



OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit and Post-legislative Scrutiny Committee

Thursday 29 November 2018

Session 5



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PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE

27th Meeting 2018, 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)

*Bill Bowman (North East Scotland) (Con)

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

*Alex Neil (Airdrie and Shotts) (SNP)

*Anas Sarwar (Glasgow) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Leslie Evans (Scottish Government)

Caroline Gardner (Auditor General for Scotland)

Leigh Johnston (Audit Scotland)

Alyson Stafford (Scottish Government)

Claire Sweeney (Audit Scotland)

Gordon Wales (Scottish Government)

CLERK TO THE COMMITTEE

Lucy Scharbert

LOCATION

The Adam Smith Room (CR5)

Scottish Parliament

Public Audit and Post-legislative Scrutiny Committee

Thursday 29 November 2018

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Jenny Marra): Good morning and welcome to the Public Audit and Post-legislative Scrutiny Committee's 27th meeting in 2018. I ask everyone to switch their electronic devices off or to silent mode to ensure that they do not affect the committee's work.

Agenda item 1 is a decision on taking business in private. Do members agree to take items 4 to 6 in private?

Members indicated agreement.

Section 22 Report

"The 2017/18 audit of the Scottish Government Consolidated Accounts"

09:00

The Convener: Item 2 is consideration of the section 22 report "The 2017/18 audit of the Scottish Government Consolidated Accounts". I welcome from the Scottish Government Leslie Evans, permanent secretary; Gordon Wales, chief financial officer; Alyson Stafford, director general Scottish exchequer; and David Rogers, director, constitution and Cabinet. I ask the permanent secretary to make a brief opening statement.

Leslie Evans (Scottish Government): Thank you for the opportunity to provide evidence on the Scottish Government's consolidated accounts for 2017-18. I am pleased that the Auditor General's opinion is unqualified for the 13th year, especially given the significant additional complexity in the Government's finances that the Scotland Act 2016 has brought about, and I am encouraged that the Scottish Government has been recognised for its good record of financial management and reporting.

Borrowing, the Scottish reserve and significant tax-raising powers and their associated block-grant adjustments for the devolved and assigned taxes are just some of the new features of public spending in Scotland, and they are unique in the United Kingdom devolved landscape. However, the journey is not yet complete, as work continues on areas such as the assignment of value added tax and the devolution of air passenger duty. We will have more powers that impact more directly on more people, so we can all expect the picture to grow ever more complex in the years ahead.

Given that, it is even more important that the Parliament and the public understand how money is raised and spent and what the resulting assets and liabilities are. Transparency is critical to that understanding, and the budget process review group has been helpful in determining the approach to scrutiny and defining a range of new publications, including the first medium-term financial strategy, the fiscal framework outturn report and publications that are aimed at accessibility, such as "Scotland's Finances: Key facts and figures", which was published alongside the budget. The annual accounts and other existing publications, such as the Scottish consolidated fund account, have been expanded to include additional levels of disclosure on areas such as borrowing and investments.

Such changes have increased transparency about existing and new powers, but there is more

to do. We intend to publish by March next year a tailored-for-Scotland consolidated public account. That is challenging, not least because of the large number of bodies that it embraces, and we have gathered data from the financial year 2016-17 to shape and inform our approach. That new publication will significantly expand the information that is available on Scotland's devolved public finances, and we look forward to engaging with the committee, Audit Scotland and other interested parties as we consult on the publication's form and content early in the new year.

The publication of a new national performance framework in the course of the year resulted in our reviewing how we report on performance and, in particular, on the link between spending and outcomes. We will continue to engage with Audit Scotland as that work develops.

We have made progress. However, in her report, the Auditor General for Scotland made recommendations for further improvements in transparency, particularly on capital borrowing and the Government's intervention in private companies. As was outlined in my letter to the committee of 23 November, we accept and will act on those recommendations.

I welcome external scrutiny, but internal scrutiny is important, too. The changes to the tax and spend landscape demand appropriate governance arrangements to challenge our work in the Scottish Government. As the Auditor General acknowledged, I changed arrangements during 2017 to meet those additional demands; the changes included the creation of and appointments to new roles, such as the director general Scottish exchequer and the chief financial officer. I am strengthening internal scrutiny further; interviews are taking place to appoint additional non-executive directors, with a particular focus on areas such as tax, accounting and digital. I shall monitor the effectiveness of those arrangements and look forward to hearing Audit Scotland's views in its report on the 2018-19 accounts.

Convener, I am sure that I do not need to tell you or the committee that these are challenging times, not least for the Scottish Government and the civil service in responding to current events while maintaining competence in the day-to-day delivery of outcomes for the people of Scotland. As that includes the need to be open, capable and responsive in our transparency agenda, I welcome the profile that the consolidated accounts and our other publications are being afforded.

I am happy to answer questions that you and other committee members might have, convener.

The Convener: Thank you very much, permanent secretary.

Bill Bowman (North East Scotland) (Con): In your letter to the committee, you said that you

"do not believe that the Accounts ... are the best place for an extensive review of the Government's ... achievements",

and you suggested that you might instead signpost

"readers to ... more detailed sources of information".

Do you agree that, as I think you said in your opening statement, the consolidated accounts should be extended to include all the assets, liabilities and operations that you have responsibility for or stewardship of?

Leslie Evans: I and my colleagues can say a bit more about our plans to produce a consolidated account, which will cover devolved public spend in Scotland.

Bill Bowman: Are you suggesting that more detailed information might be placed somewhere other than the however many pages of the financial statements? If so, is it helpful to direct individuals to multiple sources of information rather than one?

Leslie Evans: In short, no. In making our performance reporting more transparent and accessible, we are required to look at not only the amount of information that we produce but where we locate it. We are working on two proposals. We are looking at where the accounts might give us a bit more of an opportunity to provide information, but it is more likely that we will look to consolidate information in websites that we already use.

The committee asked about performance, but we need to differentiate between the Scottish Government's performance as an organisation, information on which will probably always be found on the Scottish Government's website, and progress on outcomes in the national performance framework. The Scottish Government's performance is its own responsibility and the website is the right place for us to go into detail about how we are doing in that respect.

As for the national performance framework—as I said in my opening comments, it has now been refreshed—responsibility for that lies not only with us but with a large number of public authorities, not least since the passing of the legislation that places such a duty on them. We therefore need a website that takes account of multiple inputs from a number of authorities. We have curatorial responsibility for the national performance framework but, given that Scotland owns the framework, it is important that people can go to one place if they want to look at our progress.

That is the work that we are undertaking. I can say a bit more about it and who we are involving in the process if the committee requires.

Bill Bowman: I seek your assurance or confirmation on one matter. Information that you put into the consolidated accounts is subject to some form of scrutiny by Audit Scotland, because it is associated with the financial statements. However, if you spread information around other sources or websites, will the same scrutiny from Audit Scotland be required for that?

Leslie Evans: We are working—and will want to work more closely—with Audit Scotland on the scrutiny that is available to the national performance framework and where the website lends information for that purpose. However, we are looking at two distinct but linked websites, both of which will be referenced with and have a relationship to our accounts. One site will deal with progress against the national performance framework, which covers all of Scotland and a number of public authorities, while the other—the Scottish Government’s website—is, as you would expect, where the Government’s bread-and-butter performance will be set out. The two sites need to link and connect with each other.

Bill Bowman: I would expect that, if you referred to something from the financial statements, the auditors would scrutinise that.

Leslie Evans: Yes, and they will hold us to account on the national performance framework, too.

Anas Sarwar (Glasgow) (Lab): You mentioned in your opening statement the recommendations on giving loans to private companies and on the relationship with private companies. I welcome your comment that you accept in full all the Auditor General’s recommendations about those loans.

The issue is transparency—not only transparency in the Parliament but transparency with the public about how decisions are made, the level of any investment and the potential return on any investment. Will you detail what framework you have in place or what plans you have to put a framework in place on, first and foremost, how decisions are made about money going to private companies? What plans do you have to provide transparency on the investments that the Scottish Government has made?

Leslie Evans: We have quite an extensive framework in place, which includes UK and other legislation, our own economic policies and supporting documentation—the economic strategy, for example—and a realm of guidance, procedures, expertise, oversight and scrutiny, which are all brought into play in discussions to support sound Scottish Government decision making on investment in private companies. That is all subject to the Scottish public finance manual, as you would expect.

We need to look at two elements. We need to be clear about why and where the Scottish Government might invest—we would go to an economic strategy or our manufacturing action plan for that—and about how the Scottish Government might invest, which is guided by the Scottish Government’s medium-term finance strategy. That strategy asks pretty searching questions of us, as it should, about the business case, due diligence, benefits, affordability, risks and so on.

