



The Scottish Parliament
Pàrlamaid na h-Alba

PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE

AGENDA

27th Meeting, 2018 (Session 5)

Thursday 29 November 2018

The Committee will meet at 9.00 am in the Adam Smith Room (CR5).

1. **Decision on taking business in private:** The Committee will decide whether to take items 4, 5 and 6 in private.
2. **Section 22 report - The 2017/18 audit of the Scottish Government Consolidated Accounts:** The Committee will take evidence on the Auditor General for Scotland's report entitled "The 2017/18 audit of the Scottish Government Consolidated Accounts" from—

Leslie Evans, Permanent Secretary, Gordon Wales, Chief Financial Officer, Alyson Stafford, Director General, Scottish Exchequer, and David Rogers, Director, Constitution and Cabinet, Scottish Government.

3. **Section 23 report - Health and social care integration: Update on progress:** The Committee will take evidence on the joint report by the Auditor General for Scotland and the Accounts Commission entitled "Health and social care integration: Update on progress" from —

Caroline Gardner, Auditor General for Scotland;

Claire Sweeney, Audit Director, Performance and Best Value, and Leigh Johnston, Senior Manager, Performance and Best Value, Audit Scotland.

4. **Section 22 report - The 2017/18 audit of the Scottish Government Consolidated Accounts:** The Committee will consider the evidence heard at agenda item 2 and take further evidence from—

Caroline Gardner, Auditor General for Scotland;

Stephen Boyle, Assistant Director, and Tarryn Wilson-Jones, Audit Manager, Audit Scotland.

5. **Section 23 report - Health and social care integration: Update on progress:** The Committee will consider the evidence heard at agenda item 3 and take further evidence from—

Caroline Gardner, Auditor General for Scotland;

Claire Sweeney, Audit Director, Performance and Best Value, and Leigh Johnston, Senior Manager, Performance and Best Value, Audit Scotland.

6. **Work programme:** The Committee will consider its future scrutiny of the Auditor General for Scotland's reports on the Forth Replacement Crossing; NHS workforce planning - the clinical workforce in secondary care and NHS in Scotland 2017 and the Audit Scotland report on the National Fraud Initiative in Scotland. The Committee will further consider its approach to its post-legislative scrutiny of the Control of Dogs (Scotland) Act 2010.

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The papers for this meeting are as follows—

Agenda Item 2

Note by the Clerk

PAPLS/S5/18/27/1

PRIVATE PAPER

PAPLS/S5/18/27/2
(P)

Agenda Item 3

Note by the Clerk

PAPLS/S5/18/27/3

PRIVATE PAPER

PAPLS/S5/18/27/4
(P)

Agenda Item 6

PRIVATE PAPER

PAPLS/S5/18/27/5
(P)

Public Audit and Post-legislative Scrutiny Committee

27th Meeting, 2018 (Session 5), Thursday 29 November 2018

Section 22 report - 2017/18 audit of the Scottish Government Consolidated Accounts

Introduction

1. At its meeting on [1 November 2018](#), the Committee took evidence from the Auditor General for Scotland on her report entitled '[2017/18 audit of the Scottish Government Consolidated Accounts](#)', which was published on 27 September 2018.
2. The report also refers to the [2017/18 Scottish Government Consolidated Accounts](#)¹.
3. The Committee will take evidence from Leslie Evans, Permanent Secretary at the Scottish Government at its meeting today. Following the meeting on 1 November, the Committee also agreed to write to the Scottish Government seeking a written response to the issues that arose during the discussion.
4. The Committee's letter of 8 November can be found [here](#) and the Permanent Secretary's response can be found in the Annexe.

**Clerks to the Committee
26 November 2018**

¹ <https://www.gov.scot/Resource/0054/00540845.pdf>

Permanent Secretary
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23 November 2018

Dear Convener

The 2017-18 Audit of the Scottish Government Consolidated Accounts

Thank you for your letter of 8 November 2018 seeking information and clarification on four issues raised during the evidence session with the Auditor General on her report on the 2017-18 audit of the Scottish Government's Consolidated Accounts.

