or current Ministers](#) of 16 March 2021, and [James Hamilton's Independent Report on the First Minister's self-referral under the Scottish Ministerial Code](#) of 22 March 2021.

<sup>6</sup> [Ministerial complaints procedure - gov.scot \(www.gov.scot\)](#)

<sup>7</sup> [Humza Yousaf may release bullying probe findings into Fergus Ewing | HeraldScotland](#)

[latest update \(Annexe A\)](#), which highlights the activities that took place up until the end of December 2022, including—

- “alignment to wider culture and behaviour initiatives, including organisational vision and values, with engagement with staff,
- proactive outreach work in Scottish Government to inform risk assurance and cultural improvement,
- review of the processes in use, including Propriety & Ethics (commenced), and
- continue to implement the information management review and improve the quality of digital storage and retrieval processes.”

18. The update states: “we consider that the CIP has now completed its activities and has embedded ownership and responsibility for the supporting actions in establishing the culture and behaviours we wish to see in the areas identified for improvement”. It therefore proposes in 2023 “to absorb the activities the programme commenced into ongoing work throughout the organisation rather than through the creation of another iteration of the programme”. It goes on to note that “reporting ongoing activities to FPAC can be presented independently of the CIP while still demonstrating the Scottish Government’s commitment to improving culture and behaviour”. The former Deputy First Minister explains in the update that the CIP measures of success have been developed “as part of a wider framework of assurance and monitoring of people management practices and culture within the organisation [and] are drawn from questions in the [UK Civil Service People Survey](#) as it provides the most comprehensive data set available on the experience and attitudes of staff across the Scottish Government”. An analysis of the People Survey results is expected to be published “later this year” and the Propriety and Ethics Team will “ensure that appropriate action is taken to improve the scores”.

19. The Committee agreed on 21 February 2023 to raise at the evidence session with the Permanent Secretary on 16 May any questions or issues arising from the latest written update of 14 February. It has also sought an annual written update from the Scottish Government on how the complaints process and new measures for information management, record-keeping and cultural change are bedding in, and agreed to continue to explore, as part of its wider work on public administration, issues relating to the culture within the Scottish Government, for example, as part of its current inquiry into effective decision-making. The next annual update is due in February 2024.

## Scottish Government’s Consolidated Accounts for year ending March 2022

20. The [Legacy Expert Panel’s Report](#) to the Session 5 Finance and Constitution Committee recommended that, “as part of its ongoing consideration of fiscal responsibility and sustainability, the successor Committee should consider the Scottish Government’s consolidated accounts alongside the work of the SFC and other available evidence”. The Committee agreed in September 2022 to examine the Scottish Government’s Consolidated Accounts each year as part of its annual evidence session with the Permanent Secretary, as Principal Accountable Officer

with responsibility to ensure that the government's money and resources are used effectively and properly.

21. The Consolidated Accounts report actual outturn and compare it to the budget authorised by the Scottish Parliament. They cover around 90% of that budget, report the amount the Scottish Government spends against each main budget heading and the reasons for any significant differences, show the amounts distributed to public bodies, report assets, liabilities and other financial commitments carried forward to future years, and contain a performance report.

22. [The Scottish Government's Consolidated Accounts for the year ending March 2022](#) were laid in Parliament on 1 December 2022 alongside the corresponding [Auditor General for Scotland's audit report](#). The AGS reports a total net expenditure by the Scottish Government of £49.2 billion including £5.8 billion of Covid-related funding, and that total spending was £1,988 million less than budget. It states that—

“The Scottish Government is facing an intensely challenging period in managing its finances. It has strengthened its focus on longer-term financial planning but the constraints on public finances caused by significant economic pressures, combined with stretching policy commitments, mean its ability to achieve financial sustainability in the years ahead is at risk.”

23. The AGS states that “the volume of challenges faced by the Scottish Government throughout the year meant there continued to be considerable strain placed on staffing capacity and wellbeing [which] is likely to intensify in the years ahead. He goes on to state that “the Scottish Government needs to do more to improve the quality and transparency of its financial and performance reporting”, referring to the “continuing absence of a devolved public sector consolidated account”, and “the absence of defined, measurable performance targets”.

24. The Public Audit Committee (PAC) took evidence from the Permanent Secretary on [23 February 2023](#) on the AGS's report on the Consolidated Accounts as well as a briefing the AGS has published on [Scotland's public finances: Challenges and risks](#) (dated 17 November 2022). [The Permanent Secretary wrote to the PAC on 28 April 2023](#) in response to a [letter from that Committee dated 23 March](#) seeking further information in relation to points raised during the 23 February session on the consolidated accounts. The Permanent Secretary sets out information on Corporate Transformation which is “a portfolio of initiatives ... over the medium to longer term [that] can contribute to the efficient running of Government and indeed a range of public bodies which use our corporate services. Priorities for this year include:

- development of a People Strategy (including development of professions, an inclusive workforce and organisational design),
- continued implementation of a Digital roadmap,
- introduction of a new HR and Finance system,
- rationalisation of and improvements to the estate for effective hybrid working, and
- promoting a culture of continuous learning and improvement.