We need to bring all that together to ensure that people are aware of the considerable evaluation, testing and due diligence that take place. That information is all there, but your point is about bringing it together in a framework. There might be an existing vehicle for accommodating that information and making clear to people the decisions that we are taking and the granular activity that takes place before we make any decisions on investment in private companies. Gordon Wales might want to say more about that, because he has been very involved in the processes. The Scottish public finance manual might be the place where we could lay out coherently, for everybody to see and understand, the processes that need to take place and the hoops that need to be jumped through before we take such decisions.

Your second question was about publicly available information and the role of Parliament. As you know, we make numerous loans and investments through a range of tools and processes, and we report on them through schemes that are approved by the Parliament as part of our budget. You will be aware of some of them—there are too many to mention here.

As the committee has said, a small number of investments that have a higher profile are likely to be in the public interest to disclose—that includes their levels of financial risk. I am mindful, as are others, of the important role that the Scottish Parliament plays in that, which is one reason why the Cabinet Secretary for Finance, Economy and Fair Work informed the Finance and Constitution Committee about both investments and loan processes that were under way earlier in the 2017-18 financial year.

No concerns were raised about that process, but we need to be clear about when circumstances require us to ensure that the Parliament—and, through Parliament, the public—is aware of such investments. There will be only a small number of them, but we will need to consider the criteria of maintaining commercial confidentiality, which you may want to talk about a bit further, legal obligations and—most important—the risks to the value and the intended impact of the investment. As I said, Gordon Wales

may wish to talk about the two investments that were probably in your mind when you asked your question.

Anas Sarwar: I was going to raise two specific examples: Ferguson Marine Engineering Ltd and Burntisland Fabrications Ltd. Can you give any details about the extent of those investments, what our equity stake is, what our expected return is, whether we have any plans to make any further investment—any further loans—or whether we plan to sell off those assets?

Leslie Evans: You will appreciate that a level of commercial confidentiality is still operating. That is one of the reasons why we spoke to the Finance and Constitution Committee earlier on. We are quite early on with both those investments and decisions. However, Gordon Wales might wish to say a little bit more about our process for taking decisions and how Parliament will be involved in that.

Gordon Wales (Scottish Government): There are no plans to sell off or accelerate the repayment procedures that are already in place for both of those investments. You will be aware that there was a fair amount of disclosure in the accounts about the extent of both of the loan arrangements that were put in place.

09:15

The question is not whether information about the investments should go into the public domain but when would be the most appropriate time for that. That goes to the two specific points that were mentioned by the permanent secretary: commercial confidentiality in any legal agreements that might have been entered into; and, more specifically, situations such as this that can often be fairly risky. In the two examples, BiFab in particular was significantly in the public domain. There is a question about exactly when that information goes into the public domain and whether putting it into the public domain earlier places the Government's investment at more risk. It is always difficult to know when to do that, but it is often dictated by things like the ability to win contracts. Both organisations are in processes to be awarded contracts, so it would be more appropriate to put more information into the public domain once those processes are over.

Anas Sarwar: Would you accept that there is an issue around transparency, particularly as we are talking about public money—taxpayers' money—and the public having a right to know what companies they are investing in, how much they are investing and when and if they are likely to get a return on their investment? Is there not also a risk that it might appear that decisions are being made for political or other reasons, not

purely financial or economic reasons, because of the lack of full transparency and of a publicly available framework? I do not mean with the particulars that we are discussing, but the principle more broadly.

Gordon Wales: I can see why you might say that. A key issue is that when the Government acts to intervene in private companies, it has to do so in the same way as a commercial investor would. Under the market economy investor principle, which is set out in the European Union state aid framework, we are required to act as a private investor would. It is not the case that the Government is able to inject whatever funds it feels are appropriate; it has to do so in the same way as a commercial investor. That relates to such things as the amount of the investment, the expected return and the duration over which the lending takes place, which are done on an entirely commercial basis.

The accounts are normally the appropriate vehicle to disclose that; you will have seen from the 2017-18 accounts that a fair amount of information has already gone into the public domain through them. Unless an appropriate parliamentary statement is required, the accounts are normally the primary vehicle, and would be the vehicle through which we would disclose loans.

As the permanent secretary also said, the Government makes a significant number of loans every year. I accept that there has been quite an emphasis on those two particular loans, but we normally do not disclose the detail of every loan that goes to every individual or company. We believe that the public interest was best served by singling out those two examples and that is why the disclosures in the accounts are as they are.

Anas Sarwar: Further to that, do you accept that there is at least the risk of political interference with regard to decisions about which companies get loans and which do not?

Gordon Wales: We have talked briefly about a framework. The Government is required to act in the same way as a commercial investor would in that space. It is also important to bear in mind the fact that regulatory, proprietary and value for money considerations are incumbent on the accountable officer who makes the advice and, indeed, on the permanent secretary as the principle accountable officer in that space. Those all require the senior civil servant who makes the recommendation to the minister to do so within that regulatory framework and say whether it is legal and the Government has powers to do it, whether it is the type of thing that Parliament would expect funding to be utilised for, and whether it demonstrates value for money for the public purse. There are comprehensive

assessments to be made on all three things before the advice goes to the relevant minister.

Anas Sarwar: On that point, I can understand the hesitancy in publishing all that information while it is still commercially sensitive. However, once it is no longer commercially sensitive because we have a return on our investment and we have moved on or no further investment is planned, would you be happy to publish all that information, communication and analysis?

Gordon Wales: We would want to discuss that with ministers. The other thing on which we would want to be clear is whether there are any legal requirements that mean that we could not put that information into the public domain—

Anas Sarwar: But, in principle, yes.

Gordon Wales: In principle, yes.

Leslie Evans: Gordon is right—in principle, yes.

I take your point about transparency and public interest. Bringing together the onerous sets of responsibilities and tests that we have to pass into one place so that people can see and understand what needs to be gone through before any decisions are taken is an important part of increasing transparency.

I know that you are talking about specific instances, but bringing that information into the public domain might assure people that there is limited opportunity to take anything other than very well-informed and well-tested decisions on such investments.

Anas Sarwar: Thank you, permanent secretary.

I have a final quick question about the 2 Sisters Food Group plant, which is relevant to my region. Financial support was provided to the plant that set out a timeline for its continued existence and operation. That has not been delivered. What is the process for recovering money that has been given to companies that have not gone on to fulfil their promises?

Gordon Wales: Any loan arrangements that are in place are legal undertakings that are entered into by the companies involved, so the Government would be expected to recoup those investments at a later point. If circumstances meant that the company was in administration, or some other factor meant that it was not able to pay back the amount, the Government would fall into line in the same way as any other creditor.

Liam Kerr (North East Scotland) (Con): How does the Scottish Government decide when to inform the Scottish Parliament about the provision of loan facilities?

Gordon Wales: It is important to recognise that there is no specific point in the process to do that

from the point at which a minister makes a decision to provide loan facilities. It is generally dictated by the circumstances associated with individual cases. For example, if we look at when the information on BiFab entered the public domain, that surrounded what was clearly a very public campaign. The then cabinet secretary decided to make a parliamentary statement on what was happening in the company at the time.

As I have said, the normal vehicle through which such information would enter the public domain would be the consolidated accounts and the disclosures associated with those accounts, unless ministers feel that it is appropriate to put it into the public domain earlier.

Liam Kerr: To be clear, are you saying that it is entirely the minister's decision whether Parliament ever gets to hear about a matter at an early stage?

Gordon Wales: Obviously, ministers take advice from civil servants about whether it is important to put information into the public domain at an earlier point.

It is difficult to be precise about every single case, because the circumstances are very different. It is important to reflect on my earlier point about the commercial sensitivity associated with where a company is at as far as its cash flow is concerned at a particular time.

One matter that we must consider carefully is whether putting something into the public domain at a particular time might have adverse implications for the company's finances. It is always a fine balancing act.

Liam Kerr: I turn to the issue of capital borrowing. The Scottish Government borrowed £450 million of capital funds this year, which I think is its annual limit. How does the Scottish Government decide on the level and type of capital borrowing? What purposes has it been used for this year?

Leslie Evans: Gordon Wales might want to say something specific about the infrastructure projects that have been funded or initiated through the £450 million of funds.

The borrowing amount is agreed in advance with Her Majesty's Treasury. That includes clear articulation of the projects, the infrastructure investment that the borrowing will reflect and their associated amounts—that is, what it will be spent on and how much it will cost.

The projects also have to meet a threshold test for being assets for a 25-year period. The borrowing is done over a particular period, and it has to be demonstrated that the assets will be assets for a duration of at least 25 years and possibly more. That supports our request for £450 million over 25 years. We have to go through

some very specific tests with HM Treasury on the amount of money that we are funding.

Clearly, we are also looking at infrastructure plans, the economic plan and a whole range of other policy areas relating to where and when we are spending a particular investment. Gordon Wales or Alyson Stafford might want to talk a bit more about the background to some of the investment projects.