I will address each of those issues in turn and will be pleased to elaborate further when I meet the Committee on 29 November.

Borrowing Powers

The first issue raised in your letter concerns the Scottish Government's management of its borrowing powers and the policies and principles within which it manages these.

As you know, the Fiscal Framework sets very strict limitations on the circumstances in which Scottish Government can use its resource borrowing power, so the main flexibility available relates to capital borrowing. The Auditor General has highlighted the annual limit of £450 million and overall limit of £3 billion for capital borrowing, and the need for a framework for decisions on this capital borrowing.

Scotland's Fiscal Outlook: the Scottish Government's five-year financial strategy was published on 31 May 2018, and set out our current approach to capital borrowing. The document reiterated the plan set out in the Draft Budget 2018-19 to use the full £450 million borrowing power this financial year, and set out modelling based on an assumption that the full £450 million would be used in 2019-20 also.

The Scottish Government's current approach to decision-taking on capital borrowing was set out as follows:

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'...final decisions on future borrowing levels will be taken as part of the 2019-20 budget and subsequent budget processes. These decisions will be taken annually in light of the economic outlook at the time, weighing the cost of borrowing and the opportunity cost of using up more of the overall £3 billion borrowing limit against the potential benefits of economic stimulus.'

We also set out our current approach to overall affordability, which will be familiar to the Committee:

'The affordability and sustainability of all Scottish Government long-term revenue commitments, including repayment of debt stock, are assessed through the budget process and are kept within a maximum of 5 per cent of the total annual budget available.'

As part of continuing to refine the use of new fiscal powers, we have accepted the Auditor General's recommendation that we review and refine our approach to capital borrowing and sustainability of the public finances. We aim to set out a more detailed approach to the level, type and timing of borrowing in the next Medium Term Financial Strategy document in spring 2019.

Financial Reporting

The Committee asked for clarification on when the Scottish Government will be in a position to provide consolidated public sector accounts.

As Audit Scotland acknowledges, the Scottish Government delivers on all its financial reporting requirements and has delivered a range of new financial publications as a consequence of the Scotland Acts. We remain committed to developing that reporting further to support the transparency and accessibility of Scotland's public finances and to clearly explain how public finances work as set out in the draft Open Government Action Plan issued for consultation on 14 November. A summary of the developments delivered and in progress is set out at Annex A.

We have used 2016-17 data to help shape our thinking on how to produce a "tailored for Scotland" consolidated public account, which includes, but is not limited to, a further consolidated account covering the wider public sector. Audit Scotland were invited to review and comment on the data we had gathered, to help inform our thinking. We then used that year to explore the technical challenges and shape the options that might best meet the needs of interested parties.

We are now progressing a plan to achieve audit and publication of a 2017-18 product by the end of this financial year. We are working on a staged approach that will reflect the direct interests of the Scottish Parliament. Firstly, we will consolidate the bodies within the Scottish Administration, then the direct-funded bodies, with the Scottish Consolidated Fund, to bring together the revenue-raising and spending elements of the Scottish Budget, and the associated assets and liabilities. Following that, there will be a further output, adding in local government and other bodies funded from the Scottish Budget.

In December this year, we will produce material for internal consultation and will then share proposed accounts more widely in the new year, seeking comments from key stakeholders, including your Committee, as we believe it is important to secure agreement on how to best present information in the most useful way. We intend to do this through the Open

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Government network, in order to invite interest from the widest range of parties. If this process works well, we would then propose to achieve the formalities of audit and publication by the end of this financial year. The table below summarises the timeline.

Dec 2018	Work in progress and sharing internally
New year	Sharing more widely, seeking comments from: <ul style="list-style-type: none"> • Scottish Government Audit and Assurance Committee and Non-Executive members. • Audit Scotland. • PAPLS. • Budget Process Review Group. • Other interests via an offer through the Open Government Partnership.
by 31 March 2019	Formal process of audit and publication, aiming for the end of the financial year.

Performance Reporting

You also raised performance reporting and how the Scottish Government will meet the recommendation to provide a performance report which links to the financial resources outlined in the consolidated accounts.

