



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Public Audit and Post-legislative Scrutiny Committee

**Thursday 26 January 2017**

**Session 5**



The Scottish Parliament  
Pàrlamaid na h-Alba



---

**Thursday 26 January 2017**

**CONTENTS**

	<b>Col.</b>
<b>DECISION ON TAKING BUSINESS IN PRIVATE .....</b>	<b>1</b>
<b>SECTION 22 REPORT .....</b>	<b>2</b>
“The 2015/16 audit of the Scottish Police Authority” .....	2
<b>SECTION 23 REPORT .....</b>	<b>32</b>
“Superfast broadband for Scotland: A progress update” .....	32

---

**PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE**

**3<sup>rd</sup> Meeting 2017, Session 5**

**CONVENER**

\*Jenny Marra (North East Scotland) (Lab)

**DEPUTY CONVENER**

\*Liam Kerr (North East Scotland) (Con)

**COMMITTEE MEMBERS**

\*Colin Beattie (Midlothian North and Musselburgh) (SNP)

\*Monica Lennon (Central Scotland) (Lab)

\*Alex Neil (Airdrie and Shotts) (SNP)

\*Gail Ross (Caithness, Sutherland and Ross) (SNP)

\*Ross Thomson (North East Scotland) (Con)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Caroline Gardner (Auditor General for Scotland)

Mark Roberts (Audit Scotland)

Gillian Woolman (Audit Scotland)

**CLERK TO THE COMMITTEE**

Terry Shevlin

**LOCATION**

The James Clerk Maxwell Room (CR4)



## Scottish Parliament

### Public Audit and Post-legislative Scrutiny Committee

Thursday 26 January 2017

*[The Convener opened the meeting at 09:02]*

### Decision on Taking Business in Private

**The Convener (Jenny Marra):** Good morning and welcome to the third meeting in 2017 of the Public Audit and Post-legislative Scrutiny Committee. I ask everyone to switch off their electronic devices or switch them to silent mode to ensure that they do not affect the committee's work.

Agenda item 1 is to decide whether to take agenda items 4 and 5 in private. Do members agree to do so?

**Members** *indicated agreement.*

## Section 22 Report

### "The 2015/16 audit of the Scottish Police Authority"

09:02

**The Convener:** Agenda item 2 is to take oral evidence on the Auditor General for Scotland's report, "The 2015/16 audit of the Scottish Police Authority". I welcome to the meeting the Auditor General for Scotland, Caroline Gardner, and from Audit Scotland, Gillian Woolman, assistant director, and Mark Roberts, senior manager. I invite the Auditor General to make an opening statement before we move to questions from members.

**Caroline Gardner (Auditor General for Scotland):** The report is on the 2015-16 audit of the Scottish Police Authority under section 22 of the Public Finance and Accountability (Scotland) Act 2000. As members know, 2015-16 was the third year of operation for the SPA and the Police Service of Scotland, and this is the third time that I have made a report to Parliament following the annual audit of the SPA. The SPA's accounts include the financial results of the Police Service of Scotland.

I want to highlight two issues, the first of which is the auditor's opinion on the 2015-16 accounts. The accounts are unqualified but, for the third year running, the auditor has expressed a modified conclusion on the matters on which she is required to report by exception. She concluded that insufficient consideration was given to the introduction of a new financial reporting standard that required the identification and revaluation of surplus assets, and there were numerous errors in the valuation of assets that were held for sale and investment properties.

Overall, the audit of the SPA was again very challenging to complete. We received nine draft versions of the annual report and accounts to audit, which in our wide experience is very unusual.

The second issue is the weakness of financial leadership in both the Scottish Police Authority and Police Scotland. That has been an on-going problem since the establishment of the two organisations in April 2013, and it is not yet resolved. That would be unacceptable in any public body, let alone those of the scale and importance of the SPA and Police Scotland.

Exceptionally, in 2015-16, the Scottish Government permitted an overspend on the revenue budget to offset against an underspend on the capital budget. Some progress has been made on developing a long-term financial strategy

to underpin policing 2026, which is the long-term vision for policing over the next 10 years. That is encouraging, but it is undermined by the absence of effective financial leadership.

To illustrate the scale of the future financial challenge, I have updated my projections of the potential funding gap that the SPA and Police Scotland face. They suggest a cumulative deficit of almost £200 million in real terms by the end of this parliamentary session, and I consider that projection to be conservative. I will report to the Parliament again on the SPA's progress in managing its finances at the conclusion of the audit of the 2016-17 accounts, which will be towards the end of this financial year.

Alongside me are Gillian Woolman, who was the auditor responsible for last year's audit of the Scottish Police Authority, and Mark Roberts, who leads our work on justice in Audit Scotland. As always, we will do our best to answer the committee's questions.

**The Convener:** Thank you very much. I invite Colin Beattie to open the questioning.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** It is deeply disappointing to have weak financial leadership reported to us again. Does the decision to merge the two existing financial director roles and have a chief finance officer imply a unified system of accounting of any sort?

**Caroline Gardner:** I will ask Gill Woolman to give the committee more details about the implications of that, but it is fair to say that we think that having one person responsible for that in Police Scotland with a clear reporting responsibility to the chief executive and the accountable officer of the authority is an advance. There is a lot of work to do to put in place a single system that does all that is required.

**Colin Beattie:** Was something on those lines done previously? Did one person supposedly act as a bridge?

**Caroline Gardner:** Until very recently, there was a chief financial officer or director of finance in both the SPA and Police Scotland. I think that around 12 months ago, when the committee previously took evidence on this matter, the SPA announced its intention to have an interim chief financial officer across the two organisations while it considered the longer-term arrangements. The longer-term arrangements are now being put in place, but they are not yet in place.

Gill, do you want to talk about the systems?

**Gillian Woolman (Audit Scotland):** Yes, I am happy to.

This is now the end of year 3, and there is still much to be done to unify the financial systems. Although there is one general ledger, there are numerous payroll and other underlying systems, and there is still much work to be done to bring all of that together.

As the Auditor General has said, we see the proposal to have one key, very senior chief finance officer as the right way forward. We know that a very public commitment was made in June 2016 that that would happen, but a permanent appointee to that role has yet to be made.

**Colin Beattie:** Is every police area still operating a separate accounting system that feeds back into the general ledger?

**Gillian Woolman:** There is one general ledger and certain underlying systems have been unified, but there are still multiple systems across the country for subsystems such as payrolls.

**Colin Beattie:** The letter to the committee from the SPA mentions that James Gray was "on secondment from PWC". How expensive was that?

**Gillian Woolman:** I am afraid that I do not know the exact figure. However, that is a cost for 2016-17, which is not the year that we audited; we have audited 2015-16. I am afraid, therefore, that I do not have that figure available.

**Colin Beattie:** Okay. Paragraph 6 on page 5 of your report mentions

"a shortage of capacity and competency in key areas, such as capital accounting."

What are the other areas in which there were weaknesses?

**Caroline Gardner:** Again, I will ask Gill Woolman to come in with a bit more detail, but the overall conclusion was that there simply was not enough capacity at a senior enough level to provide leadership for the work that needed to be done, particularly in developing a financial strategy and putting in place the actions that flowed from that. The question then is whether there were the people with the particular skills that were needed to do the work. Gill Woolman can tell the committee more about that.