Gordon Wales: I can do that. There were nine specific projects. Would it be helpful if I told you what they were?

The Convener: Yes. It would help if you could do that quite briefly.

Gordon Wales: The Forth replacement crossing was £75 million; the trunk road programme of A9, A90, A96 and A737 was £116 million; the northern isles ferry service vessels was £36 million; and Forth Valley College was £10 million. For national health service hospital buildings, Balfour hospital was £47 million; Gartnavel hospital was £10 million; Dumfries and Galloway royal infirmary and Edinburgh sick kids was £70 million; Raigmore theatres was £11 million; and NHS Scotland estate enhancements was £74 million. That is the total of £450 million.

Alyson Stafford (Scottish Government): The planned level of capital borrowing was set by Scottish ministers at the time of setting the 2017-18 budget. As the committee will know, because it received the reports on the major capital projects, a whole range of financing tools are used for the overall investment programme. Capital borrowing is one, and that is very much dictated and constrained by the fiscal framework—the maximum limit of £450 million a year. However, there is other revenue-financed investment, and the block grant on capital, too. There is a mix of funding arrangements that cover the whole infrastructure programme. In 2017-18, ministers chose to use the maximum borrowing amount so that they could continue investment in Scotland's infrastructure.

There is then a decision about what is used and how it is used. This is all about managing the cash flow of grants that go out to the various bodies. As Gordon Wales has mentioned, the bodies receive the money as grants. They do not need to repay it—it is all part of the overall management of Scotland's finances that the Scottish Government will repay on the loans. For managing cash flow, the timing of that borrowing in that year is left as late as possible. As you might appreciate, if you are thinking of your own personal loans or mortgages, the later in the year that you leave borrowing, the lower the interest that has to be paid on that borrowing that year.

Borrowing in 2017-18 used the national loans fund. The terms that were secured were the best value terms available to us under the constraints of the fiscal framework for 2017-18.

That gives you a rounder picture of the situation.

Liam Kerr: Following on from that, permanent secretary, in your opening statement you talked about accepting the recommendations that were in the report, one of which is that the Scottish Government needs to finalise the policies and principles within which it manages its borrowing powers. Do you have any indication of when the Scottish Government will finalise those policies and principles?

Leslie Evans: We have those policies and principles at our fingertips. To go back to an earlier point, part of our endeavour is to bring the policies and principles together so that they are clearly understood and recognised by a wider audience. Alyson Stafford might like to talk about what would make up that framework.

Alyson Stafford: The key thing is about where this is all brought together. One of the recommendations that came out of the work of the Government and the Parliament on the budget process, and the Parliament's budget process review group, concerned the medium-term financial strategy. In May this year, the Scottish Government published its five-year financial strategy, "Scotland's Fiscal Outlook". The strategy will be refreshed in spring 2019 and it will bring all our policies together. That is where the capital borrowing policies will also be placed. In bringing that together, we will take full account of the Auditor General's recommendations.

Mr Kerr asked about finalising. All fiscal policies, including the policies on the use of borrowing, have to be kept under review, in the light of our experience and changing economic circumstances, to ensure that they continue to be fit for purpose. The intention is that the approach set out in the medium-term financial strategy in spring 2019 would be maintained for some time.

09:30

Alex Neil (Airdrie and Shotts) (SNP): Where does Gordon Wales fit into the organisation chart, because he is missing in the one I have before me?

Leslie Evans: He does not answer to Alyson Stafford, although, as you can see, there is clearly a very effective working relationship between them. He is responsible to the director general who looks after the corporate responsibilities and functions of the Government.

Alex Neil: I want to follow up on what Anas Sarwar said about housing. For many years, under

successive Administrations, we have supported individuals to be able to buy their own home through shared equity schemes. The cumulative value of the Government's equity in housing must now be into billions rather than hundreds of millions. What is the cumulative outstanding value of that investment?

Secondly, are we sure that every time somebody sells a house with shared equity, we recover the money?

Thirdly, I know that we did not used to, but do we charge any interest on that shared equity that is relevant for other purposes?

Leslie Evans: I do not have that information to hand. We might need to write to the committee with a bit more information on that. Gordon Wales might want to comment.

Gordon Wales: I do not have the sum with me at the moment, but I am very happy to write to you about that. As you know, conditions are set out for the recovery of those loans, and the Government takes action to recover them.

You might remember that when the original help-to-buy schemes were announced, the UK Government decided that in England and Wales, it would charge fees after five years for, effectively, the benefit of being able to take part in shared equity schemes. Ministers here decided not to charge such fees, so no fees or interest are associated with those schemes.

Alex Neil: Will you indicate in your reply to us what processes are used to capture the issue of cashing in on loans when a shared equity house is sold or somebody dies? That might not always happen, especially when some people will have been in their house for 15 or 20 years. Are you always told when a house is sold or somebody dies?

Gordon Wales: I would be happy to include that when I tell you what the latest outstanding figures are. As far as the accounts are concerned, I will do that as of now, rather than as of 31 March. I will also set out the procedures associated with that issue.

Alex Neil: Can I ask a wider question? Two of the Government's key strategic objectives are improving the level of economic growth and creating a fairer Scotland. Has any systematic analysis been done, particularly prior to policy changes and budgets, on the impact of revenue and expenditure in Scotland, including council tax and business rates, on growth and the fairer distribution of income and wealth?

Leslie Evans: That relates to the national performance framework and the refreshed outcomes that we are now operating to. Alyson

Stafford might want to say a couple of words about that.

Alyson Stafford: In terms of the national performance framework, a range of indicators are being collected. With the new framework, some of those are new indicators. We will be able to report on a range of the indicators, but because new data needs to be collected to get a time series, data on a small number of indicators—16 of the 81—will be available in 2019 and 2020.

You talked about taking revenues into account. On the economic fortunes and economic impact of revenues, the revenue forecasts are now generated by the Scottish Fiscal Commission, which will take into account a range of factors in generating the amounts that the Government uses in its budget.

The statute says that the Government needs to use those figures or, if it chooses not to, to explain why. The independent body that generates the figures will take into account a range of economic circumstances and a degree of behavioural effects, and they will be reflected in our revenues. Similarly, the block grant that we use towards expenditure will take into account certain economic and tax-receipt factors that have been generated by the Office for Budget Responsibility's assessment. There are some high-level but also some specific things in place, and again that has been driven by the fiscal framework agreement between the UK and Scottish Governments.

Alex Neil: Let me take a couple of examples: the proposal to reduce air passenger duty at some point—although I realise that that will not be possible until other issues are resolved—and council tax, which last year was increased, usually to the 3 per cent maximum, by every one of the 32 councils. Before the decision is taken on local government funding in the next year's budget, is there any analysis of the potential impact of reductions or increases in local government funding on council tax policy—in particular, an increase in council tax—and whether that makes Scotland fairer or more unfair?

Alyson Stafford: The main focus of analysis is, not surprisingly, on the interface between business and local and central Government with regard to non-domestic rate income, given the direct relationship in that respect between Government policy and what is ultimately part of a funding package that councils adopt and use in their local areas.

Alex Neil: What I am getting at is that we are spending a lot of money on the expenditure side of things to create a fairer Scotland while on the revenue side of things, particularly in relation to council tax, we are making Scotland more unfair. There seems to be a contradiction in that respect.

Should we look at the impact on fairness of council tax—or, indeed, air passenger duty? I realise that work will have been done on the impact on growth of reducing air passenger duty, but has any work been done on the fairness of such a move?

Alyson Stafford: With regard to air passenger duty, the main work has focused on the economic growth arising from reducing it.

Alex Neil: So no work has been done on the fairness of it.

Leslie Evans: All our policies are tested for fairness. You are pointing to the technical elements of air passenger duty and council tax, but we have a responsibility to check, test and advise not just on the basis of the revenue incurred but with regard to any fairness issues that might arise as a result of a fiscal decision. Alyson Stafford is quite correct in that she is talking about a particular aspect of raising taxes, but, as I have said, all our policies are tested against fairness, not least because of our huge commitment to reducing poverty, which you will be well aware of, and the very clear targets that we have in that respect. They need to be tested against those circumstances, too.

Alex Neil: But we are not hitting those targets. Child poverty is going through the roof.

Leslie Evans: Those are the targets that we have set for ourselves as the Scottish Government, which have still to be met and are going to be very challenging.

Alex Neil: Absolutely. Can you send us information on the analysis that has been done and any conclusions reached on the potential impact on fairness of, say, a reduction in air passenger duty and the increases in council tax?

Leslie Evans: Okay.

Alex Neil: That would be very helpful.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): It is reported that the underspend this year is £339 million, which is a good bit higher than underspends in previous years. Why is there such a difference? Can you also confirm and clarify that the underspend is ultimately carried forward and deployed effectively in future spend?