As the 2017-18 report recognises, the Scottish Government provides a great deal of information about its financial and other performance through a range of mechanisms, including on our website, through the National Performance Framework and through extensive Parliamentary engagement. Our draft 2nd Open Government Action Plan commitments for 2018-2022, currently out for consultation¹ which sets out commitments in five areas including financial transparency, will help us take this further.

I accept that we need to do more to demonstrate how our resources are being used to make progress towards our outcomes. However, I do not believe that the Accounts themselves are the best place for an extensive review of the Government's annual achievements, particularly when around 70% of Scottish Government funding, based on the 2018-19 figures in last year's Draft Budget, is channelled through Health and Local Government, who produce more detailed reports that are likely to provide information at a more meaningful level for most users. Instead, what we propose to do in future years is to develop brief material in the Accounts which better demonstrates how resources have been used, and signposts readers to other more detailed sources of information about the range of activities that money that is provided to the Government is spent on within year, and which set out progress towards the longer term outcomes contained in the National Performance Framework. We will continue to engage on this with Audit Scotland.

¹ <https://blogs.gov.scot/open-government-partnership/2018/11/14/draft-action-plan-on-open-government-we-want-to-hear-your-views/>

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Loan Support to Private Companies

The Committee raises the issue of the loan support the Scottish Government provides to private companies. The Auditor General has suggested that there should be a framework available that explains the principles underpinning decisions to provide support to private companies.

There is not a specific framework for decision-making on situations of financial intervention, because there is an extensive framework of legislation (UK and EU), economic policy, internal guidance, procedures, practice and expertise to guide and support sound Scottish Government decision-making on financial interventions involving private companies.

Scotland's Economic Strategy and associated documents such as the Manufacturing Action Plan and recently published Economic Action Plan set out the Scottish Government commitment to inclusive growth and to regional economies and place, and emphasise the importance of manufacturing to its economic ambition.

Decisions to intervene in private sector companies are complex and the basis on which Ministers consider an intervention will be driven by factors underpinned by policy priorities/ actions set out in the Economic Strategy and associated policies. This can include, for example, strategic importance to Scotland's economy at regional and national level, sectoral significance, or links with new/ emerging industries. It will always be important to set out the basis for any particular company being considered for intervention and its association with Scotland's economy.

In addition, decision-making in relation to private companies takes place within the Scottish Government's overall governance and accountability arrangements and in particular the Public Finance and Accountability (Scotland) Act and framework in the Scottish Public Finance Manual, for all decisions on the use of lending and investment to ensure regularity, propriety and value for money. Internal oversight and scrutiny is provided by both the Corporate Board and the Scottish Government Audit and Assurance Committee, with particular focus on financial risk, and a newly established Exchequer Board will strengthen further the control environment in which these decisions are made.

As summarised in the Scottish Government Medium Term Financial Strategy² section on "Economic intervention and investment", consideration of any investment or significant financial decision includes:

- preparing and refining a business case to ensure that proposals are in line with strategic objectives the evaluation of options, detailed analysis of costs and benefits and all relevant commercial and financial consideration, including the affordability and balance of risks;
- carrying out due diligence to substantiate the assessment where relevant;
- acting within EU State Aid rules and
- where appropriate, consultation with and scrutiny from the Scottish Parliament.

² <https://www.gov.scot/publications/scotlands-fiscal-outlook-scottish-governments-five-year-financial-strategy/pages/6/>

I recognise growing interest in this area, not least because of the two investments highlighted by Audit Scotland in their report. So I am considering how the Scottish Government can best meet the intent of a framework through either existing or new publications.

Finally, as requested, at Annex B, I attach an organisation chart for DG Scottish Exchequer.

I shall, of course, be happy to discuss these issues further when I attend Committee on 29 November.