25. He explains that the risks and impact of delays would be specific to each initiative as they are separate workstreams, but “risk assessments are carried out and regularly reviewed for each initiative”.

26. The SPICe briefing at **Annexe B** provides more detail in relation to the Consolidated Accounts, including some of the issues raised at this evidence session.

Committee Clerking Team  
May 2023



## **CULTURE AND BEHAVIOURS IN THE SCOTTISH GOVERNMENT THE CONTINUOUS IMPROVEMENT PROGRAMME 2022**

### **Update to the Finance and Public Administration Committee for activities to be completed by December 2022**

1. This update sets out the progress in the remaining activities in the Continuous Improvement Programme (CIP, 'the Programme') for culture and behaviours in the Scottish Government until December 2022, as part of the quarterly updates on the progress of the CIP's delivery to Parliament's Finance and Public Administration Committee (FPAC), most recently at an oral session with the Deputy First Minister in November.
2. The development of the procedure for handling complaints by civil servants about current or former Ministers was the key project in the CIP. This was concluded in February 2022 with a review of the procedure in respect of reporting and transparency that was made operational in December 2022. There were a number of supporting actions to the procedure that were wrapped together into a Continuous Improvement Programme (CIP), which were carried out in 2022.

### **Continuous Improvement Programme Activity in 2022**

3. The CIP has reached the end of the activities set out for it in 2022 (Annex A), most notably the development of the procedure and its update, as well as the identification of measures of success, staff communications related to raising a grievance, ongoing engagement with trades unions, and participation at Scottish Government all-staff events. Regular updates were received from the Information Governance Programme, and the Ministerial briefing sessions related to the procedure were completed.
4. The activities carried out until the end of December 2022 were:
  - a. Alignment to wider culture and behaviour initiatives, including organisational vision and values, with engagement with staff
  - b. Proactive outreach work in Scottish Government to inform risk assurance and cultural improvement
  - c. Review of the processes in use, including Propriety & Ethics (commenced)
  - d. Continue to implement the information management review and improve the quality of digital storage and retrieval processes
5. The Propriety & Ethics Directorate took part in the Scottish Government all-staff event to highlight the benefit of the principles behind the development of the updated procedure, especially during the periods of extensive engagement with trade union colleagues; with staff groups; Ministers; internal and external review groups and other complaint handling bodies. The session concerned building the trust and confidence of all civil servants to maintain a positive and respectful culture with the highest standards of behaviour, where bullying and harassment is not tolerated and where there is trust in how



matters will be handled if things go wrong. Propriety and Ethics were joined by the Convenor of the Council of Scottish Government Unions to discuss that, while the development of the updated procedure is a significant achievement, the change in culture and behaviour we want to see requires the procedure to be supported by a working culture of early intervention and mediation.

6. In 2022, Propriety and Ethics has reached out beyond the Government's core offices in the central belt to satellite offices throughout Scotland as part of our proactive engagement work as a new directorate. The aim is to establish Propriety and Ethics as a point of contact and a supportive function throughout the organisation. In conjunction with our colleagues in People Directorate, we are also reaching out to our staff networks and are very mindful of the importance of engaging with protected characteristic groups, for example colleagues with a disability, LGBTI+ colleagues, and minority ethnic colleagues.
7. The review of the processes in use in Propriety & Ethics was initiated in October 2022 with Internal Audit identified as the reviewer. Due to the updates to the procedure for handling complaints about current or former Ministers becoming operational in December 2022, the formal review will begin in early 2023 and will be concluded in Spring 2023. Outside of the formal review, continually reviewing and refining processes has been an iterative process throughout 2022. In addition to the main procedure undergoing a review in relation to transparency and reporting of outcomes, Propriety and Ethics works closely with People Directorate to discuss roles and responsibilities in ongoing work. The Propriety and Ethics Directorate is also reviewing the directorate work programme in view of the completion of the procedure and the activities that constituted the CIP.
8. The Information Governance Programme is managed by the Digital Directorate and is distinct from the CIP for culture and behaviours. This programme started in 2021 and is due for completion in 2023 where it will have achieved putting actions in place in response to the eight recommendations made in [the Corporate Review of Information Management](#), which was published in June 2021. The Information Governance Programme has provided regular updates to the CIP and has also developed its own set of measures of success.
9. Communications with staff on the updated procedure and on culture and behaviours are a collaboration between Propriety and Ethics, Communications and the People Directorate in the Scottish Government. Key messages have focussed on the updated procedure and the updated staff grievance policy. Periods of staff engagement that followed the launch of the updates to the procedure and the staff grievance policy were highlighted in internal communications. In August, an internal survey of a statistically significant sample of Government employees showed that 73.6% were aware that the updated procedure for handling complaints by civil servants about current or former Minister's behaviour had been launched earlier in the year.