Leslie Evans: As you might imagine, judging by your question, the £339 million headline covers a multitude of different decisions, some of which are deliberate. Scottish ministers planned to make use of the new Scottish reserve, effective from April 2017, and to carry forward £235 million of that chunk of money to support additional expenditure in the 2018-19 budget. That was approved by the Scottish Parliament. Therefore, a significant amount of the money was carried over to 2018-19 and is already being used.

There is also a significant amount of money that is accounting underspend, which is due to technical shifts. Annually managed expenditure money—we call it AME—cannot be used for services. For example, quite a large proportion of the education underspend is to do with that; because of its nature, it cannot be used for cash purposes. There are also small elements, particularly in education, where money has been ring fenced because it has not been spent this year. Gordon Wales talked earlier about Forth Valley College, which has some capital investments. It did not manage to trigger all the spend during the year, so some was carried forward.

As you rightly said, the vast majority of the money has, therefore, been carried forward intentionally, and one significant chunk was for spend during 2018-19. If we look at the overall fiscal underspend—Gordon Wales will keep me right on this—0.2 per cent of our spending power was underspent.

Gordon Wales: Yes, that is correct. I will make a couple of additional points. It is important to understand that some areas of funding cannot be carried forward. The permanent secretary referred to a couple of different things. One is something called non-cash, which is provided by the Treasury in order to deal with depreciation and impairment of assets and is money that cannot be spent on public goods or services.

The other thing is the annually managed expenditure budget—the AME budget that the permanent secretary referred to. That can only be used on a very small number of items. There are two, in particular: student loans, and NHS and teacher pensions.

Those budgets are ring fenced by the Treasury and cannot be used for other purposes or carried forward. Everything else, which is effectively in departmental expenditure limit—DEL—funding, has been carried forward through the Scotland reserve. Its spending power has been maintained and it is deployed in this or future years.

Willie Coffey: Bill Bowman asked about the transparency angle earlier. How do the public see the movement of a usable underspend through from one year to the next? For example, the accounts report that last year's underspend was £85 million. How do the public get a sense of where the usable element of that is being spent and earmarked? Is it demand-led spend at the time, or is it already earmarked and set aside?

Gordon Wales: There are two things. One is about how the money is carried forward and what goes in and out of the Scotland reserve. That is all contained in the "Fiscal Framework Outturn Report", which was published a couple of months

ago. It includes a detailed set of tables that explain what happened before 2017-18, the transfers in and out of the Scotland reserve and what the picture looks like at the start of 2018-19. There is full transparency on what is happening.

Back in January, in his plans for the budget, the cabinet secretary set out the details associated with the sums that he was carrying forward into this year and how they were being deployed as part of the overall budget for 2018-19.

The Convener: Willie Coffey also has a question on internal audit. I am keen to hear about that from the witnesses.

Willie Coffey: It would be fair to say that the subject of the internal audit process and its quality right across the public sector landscape has been raised at this committee by a number of colleagues over months, if not years. The Auditor General's report comments that,

"although the Internal Audit Directorate meets some of the Public Sector Internal Audit Standards (PSIAS), it does not comply with significant aspects of the standards."

What are your comments on that and what are you planning to do about it?

09:45

Leslie Evans: I will take the question in two parts. First, every five years, I think, the Scottish Government internal audit undergoes a test against the public sector internal audit standards, as does every other public sector internal audit. The Scottish Government's turn has come up and its internal audit will be tested against the 56 standards in the first part of 2019. That is the normal rhythm of testing. We should be ready and keen to see the result of that evaluation.

Secondly, there has been an enormous amount of work and investment in the quality and nature of our internal audit service, which Audit Scotland has credited us for, to be fair. At the time of the Audit Scotland review, there was already a back-to-basics review, as we called it, that looked at the rewrite of the audit manual, investment in staff training, and additional quality assurance processes. We also brought in Grant Thornton for external testing and expertise to see what it could add to the checking and challenging of our internal audit services.

In addition, as you will see from the Scottish exchequer family tree that we circulated with my letter, we now have a director level at the top of the internal audit structure, with a remit to ensure that the internal audit is fit for purpose. She has been given additional staff resources to ensure that the pretty hefty workload that internal audit in the Scottish Government undertakes is feasible and that she has the capability and skills to carry

out that work. She has brought in quality assurance processes, such as customer service surveys, and implemented a training and development strategy, so there is, quite rightly, a lot of investment in a very important part of our scrutiny and accountability services.

That goes back to something that I did when I first came in as permanent secretary, which was to look at the governance and assurance arrangements for the organisation as a whole. I do not know whether Alyson Stafford would like to say anything more about that.

Alyson Stafford: Extensive work has been done, led by someone who is professionally qualified not only as a chartered accountant but as an internal auditor, with specific qualifications. Internal audit has led a change programme to make sure that our internal controls provide independent objective assurance and advisory activity, and value is added to the operations of not only the Government but other bodies. It has the skills to advise us on risk management; economic and efficient use of resources; compliance with policies, procedures, laws and regulations; safeguarding against losses; and ensuring the integrity and reliability of our information and data.

The other thing that is worth drawing out from the conclusions of Audit Scotland and the internal review by the Scottish Government audit and assurance committee is that Audit Scotland did not identify any internal audit reports in which the underlying evidence would suggest an

"incorrect audit opinion or conclusion".

I met the team on Monday this week and I can assure the committee that it is working through the back-to-basics project to make sure that all the important foundations in the 56 areas that Audit Scotland identified are corrected.

The Convener: Permanent secretary, this committee has looked at internal audit quite extensively and we find that problems start there in many of our public sector organisations and escalate into governance and management. It is worrying that the Scottish Government has to do a project to go back to basics on its internal audit procedures. Some of the problems that the Auditor General identified are quite worrying. How did things get to that point?

Leslie Evans: The use of the words "back to basics" was not intended to cause alarm; it was more intended to show the comprehensive job of the new internal audit director who, as Alyson Stafford has said, was coming in fully qualified to look top to bottom and see whether our internal audit was satisfactory to her purposes and those for which she was appointed, and whether she could give us a clean bill of health. Although I

would not want anyone to be alarmed by the title of the review, it is important that we recognise the crucial nature of the service, and the strain that has been placed on it as the organisation's powers and responsibilities have grown.

We are now operating in a completely different set of circumstances for Scotland, operational as well as policy, and in a way that could not have been envisaged a few years back, so it is quite appropriate that we take the temperature of the supporting services. I include not just internal audit, as it is as much to do with human resources, finance and the way in which we govern our business. It is important that we take an opportunity to step back and check that we have what we need for a set of responsibilities—operational responsibilities, in particular—that we did not have previously.

Although it was stated that the internal audit director reports to Alyson Stafford—that is correct with regard to pay and rations—she also has a line of accountability to me. She can come and talk to me, or any of the accountable officers, at any time about what is going on in the organisation. She also has a direct line to the newly formed Scottish Government audit and assurance committee, which is a big part of internal audit's process.

The Convener: Okay, but the title of the review suggests that you needed to go back to the basic principles of audit. I asked how far back that goes. Are you saying that it went back to the first further devolution of powers? Is that when problems started to emerge?

Leslie Evans: No, and I am not identifying problems. Alyson Stafford has already said that we do not have any reason to believe that the quality of what internal audit has been producing in the Scottish Government has anything other than our full endorsement and confidence.

The Convener: But the Auditor General said that it

“does not comply with significant aspects of the standards”, which are the public sector internal audit standards.

Leslie Evans: Audit Scotland also said that it recognised the amount of work done and investment made in internal audit, which pre-dated the review, and it recognised the importance that we are placing on the investment in internal audit. I do not think that we can do anything more than continue to invest in support and ensure that internal audit's voice is heard strongly in the organisation. I return to its lines of reporting to the most senior board of the Scottish Government on assurance and audit, and to me.

The Convener: You perhaps took issue with the term “problems”. When did issues start to emerge

and what caused that? Was it the further devolution of power?

Leslie Evans: I cannot say, and I do not identify problems starting at any time. We have tried to ensure that we take a fresh look at the demands on the internal audit service at a time when we are being stretched and asked to grow to accommodate further powers.

It will be a gardening process. Rightly, we will constantly check that what we have in the way of internal audit facilities and challenge is strong, effective and well resourced.

The Convener: What is the timescale for the project to complete? You have just said that you will continue to monitor it, but when will you complete the back-to-basics piece of work?

Leslie Evans: My understanding—Alyson Stafford will keep me right on this—is that all the processes that I have talked about are either in train or complete. Alyson might want to talk in a bit more detail about that.

Alyson Stafford: The review is done, Grant Thornton has completed its work, the new manual is in place and the training has taken place. The next milestone is in spring 2019, when there will be the third party separate assessment. In addition, Audit Scotland will continue to review internal audit, and the Scottish Government audit and assurance committee will keep track of the progress that is being made.

It is now about continued reflection, including through the reviews that are happening, to confirm and make sure that the good work is still there following the training and what has been put in place.