Leslie Evans

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DEVELOPING FINANCIAL REPORTING

Pre-Scotland Acts Outputs	Developments to Date	Developments in Progress
Annual Budget Act documents	(Associated with BPRG) reporting re taxes and funding, spending plans and Scotland Reserve	Progressive development re annual Budget
SG Consolidated Accounts	Improvements to format and content (commended by the AGS 2015-16 report)	Kept under review to ensure effective read across from the Budget
Accounts of other spending bodies	Brought forward to end-Sept	
Final Outturn report to Parliament	Brought forward from end-Dec to end-Sept; extended from Scottish Administration to the Scottish Budget	May be replaced in due course by further consolidated accounts
Scottish Consolidated Fund Account	Brought forward to coincide with SG Acs; better links to other accounts; reporting on borrowing 2017-18	Further consideration of reporting on borrowing – possibly a separate Loan Account, associated with the SCF Ac
Non Domestic Rates Account	Brought forward in 2017/18 to end Sept	
	New Outputs	
	Devolved Taxes Account (linked to SCF Ac)	
	“Scotland’s Finances Key Facts & Figures” Infographics (published with Budget)	
	Medium Term Financial Strategy Fiscal Framework Outturn Report	The MTFS and Fiscal Framework reports will develop over time
		<p>“Tailored for Scotland” Consolidated Accounts” Scottish Budget approach (reflecting Scottish Parliament’s direct interests; the income, expenditure assets and liabilities of</p> <ul style="list-style-type: none"> • SG Consolidation plus • other Scottish Administration bodies plus • other direct funded bodies • incorporate SCF to give fuller fiscal picture, including Devolved Taxes <p>Consolidation of wider public sector bodies</p> <ul style="list-style-type: none"> • local authorities • executive NDPBs & other public bodies <p>OCEA developing statistical publications of devolved finances – need to ensure effective read across to accounts</p>

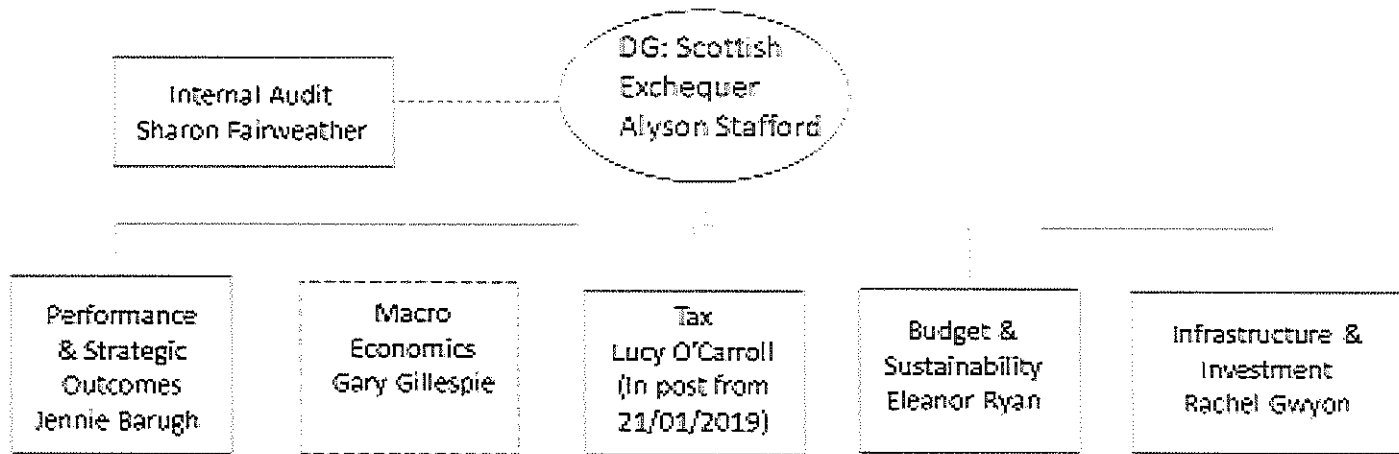
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DG Scottish Exchequer

Strategic Cohesion & Challenge – Creating Ambition through fiscal sustainability



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Public Audit and Post-legislative Scrutiny Committee

27th Meeting, 2018 (Session 5), Thursday 29 November 2018

Section 23 report – Health and social care integration: Update on progress

Introduction

1. At its meeting today, the Public Audit and Post-legislative Scrutiny Committee will take evidence from the Auditor General for Scotland on the joint report from the Accounts Commission and the Auditor General entitled "[Health and social care integration: Update on progress](#)".
2. The Auditor General has prepared a briefing on the key messages from the report and this is attached in the Annexe.