10. The CIP measures of success have been developed to assess the impact of the programme. They are part of a wider framework of assurance and monitoring of people management practices and culture within the organisation. The measures are drawn from questions in the UK Civil Service People Survey as it provides the most comprehensive data set available on the experiences and attitudes of staff across the Scottish Government. This allows for an evidence-based assessment of staff experiences and perceptions about our organisational culture and behaviours. The measures were chosen because they focus on staff trust and confidence in the policies and procedures to address inappropriate behaviour and track progress in building a culture where it is safe to challenge. They were selected following careful engagement with colleagues in People Directorate, the trade unions, staff networks and the Reviews Implementation Assurance Group. Following publication dates in previous years, an analysis of the People Survey results is expected to be published by the UK Civil Service later this year. Propriety & Ethics will review the CIP measures of success to ensure that appropriate action is being undertaken throughout the organisation to improve these scores.

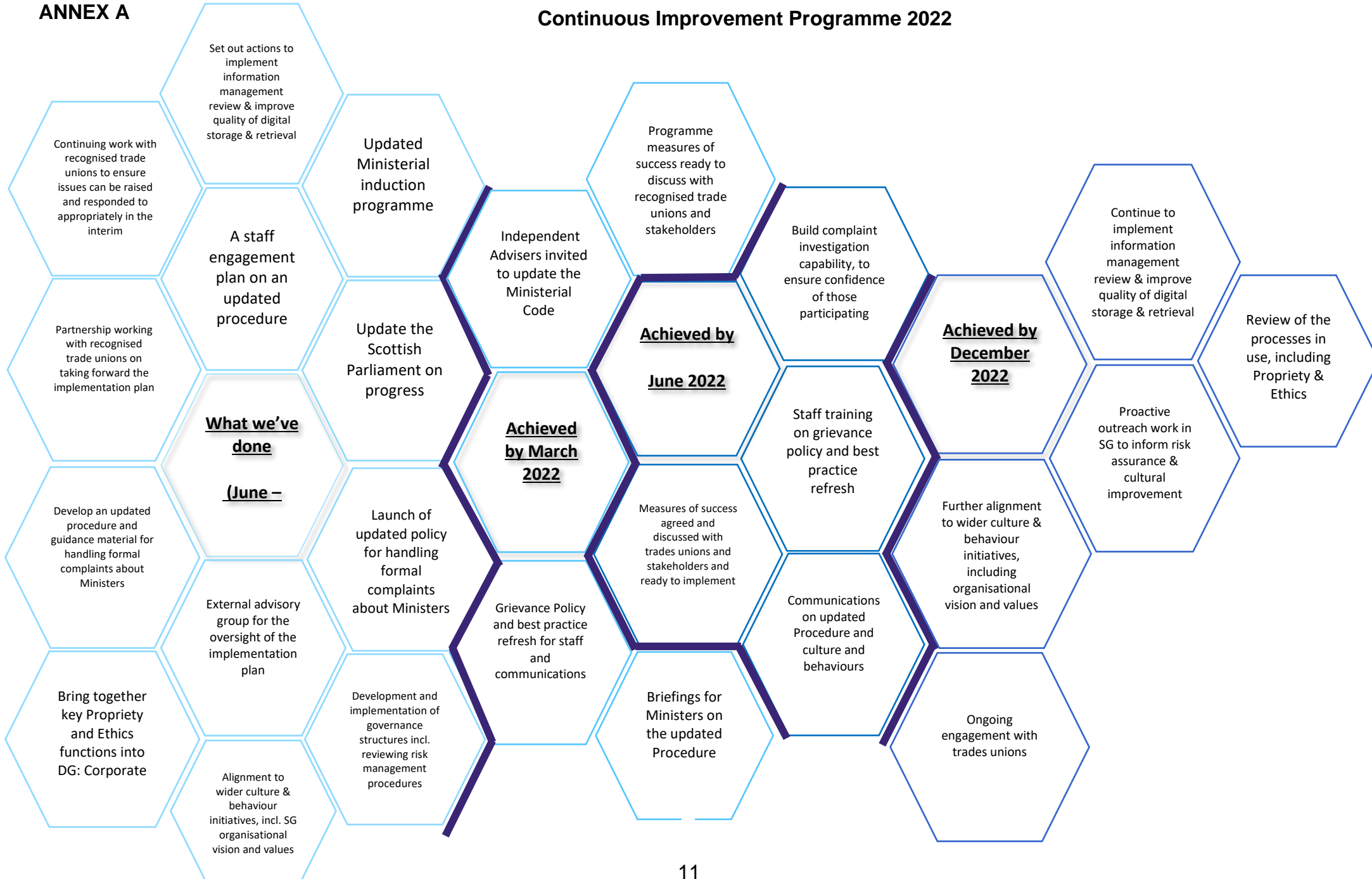
### **Conclusion**

11. It has been helpful over the last year to group the activities that support the development of the procedure under the framework of an overarching programme. We consider that the CIP has now completed its activities and has embedded ownership and responsibility for the supporting actions in establishing the culture and behaviours we wish to see in the areas identified for improvement. Implementation of the information management review, for example, is managed and reported through the separate information governance programme. Therefore in 2023 we propose to absorb the activities the programme commenced into ongoing work throughout the organisation rather than through the creation of another iteration of the programme. Reporting ongoing activities to FPAC can be presented independently of the CIP while still demonstrating the Scottish Government's commitment to improving culture and behaviour.
12. Propriety & Ethics will oversee work to improve culture and behaviour from the CIP into an organisation-wide response but will conclude the formal CIP and routine Parliamentary reporting. The Propriety & Ethics Directorate will maintain the relationship established with the Committee clerks during 2022 to respond to the Committee's interest in specific questions or other areas of interest that fall within the directorate's portfolio, as appropriate.

**Propriety & Ethics Directorate**  
**Scottish Government**  
**January 2023**

**ANNEX A**

**Continuous Improvement Programme 2022**



## Annex B

### Continuous Improvement Programme Tracker: activities ending December 2022

The updated procedure is viewed within the context of a wider programme of continuous improvement focussing on our culture of openness and inclusion. The activities supported the development of the procedure for handling complaints by civil servants about a current or former Minister's behaviour.

Activity in 2022	Achieved by	Commentary
<b>Grievance Policy and Best Practice refresh for staff, including update to Fairness at Work</b>	March 2022	<p>Following period of 'soft launch' to allow for reflection, comments have been received by individual staff members and various networks.</p> <p>Many of these were incorporated into the revised grievance policy and procedure which was launched in draft on 24 February and published on the staff intranet and, following further staff / network consultation, was finalised with trade unions then published in April 2022 with associated communications to staff.</p> <p>This activity is now complete. Training for staff and engagement with the trade unions will be ongoing.</p>