**Gillian Woolman:** In particular, we have highlighted the need for very good, experienced and skilled finance professionals in the area of capital accounting; after all, Police Scotland and the Scottish Police Authority together have over £500 million-worth of fixed assets. Members can therefore see how necessary that work is.

As for the other areas that have been highlighted by the Auditor General, there were 19 vacancies at a certain point in the year in the Police Scotland finance team, which numbers

about 120 in terms of establishment. Therefore, there was a shortage of staff in that respect.

**Colin Beattie:** Were they new posts?

**Gillian Woolman:** Over the three years, it has been setting down the establishment of its two finance functions. That would be the accepted level by this stage. I am afraid that I cannot tell you what that is relative to three years ago, if you were to take the aggregate of all the finance posts—

**Colin Beattie:** I am interested in finding out whether they are a layer on top of what was already there.

**Gillian Woolman:** During our planning stage for 2015-16, there were definitely acknowledged vacancies in the finance function. The other areas of competency are to do with senior finance leadership, in terms of driving the development of long-term detailed financial strategy and a very good level of accounts preparation and staying right up to date with technical developments in the world of accounting.

**Monica Lennon (Central Scotland) (Lab):** Good morning. Given that the Scottish Police Authority and Police Scotland are among the largest and most important public bodies in Scotland, we will all agree that it is important that the public has confidence in them. After three years of very poor audit results, we continue to see weak financial leadership and management. Do you accept that it is difficult for the public to have confidence in the SPA and Police Scotland now?

**Caroline Gardner:** As I have said in my report and again this morning, the lack of progress that has been made in demonstrating financial leadership is unacceptable for any public body, particularly for one of this scale and given the importance of policing in Scotland. We should be able to expect such leadership, and we should expect good use of public money and accounting for that use. I also make the point that there is more scope for transparency in the way that the £1 billion-plus budget for policing in Scotland is being used.

**Monica Lennon:** Transparency is very important. When I read the reports, I was concerned that the SPA seems to conduct some of its meetings and business shrouded in secrecy—that might be one way of putting it. Why has that approach been so prevalent, and why it is difficult for the public to see board papers and scrutinise what is going on?

**Caroline Gardner:** The reasons why that is would need to be pursued with the accountable officer and perhaps the chair of the board. We know that there has been a governance review, which is still being implemented, and I have made

the point about the urgency in getting its recommendations put in place.

In my section 22 report, I highlight the lack of information on the content of Police Scotland's budget. For any public body, we would expect more transparency and scrutiny of the money that it spends and what it delivers with it. It is not acceptable simply to sign off a one-line budget for £970 million without more clarity on what it is expected to deliver and what it will be spent on. That would enable greater accountability at the end of the process with regard to what has been achieved against the plan.

**Monica Lennon:** I was struck by what you said in your opening statement about the difficulty in undertaking the audit and the nine draft versions of it. Will you point to anything that was perhaps frustrating the process? You said that receiving nine draft versions was very unusual.

**Gillian Woolman:** I am happy to respond to that. I have been an auditor for many years, and I audit many other significant public sector bodies. We normally expect a better level of draft report in the first instance. There are certain public sector bodies in Scotland for which there is no change to the accounts between the first draft and the final set, due to the quality of the preparation of the financial statements. That is based on a simple and straightforward extraction from the underlying financial statements for the preparation of those accounts and the clear standards of very competent and experienced finance professionals. A combination of all those areas has added to the challenge for finance professionals in Police Scotland and the SPA in preparing the accounts and for our on-going audit of them.

**Monica Lennon:** That is quite concerning. I come back to the importance of confidence and trust, because what you have described arouses people's suspicion about why things are not being dealt with more smoothly.

09:15

We all recognise how hard our police officers work on the front line in our communities to keep us all safe, but we cannot ignore the financial context in which they are working. In the evidence that he gave to the Justice Committee this week, Calum Steele of the Scottish Police Federation said that there is a crisis and that police officers are almost at breaking point. It appears to be becoming harder and harder for services to be maintained. We all know from our casework and local circumstances of situations in which things have gone wrong. Do you recognise the strain and stress that police officers are under? In light of the financial deficit—I think that the report gives a figure of £188 million, but you now say that a real-

terms figure of £200 million could be a conservative projection—what message does it send out to police officers across the country when they cannot see the financial conditions improving?

**Caroline Gardner:** All my reports since 2013 have recognised the great importance of policing to people right across Scotland and the efforts of police officers and police staff to continue delivering as good a service as they can for all of us. We have also recognised that policing faces significant challenges—including the emergence of new types of crime such as cybercrime, as well as the focus on domestic abuse and historical sex abuse—that need to be responded to for policing to stay relevant and able to meet demands.

That is why getting the strategic financial management right is so important, and the financial strategy that we have been asking for is a way of demonstrating that those demands can be met with the resources that are available and how that will be done. If necessary, dialogue can be opened up with Government about what other changes are needed. Such clarity is an important starting point.

At a slightly more operational level, we have heard over the past few months concerns about the quality of police stations and facilities such as sexual abuse suites where victims can be examined and interviewed not being fit for purpose. If those reports are true, an underspend in the capital budget is a missed opportunity to invest in the assets and resources, such as buildings, that the police need to do their job. There is a concern there.

We spend a lot of money on policing, which is a very important public service. To make it sustainable for the future, which was one of the objectives of the reform programme, we must ensure that the money that is available is being used in the right areas and that there is a tie-up with the strategic policing plan that is being developed.

**Monica Lennon:** You mentioned the issue of police stations, which brings me to the review of the police estate. That is another example of a lack of transparency. I think that it took four freedom of information requests and some media pressure for the information that 58 police stations across the country are under review to get into the public domain. A few of them are in the region that I represent.

There seems to be a tension between the need for a modern police force that Police Scotland has identified, which goes with the shift towards people dialling 101 instead of always having to go into a police station, and the fact that there is still an important role for the police service to play in

having a front-line presence. Given your comment about some inconsistency in how assets have been reviewed, how positive can we be that the approach to the estate review is the right one? It strikes me that the reason why some of the suites and rooms are not fit for purpose is that some police stations are older buildings that have not been maintained, and it appears that the response to that is to close some of those stations.

We are being told at local level that there could be a shift towards services being shared with local authorities, but given that local authorities have their own funding pressures, the situation is not very clear. I know that, in our area, the consultation has not started. Do we have any indication that the estate review properly reflects the strategic priorities for Police Scotland? As far as scrutiny for the public is concerned, what checks and balances will there be?

**Caroline Gardner:** It is hard to answer the question about the estate review without being able to put it in the context of the longer-term vision for policing—policing 2026—because the way in which policing is being delivered is changing, and should change, to reflect changes in society and our expectations. That might well mean closing some buildings and investing in others, or investing in new ways of providing policing, but I do not think that we can decide what needs to happen to the estates without the wider context of the way policing in general will be delivered.

If changes are involved, it is vital that people across Scotland have a chance to comment on that and that there is an explanation about what is changing and why what is being proposed will be better than what has come before. It goes back to the need for the policing strategy to be publicly available, consulted on well and underpinned by a very good financial strategy that shows how the money will be used to deliver it.

**Alex Neil (Airdrie and Shotts) (SNP):** Can I go back to the draft reports? I think that you said that there were nine draft reports. Is that right?

