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Public Audit Committee

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Dear Convener,

Thank you for your letter following the Auditor General's briefing on Scotland's public finances and the 2021/22 audit of Scottish Government Consolidated Accounts.

I appreciated our recent session with you and your Committee members. I am writing to update on points raised and outline next steps. As always, I'd be happy to discuss these further if helpful.

I welcome the analysis and recommendations from the Auditor General. We are due to meet for an afternoon with our senior teams to develop our engagement, governance and assurance. We look forward to continuing to work closely with Audit Scotland in supporting further transparency and Parliamentary scrutiny in the months and years ahead.

We share a commitment to improving outcomes, value for money, good governance, fiscal sustainability and financial control. We do so operating in a complex operating environment and tight fiscal context. I welcome the scrutiny from you and Committee members to ensure transparency as we plan for longer term financial sustainability whilst delivering stronger public services and improved outcomes.

I am pleased to share with you further information on the points raised in your letter and I hope you find the following update useful.

Public Sector Reform

The overarching purpose of this Government's approach to public service reform is to achieve fiscally sustainable, person-centred services, which support improved outcomes and reduce inequalities.

In the recent Policy Prospectus, '[New leadership - A fresh start](#)' published by the Government, the Deputy First Minister confirmed strategic objectives on public sector reform:

- *We will target both short term efficiencies and wider, deeper, and longer term reform, including rolling out modern digital services that are easy to access, reliable and effective*
- *We shall progress our ten-year programme of public bodies and public service reform that seeks to achieve effective and people-centred, fiscally sustainable public services*
- *We will strengthen the resilience of our public services and our communities by increasing the number of people who have good, increasingly productive jobs which meet the principles of Fair Work, and who make a positive contribution to our society and our economy*
- *We will publish a Rural Delivery Plan, showing how all parts of the Scottish Government are delivering for rural Scotland. As well as policies on agriculture, land reform, marine, and our Islands plan, this will cover areas such as transport, housing, social justice, repopulation, digital connectivity and economic development*

Improving outcomes for people and supporting long term sustainability requires us to build on services that focus on prevention and deploy people-centred approaches which meet needs and improve outcomes. These are key to enabling people to access the services and support they need, when they need it, delivering the required outcome that we seek.

Across Government our teams are driving reform and are collecting data to demonstrate efficacy and impact while appreciating that long-term transformation takes commitment and time. By way of example, following a move to a preventative approach and through the commitment of partners to deliver a multi-agency whole system approach to preventing offending by children and young people, we have seen an 85% reduction in the number of 12-17 year olds proceeded against in Scotland's courts in the last decade, together with a 93% reduction in 16 and 17 year olds being sentenced to custody. The number of children referred to the Children's Reporter on offence grounds reduced by 71% from 9,765 in 2009-10 to 2,840 in 2019-20. This is an encouraging example of what we can achieve with effective, long term reform. We will continue developing this work by identifying and promoting examples of good practice and share learning across different areas of Government to support further transformative reform activity. If the Committee has any specific areas of interest regarding data collection and the approach to reform, we would be happy to come back to you with further detail.

Your second question was regarding the public sector workforce. Our latest [Public Sector Pay Strategy](#) was published in March 2023. We are seeking to ensure a financially sustainable public sector, with the right capabilities and skills, delivering for the people of Scotland. Pay and workforce must be explicitly linked to both fiscal sustainability and reform to secure the delivery of effective public services. The 2023-24 Budget was clear that individual public bodies are accountable for delivering efficiently and effectively within their budgets. This means that they are responsible for determining their operating model for their workforces and ensuring workforce plans are affordable in 2023-24, and in the medium term.

Regarding your third question, Scottish Government officials have brought together a number of Resource Spending Review commitments into the landscape of transformational work. Earlier this year, we wrote to the Chief Executives of public bodies to set out our approach to reform. Public bodies were asked to identify opportunities for further efficiencies and joined-up service delivery which reduce costs and direct collective resources towards shared priorities. Officials are currently analysing returns which will provide a baseline across a range of areas. This analysis shall also inform the framing and shaping of work across the public bodies landscape on how to make best use of collective resources. The emphasis here is on both financial sustainability and on how bodies collaborate in the interests of shared outcomes. We expect to see bodies focus on efficiency and effectiveness, addressing prevention and taking person-centred approaches

which respond to what our people, communities and places need to thrive. Our next steps shall be to focus on actions to support the sustainability of public services and improve outcomes for citizens. This will contribute towards the mission of prioritising our public services, as detailed in the Policy Prospectus. I am happy to keep the Committee updated on progress here.

Corporate Transformation

In your letter, you raised questions in relation to corporate transformation which I have responded to below.