<b>Briefings for Ministers on the updated Procedure related to complaints about current or former Ministers</b>	March 2022	All Cabinet Secretaries and Ministers received a briefing on the new procedure. The briefings, which were attended by DFM and Permanent Secretary, provided factual information on the updated procedure within the context of a shared commitment to a positive and respectful working relationship between Ministers and civil servants. This activity is complete.
<b>Measures of success to be defined and discussed with trade unions and stakeholders</b>	March 2022	<p>Measures of success discussed with trade unions, the programme activity owners in the Scottish Government and the Reviews Implementation Assurance Group.</p> <p>Programme measures of success will be linked with the People Survey results for overarching outcomes.</p>

		Measures of success have been drafted and continued to be discussed with trades unions and stakeholders before they were implemented.
<b>Update the Ministerial Code in cooperation with its Independent Advisers</b>	March 2022	The Independent Advisers were sent the final, approved version of the new procedure. Updates to the Code are currently being considered.
<b>Communications with staff on updated Procedure and culture and behaviours</b>	June 2022, then ongoing until December 2022	The updated grievance policy and procedure for staff came into operation on 21 April. This was featured in the staff intranet and disseminated through internal communications channels. The communications underlined the importance of the organisation's culture and behaviours in maintaining an inclusive and respectful working environment. A survey carried out in August showed that 73.6% were aware that the updated Procedure was published in February. Updates to improve the reporting and transparency for the outcomes of the Procedure were completed in December 2022.
<b>Staff training on grievance policy and best practice refresh</b>	June 2022 (then continuing until December 2022)	Teams across the government are being supported with workshops on the updated staff grievance procedure and early intervention. Individual managers are being supported with coaching as required. Online learning for the grievance policy is also being designed.
<b>Build the independent complaint investigation capability to ensure the confidence of those participating</b>	June 2022 (then ongoing throughout 2022)	The Propriety & Ethics Directorate met the external pool of investigators and decision makers throughout the year to review revised guidance to support the procedure, to review operational support to them in the event of an investigation and to engage with them on the updates to the procedure.  A process mapping exercise has been completed with the Propriety and Ethics business management team to work through the operational processes to be followed in the event of a complaint.
<b>Measures of success ready to implement</b>	June 2022	The measures of success focus on staff trust and confidence and drawn from the People Survey. Internal consultation was undertaken to determine the measures with the People Advice and Wellbeing Team, Corporate Analysis Services Team; People Directorate policy teams; and Ministerial Private Office. External