**Gillian Woolman:** Yes.

**Alex Neil:** Within the space of what time?

**Gillian Woolman:** We would have received the first draft on 31 July and we signed the accounts in the middle of December.

**Alex Neil:** How does that compare to the normal timeframe with a public sector body?

**Gillian Woolman:** That is far longer than we would expect for a public sector body.

**Alex Neil:** Six times longer? Twice as long?

**Gillian Woolman:** At least twice as long.

**Alex Neil:** I think you said that the issue with the nine drafts was not just the drafting of text, but that the numbers kept changing. Is that right?

**Gillian Woolman:** That is correct.

**Alex Neil:** What kind of numbers were changing between drafts? What big-ticket items were being changed in the budget? What order of changes are we talking about? Is it a couple of hundred thousand or a couple of million here and there?

**Gillian Woolman:** It is more the latter. There would be corrections that the accountants had identified as they were doing their own quality reviews of the accounts, and items that the audit team had identified and about which they had notified the client. There was also a significant post-balance-sheet transaction relating to the termination of the i6 contract, which had the biggest impact on reporting the financial performance.

**Alex Neil:** How much was that?

**Gillian Woolman:** Overall, the capitalised figure in the accounting entries for that project was initially £19 million. Some compensation was recognised during the year 2015-16. There was also a residual value, but there was an impairment and a charge to the income and expenditure of £6 million in connection with that.

**Alex Neil:** Was the correction needed £19 million, £25 million or £6 million?

**Gillian Woolman:** There would have been a series of adjustments associated with that, but the actual impact on the financial results was a cost of £6 million to the I and E.

**Alex Neil:** Who is responsible within the SPA? Am I right in interpreting what you said as meaning that the mistakes were found by people outwith the SPA?

**Gillian Woolman:** Ultimately, the chief executive of the SPA is the accountable officer for the whole set of accounts. You may recall that the SPA engaged an interim chief finance officer from February last year. Their focus was not so much on the provision of the financial statements as on the development of the long-term financial strategy.

The key personnel who were involved in the preparation of the accounts were largely in Police Scotland. Its director of finance departed and there was a head of finance. In June last year, that was supplemented with the interim chief finance officer. It fell to those two individuals in Police Scotland to be involved with the preparation of the financial statements. There was not the level of detailed scrutiny by a senior permanent director of finance that we would see elsewhere in the public sector in Scotland.

**Alex Neil:** These discrepancies or differences—whatever you like to call them—are huge amounts of public money. You were left with nine drafts and that scale of change being made. Do we have any confidence in the figures that were finally agreed?

**Gillian Woolman:** I have given an unqualified opinion on the true and fair view that is shown in the final set of accounts.

We did a lot of work on the audit and in the realms of materiality to gain assurance that all readers of the accounts can have confidence in what was represented by the true and fair set of the accounts that was finally agreed.

**Alex Neil:** You made a fair point about the weakness of the financial leadership but there is also an issue of basic competence.

**Gillian Woolman:** We capture that in our report.

**Alex Neil:** Other than the change of personnel at the very top, what measures have been put in place to rectify the situation? A very weak financial resource appears to be operating in Police Scotland and in the SPA, and that is totally unacceptable. What further changes have been made, are being made or are planned to be made? If, in year 4 of Police Scotland and the SPA, we are still at this stage, there is clearly something very wrong in those organisations.

**Gillian Woolman:** We know that measures have been taken to recruit approximately 15 new accountants—on an interim basis at this stage—to the Police Scotland finance function. Importantly, an experienced individual has also recently been recruited as the capital accountant to take forward the fixed assets area.

**Alex Neil:** Have those 15 recruits actually been recruited, or were they included in the 19 vacancies?

**Gillian Woolman:** That recruitment was in response to the identification of those vacancies. Police Scotland is now filling those posts.

**Alex Neil:** Do you know how many have been filled?

**Gillian Woolman:** No. The last number that was mentioned to me was the 15 additional people that Police Scotland is progressing with recruiting.

**Alex Neil:** I take the point about the weakness and incompetence of leadership in finance but, at the end of the day, the senior management team—the chief constable and the chief executive of the SPA—and the SPA's chair and board are supposed to provide direction, monitor progress and all the rest of it. It is not just weakness in financial leadership; it is weakness in the total management of the organisation.

**Caroline Gardner:** I have no doubt that the accountable officer is responsible for ensuring that there is the capacity that is needed to provide strategic financial leadership. The board has oversight of the accountable officer's responsibilities and, in the case of SPA, the chief constable obviously has a part to play, too. That failing is the reason for bringing my report to the committee again this year.

**Alex Neil:** We know who has the responsibilities, but the point is that they have failed to live up to their responsibilities and to carry them out competently, satisfactorily and to an acceptable standard.

**Caroline Gardner:** That is why I have reported to the Parliament through this committee.

**Alex Neil:** On the Auditor General's suggestion of bringing the chair, the chief executive and the chief constable to this committee, I think that they should all be invited to come, because that is a totally unacceptable performance.

As has already been pointed out, there is a general lack of confidence in policing in Scotland at the moment. We know that morale is at rock bottom among the police force and the chief constable believes that he is £60 million short of the money that he needs in order to do the job that he has been asked to do. We have to give those people their say in order to see whether that is part and parcel of the same problem.

Looking at the management of its finances, it strikes me that the organisation is in crisis. Is that a fair description?

**Caroline Gardner:** I have been reporting since 2013 on the difficulties that policing in Scotland has faced in forming a single police service and in putting in place a strategy that is underpinned by a financial strategy that shows that policing will be sustainable for the future. That was one of the objectives of reform and it is unacceptable that, three years on, that strategy is not in place.

**Alex Neil:** What is the update on the information technology system, which seems to be equally shambolic?

**Caroline Gardner:** As I say in my section 22 reports, we are doing some very specific work on what is happening with i6 and I expect to report that to Parliament in March.

**Alex Neil:** Are we dealing with another NHS 24 or common agricultural policy payments-type crisis with the IT?

**Caroline Gardner:** We know that the Scottish Police Authority took the decision last year to stop making progress with the i6 system. As Gillian Woolman said, the SPA reached agreement with its provider, Accenture, to bring that to a close. I

will report on the circumstances and consequences of that in March.

**Alex Neil:** Do we know the cost of that shambles yet?

**Caroline Gardner:** I would prefer to hold back my comments until I report to you in full in March.

**Alex Neil:** Do we know the order of magnitude of the cost?

**Caroline Gardner:** We said in the report—Gillian Woolman gave the committee a bit more information earlier on this—that around £19 million was written off at the end of the 2015-16 accounts. There are wider consequences than that write-off, which is why I am doing a further piece of work on it.

09:30

**Alex Neil:** Is there a further write-off still to be done?

**Caroline Gardner:** There may be other costs associated with the decision to end the project. That is why I am looking at the project as a whole.

**Alex Neil:** That obviously leaves you unable to describe how bad the financial management is in Police Scotland and the SPA. They seem to go from one crisis to another in financial and IT management.

**Caroline Gardner:** There has certainly been a problem with the i6 project, which I will report on. At this stage, it is worth being clear that the failure to deliver that system is likely to have wider financial implications. Some of the savings that were expected to come from reform were predicated on there being a system that could deliver policing in new ways, and that will, at best, now be delayed.