The Convener: Ms Stafford, do you have a timescale for how long it will take to fully comply with the public sector internal audit standards?

Alyson Stafford: The work that is in place will ensure that that happens.

Leslie Evans: My understanding is that we will be tested against that in the spring, as I said earlier, when we will be coming up to the end of our five-year cycle.

The Convener: I turn to outcomes, which are mentioned in the Auditor General's report. There have been several articles in the media recently about the huge amount of spend on NHS and social care integration, which now amounts to half the Scottish budget. After this evidence session, we are about to scrutinise that with the Auditor General. How can we as politicians assure the public about that level of expenditure, when there is scant evidence on the outcomes that the spending leads to?

Leslie Evans: That is a good example of a wider point that the Auditor General made about how the budget and outcomes correlate. Some of the work that we are already undertaking—Alyson Stafford might want to say more about this in a minute—looks at how we ensure that the national performance framework, which was refreshed this year and includes health and other outcomes, is what we use to inform our budget decisions and how we present performance information to Parliament and the public.

The health sector produces a huge amount of information on targets, as well as other materials and reports, and, as you are aware, Audit Scotland reports weekly and monthly on how the health service is performing. The important element is to ensure that that information, and other indicators of the kind that Alyson Stafford talked about, is brought to bear on the long-term outcomes for Scotland. Many of the outcomes are dependent on health or prevention—before it even gets to the health service.

We are looking at not just how we report on the national performance framework for Scotland on its website, as I said earlier, but how it connects to the budget and to the information that we share with the public. One of the things that we have been doing is to look at our open government commitments, and our second report on open government will come out later this year—in December, I think.

We have also been working with the University of Oxford's Blavatnik school of government. I am a fellow there and have had a year's worth of academic challenge and assessment on how we connect our work on outcomes to performance and budget responsibilities. That work is at the core of our performance and national performance framework agenda.

The Convener: In your opening statement, I think that you said that you accept all the recommendations of the Auditor General's report. Is that correct?

Leslie Evans: They are all being addressed, as we speak.

The Convener: Do members have any further questions for our witnesses?

Bill Bowman: I would like a quick clarification from Mr Wales. When you talked about investing in private companies, you mentioned that that was done on commercial terms. How do you determine what the commercial terms are for such an investment?

Gordon Wales: Because of the complexities that are associated with such investments, we almost always employ external advisers. They give us advice based on market conditions and the

types of deals that are done in particular sectors and with particular companies to tell us whether the type of arrangement that we are looking to put in place is within the general ambit of other deals that are done in that sector.

We also make reference to European Union and state aid regulations that set out, for example, the interest rates and terms that should be associated with particular loans.

Bill Bowman: Are those advisors appointed on a per-deal basis or do you have a panel?

Gordon Wales: We usually appoint them on a per-deal basis.

Bill Bowman: Is it made public about who you consult?

Gordon Wales: It probably is and I am happy to tell you now who they are.

Bill Bowman: Yes, or you can write to the committee.

Gordon Wales: I can do it now: for Ferguson Marine we consulted PricewaterhouseCoopers, and for BiFab we consulted Grant Thornton.

The Convener: As there are no further questions, I thank the witnesses for their evidence.

09:58

Meeting suspended.

10:02

On resuming—

Section 23 Report

“Health and social care integration: Update on progress”

The Convener: Item 3 is consideration of a section 23 report on health and social care integration. I welcome our witnesses for this agenda item: Caroline Gardner is Auditor General for Scotland, Claire Sweeney is audit director for performance and best value, and Leigh Johnston is senior manager for performance and best value; they are all from Audit Scotland.

I invite the Auditor General to make a brief opening statement.

Caroline Gardner (Auditor General for Scotland): Today’s joint report focuses on health and social care integration and provides an update on progress. It looks at what impact the integration of health and social care is having, and the barriers and enablers to change.

As the committee knows, health and social care services are facing increasing pressures and a very challenging financial position. Integration has the potential to bring about the service transformation that is needed to address those pressures and to bring real benefits to the people who use the services and the wider public.

We found evidence that integration can work within the current legislative framework. There is evidence that integration is enabling joined-up and collaborative working in some places, which is leading to improvements in performance, such as reductions in unplanned hospital activity and in delays in hospital discharges. However, there is much more to be done and a number of significant barriers that need to be overcome.

Integration authorities oversee almost £9 billion of health and social care spending, but longer-term, integrated financial planning is needed to deliver sustainable service reform. The publication of the “Scottish Government Medium Term Health and Social Care Financial Framework” is a welcome step, but the detail that underpins it will be important.

Importantly, the set-aside aspect of the Public Bodies (Joint Working) (Scotland) Act 2014 is not yet being implemented. That needs to be resolved urgently in order to shift the balance of care towards community-based, preventative care in future.

Strategic planning also needs to improve, focusing on how integration authorities and their partners will achieve better outcomes for people

who need support and ensuring that new ways of working will be sustainable over the longer term. Integration authorities, councils and national health service boards need to establish a clear governance structure where all partners agree responsibility and accountability and put in place the right leaders.

We found some examples of small-scale changes in the balance of care, but integration authorities need to achieve wider impact. This means addressing challenges related to data and information sharing, and sharing learning from successful approaches right across Scotland. Change cannot happen without meaningful and sustained engagement right across the country with people, with staff and with politicians.

No one organisation can do this alone. The Scottish Government, the Convention of Scottish Local Authorities, councils, NHS boards and integration authorities need to work together with their staff and communities to scale up the pace of change.

Convener, we will do our best to answer the committee’s questions.

The Convener: Thank you very much, Auditor General. Alex Neil will open the questioning for the committee.

Alex Neil: Auditor General, the set-aside provisions in the 2014 act are absolutely crucial to the success of integration but, as you say in paragraphs 19 to 21 of your report, this is one part of the act that is not being implemented, despite the fact that the act has been in place now for four years and the official start date for integration is getting on for three years ago. You explain in the report why implementation has not happened, but you also said in your opening statement, quite rightly in my view, that it is now urgent. Who now needs to take what action to get it sorted?

Caroline Gardner: You are absolutely right that until the unplanned hospital care element of the resources, which was meant to be managed by the integration authorities, is devolved in practice, there are real limits to the amount of change that can happen.

We identified a problem around people genuinely not knowing how much money is affected, but it goes beyond that. That is not the fundamental problem; rather, it is about people’s willingness and confidence to share that information, to think about a joined-up health and care budget in their area, and to manage it on that basis. Therefore, in part 2 of our report we have set out a number of things that we think need to happen. We are happy to talk about that in more detail.

More generally, though, I think that we have reached the stage where the Government and COSLA need to be pushing and requiring the local leaders in each part of Scotland to overcome the differences and challenges that they are facing and to put that part of the legislation into place. As you say, the legislation has been in place for four years now, and the integration authorities had to be in place by 1 April 2016, which is nearly three years ago, and we are not seeing the change that we need to see.

Alex Neil: I have said before that if you look at the history books and at what happened when we were closing down the Victorian mental health so-called asylums—a terrible name for them—that was done over about five years with bridge funding, because both services had to be funded during the transition.

As well as dealing with the set-aside issue, has the time come to look at using some of the additional funding that we are supposed to be getting as a result of the Barnett consequentials, from the increase in health spending south of the border, to provide bridge funding or a similar type of arrangement to focus on making integration work? Even if we sort out the set-aside issue, it seems to me from reading your report that we will not make the progress that we could and should be making until we recognise that both sides—the acute side, which cannot handle a reduction in funding because of the increased demand, and the community side—need to be kept running until we make the transition.

Caroline Gardner: That should be a real focus of the longer-term integrated financial planning that we are talking about. I refer the committee to page 31 of the report, where we talk about the need for that. We highlight at the bottom of page 31 that many of the changes that have been made so far have been done with the additional funding that has been available from different sources. That additional funding certainly makes it easier and it is very important.

The challenge is that we do not yet have those plans in place where people, either nationally or locally, can say, “To get from here to there, we need to spend what we currently have and, for these two years, we need an investment of this much, either to pump prime or to double run or to invest in new facilities.”

That planning is important for the integration joint boards themselves and that level of detail needs to underpin the Government’s health and social care financial framework. We need to ask exactly those questions about how the additional money could be used to make that change happen—if that is what is needed—before we start committing it to other parts of the health and social care landscape.

Alex Neil: I presume that the emphasis has to be on the investment in the community side, in primary care, in social care, and so on.

A few months ago, I asked Paul Gray whether, instead of channelling the money to the IJBs via the health boards and the councils, the time had come for the Scottish Government to allocate budgets directly to the 31 integration boards for their core statutory functions. He said that the reason for not doing that is because of the variation across boards—some boards have taken on children’s services, for example. However, it seems to me that direct allocation could be done for the core statutory functions. If the health boards and the councils agree that additional services are to be provided by an IJB, let them argue about that, but let us at least get the core statutory functions moving.