		consultation was carried out with the Reviews Implementation Assurance Group and trade unions.
<b>Alignment to wider culture and behaviour initiatives, including organisational vision and values, with engagement with staff</b>	December 2022	<p>The In The Service of Scotland all staff events took place over four days in November. The event focused on the four vision principles, including being values driven.</p> <p>A total of <b>3,093</b> colleagues from across the organisation (including agencies and public bodies) registered to attend. This included <b>2,646</b> (25%) of core SG staff.</p>
<b>Proactive outreach work in Scottish Government to inform risk assurance and cultural improvement</b>	December 2022	<p>Engagement work is in train with staff networks, Ministerial Private Office and satellite offices of the Scottish Government. Programme of meetings in place for early 2023.</p> <p>Continued dialogue with external agencies such as Rape Crisis Scotland, Close the Gap and Ethical Standards Commission to inform changes to the procedure for formal complaints to improve transparency.</p>
<b>Review of the processes in use, including Propriety &amp; Ethics</b>	December 2022	DG Corporate has approved the appointment of Internal Audit reviewer, beginning in January 2023.
<b>Continue to implement the information management review and improve the quality of digital storage and retrieval processes</b>	December 2022	<ul style="list-style-type: none"> <li>• Quarterly Information Governance Board and Information Programme Delivery Group meetings were held throughout 2022 along with Information Management Practitioner Group meetings.</li> <li>• Extensive communications issued on the staff intranet and webinar training sessions about the reduction in the use of unstructured data repositories were carried out as part of the Drive Management Project to improve information governance.</li> <li>• Staff sessions on information management were attended by more than 2,200 civil servants in the Scottish Government.</li> <li>• Phase 1 of the drive management project is complete. Initial planning and scoping have taken place for the next phase to consider technical and business impacts.</li> </ul>

		<ul style="list-style-type: none"><li>• Information Governance Programme measures of success have been established. Further measures will be put in place in line with the programme of work.</li><li>• eRDM (electronic Records and Document Management System) servers have been upgraded with an upgrade to the client software also scheduled. Due to some initial issues with the upgrade and the resources which have been deployed to resolve these there may need to be some further re-planning undertaken.</li></ul>
--	--	--



## Finance and Public Administration Committee

14<sup>th</sup> meeting 2023 (Session 6), Tuesday 16 May 2023

### Consolidated accounts

#### Introduction

This paper provides background on the [Scottish Government's Consolidated Accounts 2021-22](#). It is intended to give members background information for the session with Permanent Secretary on 16 May 2023.

It draws on some of the themes and issues raised by the [Auditor General for Scotland \(AGS\)'s report on the audit of the 2021-22 Scottish Government Consolidated Accounts](#).

The Consolidated Accounts cover:

- Nine portfolios of the Scottish Government
- Scottish Government administration
- Nine Executive Agencies (see p12-13 of Consolidated Accounts for details)
- NHS bodies and the Mental Welfare Commission
- Crown Office and Procurator Fiscal Service

According to Audit Scotland, the Consolidated Accounts cover around 90 per cent of the budget approved by the Scottish Parliament. The budget approved by Parliament also includes some bodies not covered by the Consolidated Accounts:

- directly funded bodies (SPCB and Audit Scotland)
- ten non-Ministerial offices (Consumer Scotland, Environmental Standards Scotland, Scottish Fiscal Commission, National Records of Scotland, Registers of Scotland, Scottish Courts and Tribunal Service, Office of the Scottish Charity Regulator, Revenue Scotland, Food Standards Scotland and the Scottish Housing Regulator)
- Pension schemes (NHS Scotland Pension Scheme and Scottish Teachers' Pension Scheme)

## Underspend on 2021-22 budget

There was an underspend of £1,988 million on the 2021-22 budget. This represents a 3.7 per cent underspend on the resource budget and a 7.5 per cent underspend on the capital budget.

The underspend in 2021-22 represents 3.9 per cent of the total budget covered by the Consolidated Accounts. While it is normal for underspends to be recorded due to the challenges of managing a large budget to a very precise figure at the year end, the underspend in 2021-22 is relatively large. For context, the underspend in 2020-21 was 1.1 per cent.

Under the devolution settlement, the Scottish Government operates within a fixed budget and is not allowed to overspend in any given year. The ability to carry forward underspends by adding them to the Scotland Reserve means that some resources can be carried forward and used in future years. The amount that can be held in the Scotland Reserve is capped at £700 million.

The largest underspends related to Education and Skills (£806 million), Finance and Economy (£536 million), Net Zero, Energy and Transport (£475 million) and Social Justice, Housing and Local Government (£121 million). These are explained as follows:

- **Education and Skills:** £674 million of the underspend relates to the costs of providing student loans which is affected by a range of economic forecasts including interest rate movements. This underspend represents a non-cash saving which cannot be used to fund expenditure elsewhere and cannot be carried forward into the Reserve. As such this could be described as a technical accounting adjustment, that does not impact on the discretionary spending power of the budget.
- **Finance and Economy:** the majority of the underspend relates to lower than planned spend in relation to Covid-19 business support grants, self-isolation grants and lower demand on business ventilation funds.
- **Net Zero, Energy and Transport:** underspend is largely explained by lower demand for energy programmes due to Covid-19 as well as delays caused by supply chain issues for energy projects.
- **Social Justice, Housing and Local Government:** underspend is largely related to slippage in the Affordable Homes programme.