**Alex Neil:** I am not asking you to pre-empt what you are going to tell us later in the year but, when IT systems in a police service are not working, the worry is that that will have a direct impact on the performance of the service. When you report to us, will you tell us that there has been an impact on the performance of the service as a result of its IT shambles?

**Caroline Gardner:** I am not prepared to pre-empt what I conclude in my report. We are in the process of finalising the audit work and clearing the facts with those who are affected by it.

**Alex Neil:** But you are looking at the impact on performance and service level.

**Caroline Gardner:** I think that we say, in the section 22 report, what the scope of that work is. We will report as fully as we can on the basis of the evidence that we find.

**Alex Neil:** I suggest that we ask the Auditor General to include in her report the impact on performance and service level, because that is what the public need to know.

**Caroline Gardner:** As far as we are able to do that, we will. However, that will depend on the evidence that is available to us.

**The Convener:** Let us go back to Alex Neil's point about accounting records. The chair of the SPA appeared before our predecessor committee last year and said that, because of a new system, there would not be problems with the keeping of accounting records. However, you have just told us that adequate accounting records have not been kept. Do you have any sense of why that progress has not been made?

**Gillian Woolman:** I am happy to respond to that. In respect of the audit for the year 2014-15, when there was also a section 22 report, we highlighted asset 4,000, which was a new system in which to maintain the SPA's fixed assets records. We have seen improvements because of asset 4,000.

The problem this year was a different problem connected with fixed assets. This is where the competency and experience of the finance professionals is really important. A new accounting standard was introduced this year, which the team of capital accountants should have geared up for. The new standard affected particular categories of assets—investment properties, surplus assets and assets held for sale—all of which had to be correctly categorised in order for the revaluation process to be appropriately instigated and accounted for.

There was a slight shift in the problem this year. It was a new problem associated not so much with the system—that was the issue last year—as with the competency and experience of the team who are managing the system.

**The Convener:** That is interesting. Twice in your evidence this morning you have mentioned the competency of the financial professionals at the SPA. Although I am sure that the standard is not the same across the board, you have said that there are highly competent financial professionals in other public bodies that you audit. Is it your opinion that there is perhaps a lack of professional expertise in finance in the SPA?

**Gillian Woolman:** Yes. I am conscious that, over the three years for which we have carried out the audit, there has been a period of transition involving the merger of all the predecessor bodies. There has been a revision and reorganisation of the key personnel who were there, and certain experienced individuals have left as a result of the downsizing of the role. What is key is having the leadership to get the right structure functioning

appropriately and the right recruits in place. I feel that it is a combination of all those factors, and the two bodies—the SPA and Police Scotland—have not reached a satisfactory position in that regard.

**The Convener:** Do you feel that the leadership lacks the financial experience or expertise to do that?

**Gillian Woolman:** An important new appointment was made to the leadership group in Police Scotland when a new chief operating officer was appointed in August 2016. The new chief finance officer in Police Scotland will sit underneath that individual. That was an important structural change to the leadership group in Police Scotland. That seems to be heading in the right direction, as it will ensure that corporate services as a whole have a high profile going forward.

**Colin Beattie:** I have a quick question to clarify something. Reference has been made to the chief executive of the SPA as being the accountable officer in relation to the finances. Does Police Scotland not have an accountable officer who is responsible for finance?

**Caroline Gardner:** The SPA's financial accounts include the expenditure and any income of Police Scotland, and the chief executive of the SPA is the accountable officer for all that expenditure. Clearly, the SPA and Police Scotland need to work well together to enable that accountability to be delivered. We have been reporting since 2013 on the understanding of roles and responsibilities and the need to put in place people who can deliver that effectively, but that is still not properly in place.

**Colin Beattie:** Clearly, it is not working. Should there be somebody in Police Scotland who is accountable for the finances in Police Scotland?

**Caroline Gardner:** Absolutely, in terms of delivering the accountability, but, under the legislation that set up the new structures of policing in Scotland, it is clear that the chief executive of the SPA is accountable for the overall budget, including the sum that is handed on to Police Scotland. There is no doubt that there need to be people in Police Scotland who can deliver the assurance and levels of financial management and control that the accountable officer needs to fulfil his responsibilities. However, the formal line of accountability for the money that is spent is from the chief executive of the SPA to the Parliament.

**Colin Beattie:** Thank you for that clarification.

**Ross Thomson (North East Scotland) (Con):** My first question is about process. As a new member of the Parliament and particularly of the committee, I would like to help my understanding. Your report came to Parliament two hours before

Parliament went into recess. We have spoken about the importance of transparency, accountability and scrutiny. What is the process for deciding on when reports are presented to Parliament so that they can be properly scrutinised? Who makes the decision as to when we can see the reports?

**Caroline Gardner:** The legislation requires that, for most central Government and national health service bodies, the annual report and accounts together with the auditor's opinion must be laid in Parliament by 31 December following the end of the financial year to which they relate. As Gill Woolman has said, for most public bodies that happens well in advance of that. Some are actually laid before the summer recess, and most are laid in September or October in most years.

Because of the difficulties that Gill Woolman experienced in auditing the SPA's accounts, to which we have referred this morning, the annual report was not signed off by the accountable officer until the Thursday before recess started in the Parliament, and there was a long delay in the process because of that. If I decide that I want to add a report to the annual report and accounts and the auditor's opinion using my powers under section 22 of the Public Finance and Accountability (Scotland) Act 2000, that is done once they are signed off. Section 22 reports are laid in Parliament by the Scottish Government. There is therefore a short delay between the signing of the annual report and accounts and the auditor's opinion and their being laid in Parliament.

We liaised with the Scottish Government on when that was likely to happen to ensure that we managed the process as well as we were able to but, as you say, that happened on the Thursday before the Parliament went into recess for the Christmas holiday.

**Ross Thomson:** So the final decision on the date and time when a section 22 report is laid lies with the Scottish Government.

**Caroline Gardner:** It lies with the Government. We aim to liaise with the Government so that we can alert the committee clerks and the media in our normal way but, formally, the laying is done by the Scottish Government.

**Ross Thomson:** We have been discussing Police Scotland's financial situation. I understand from figures that have been produced that Police Scotland has made a record level of compensation payments. In 2015-16, it paid about £1.27 million in damages; in the previous year, the figure was £1.17 million. The payments cover things such as employment, public and motor liability claims. Given the financial pressure that Police Scotland is under and given that the number of payments is increasing—a claim is made almost every day—

have you looked into the matter? If so, do you have any recommendations about what Police Scotland could do to make progress and to reduce the amount of taxpayers' money that is being paid out in damages?

**Caroline Gardner:** We have not looked at the matter in any detail. Obviously, the level of claims is likely to change from year to year, as it will depend on circumstances.

You might well want to explore the question with the SPA. It is another example of why a policing strategy and a financial strategy are so important. In the past, we have said that trying to balance the budget in the absence of a financial strategy risks making decisions that have unintended consequences. There is at least the possibility that some claims have come from such action. I have not looked at the matter, so I do not know whether that is the case, but it is a risk.

**Ross Thomson:** To follow on from Monica Lennon's questions about staffing and the welfare of staff and officers who work day in, day out, as well as Alex Neil's questions about competencies, I understand that about 1,400 officers have departed from Police Scotland since its creation. That equates to 40,000 years' worth of experience, which is a huge amount. Given that we have

"a shortage of capacity and competency",

it is deeply worrying that we are losing people.