A lot of the frustration and friction in the system is because we are channelling the money to two bodies, which then have to negotiate. Having negotiated the amount, they then have to delegate the budgets back again. Can we not simplify the whole process by directly funding the 31 IJBs?

Caroline Gardner: You were asking the right person whether that funding route is possible—we are not in a position to answer that for you. The legislation sets out how IJBs work. About one third of the £9 billion comes from councils, not from Government, so that issue would need to be resolved.

Exhibit 2 shows the route by which the money comes from health boards and councils into IJBs. The spirit of the legislation is about getting the system to work as a whole. That has been the driver so far. If it is not possible to get the system to work as a whole—this report very much highlights that that is happening—Government probably needs to look with COSLA at more radical solutions. However, we have found signs that it is starting to work and my focus at this point would be on speeding that up.

Alex Neil: We have 31 IJBs, we still have 22 health boards and we now have three regional structures in the health service, which is a total of 56 different organisations that all have overhead costs. Given the financial pressures and the need to streamline the management structure, is it not time to look at that huge overhead? Your report says that there is a question about leadership and the availability of quality management. In this small country, so many organisations are looking for leadership. Has the time come to take a fundamental look at the management structure of health and social care and the relationship between the two?

Caroline Gardner: As the committee knows, I have raised concerns not only in this report, but in

my recent “NHS in Scotland 2018” report, about the complexity of the management arrangements and the scope for confusion among the people involved in it. That is a matter for Parliament, because it legislated to create integration authorities as an additional layer. Our focus is on making sure that that works as well as it can, and on highlighting the pressure that it throws up.

You referred to the challenge of getting enough leaders of the right calibre. It is definitely a challenge for the integration authorities, and we have highlighted the number that either have shared posts or have high levels of staff turnover. There is no doubt that that situation makes doing the work harder.

The committee may be interested in the plans that the Government and COSLA, through its joint working group, have got for addressing some of those challenges and speeding up the limited progress that we have seen so far.

Alex Neil: In Lanarkshire, we have recently had a situation in which one of the chief executives has been—this is my understanding; it is perhaps not the official version—encouraged to leave. There may be another huge pay-off. A lot of chief executives have left post in the three years that integration authorities have been up and running. Are you keeping an eye on what pay-offs there are? I think that a lot of public money is, again, getting wasted on massive pay-outs that are not a statutory requirement.

Caroline Gardner: Yes, as part of the annual audit of all the bodies that come under my responsibility and that of the Accounts Commission—that includes IJBs and local government bodies—the auditor is required to look at the remuneration report and at significant transactions and events such as the departure of a chief officer. I report those that sit in my responsibility to this committee, as appropriate.

Anas Sarwar: Mr Neil has got to the heart of three big issues: budgets, consistency and structure.

On budgets, you quite rightly said that there needs to be an increase in investment—you called it pump priming—in some of the integration authorities. How much of a challenge is the fact that, because health boards and local authorities are having to make savings, they are passing on the need to make savings to integration authorities and undermining the plan to pump prime integration?

10:15

Caroline Gardner: I will ask Leigh Johnston to answer your specific question, but I will kick off by clarifying that I said that, at the moment, we do not

know what additional funding might be required, but we have identified that the significant changes that we have seen so far have often relied on that sort of funding. That is why longer-term financial planning matters. Leigh, can you talk about the financial pressures facing the bodies involved?

Leigh Johnston (Audit Scotland): We have set out the savings that the integration authorities need to make and, in our recent report on the NHS, we talked about the savings that boards are having to make, too. We see changing the models of care as a way of trying to make the system more sustainable; after all, the current way of delivering health and care is not sustainable, because of financial pressures and rising demand, and some of the new methods of delivering care that are starting to emerge are ways of trying to ensure sustainability.

Anas Sarwar: When you speak to individuals from local authorities and the integration authorities, you get the sense at times that they feel that health boards and local authorities are simply passing on to the IJBs some of the hard decisions or savings and cuts that they would have to make, simply because it is easier to pass the bad press on to them. How much have you seen that in your interaction with the integration authorities?

Leigh Johnston: Each authority has a scheme—an integration scheme, if you like—in which it agrees how the finances will work. In other words, in setting up such a scheme, it has already agreed how the savings will be made, what proportion of contributions will be submitted and, if the authority is struggling to break even at the end of the year, how contributions in that respect will be divided up between the partners. We have outlined that in the report. There is an agreement in that respect, but tough decisions about service provision have to be made all round.

Anas Sarwar: Is it fair to say that budgetary pressures on local authorities and the NHS are making it harder to achieve the integration that we all want?

Leigh Johnston: Yes. I think that we say in our report that the financial pressures are making it more difficult to achieve the scale and pace of change that we want.

Anas Sarwar: There seems to be inconsistency across the 31 integration authorities in that there is no agreed model for the area of responsibilities for IJBs. How much consistency do we need, and how much should we leave that to individual integration authorities and their ability to flexible?

Caroline Gardner: That is a really good question. The legislation was deliberately designed to give people local flexibility. We all recognise that there can be good reasons for

that—after all, Glasgow looks very different from the Highland and island health boards and councils—but our concern is that flexibility is leading not to a consistent pace of change tailored to local circumstances, but to confusion and disagreement over the arrangements. That is why we have reached the stage of saying that a stronger steer is needed from Government and that the Government and COSLA integration review reference group that is looking at this is an important vehicle for making that happen.

Anas Sarwar: What should that steer look like? Should there be a framework setting out the basics of what an integration authority should be doing and a list of the options and add-ons? Can you tell us what you think a solution might be?

Caroline Gardner: As far as outcomes for people are concerned, it is probably important to be clearer about which services ought to be involved in integration authorities and the outcomes that the authorities are working towards. As we highlight in the report, a very wide range of outcomes and indicators apply to them, making it hard to see what the priorities are. Beyond that, we think that there are ways of working that can improve their effectiveness, and Leigh Johnston will want to say a bit more about that.

Leigh Johnston: Reflecting on our recent children and young people's mental health report, for example, I think that we do not understand enough or have enough evidence yet about which services should and should not be delegated.

There is a minimum that the integration authorities are responsible for. In our audit on children and young people's mental health, we tried to look at whether it was more effective for children's services to be delegated, and whether the outcomes were better, but we could not find evidence of that. Some authorities argue that children's services should stay in the local authority because it is closer to education, while others argue that children and young people's mental health should sit within the IJB in order to be closer to the health services that children and young people might need. We need to understand more about that, and to understand the outcomes that are being achieved through different services being delegated.

Anas Sarwar: We heard earlier about the challenges around budgets and their impact on integration, and also about the challenges around consistency, given that there are so many integration authorities working in partnership with local authorities and NHS boards. I think that those challenges are connected to the structure. Surely it is management and bureaucracy heavy in terms of value for money, given the high-salary roles in the 22 health boards, the 31 integration authorities and the 32 local authorities.

Is the integration of posts, if not alignment of the structures, an area that we should be looking at in order to reduce some of the bureaucracy costs? Is it time to look at reducing the number of bodies in order to get greater consistency and value for money and to drive the money and investment towards actual service delivery, rather than salaries and management posts?

Caroline Gardner: There is a bit of a paradox here. It is easy to castigate management as being different from the provision of health and care services, but I do not think that it is. Good management is essential to the ability to plan, deliver and transform services in the way that we need.

However, I say in the report, as I have said in previous reports, not only that we now have more bodies involved in the area that we are discussing, as well as in others, but that it is not always clear to us or, more important, to the people involved what the different roles and responsibilities are. I say in the report that some people who sit on IJBs do not understand, for example, what the new regional responsibilities for workforce planning look like. We are seeing increasing responsibilities for the planning of acute care and the delivery of some specialist acute care at a regional level, but it is not clear to everyone who is involved how all of that joins up. That means that what ought to be an investment in senior managers and leaders who can work with staff and others to change things ends up being spent on negotiating and disagreeing about what they are there to do. That is the problem.

Anas Sarwar: This is my final question. In the report, you make clear the importance of governance and leadership. Surely a more streamlined governance and leadership structure would help to provide stronger management and better consistency across the country. Will Audit Scotland be looking at how we can streamline our leadership and governance structures in order to deliver that?

Caroline Gardner: I ask Claire Sweeney to pick up that question.

Claire Sweeney (Audit Scotland): There is no doubt that, when we spoke to everybody who is involved in the system for this piece of work, something that came across strongly was that they had struggled with the accountability and governance arrangements, and in many areas they are still struggling. We have some examples in the report. In particular, Aberdeen city got support from the Good Governance Institute to help it to think through things such as risk management and how that would apply across all the bodies that are involved. It is incredibly complicated. That said, the change that they are trying to effect is complicated and it will take time.