Other than in the case of the Education and Skills portfolio, the accounts do not make it clear which elements of the underspend can be carried forward via the Scotland Reserve for use in future years. It is not clear whether any funds will have been lost (ie returned to the UK Treasury) as a result of the cap of £700 million on the amount that can be held in the Scotland Reserve.

The Consolidated Accounts (p10) also refer to “late funding changes” totalling £526 million which mean that “Underspends reported by portfolios in the accounts would have been lower if we were able to adjust the budget to reflect these funding changes”.

A number of the underspends reflect lower than anticipated demand for various business support and energy programmes. It is not clear what the implications of the underspends were in terms of the impact on achieving targets and outcomes, and the amounts that can be carried forward into the Reserve – ie whether any funding was lost by exceeding the £700 million that can be held in the Reserve.

## COVID Spend

These most recent Consolidated accounts are for 2021-22, a year when the pandemic was still dominating the lives of people in Scotland. The Consolidated accounts contain many references to COVID related spending and pages 46-51 set out how COVID spend was allocated. This shows that £5.8 billion was allocated by the Scottish Government to support its COVID response activity in 2021-22.

Responding to the presentation of this COVID related spend, the AGS report on the accounts states:

“Although this information is welcome, it does not provide the public with a comprehensive understanding of how Covid-19 funding was allocated including clear lines of sight between budgets, funding announcements and spending levels. Similarly, it does not provide information on how any underspends were reallocated or added to reserves. The recovery from Covid-19 will continue for some years to come so transparency over how funding was spent remains important.”

## Fraud

### COVID-19 business grant schemes

The 2021-22 Consolidated Accounts (p69) estimate that “undetected fraud within COVID-19 business support in 2021-22 remains at 1-2%, equating to between £6.3m to £12.6million”. This is unchanged from 2020-21, although the latest accounts also note that “The recovery of fraudulent payments as at July 2022 is approximately £504k, with recovery of payments an ongoing process”.

The 2021-22 Consolidated Accounts (p67) acknowledge that the fraud risk associated with Covid-19 business grants was higher than would normally be tolerated:

“The pace and scale of business support funding, required the Scottish Government to accept a tolerance for fraud risk that was initially slightly higher than normal, with additional measures designed into business support schemes to mitigate this risk. This was necessary to enable payments to be made quickly and the schemes were a lifeline support for businesses who would not have survived without it. Since then, a fraud risk review was undertaken which looked at a range of schemes delivered by different partners and confirmed that the controls in place were adequate in relation to the amounts involved.”

The accounts (p68) also acknowledge that Audit Scotland judged the Scottish Government's assessment of fraud associated with Covid-19 business grants to be "reasonable, but not robust". The Consolidated Accounts (p68-69) outline measures that have been taken to minimise fraud and provide an estimate of the likely level of fraud.

In his report on the 2021-22 accounts, the AGS notes in relation to the estimate of fraud risk that:

"I am content that the estimate is not unreasonable, and I am pleased to see the Scottish Government being more proactive in its assessment of fraud and error and their disclosures within the Consolidated Accounts."

## Social Security

Fraud risks in relation to newly devolved social security payments have resulted in the accounts for Social Security Scotland being qualified by the Auditor General for Scotland in each year since 2018-19 (and [are again qualified in 2021-22](#)). Audit Scotland (para 17-18) note that benefit expenditure of £3,320 million is administered by the Department for Work and Pensions (DWP) under agency agreements with Scottish Ministers meaning that levels of fraud and error cannot be directly assessed. Based on levels of fraud and error reported by DWP for relevant benefits, Audit Scotland estimate that overpayments in Scotland could amount to £67.5 million.

Referring to [Audit Scotland's 2021-22 annual audit report for Social Security Scotland](#), the AGS noted:

"The auditor also commented on the need for Social Security Scotland to develop its estimate of the level of fraud and error within benefits administered by Social Security Scotland itself. While the auditor concluded that the absence of an estimate of the level of fraud and error in 2021/22 was not a significant financial statements audit issue, this assessment is becoming urgent as the value of benefits administered by Social Security Scotland increases rapidly over the coming years."

## Crown Office and Procurator Fiscal Service

The Consolidated Accounts include special payments of £11 million made by the Crown Office and Procurator Fiscal Service (COPFS) during 2021-22, the majority of which relates to a specific legal case brought against the Lord Advocate by individuals prosecuted in connection with the acquisition and administration of Rangers Football Club.

The AGS report notes (para 23-24) that COPFS overspent its annual budget by £5 million (with authorisation from the Scottish Government) due to unplanned costs arising from ongoing court proceedings against the COPFS. In total, £60 million has now been accounted for in relation to unplanned costs in connection with these claims against the Lord Advocate (including provisions of £24.5 million for cases yet to be finalised).

## Transparency issues

### Borrowing

Under the terms of the Scotland Act 2016, the Scottish Government can borrow £450 million per year, up to a cumulative total of £3 billion for capital spending. Capital borrowing can be used to allow the Scottish Government to increase the amount of capital investment that can be undertaken (which would otherwise be limited by the capital budget set by HM Treasury and any revenue-financed investment).