Does that situation highlight something deeper that is going on that means that people want to leave the new Police Scotland set-up? Could Police Scotland do more to recruit and retain staff?

**Caroline Gardner:** I cannot speculate on the motivations of people who choose to leave. However, my 2013 report highlighted that, in the absence of a financial strategy, there was a risk of expenditure being reduced in ways that were not in the force's long-term interests and that, particularly in the context of a no compulsory redundancy policy and a commitment to maintaining a minimum of 17,234 officers, there were limits to how the workforce could be reshaped and how savings could be made from that large budget area.

I apologise for sounding like a stuck record, but a policing strategy and a financial strategy are so important to help decisions to be made for the right long-term reasons, rather than just to balance the budget this year. Does Mark Roberts want to add anything?

**Mark Roberts (Audit Scotland):** I reiterate that that is why, ever since November 2013, we have been recommending the development of a long-term financial strategy that is, particularly in the circumstances, underpinned by a workforce

strategy that looks at longer-term policing needs. I would expect to see some of that in the policing 2026 document, which is expected to be put out for consultation early this year.

**Ross Thomson:** Colleagues have mentioned community confidence in Police Scotland. In my North East Scotland region, the police are struggling to recruit people. When the organisation is stretched staff and resource-wise, it makes it unlikely that local people will see a bobby on the beat or that police officers will be able to attend a community council meeting and provide other services that the community has enjoyed for so long.

There is a recruitment drive in the north-east and we keep getting feedback that the situation is difficult, which I know is the case in other parts of the public sector, too. Do you see scope for Police Scotland to work more collaboratively with other public sector partners? If so, do you have any recommendations on how they could work more closely together to recruit staff? I do not know whether there is a role for the Scottish Government to play in supporting that, whether the issue is to do with affordability or with identifying housing to help to meet the recruitment challenges.

**Caroline Gardner:** I will make two points and Mark Roberts will come in if he wants to add anything. First, a policing strategy provides a great basis for involving, engaging and consulting members of the public, local councils and the range of players that need to have confidence in policing not just at a national level but at a local level. We all expect that the way in which policing is delivered will have to change, for a host of reasons—some are positive and reflect changes in society—but, without a strategy, it is hard to get people to think about what we are trying to achieve and what might be different ways of doing it.

09:45

The second point is that Her Majesty's inspector of constabulary has found that, following the governance review, local engagement has improved and there is better engagement with local authorities and community planning partnerships. That should create a good base for looking at opportunities to work together, to share premises and to perhaps consider the roles that police officers play relative to social workers or others in the criminal justice system. There is something to build on, but it needs to be part of the bigger conversation about the way in which policing will change.

**Mark Roberts:** I am aware that conversations go on at a senior level between Police Scotland,

the Scottish Fire and Rescue Service and the Scottish Ambulance Service about opportunities for shared services. Last year, the Auditor General reported to the committee's predecessor on progress with the integrated Scottish Fire and Rescue Service and identified examples of shared services and shared use of buildings, but she noted that they were relatively few and far between. We expect that to develop further.

**Ross Thomson:** I apologise if this question seems to repeat what has already been asked. The report notes that there is little transparency about spending, and I am not clear about where our £1 billion goes and how it is spent. That is a lot of money. What are your recommendations about how reporting could be improved so that members of the public, the Scottish Government and Parliament can be clearer about exactly how taxpayers' money is being spent?

**Caroline Gardner:** That is a really good question on an issue that I feel strongly about. We should expect a greater level of transparency in the interests of confidence in public spending on public services. We try to think of the issue in terms of the budget cycle as a whole. At the beginning of the process, when the SPA is approving the budget for Police Scotland, there is room for more transparency about what has been approved, what is expected to be spent and what that spending is expected to achieve. At the end of the process, the annual report and accounts should compare what happened with what was expected to happen, in terms of the money, what the money was spent on and what we achieved as a result of that spending—that is, what services were delivered and what progress was made towards the planned outcomes, to use that jargon.

In her annual audit report, Gillian Woolman made the point that there were shortcomings at both ends. The SPA approved a one-line budget for Police Scotland of, I think, £972 million, with very little detail below that on what the money would be spent on, and the early drafts of the annual report and accounts did not provide a clear read-back to the budget that had been approved more than 12 months earlier. Both ends of that process need serious attention to provide the transparency that will allow accountability and build confidence.

**Ross Thomson:** That is absolutely spot on. What teeth do you have to ensure that that happens? I know that you can make recommendations and suggestions, but when we see clearly that improvements can be made for the sake of accountability and transparency, how can we enforce the recommendations? That might be a daft question, but I would like you to help me to understand how we can make the improvements

so that your recommendations do not just sit in the report and are never acted on.

**Caroline Gardner:** We have most leverage in making sure that the annual reports and accounts fulfil the requirements that are set by the financial reporting manual, and also in relation to the responsibilities of the accountable officer and a range of other things. You can see that Gillian Woolman has, through her audit, made sure that the final version of the annual report and accounts meets what it is required to do.

Beyond that, an audit can only publicise what has happened. It is not our job to make people do things, because we need to maintain our independence. The committee plays an important role in providing scrutiny and accountability and pushing for change when that is needed, and the Scottish Parliament as a whole plays an important role in setting standards and setting out an expectation of what it wants to see and in living up to that through its own budget and reporting cycle.

**Liam Kerr (North East Scotland) (Con):** I will talk about people leaving. The full accounts note that exit packages were paid to 127 staff in the relevant year, at a cost of £5.6 million; that one of those packages was worth more than £200,000; and that the average payment was £44,000. Do you have any oversight of why we are spending so much on exit packages? Are they for voluntary redundancies or are they severance packages?

**Caroline Gardner:** I will ask Gill Woolman to talk you through what we are seeing specifically. It is important to set the context. Given that we have gone from eight police authorities and eight boards to a single service, some departures were always expected. Some duplicated services and functions were brought together, and part of the purpose of reform was to generate savings that could be reinvested in making policing more sustainable for the future.

We have in the past talked in the committee about the auditor's responsibility to make sure that the scheme as a whole is fit for purpose and to then look at the individual packages for members of the senior management of the organisation. Gill Woolman can give you a bit more detail about her audit work in 2015-16.

**Gillian Woolman:** I confirm that the Scottish Police Authority and Police Scotland have had a voluntary redundancy and early retirement scheme in place for the past three years. Large numbers of people have left the newly combined organisation as a result. That was an objective at the front end of the establishment of the organisation and has continued to be important for remaining within budget by minimising costs.

There are business cases for each of the arrangements to ensure that there is appropriate

payback over an appropriate period. There is also consideration of business need when looking at who can be released and from where across the organisation. In the early days, we raised at a particular committee meeting the need to ensure that business need had been considered in all cases when key finance professionals were departing under the scheme. This is a fairly standard area of audit work that external auditors have looked at in public sector bodies across Scotland for the past few years, in view of the transformation strategies that many public sector bodies have in place because of financial austerity measures.

**Liam Kerr:** I presume that not all the 127 people who exited did so under the VR/ER scheme. Is it fair to say that some at least may have exited as a result of a negotiated settlement?

**Gillian Woolman:** I am not familiar with those cases. In designing our audit work, we look at areas of materiality in terms of value and nature. We did not come across significant cases of that nature.