There is also something about bringing together the two cultures of local authorities and health. People in each culture need to understand not only how the other one works in a broad sense, but some of the technical issues of things such as finances. We highlighted that as a risk in our initial report back in 2015. You will see in appendix 3 some of the issues that we identified in that report. That work is happening and there are some examples of progress, but there are still some risks, which are highlighted in the report that we are discussing today.

Anas Sarwar: May I add a tiny supplementary question, convener?

The Convener: Yes, if it is tiny, Mr Sarwar.

Anas Sarwar: Given that we now have 31 local integration authorities, do we need 22 health boards?

Claire Sweeney: That is a question for Government rather than for us. We set out in the report the difficulty of bringing those various roles and responsibilities together. There is no doubt that the environment that the IJBs are operating in is incredibly complicated, given the financial challenges. We asked questions about the clarity and understanding of that regional, national and very local model, and it is clear that it is still not fitting together very clearly and people are struggling to understand their way through it. That came through loud and clear in the work that we did for the report.

Liam Kerr: I want to develop Anas Sarwar's interesting line of questioning, but before I do so, I will put a very blunt question to Leigh Johnston. You talked about effectiveness, but I note that, although the report contains some statistics on that, they do not seem to show any marked improvement—if I can put it that way. Might any improvements in those statistics simply be down to chance or something that the health board or the council is doing rather than something directly attributable to the new set-up? If so, are we diverting £400 million from the health budget into something that is not making any marked improvement?

Leigh Johnston: There is no suggestion of causation in that respect, but as we lay out later in the report, we are starting to see improvements at local level. However, those improvements are not marked, which is why we say—and, indeed, have said several times recently to the committee with regard to the NHS—that we need better data and monitoring and more openness and transparency about the difference that is being made by and the impact of integration. We do not have a clear enough picture of that at national level, but having reviewed all the local performance reports, we think that we are starting to see improvements at

local level that are directly attributable to integrated initiatives and projects and different ways of delivering services.

Liam Kerr: In response to Mr Sarwar, the panel has talked about leadership, governance and so on, and the report certainly highlights in a concerning way aspects such as the appointment of part-time chief financial officers, chief financial officers in dual roles and the inability to recruit such officers. I have to say that I was not quite convinced by the whole idea of corporate infrastructure when I looked through the report, and you also refer to the “lack of support services” with regard to, for example, human resources. That being the case, should the Scottish Government be stepping in and giving a much clearer steer on what the model needs to look like, the staff who should be involved and how things are supposed to run?

Caroline Gardner: My sense is that instead of having some template for the staffing model that needs to be in place and how the support services work, Government and COSLA—after all, this is a joint initiative with local government—need to focus on being clearer about the progress that should be made and need to be willing to step in where that progress is not happening for whatever reason, be it a lack of capacity, a lack of people doing the key jobs, disagreements about set-aside budgets or the need to invest some pump-priming money to move from the current service model to a new one. We all recognise the importance of respecting local difference—there is no question but that that matters—but for a policy this big and important where progress has been as slow as it has been, it is just not feasible any more to maintain a hands-off approach or be unwilling to step in and require changes to be made if progress is not happening and people are stuck.

Liam Kerr: That leads me to ask a brief question on an issue that I am not clear in my own mind about. We as a committee have looked several times at the difficulties in recruiting at the top level. Of course, it will always be difficult to find talent and experience, but are the people who look after the IJBs the same as those who are playing a dual role with, for example, health boards?

Caroline Gardner: Almost all of them come from a health board or council, but the situation varies in different parts of Scotland. Perhaps Claire Sweeney and Leigh Johnston have something to add.

Claire Sweeney: Not so much. It is absolutely right to say that the dual role issue relates to the system as a whole—that is the pool that is being drawn from. However, we have tried in the report to set out clearly the different relationship ask that integration brings. For example, it requires leaders who work in a much more collaborative way.

There is flexing, to a degree, in the chief officer role, what with the need to negotiate around change and to try to get consensus across a range of partners, and one could argue that that leadership style is very different from what has traditionally been the case across, say, the health system for a while now.

The message is that the system is not working, and there is consensus on the need for change. We were very interested from an audit perspective about issues to do with power and how that was being reflected in the role of chief officers. The system can work only if all parties are signed up to and engage with it. There are big implications for everybody involved, and thinking about leadership is key.

10:30

Liam Kerr: That is really interesting. You talked earlier about the Aberdeen example, and the report seems favourably predisposed to what is happening there. What is it about Aberdeen? The report mentions cultural differences. Have leaders somehow managed to get rid of the cultural differences? Are they working around them? In any event, how will that knowledge be shared?

Claire Sweeney: It is fair to say that not one area of Scotland has got all this right, which explains the range of examples in the report. The Shetland scenario planning example on page 28 is about getting to the heart of having difficult discussions. We were warned early on to be cautious about partnerships that seemed quiet and where there was not a lot of disagreement, because that suggests that things are not being tackled.

No one area has got it cracked. Aberdeen city's model and its focus on governance are interesting. It has got support from people who are well informed on governance to facilitate that conversation about what the tricky issues are and how to resolve them locally.

We highlight in the report that the changes at senior level that have taken place since the introduction of integration bring a degree of fragility to some of the examples. We see things working well in some areas—I am very mindful about the examples of the third sector starting to make improvements—but the situation can quickly change. That has been our experience over a number of years. We see pockets of small examples of things working well that can change quickly if leaders change, the funding is not there or the pressures increase. There are lots of good examples in the report, but they tend to be small scale.

Caroline Gardner: One thing that the Scottish Government and COSLA group is focusing on is

training and developing leaders to do that. We have highlighted in our report the things that need to be done by leaders not just in the integration authorities but in health boards and councils. Developing that will take time.

You asked about sharing good practice, which is the other critical thing that needs a real boost now. We found examples of things working well, some of which are fragile. We need to learn from things such as the NHS's approach to the patient safety programme, and spread that experience much more widely in a way that not only respects the fact that different places are different but makes clear what is expected of people in terms of the change that they are making.

Liam Kerr: You referred to the group that is co-chaired by COSLA and the Scottish Government, which you mention in paragraph 35 of your report. My understanding is that that is looking at how to overcome barriers to integration. Has the group produced anything substantive? When will its work be available? When can all the bodies have something substantive to look at that says how they need to change?

Caroline Gardner: It is positive that the group has produced a statement that acknowledges that the pace of change is not sufficient and needs to be much quicker. We have highlighted areas that the group is working on. Claire Sweeney will be able to tell you more about the process that it is going through in order to do that.

Claire Sweeney: The group will conclude its work in January 2019. We are following the group closely, and we want to keep in regular contact with it.

In essence, it has drawn together all leaders across health boards, local authorities and integration authorities to think through what the difficult questions are that we need to tackle and to see whether there is a need for more guidance and direction. It is about considering the facilitation of the training and support that the Auditor General mentioned, to make sure that the leaders are in the state that they need to be in order to tackle the agenda, as much as it is about thinking about the capacity that is around them to support them.

Bill Bowman: You have mentioned appendix 3, but, given your view that not so much progress has been made, it might not be correct to use the term "Progress" in the heading to that appendix.

I do not want to go into the specifics, but I note that the appendix contains recommendations for the Scottish Government and integration authorities. I remember Paul Gray telling us at one point that, in respect of the NHS, the buck stopped with his role. Where does the buck stop here—

with the Scottish Government or with the integration authorities?

Caroline Gardner: Because integration authorities—and integration joint boards—are local government bodies and have been established as such in the legislation that Parliament passed, they are formally accountable to their electorates in the same way that councils are. Government is obviously accountable for the success of the overall policy of integration and meeting the needs of people right across Scotland.

Something that we have heard a lot as we have done this work is that the accountability arrangements are not clear. Actually, that is not true—if you keep it simple and high level, they are clear—but what gets in the way is people's agreement about their individual integration schemes and the ways in which the health boards, councils and integration authorities work together. Again, Government and COSLA really need to ensure that all of those things are clarified and that people live up to them in providing the services for which they are responsible.

Bill Bowman: When you finalised the report and did the fact checking, who did you give it to?

Caroline Gardner: Most of the factual accuracy confirmation for this report came from Government itself, and where individual integration authorities were mentioned, we passed that particular section to them for their comments.

Bill Bowman: Is a particular person in the Government responsible for this?

Caroline Gardner: The director general for health and social care is the accountable officer.

Bill Bowman: For the Scottish Government.

Caroline Gardner: Yes.

Bill Bowman: But what about the integration authorities?

Caroline Gardner: There is no single person responsible, as is the case for local government as a whole.

Willie Coffey: I will continue that theme. If you were to choose a word to describe the picture set out in appendix 4 on financial performance, it would not be "integration". The picture across the authorities and the IJBs is really mixed. Members have raised the issue of how well they are or are not integrating. What about COSLA? Has it responded to the report? What message are we getting from that side of things?