**Clerks to the Committee
26 November 2018**

REPORT BY THE AUDITOR GENERAL FOR SCOTLAND

HEALTH AND SOCIAL CARE INTEGRATION: UPDATE ON PROGRESS

1. The joint Auditor General and Accounts Commission report *Health and social care integration: Update on progress* was published on 15 November 2018. It looks at what impact the integration of health and social care is having and what are the barriers and enablers to change.
2. Key messages and recommendations from the report are:
 - Integration Authorities (IAs) oversee almost £9 billion of health and care resources. The Public Bodies (Joint Working) (Scotland) Act, 2014 (the Act) is intended to shift resources away from the acute hospital system towards preventative, community-based care. We found that integration can work and that the Act can be used to advance change. There is evidence that integration is enabling joined up and collaborative working. This is leading to improvements in performance, such as a reduction in unplanned hospital activity and delays in hospital discharges. IAs are addressing some significant, long-standing, complex and interconnected issues in health and social care but there is much more to be done. Our work identified six key areas that if addressed should lead to broader improvements and help speed up change:
 - Leaders play a crucial role in developing and delivering a programme of reform. A lack of collaborative leadership and strategic capacity and cultural differences are affecting the pace of change. Leaders need support if they are to deliver public services to improve wider outcomes and work collaboratively across organisational boundaries. Appropriate leadership capacity and increased opportunities for joint leadership development across the health and care system must be put in place.
 - Longer-term, integrated financial planning is needed to deliver sustainable service reform. There is little evidence that councils and NHS boards are treating Integration Joint Boards' (IJBs) finances as a shared resource for health and social care and agreeing budgets is still problematic. The money for functions that are provided by large hospitals but are delegated to IJBs, such as unplanned care, is referred to as a 'set-aside' budget. To date, the set-aside aspect of the Act is not being implemented and this needs to be urgently resolved. The Scottish Government published its Medium Term Health and Social Care Financial

Framework in October 2018. This is an important step in enabling longer-term financial planning but detail on what the framework means in practice is not yet available.

- Good strategic planning is key to integrating and improving health and social care services. IAs still have work to do to ensure that priorities are linked to available resources, and to demonstrate that new ways of working will be sustainable over the longer term. This includes working with NHS boards and councils to agree which services will be stopped or decommissioned to prioritise spend. IAs, councils and NHS boards need to work together to ensure operational plans, including workforce, IT and organisational change plans across the system, are clearly aligned to the strategic priorities of the IA.
 - Having a clear governance structure where all partners agree responsibility and accountability is vital. Clarity is still needed for local areas over who is ultimately responsible for service performance and the quality of care. In some instances, this uncertainty is hampering decision-making and redesign of service provision. Integration was introduced to shift from a focus on what worked for organisations to what works for the person who needs a health and social care service. Applying this approach should help partners to implement the Act. We found in some areas partners are working through governance challenges as they implement the Act, and more should be done to share this experience.
 - An inability or unwillingness to share information is slowing the pace of integration. The monitoring and public reporting of the impact of integration needs to improve. We recommend that the Scottish Government, COSLA, councils, NHS boards and Integration Authorities should work together to address data and information sharing issues, recognising that in some cases national solutions may be needed. Partners also need to improve how they share learning from successful integration approaches across Scotland.
 - Change cannot happen without meaningful engagement with staff, communities and politicians. At both a national and local level, all partners need to work together to be more honest and open about the changes that are needed to sustain health and care services in Scotland.
3. The report covers a number of areas that have been of interest to the Committee previously including:
- the progress of service reform and the sustainability of health and care services

- clarity of governance and accountability
- leadership and workforce challenges facing the health and care system.