**Liam Kerr:** I am getting at something that we have talked about at length—it is “weak financial leadership”, to use the report's words. Some senior financial people have left the organisation in the past year. I presume that they did not leave under the VR/ER scheme—or did they?

**Gillian Woolman:** Any key departures did not happen during the audit year 2015-16, which is the subject of the audit. There was a departure subsequent to that year, which falls into the year 2016-17.

**Liam Kerr:** So that is not picked up in the report.

**Gillian Woolman:** That is correct.

**Liam Kerr:** You are saying that we will have to ask the question next year.

**Gillian Woolman:** Indeed.

**Liam Kerr:** I will follow up Mr Neil's point about IT. I appreciate that you say that the report on the i6 project is due in March. On a more general level, the committee has heard quite a lot about IT. We have heard about the common agricultural policy payments IT scheme; we have heard about the NHS 24 scheme; and now we are hearing about the i6 scheme. Do you have any comment on what confidence we can have in procurement procedures in general? There rather seems to be a pattern.

**Caroline Gardner:** You are absolutely right that I have reported more times than I would want to on significant problems with big IT systems across the public sector. We have reported on a number of individual cases over the past couple of years.

To go back to my early days in this job, we produced a report—in 2013, I think—that looked back at what had gone wrong over previous years. We have revisited that report several times and we think that the recommendations that we made were the right ones. The question is about what is getting in the way of the Government and public services putting those recommendations into effect.

We have said to the committee and its predecessors that we think that some of the changes that the Government has made to strengthen the office of the chief information officer and their oversight of IT projects and programmes across the public sector are the right ones. However, we are not yet seeing the effect of those changes, because many projects started some years ago, given the lead times involved.

I genuinely do not want to prejudge the conclusions that I will come to in my report on i6, but there is no doubt that there is a systemic issue and that the changes that we are seeing have not yet avoided those problems happening.

**Liam Kerr:** I appreciate what you say about the March report on i6, but I presume that there is already an awareness, at least in the police service, of who is responsible for the system not having come into action. What has happened to those people?

**Caroline Gardner:** I would very much prefer to hold off answering that question until you have in front of you my report on what happened. You do not yet have that.

**Liam Kerr:** That is fine—thank you.

**Gail Ross (Caithness, Sutherland and Ross) (SNP):** Good morning. When Police Scotland was created, the aim—you stated it—was to bring everything under one umbrella. Therefore, instead of having eight chief constables, we have one. The feedback that I have had from local inspectors in my area is that having shared services and so on has made things a lot easier. However, it is really disappointing that we are talking about another IT failure in a public body. I look forward to your report in March with some trepidation.

Ross Thomson made an important point. When we look at the report and the money that is being spent—when we look at capital, revenue, the offset and so on—we are talking about a deficit of £188.248 million by the end of this term, which terrifies me. I have no information about why we will get to that stage and what needs to be done to prevent us from getting to that stage, and it is important that we get that information. I know that this is an audit of the SPA and Police Scotland as a whole, but there are still different divisions. Are there any discrepancies between the financial reports from the different divisions?

**Caroline Gardner:** Gill Woolman's audit is of the SPA's accounts as a whole, which include Police Scotland's expenditure. I see the problem as being not in differences in policing around Scotland but in a lack of progress on the long-term planning for what policing needs to achieve and how that will be afforded over the 10 years ahead and on the financial management to ensure that people can manage the budget and make savings that live up to the plan. Gill Woolman may want to contradict me, but I think that what needs to be addressed at this stage is those problems, rather than differences between the divisions and areas across Scotland.

**Gillian Woolman:** I was reflecting on the long-form annual audit report that I present to the board at the end of the audit process. In the 2015-16 report, I reminded the SPA that its main financial objective is to ensure that the financial outturn for the year is within the budget that is allocated by Scottish ministers. I concluded in that report that it was evident that service delivery is not being managed within overall budget availability.

At the time of concluding the report for the year 2015-16, I was also looking at the forecast deficit for the year 2016-17—the current financial year. That also fits in with the Auditor General's overall emphasis on the importance of having a long-term financial strategy in place for managers together to demonstrate how they are managing service delivery within the funds that have been allocated to them.

In the report, I tried to capture the extent to which the two interim chief finance officers have worked hard to engage at the very highest levels of the leadership group across Police Scotland, because it is everybody's decisions that affect how money is spent and it is important that the whole leadership group has a shared sense of responsibility on meeting the main financial objective.

10:00

**Gail Ross:** Who has the final say on where money is spent? For example, if a local force needs a new police car, who signs that off?

**Gillian Woolman:** Importantly—to go back to the observation that we made—according to legislation, a budget for Police Scotland must be set and agreed by 31 March each year. That comes to the SPA board for approval. That budget is at the top of the hierarchy of all the budgets that you refer to and is what budget holders throughout that very large organisation should be working towards. Those budgets should cascade up into a clear budget for the whole of Police Scotland, but what we saw on 31 March was a one-line figure of some £900 million. Given that there was a lack of

detail at the highest level, one would have concerns about the level of confidence in all the management budgets and accounts that are important for local decision makers in knowing what funds are available for the purchase of replacement assets.

**Caroline Gardner:** It might be worth adding that, as Gill Woolman said, the overall budget cascades down to a number of budget holders across the organisation. Alongside it, there is a set of standing orders and a scheme of delegation that gives an individual officer or member of police staff the authority to place orders up to a certain value in certain areas. Each of those budgets is managed at quite a local level, and the job of the financial leadership is to make sure that, when all that is added up, it comes to the overall budget and not more than that. Lots of individual decisions have to be taken by budget holders, and it is extremely important that there is strong oversight to ensure that all that holds together for the organisation's budget as a whole.

**Gail Ross:** I like the fact that you said that that should happen, but it obviously has not been happening. Police Scotland has gone over the top-line budget, but we have no way of identifying where there has been overspend lower down in the organisation. It would be useful for us to know that.

With the convener's indulgence, I have a comment to make about the "Review of governance" section of the report on page 8, which talks about improving interactions,

"in particular with local elected representatives."

I am glad to hear that such interaction is improving. In my five years as a councillor, we have had extremely good local interaction with our force. We have a central committee that it comes along to. It is available to come along to community safety meetings, community partnerships, area committees, ward forums and community councils. We feed our objectives into the local policing plan. I just wanted to put on record the fact that, in my area, the force's interactions are excellent. I do not know whether you have any comment to make on that; it is not really a question.

**Caroline Gardner:** We were also pleased by HMI's conclusion that local engagement had improved. I think that he made the point that it is a case not just of telling people what policing is doing at a local level but of listening to what the local priorities are, getting them into the local policing plan and making sure that they can influence the national priorities. That is a two-way street.

**The Convener:** While we are on governance, the SPA chair's governance review contained 30

recommendations for the SPA, Police Scotland and the Scottish Government. I think that 12 of them had been implemented by December. Do you know how many recommendations were aimed at each of the three bodies and how many of them have been implemented?

**Mark Roberts:** Off the top of my head, I am afraid that I cannot remember what the distribution of the recommendations was. Some of them were made to several bodies and were not necessarily directed to a single organisation. According to the most recent update, which we received shortly before our report was finalised, 12 of the 30 recommendations had been implemented, some of them had been consolidated—that is why that figure does not give a totally clear impression of what is happening—and some of them will continue to be implemented.