Corporate Transformation covers a number of workstreams and initiatives. Agreed priorities this year are:

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

This portfolio is being designed to ensure Scottish Government and public bodies have access to efficient and effective corporate services to reduce costs over time. Examples of cash releasing or cost avoiding savings to date include around £150m p.a. from the use of commercial and procurement frameworks and advice, and reduced costs of around £20m in 2022-23 against original plans as a result of headcount controls in the Scottish Government.

We are also putting plans in place to secure both shorter term efficiencies (by training more in house digital professionals to reduce reliance contractors, for example) and planning for longer term and more strategic reform by rolling out digital public services. Social Security Scotland, Disclosure Scotland and Registers of Scotland are good examples of the better services that can be provided to citizens through the good use of digital platforms. We will also reduce the need for manual processing, reduce failure demand and ensure that we are meeting 21st century needs in a way that protects privacy. It is our intention to add new initiatives to this portfolio of work, as funding and capacity permits. Finally, in our current workplan, we will launch the new HR system at the end of 2023 and the Finance system in 2024.

As Corporate Transformation is not one single initiative, the risks and impact of delays would be specific to each initiative. For example, not proceeding with the right-sizing of the estate means potentially incurring the costs associated with today's estate for longer, or not moving as quickly towards an estate footprint that fully supports future hybrid ways of working and progress towards net-zero. These risks must be balanced against the opportunities for cost savings and other benefits presented by, for example, more joint working on a common property portfolio across the public sector in Scotland. Risk assessments are carried out and regularly reviewed for each initiative. Should the Committee have a specific initiative or business case they wish to understand further, please do let me know.

As set out above, corporate transformation as a portfolio of initiatives can, over the medium to longer term, contribute to the efficient running of Government and indeed a range of public bodies which use our corporate services. Reduced estate costs, improved operating models, digital public service reform and end to end process improvements should all add value and help ensure we operate more effectively and deliver better value for money. Work continues to calculate these benefits, and the actions necessary to pursue them, to drive multiple corporate transformation initiatives through to successful conclusion. Where required, business cases are developed for

each of these initiatives and are kept under review as requirements and circumstances change. We will continue to report on these through our annual report and accounts.

European Union Structural Funds

I asked officials to explore options that ensure the Levelling Up Programme and associated decision making can be appropriately scrutinised by the Scottish Parliament.

My role as Accountable Officer is to comment on the strategic alignment with the Scottish Government policy and how any Scottish Government funds are being impacted by Levelling Up Funds. Should the Scottish Government and UK Government contribute funding towards a project or a programme, there will then be a responsibility to ensure that the total public spend is providing value for money, and for example, it may be helpful to bring together Audit Scotland and the National Audit Office in that circumstance. I will discuss with the Auditor General scope for collaboration with the National Audit Office. The same principle could apply to Green Free Ports.

I raised this issue with senior UK officials and can advise that should you choose, you could invite the Permanent Secretary of the Department for Levelling Up, Housing and Communities to appear before you; and we would be happy to join with the relevant Scottish Government teams.

Transparency and Outturn Reports

As reiterated at our session, we are keen to improve transparency wherever we can and recognise the interest in tracking the outturn position for the Scottish Budget and the position in the Scotland Reserve further.

The ability to report on that in the Scottish Government Consolidated Accounts depends on being able to reach final outturn for all the elements of the Scottish Budget, which includes non-consolidated bodies, prior to the end stage of the Scottish Government Consolidated Accounts. This has not been the case in recent years due to accounts and audit timelines being extended post-pandemic.

Since our session, there have been two publications which have updated reporting on this:

- The Finance Update and Spring Budget Revision 2022-23 guide to support the scrutiny of the Spring Budget Revision included information updating on the Scotland Reserve position. This was provided to the Finance and Public Administration Committee and shared with this Committee on 27 February. It was also published and is available at [Finance and Public Administration Committee: finance update and Spring Budget Revision 2022 to 2023 guide - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/finance-update-and-spring-budget-revision-2022-to-2023-guide-2022-23/pages/1-to-3.aspx).
- As set-out by the Chief Finance Officer at Committee, the 2021-22 Final Outturn Report was finalised when the reporting on pension schemes administered by Scottish Public Pensions Agency concluded. This report, which shall be published imminently, explains the reconciliation between the accounts reporting and the HMT budget position, and the outturn and the final adjusted Reserve movement compared to the provisional outturn reporting.

We will continue to engage with the Committee and with Audit Scotland on how we can improve transparency further.

At the Committee session, we also talked about the difficulties in progressing additional Scottish Public Sector Accounts, with extended periods for accounts and audit making it difficult both to prioritise this and to work with information that has not already been overtaken by the financial reporting of subsequent financial years. I can confirm that Finance colleagues are progressing the “first stage” accounts for 2021-22 now that the full set of reporting on the Scottish Budget is complete. We have initiated a good conversation with the audit team on what more may be possible given the continuing constraints of the availability of information from the UK Whole of Government Accounts process.