Capital borrowing in 2021-22 was £150 million. Capital borrowing has been below the £450 million threshold in each of the last four years. The AGS notes that there is limited information on how capital borrowing is being used:

“As I have reported in recent years, the Scottish Government needs to increase transparency over its capital borrowing plans including how these relate to individual projects within its programme. This will help support Parliament’s scrutiny of its capital investment programme.”

The Scottish Government can also borrow for resource spending, up to a maximum of £300 million per year (unless there is deemed to have been a “Scotland-specific shock”) and up to a cumulative maximum of £1,750 million. However, such borrowing is only allowed if there have been forecast errors. That is, the resource borrowing can only be accessed if errors in forecasts meant that the Scottish Government has access to less resources than had been expected due to errors in the forecasts on which the budget was based. This can reflect errors either in the Scottish Fiscal Commission or Office for Budget Responsibility forecasts, both of which underpin the Scottish budget.

In 2021-22, the Scottish Government borrowed £319 million for resource spending, which was permitted due to forecast errors in previous budgets. Resource borrowing was allowed to exceed the threshold of £300 million per year due to the conditions for a “Scotland-specific shock” having been met.

In relation to combined capital and resource borrowing, Audit Scotland note (para 28) that:

“Due to the accumulation of annual borrowing in recent years, loan repayments are increasing and totalled £95 million in 2021/22. The Scottish Government will need to continue to manage this financial pressure of repayments alongside all other financial pressures in the years ahead.”

### Reserve transparency generally and in consolidated accounts

As members know, the Scotland Reserve is a very moveable feast with regular movements in and out. The provisional closing balance in the Scotland Reserve is presented in the Provisional outturn statement and the [Fiscal outturn Report](#).

However, it can be extremely challenging to get a true picture of how much is available for allocation.

These points were raised by the Auditor General for Scotland (AGS) in his audit on the 2021-22 Consolidated accounts.

“There is a need for greater transparency over the Scottish Government’s policy and approach to using reserves to manage existing cost pressures, particularly where there are funding implications for the wider public sector. This should include an assessment of reserve balances held by public bodies, their intended purpose as well as any plans to access monies held. The associated opportunities and risks of accessing reserves should be clearly articulated and documented. This will allow greater parliamentary scrutiny over the Scottish Government’s financial decision-making, particularly when there are significant and immediate cost pressures.”

The AGS also notes a lack of transparency around the Scotland Reserve, where the Scottish Government can carry forward any underspends for use in future years (within specified limits). However, the AGS notes that:

“The Reserve balance is not disclosed within the Scottish Government consolidated accounts. There is an opportunity for the Scottish Government to increase transparency in the Consolidated Accounts and raise awareness about the balances held within the Scotland Reserve and the movements of funds into, and out of, the Reserve each year. This will strengthen the Scottish Government’s financial reporting and provide the Parliament and the public with a better understanding of the Reserve’s purpose, its application in supporting spending plans and also its limitations.”

## Transparency of Performance Reporting

The first 57 pages of the Consolidated Accounts are devoted to a Performance Report, as is required by the Government Financial Reporting Manual (FRoM). The [Audit Scotland report](#) (para 62) notes that the AGS had suggested in the equivalent report last year that the information needed to be refined to ensure greater accessibility and transparency to the reader.

In this year’s report, the AGS notes that:

“Some limited improvements have been made, but it remains difficult to form an overall picture of the performance of the Scottish Government from the various strands of information presented. In the absence of defined, measurable targets, it is difficult for the reader to assess whether the Scottish Government is delivering its intended aims in support of national outcomes.”

The AGS goes on to recommend that:

“The performance report needs to reflect clear targets and progress towards achieving them. An assessment should also be made of the achievement towards priority outcomes and strategic objectives. This should help

demonstrate the Scottish Government’s own contribution to the delivery of national outcomes outlined in the National Performance Framework which is for all of Scotland, not just the Government. Key performance indicators should be identified together with performance during the year to give the public a clear understanding of the Government’s achievements in the year. The lack of good indicators and milestones make monitoring the impact of policy and spending decisions more difficult. It also makes it harder for the Parliament and the public to scrutinise the Government’s performance and assess whether spending is achieving maximum value.”

Similar challenges in relation to summarising overall performance and linking performance information to financial information have been raised by SPICe in relation to the National Performance Framework (see for example, [section on National Performance Framework in SPICe briefing on the 2023-24 Budget](#)). While there is a lot of information presented, it is largely in narrative format and it is not easy to get an overall picture of performance, or how this links to financial decision-making.