**The Convener:** Do you know whether a date has been set for the implementation of the outstanding recommendations?

**Mark Roberts:** No, I do not, but I would expect the review by Her Majesty's inspector of constabulary in Scotland to look at that later in the year. He has committed to carry out an inspection of the Scottish Police Authority, which will undoubtedly pick up on the issues that were raised in the governance review.

**Liam Kerr:** Exhibit 1 in the report, which is over the page from paragraphs 18 to 20 in the section headed "Financial sustainability", shows projected SPA deficits for the period to 2020-21 totalling nearly £200 million. This year's deficit is £17.5 million and next year's is £59.5 million. Can you give any indication of why the SPA is operating with that deficit? What are the implications of that? Could it have an impact on day-to-day policing?

**Caroline Gardner:** I will start by telling you what the projection is and I will then ask Mark Roberts to answer those specific questions. In the absence of the SPA having produced its financial strategy, we thought that it was important, for public accountability and for the committee's scrutiny, to have a sense of the scale of the problem. Those are our projections based on current levels of planned expenditure, Government funding for policing and some of the known pressures, which we highlight in paragraph 19. It boils down to a recognition that, as Gillian Woolman said, we think that the SPA is not managing its operations within the expenditure budget that is agreed for it. We are trying to give you an indication of the scale of the problem that needs to be addressed.

I ask Mark Roberts to tell us a bit more about the content.

**Mark Roberts:** I do not have a great deal to add to that. As the Auditor General said in her opening comments, we think that the projections are fairly

conservative. We have been in discussion with the Scottish Police Authority on the development of its long-term financial strategy, which will underpin the policing 2026 programme. The projections in the report are of a similar magnitude to those that the SPA has been looking at. The SPA uses slightly different underpinning assumptions on, for example, cost of living rises and staff and officer costs but, broadly speaking, the projections are of the same order of magnitude.

**Liam Kerr:** You said that they are conservative projections. By that, do you mean that the situation could be worse and that you have underplayed the scale of the problem?

**Mark Roberts:** We have made assumptions that there will be a continuation of the reform funding that the Scottish Government has provided to the Scottish Police Authority to date. Obviously, it is for the Scottish Government to decide whether that continues, but our assumption has been that it will extend for the next five years. We have also reflected the Government's commitment to maintain a real-terms increase across the duration of the parliamentary session, and we have made a fairly conservative estimate of what that increase will be.

**Liam Kerr:** The deficit in the current year is £17.5 million and, on your projections, the figure pretty much trebles for next year. What are the factors behind that assessment? Does the Government's draft budget have any role in that?

**Mark Roberts:** It reflects the details of the draft budget that was published just before Christmas. As the Auditor General said, we have extrapolated on the basis of existing costs and income, using Office for Budget Responsibility projections of future changes. It is an extrapolation from what we know about the current year, what we know about the budget and some assumptions about what might happen in future.

**Liam Kerr:** Police Scotland is expected to achieve £1.1 billion of efficiency savings by 2025-26. How do you expect the considerable deficit figures to impact on the efficiency savings?

**Caroline Gardner:** I will start off with a "New readers start here" point for new members of the committee—which is all of you, apart from Mr Beattie. In my report in 2013, I looked at the overall approach to police reform at that stage. That report made the point that the £1.1 billion was the figure that was in the outline business case when the reform programme was first brought to Parliament. It has never been updated to take into account changes that have happened since then.

In previous sessions—with the committee's predecessor committee—the SPA gave assurances that savings had been identified that

would generate the £1.1 billion saving across the period of the reform programme. We have been making the point since November 2013 that other cost pressures can come into the mix at the same time, which is one of the reasons why the financial strategy is so important.

The 2016-17 forecast deficit comes from the SPA's own forecast as at October 2016 and we know that the revenue overspend is attributed to an overspend in officer and staff pay costs, and to the slower than planned progress in achieving savings in some areas. It might be the case that the £1.1 billion saving is achieved over the period, but there is still a financial gap between the resources that are available and what is needed to deliver policing. Again, that is why a policing strategy that is underpinned by a very strong financial strategy is so important.

**Liam Kerr:** We are looking at a cumulative deficit of £200 million in the resources that are needed for policing. With such a deficit, the SPA either delivers less service to avoid spending money that it does not have, or it spends the money, delivers the service and has a financial hole of £200 million. Who plugs that hole if the latter decision is taken? Does the Scottish Government fill it?

**Caroline Gardner:** If the funding gap that we are forecasting happens in practice—it is only a forecast—the only organisation that can plug the hole is the Scottish Government. That would require difficult decisions to be made about other areas of spend, or about using the new taxation powers or the revenue borrowing powers that are in place.

At a level below that, it is not good practice for any public service or public body to operate without a financial strategy for how it brings its income and expenditure in line while delivering what it is expected to deliver. Having a clear line of sight that says either, "Yes, we can do it and here's how" or, "No, there is a real problem and we need to go back and engage with Government about it" is the problem that I am bringing to the attention of the committee.

**Colin Beattie:** I am looking at paragraph 12 of the report. The capital that was allocated to the police was £38 million and there was a £19.4 million underspend, which is a huge proportion of the budget. Was that a question of timing in disbursement, or was it not spent? If not, what was it not spent on?

**Gillian Woolman:** One of the contributing factors to the underspend was that the SPA stopped a particular IT project from progressing during 2015-16; the same project that was mentioned earlier.

**Colin Beattie:** Was that the major contributing factor?

**Gillian Woolman:** I have to say that I do not know that off the top of my head.

**Colin Beattie:** I would be interested in a breakdown of the underspend in order to see what was not done.

We have been talking about reform funding. In paragraph 13, the report states:

“a proportion of reform funds has been incorporated into recurring revenue expenditure.”

Was that done with the approval of the Government?

**Caroline Gardner:** Our understanding is that it was.

**Colin Beattie:** The fact that those funds have gone into recurring revenue expenditure masks the size of the deficit. Do we know the amount of reform funds that went into revenue?

**Caroline Gardner:** I will ask Gillian Woolman to give you that figure in a moment. It is included in the annual report and the accounts this year.

I entirely concur that the purpose of the reform funding was to enable reform to take place and to bridge the funding gap. There has been £200 million-worth of reform spending so far and it is not clear what reforms have been achieved by that.

**Gillian Woolman:** I do not have the exact figure to hand, but there are three elements to how the reform moneys have been applied. One area is with respect to VAT, another area is with respect to VR/ER—the voluntary redundancy, early retirement scheme—and the third area was intended for reform activity.

In discussion with key finance officers in the preparation of the accounts, and, as we saw, a particular amendment with greater transparency in the annual accounts, there was recognition that a lot of the third element of reform moneys was spent on current staff. Those were staff who were in post and who had always been in post, but who were working on activities that will lead to reform in the future. That was the discussion that was held with the Scottish Government to receive its approval for the application of reform moneys.

**Colin Beattie:** Are you saying that, although reform funds went to recurring revenue expenditure, the money was used—however tenuously—towards the reforms?

10:15

**Gillian Woolman:** The staff who were funded through those reform moneys were working on activities that will lead to reform in the future.

**Colin Beattie:** I presume that those staff are going to stay there and be a recurring cost in the future.

**Gillian Woolman:** They are currently a recurring cost.

**Colin Beattie:** Thank you.

**The Convener:** Is it common for the Scottish Government to allow capital budget underspends to be offset against revenue overspends?