Capital Borrowing

The capital borrowing policy is set out in the Medium-Term Financial Strategy and information on capital borrowing plans, and the related borrowing costs, can be found in the annual Budget documents. As we have discussed with Audit Scotland, the Scottish Government does not require that capital borrowing should be applied to specific projects: the borrowing supports the capital budget in its totality. The Chief Finance Officer has recently had a good conversation with the Audit Director of Audit Scotland on this point and we will undertake further discussion to ensure we reach a shared understanding. We are committing to specific actions as follows:

- We will add to the narrative reporting in the next accounts to explain how the sums borrowed underpin the capital programme as a whole and will link to or repeat information on borrowing that is in other reporting.
- The Committee is familiar with the six-monthly Major Capital Projects and Programmes Reporting which provides insight for Parliament and the public on the delivery of the Programme of activity set out in the Infrastructure Investment Plan.

COVID-19 Support Payments and Fraud

During my appearance before the Committee on 24 February 2022, and again on 23 February 2023, the Director for Economic Development and I set out the approach the Scottish Government took to mitigating the risk of fraud in COVID-19 business support schemes through a number of control mechanisms built into the design and delivery of business support schemes.

It is for individual delivery partners, such as Local Authorities, to determine how and when to take legal action to recover funds. Prevention is always preferable but delivery partners will take appropriate action to pursue the recovery of losses, referring matters to the police where appropriate.

I am pleased that we have improved our fraud and error metrics as a result of engagement with COSLA, the Scottish Local Authorities' Economic Development (SLAED) and Local Authorities. The available data now tells us, as of July 2022, a loss of £3.4 million had been realised within the largest funds administered in 2020-21. As a proportion of overall spend of the data commissioned, this equates to 0.25%. However, based on the evidence now available, I can now confirm that £3.1 million of payments had successfully been recovered by Local Authorities due to detection of fraud and error, as of July 2022.

Of particular interest to the Committee was the estimate of fraud within the COVID-19 business support schemes administered in 2021-22. The quality and volume of data now available has increased since initial estimates of fraud were made in 2021. We continue to believe that the estimate of no more than 1-2% (£16-32 million) of overall spend is reasonable and robust due to the quality of information now available on assurance for fraud risk management and control, and

the new data on fraud losses collected. The team would be happy to discuss this further with you if helpful.

Prestwick Airport

I am grateful that the Committee recognises the benefits of Prestwick Airport to the local economy of South Ayrshire. I have instructed our policy officials to undertake an economic impact report on the benefits of the airport and they are currently scoping this work which will inform the timetable of delivery. We will be pleased to report back to the Committee with details of the timetable upon completion of this analysis, and share the findings of the final report.

I thank you again for the opportunity to appear recently at the Public Audit Committee.

I hope this update is helpful.

Best wishes,

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Permanent Secretary to the Scottish Government

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Public Audit Committee

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28 April 2023

Section 22 Report: Scottish Government 2021-22 Consolidated Accounts – Fraud and Error within COVID-19 Business Support Schemes, update following the Public Audit Committee Meeting of 23 February 2023

Dear Convener,

I am writing to provide you with an update on the work the Permanent Secretary and I outlined in our evidence to the Public Audit Committee on Thursday 23 February 2023, regarding fraud and error metrics in COVID-19 business support schemes and estimates of levels of fraud and fraud recovery.

Fraud mitigation in COVID-19 business support schemes

The pace and scale of work required to respond to the COVID-19 crisis and provide lifeline support to businesses who needed it most, saving lives, businesses and livelihoods, meant that we had to carefully balance the need to ensure business support was implemented quickly with the need to ensure the risk of fraud was mitigated.

During my appearances before the Committee on 24 February 2022 and 23 February 2023, I was able to explain that the risk of fraud in COVID-19 business support schemes was mitigated through a number of control mechanisms built into the design and delivery of such schemes.

As I assured the Committee, of cases of fraud identified by Local Authorities, most were detected as being fraudulent before a payment was issued and therefore significant losses were prevented. The available data tells us that approximately £24.1 million of fraud was prevented based on average grant amounts.

Pursuing recovery of losses

It is for individual delivery partners, such as Local Authorities, to determine how and when to take legal action to recover funds. Prevention is always preferable but delivery partners will take appropriate action to pursue the recovery of losses, referring matters to the Police where appropriate.

In our evidence to the Committee we quoted a figure of £504,000 which was recovered as of July 2022. I would like to clarify that the actual figure of fraudulent payments recovered was £540,000 at that date.