This Committee has also recently undertaken an inquiry into the National Performance Framework. In its subsequent report, [Ambitions into action](#), the Committee made a range of recommendations aimed at “making the NPF a much more explicit delivery framework”. On the link between budgets and outcomes, the Committee concluded that:

“The NPF is not currently seen to drive financial decisions nor as a mechanism by which organisations are held to account for spending effectively. Whilst we do not support greater ringfencing of funding we do consider that there needs to be a closer alignment between the NPF and those who advise and take funding decisions in the Scottish Government. We also suggest that the Scottish Government and their local government partners consider how best money can be allocated to contribute to the national outcomes, how funding is used to incentivise collaboration, and how things like commissioning and procurement can further align with improving outcomes linked to the NPF.”

The [Scottish Government](#) and [COSLA](#) have both responded to the report. In their response, the Scottish Government said:

“The Scottish Government continues to be committed to improving budget transparency through its corporate reporting, in-year budget revisions and its longstanding membership of the Open Government Partnership. As a government, it is critical that we have a good understanding of how the money we spend contributes to our short-, medium- and longer-term outcomes – including the extent to which it helps us make progress towards our National Outcomes in a meaningful way. The link between public spend and outcomes is complex and the process of audit and evaluation is critical in its understanding. Scottish Ministers are held to account through various means including through Parliament and I welcome Committee’s recommendation for National Outcomes to play a more prominent role in this scrutiny. Audit Scotland has also increasingly sought to hold the SG to account through an



outcomes approach lens. Building on the enhanced prominence of the National Outcomes in the Budget, the Equality and Fairer Scotland Budget Statement and the Consolidated Accounts we continue to strengthen our approach to better link spending with outcomes.”

## Public sector consolidated accounts

Accounts for the whole of the devolved public sector covering all of the activities set out in the introduction to this paper would provide an overall perspective on the financial position of the public sector. This comprehensive picture is difficult to obtain from individual sets of accounts. [According to HM Treasury](#):

“The aim of Whole of Government Accounts (WGA) is to enable Parliament and the public better to understand and scrutinise how taxpayers’ money is spent. By presenting the public finances in a framework familiar to the commercial and accountancy professions, WGA increases transparency and accessibility of information about public finances.”

The comprehensive picture given by accounts for the whole of the devolved public sector would provide accessible information on a range of measures that are otherwise difficult or impossible to consider in aggregate. This includes:

- The total assets and liabilities of the public sector, for example total pension liabilities, total liabilities arising from public-private partnership (PPP) contracts, provisions and contingent liabilities
- Aggregate revenue and expenditure, including all taxes levied at both national and local level
- Resource and capital borrowing by both central and local government

By providing this overall perspective, accounts for the whole of the devolved public sector would provide a more transparent and accessible source of information on the financial position of the whole public sector, providing a more informed basis for scrutiny and decision-making.

The Scottish Government has committed to producing accounts covering the whole of the devolved public sector. This commitment dates back to 2016, as per para 43 of [Audit Scotland’s 2019-20 audit of the Scottish Government Consolidated Accounts](#). However, the Auditor General for Scotland had been recommending the production of such accounts prior to this – see for example paragraphs 33-34 of the [Public Audit Committee Legacy Paper from Session 4](#).

During the [Public Audit Committee’s evidence session on the 2014/15 audit of the Scottish Government Consolidated Accounts](#), the (then) Auditor General for Scotland, Caroline Gardner, said that she had been reporting on the matter since July 2013 (col 66). This first reporting from the AGS on whole of public sector accounts was in Audit Scotland’s report [‘Developing Financial Reporting in Scotland’](#), published in July 2013, which discussed the benefits of such reporting in some detail.

However, despite this lengthy period, these more comprehensive accounts have yet to be produced. Audit Scotland's [report on the most recent consolidated accounts notes](#) (para 55) that some progress has been made:

“The first stage, which combines the Scottish Administration level together with the other directly funded bodies, was to be submitted for audit by Spring 2022. A draft version was provided for comment in April 2022 with a response provided in early July. The second stage plans to explore further the use of the UK Whole of Government Accounts process to obtain information about NDPBs, other public bodies and local authorities.”

The AGS goes on to note delays, due both to ICT issues at HM Treasury and staff availability at the Scottish Government. However, the AGS stresses that:

“The consequences of the pandemic, challenging global economic conditions, the cost of living crisis together with existing pressures in public services, all pose significant risks to the sustainability of Scotland's public finances. The need for a public consolidated account to provide a comprehensive and transparent assessment of the state of Scotland's public finances has never been greater.”

The AGS adds that:

“The Scottish Government needs to move swiftly towards fulfilling their commitments to producing this important account.”

Following its [evidence session on 1 December 2022](#) on [Audit Scotland's report, "Scotland's public finances: Challenges and risks"](#), the [Public Audit Committee wrote to the Permanent Secretary](#) regarding the ongoing delay in the publication of a public sector consolidated account. In [his response of 16 December 2022](#), the Permanent Secretary said:

“I do however acknowledge more progress is needed.... I would reiterate the Scottish Government remains committed to the production of additional accounts.”

Financial Scrutiny Unit, SPICe  
May 2023