**Caroline Gardner:** It is not common.

**The Convener:** Would approval for that have been given at the ministerial level?

**Caroline Gardner:** I think that it was given at official level within the accounting requirements of “The Financial Reporting Manual 2016-17”.

**The Convener:** Would the capital budget have been deliberately underspent to reduce the revenue overspend?

**Caroline Gardner:** You would need to address that question to the SPA, but you have heard from Gillian Woolman that the major contributor to the underspend was the cancellation of the i6 project; therefore, not.

**The Convener:** Did it result in certain capital projects not being pursued?

**Caroline Gardner:** I think that the i6 project was cancelled for reasons that were to do with not the finances but the likelihood that what was required could be delivered at a reasonable cost.

**The Convener:** Did the underspend result in any other capital projects not being pursued?

**Caroline Gardner:** I do not think that we are aware of any other projects for which that was the case.

**The Convener:** But it is possible.

**Caroline Gardner:** It is possible.

**The Convener:** We can pursue that when we have the SPA before us.

I know that you will report on i6, but I will ask this question anyway, in case you can answer it now. Has the SPA provided figures for any projected savings that the police expected to realise during this and future years as a result of efficiencies arising from i6?

**Caroline Gardner:** There was a business case for i6 that set out both the expected costs and the benefits, which will be part of the report that I will bring to you in due course.

**The Convener:** Okay. What steps is the SPA taking to develop information and communication technology to achieve at least some of the hoped-

for efficiency savings associated with the i6 project?

**Caroline Gardner:** You would need to ask that question of the SPA.

**The Convener:** Okay.

**Gail Ross:** How much does Police Scotland pay in VAT?

**Caroline Gardner:** I think that it is around £20 million a year.

**Gail Ross:** Every year?

**Caroline Gardner:** Yes.

**Gail Ross:** Do other police forces in the UK pay VAT?

**Caroline Gardner:** As far as we are aware, they do not.

**Gail Ross:** No?

**Caroline Gardner:** No.

**Gail Ross:** Police Scotland is the only police force in the UK that pays VAT.

**Caroline Gardner:** Yes, as far as we are aware.

**Gail Ross:** Thank you.

**Alex Neil:** I have a quick question for you, Auditor General. You may have mentioned this but I have not picked it up. You referred to a cumulative loss of around £200 million.

**Caroline Gardner:** It is a shortfall rather than a loss.

**Alex Neil:** Okay. That is up until 2021, is it?

**Caroline Gardner:** Yes.

**Alex Neil:** What is the profile of that shortfall for each year from this financial year up until then?

**Caroline Gardner:** You will find that in exhibit 1 on page 8 of my report. There is a short table that shows the projected shortfall in each of the five years.

**Alex Neil:** Could you read it out for the *Official Report*, please?

**Caroline Gardner:** Of course. I am happy to help the committee. In 2016-17, the projected deficit is £17.5 million; in 2017-18, it is £59.666 million; in 2018-19, it is £45.835 million; in 2019-20, it is £37.436 million; and in 2020-21, it is £27.811 million. That gives a forecast cumulative deficit of around £188 million.

**Alex Neil:** Particularly from 2017-18 onwards, that is bound to have an impact on service provision and performance.

**Caroline Gardner:** If the SPA and Police Scotland do not find a way of addressing that

projected shortfall through the policing strategy and the financial strategy, it is hard to see how they can avoid its having an effect on the delivery of policing.

**Alex Neil:** If they cannot come up with the resources to address that shortfall, will you make an assessment in one of your reports of the impact of those shortfalls on performance and service delivery?

**Caroline Gardner:** I will certainly report to Parliament and to the committee at the end of the 2016-17 financial year on what the current position is, and I will continue to do that for as long as I think that there is something to be brought to the committee's attention.

As for looking at the impact on performance and service delivery, I will continue to work closely with Her Majesty's inspector of constabulary to ensure that we are playing together to the best of our strengths and professional expertise so that Parliament has that picture.

**Alex Neil:** In addition to seeing the chair and the chief executive of the SPA and the chief constable, we should have a separate session with the director general for justice, because the figures are horrendous in respect of their impact on the provision of police services.

**The Convener:** I agree that they are very worrying, Mr Neil. Later in the meeting, we will decide who to invite to discuss the report, if members want to invite people to do so. I think that we do.

This is the third year in a row that you have prepared a section 22 report on the SPA, Auditor General. Have you ever prepared three reports in a row on any other public body?

**Caroline Gardner:** I certainly have not prepared reports in consecutive years in which we have had to report on such a relative lack of progress in such a significant area. I hesitate to give an absolute answer to that question, because I sometimes report very positively on progress, but that is clearly a different situation. I said in the report and in my opening remarks that this situation is very unusual and that I think that it is unacceptable.

**The Convener:** Okay. We will take what you have said to the relevant people when they come in.

This is also the third consecutive year in which the SPA's accounts have received a modified conclusion. The ramifications of that are not 100 per cent clear. Other than reputational risk, what are the consequences of that?

**Caroline Gardner:** The purpose of the auditor's report is to provide assurance to Parliament and

people throughout Scotland that public money is being well spent. As Gillian Woolman said, after a lot of hard work the annual report and accounts received an unqualified opinion—they presented a true and fair view—but, in each case, there has been a particular area in which she, as the auditor, has required to report by exception where the expectations of good financial management have not been met in a very specific way. We bring those matters to the committee's attention, and we expect the audited body to put its house in order. As we have said, progress on doing that has been slow.

**The Convener:** Is it your opinion that, under the SPA, public money is not being well spent?

**Caroline Gardner:** It is clear that the levels of financial management that we have seen so far do not meet my expectations as Auditor General or the expectations that are set out by the Government in the financial reporting manual and other sources for public bodies. That is why we have the report.

**The Convener:** Should the public be concerned about that?

**Caroline Gardner:** The starting point for me in doing my job is that it is very important that public money is spent well and accounted for well. That is a precondition for trust in public services and for a society that raises tax in a way that improves the lot of everybody who lives here. The SPA is an important public service, and so far it has not been able to demonstrate that it is living up to the standards that are expected of people who are responsible for spending public money.

**The Convener:** I thank all three witnesses very much for their evidence and ask them to stay seated for agenda item 3, please.

## Section 23 Report

### “Superfast broadband for Scotland: A progress update”

10:22

**The Convener:** Under agenda item 3, we will consider a response from the Scottish Government on the Auditor General for Scotland's report entitled “Superfast broadband for Scotland: A progress update”. Are members content to note the response and close our consideration of the report?

**Members** *indicated agreement.*

**The Convener:** Thank you very much. The committee will now move into private session.

10:23

*Meeting continued in private until 10:34.*

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

---

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

---

All documents are available on  
the Scottish Parliament website at:

[www.parliament.scot](http://www.parliament.scot)

Information on non-endorsed print suppliers  
is available here:

[www.parliament.scot/documents](http://www.parliament.scot/documents)

For information on the Scottish Parliament contact  
Public Information on:

Telephone: 0131 348 5000

Textphone: 0800 092 7100

Email: [sp.info@parliament.scot](mailto:sp.info@parliament.scot)

---



The Scottish Parliament  
Pàrlamaid na h-Alba