Actions taken

The Committee was interested, in particular, in the estimate of fraud within the COVID-19 business support schemes administered in 2021-22. Based on available data at that time, we explained that Scottish Government believed that undetected fraud, or an estimated level of fraud, was no more than 1-2% of overall spend. You will recall Audit Scotland's opinion was that this estimate was reasonable, but not robust.

We have since looked at ways of improving the confidence in this estimate and have taken a number of actions to improve assurance for fraud risk, ensuring that consistent and specific data is collected across grants and made available to provide better fraud and error metrics.

In June 2022, the Scottish Government's Head of Counter Fraud Profession engaged with the Scottish Local Authorities Internal Auditors Group (SLACIAG) and commissioned intelligence on fraud within business support schemes as part of our post-delivery testing. Responses were obtained from 16 Local Authorities, representing the four largest Local Authorities in Scotland. This data covered schemes administered throughout the pandemic.

To improve our fraud and error metrics, we commissioned fraud and error data from Local Authorities on all cases of fraud and suspected fraud, amounts lost to fraud and amounts recovered. This data includes funds administered in 2020-21 and 2021-22.

Fraud metrics

I previously explained the role delivery partners have in determining how and when to take action to recover funds which includes taking appropriate action to pursue the recovery of losses and referring matters to the Police where appropriate. In doing so, there will be both practical and legal limits depending on individual circumstances. This requires each case to be considered on its own merits.

The ability and pace at which funds can be recovered is also therefore dependent on the individual circumstances of the case and depends on a number of factors – for example, if the loss can be offset against legitimate eligibility for a future grant and law enforcement's ability to pursue. The Scottish Government understands that recovery may prove difficult or impractical where fraud is unproven to a criminal standard, and/or where the payment recipient is unwilling or unable to repay. However, based on the evidence now available, I can now confirm that £3.1 million of payments had successfully been recovered by Local Authorities due to detection of fraud and error, as at July 2022.

Fraud detected and estimates

At the time of my appearance before the Committee, we had indicated that, of the fraud detected based on the data available at that time, a loss of £605,610 had been realised. This was based on limited, incomplete data as at April 2021.

I am pleased that we have significantly improved our fraud and error metrics as a result of engagement with COSLA, the Scottish Local Authorities' Economic Development (SLAED) and local

authorities. The available data now tells us, as of July 2022, a loss of £3.4 million had been realised within the largest funds administered in 2020-21. As a proportion of overall spend (of the data commissioned), this equates to 0.25%.

Whilst the quality and volume of data now available has increased since previous estimates of fraud were made in 2021, we will not be revising the estimated levels of undetected fraud in business support. We believe that the estimate of no more than 1-2% (£16-32 million) of overall spend, is reasonable and robust due to the quality of information now available on assurance for fraud risk management and control, and the new data on fraud losses collected.

The Fraud Review in 2021 looked at evidence of counter fraud control in business support spending and we determined that there was 'reasonable assurance' for fraud risk. Taking into account the new data and information available, we feel that the evidence of appropriate fraud risk management by Local Authorities has improved. The Scottish Government can continue to have assurance that fraud risks were controlled by effective control environments and counter fraud activity within Local Authorities, and that fraud losses whilst significant, are low as a percentage of overall spend.

Further work

We remain confident that the counter-fraud measures adopted by our delivery agencies during the distribution of COVID-19 business support schemes were proportionate and effective. However, the Scottish Government is pursuing other opportunities to increase the resilience and precision of our counter-fraud and monitoring efforts. In this regard, officials are engaging with Cabinet Office to leverage the powers within the Digital Economy Act 2017 to do a data sharing and validation exercise with HMRC. If successful, this pilot will give us a more robust basis to validate our current estimates of potential fraud and error within the various COVID-19 business support schemes.

These discussions are at an early stage, and we will be able to update the Committee, if and when this develops further.

Of course, there is still work to do to continue to improve our validity of fraud estimates, our fraud and error metrics, and to ensure lessons learned are reflected in any future provision of business support. We will actively pursue opportunities to improve on the ways we prevent, detect and manage the risk of fraud within support spending, ensuring that we are utilising the most current innovation and practice in countering fraud. We will continue to work with delivery partners to support our wider ambition of instilling a counter fraud culture which provides opportunities to strengthen support far beyond emergency, lifeline support.

We will also continue to engage with Audit Scotland to identify opportunities to enhance our counter fraud activities and fraud estimates, making sure we make best use of all tools at our disposal in the fight against fraud.

I hope the information provided in this letter is helpful in addressing earlier points raised by the Committee. Please let me know if there is anything further you require at this stage.

Best wishes,

Colin Cook
Director for Economic Development