Caroline Gardner: COSLA has responded to the report, welcoming the overall findings and the push for further change. We know from its involvement in the group that it co-chairs with Government, which has issued a statement

acknowledging that the pace of change needs to increase, that it is committed to push forward the policy. In some ways, the challenge that it faces mirrors the one that the Government faces. There are 32 councils, 31 integration authorities and a lot of people and services that need to change, and my view is that the priority for Government and COSLA is to get a grip on that.

Willie Coffey: When IJBs report on their performance, do they report as integration authorities or do they report separately on the performance of, say, the council components?

Caroline Gardner: The IJBs produce their own reports. Leigh Johnston can say more about that.

Willie Coffey: NHS Ayrshire and Arran covers three councils. When an IJB reports, does it report on performance by authority?

Leigh Johnston: Each IJB produces its own performance report, and every integration authority must report against a range of core indicators. The answer, therefore, is yes, each authority has a performance report.

Willie Coffey: Do they know what the greatest area for work is and so on? I am not picking out any particular authority, but if one was a wee bit behind the curve, would it be aware of that so that it could do something collectively to tackle that?

Leigh Johnston: As I have said, the authorities are working towards core indicators along the lines of the national indicators such as admissions to hospital and delayed discharge, so they will have an idea whether they are reducing some of those numbers. However, as we say in the report, we do not have a good national picture of performance and impact in the different areas.

Caroline Gardner: Perhaps I can short circuit that a bit by pointing you towards exhibit 4 in the report. It is a double-page spread that sets out the national performance framework, nine national health and wellbeing outcomes, 12 principles in the act, six national indicators and a range of local priorities, performance indicators and outcomes.

Integration authorities are reporting against those measures, which makes it difficult either to get a clear picture of an individual integration authority's performance or to make the comparisons that I think that you are trying to get at. It is not that there is a dearth of information or data, but that there is a lack of that clear picture of where they are and where they are planning to get to.

Willie Coffey: We could have had almost the same discussion in another area, at another time in this committee.

We have heard about issues of leadership, financial planning, strategic planning, governance

and sharing good practice in a number of areas. We have agreed that we need to do something about them and that the participants have agreed to deliver on those things. They agree, too. How on earth do we move forward to the next stage and get it done? Who are the leaders who must get this done? Should the Government dictate new guidelines and requirements? Should COSLA be firmer? What is the key to succeeding? How do we get any comfort that, when we are sitting here in a year's time with the follow-up report, we will be closer to that?

Caroline Gardner: I share the committee's frustration on that matter. It is obviously a very important area of policy and there are, as you say, common features. In the report, we have tried to be as clear as we can that Government and COSLA need to build on the foundations that are in place. They are only foundations, but they provide a basis for going forward.

In exhibit 7, we have set out the features that we have identified as supporting integration. They are simple things—although that does not mean that they are easy to achieve—including collaborative leadership, integrated financial planning, a real focus on the outcomes that are to be achieved, monitoring progress and involving people in the process. It is about using the same consistent and rigorous approach that the Government uses for things such as the patient safety programme, to make sure that its efforts and the efforts across the health and social care system are pushing in the same direction.

Willie Coffey: George Foulkes, a member of this committee's predecessor committee, used to ask, "What next?" This is a really good report and it gives everybody clear information about what the direction of travel should be but, other than waiting for your report to come next year to give us some indication that there has been slow progress, how will we assess and see whether progress is being made? How do we monitor it as we go, to make sure that the things that need to be done are being done? How does that process happen?

Caroline Gardner: Claire Sweeney mentioned that the Government and COSLA group is due to report by the end of January. At that stage, the committee might want to look at the report that is produced and take evidence on it from the group, to see how it plans to address some of the barriers and deal with the things that we think would make a difference.

Willie Coffey: Good. Thank you.

The Convener: Auditor General, I think that we all agree that your report shows a really messy landscape across Scotland. I remember that, at the start of the previous session of Parliament, the

then health secretary said that they had to leave sufficient room in the legislation for local bodies—NHS boards and local authorities—to make their own plans. The picture looks really messy now, with areas of strength in some places. A close look at the report finds some small examples of good practice, as Claire Sweeney said, but some of that predates the legislation. I might be wrong, but I am sure that the small example from Dundee on social prescribing predates the legislation on integration. How much progress has been made since the 2014 act? We know that integration was happening on an informal basis before we voted on the bill in Parliament.

Caroline Gardner: That is a question that we have considered a lot among ourselves and in the wider team: is the legislation on integration making a difference? After lots of grappling with the evidence, we have come to the conclusion that it can make a difference; in some places, on some aspects of what is needed, it is starting to unpick some of the barriers that have been getting in the way of change for a long time. However, it is not enough to say, "Let 1,000 flowers bloom" for people to magically work together at a local level and make the change that is required.

10:45

We know that there are good reasons why it is tough. People are very focused on delivering what started off as their day jobs. In the future, integrated services will be the day job, but running hospitals, social care and primary care is where most people started, and the budgets still come through the separate organisations. It needs a real push to move away from the momentum and the inertia of the way things have been in the past to do this differently.

We are encouraged by the good practice that we have seen—not all of which is mentioned in the report—but more is needed to really move forward. It will not happen just as a natural process of rolling out. The Government and COSLA group is an important step forward but, in a sense, this is a really important opportunity that cannot be missed to take that commitment and good will and move on to release some of the pressures that we see with the separate running of the NHS and social care.

The Convener: You said that the integration authorities have been in place for three years now. Is there a case to be made that, if we do not see progress at a local level, we will need to make the legislation more detailed and be more specific about how the bodies should be run?

Caroline Gardner: In a sense, there would be no alternative but for Parliament to have another look at the legislation if the position does not start

to change clearly in the next 18 months or so, simply because the pressures on the NHS and social care are increasing so quickly.

The Convener: Okay. We have looked at the governance of several health boards in Scotland, and the financial officers clearly have a key role to play here. I note from paragraph 36 of your report that

“only half of IJBs have a full-time”

chief financial officer

“and there have been difficulties in filling those posts in some areas.”

As I understand it, some IJBs have a full-time CFO and some have a part-time CFO who does a job in either the council or the health board. Is it better practice for IJBs to have a full-time CFO, considering that they are responsible for so much money?

Claire Sweeney: That speaks to the broader point about the capacity of IJBs to make a difference given the challenge that they face. We mention in the report that a number of them do not have that full-time capacity in place. We would have a question as to the ability to make progress in a significant area such as this one unless there is really good finance, HR and data support around the IAs. They are very small, so it is key that all players are supportive of the agenda. That is an example of an area that needs to be looked at.

The Convener: Would it be better if each integration board had a full-time chief officer and a full-time chief financial officer?

Caroline Gardner: There is certainly enough work for the integration authorities to be doing if they are to fulfil their responsibilities. We say in paragraph 37 that one challenge is that, if they do not have that capacity, they are very reliant on the information that is provided by the health board and the council. That makes it harder for them to come to an understanding of what the set-aside budget ought to be and to take on responsibility for managing it, which in turn makes it more difficult for them to avoid emergency admissions to hospital and get people out of hospital more quickly. They need to be able to make sense of the services that they are responsible for and to start to move away from the way that we have always done things towards where we want to get to.

The Convener: What about the chief officers? Are they all full time?

Claire Sweeney: Yes.

The Convener: Your report says that we spent £3 million on chief officers' pay in 2017-18, but

there is not a lot of progress to show for it. Would that be a fair summary?

Claire Sweeney: The areas that are making more progress are those that are demonstrating that they have moved forward on the issues that we identify at the start of part 2 of the report. Some are making more progress than others.

Something that came through strongly to us early on in looking at this policy area was a sense that some areas thought that this was not going to happen—that existing systems could continue and there would be a small pocket of integration at some point where the services intersected. Over the past year, we have seen a stepping up of the commitment to integration. We could argue that the areas that are not addressing the issues that we set out in part 2 and which did not think that real change was going to happen at a system-wide level are playing catch-up and are further behind.

A range of issues are captured in part 2 of the report. We are not seeing things working ideally in any one area. There are lessons to be learned, and we hope that that comes through strongly, particularly in part 2.

The Convener: Exhibit 5 gives national performance against six areas, including bed days. Is it possible for the committee to have that information broken down by local authority?

Claire Sweeney: We tried to include local variation where we could, so we can supply the committee with the information that we were able to get for this. The six indicators in exhibit 5 are those that the ministerial steering group uses to keep focus on whether integration is delivering.

We found it very difficult to get agreement around some of the data for exhibit 5. We can share a fuller picture with you, but we were not able to break down the information by local area for all the indicators.

The Convener: Leigh Johnston is laughing. You obviously had difficulty getting local information. Why was that?

Leigh Johnston: We did find it difficult. It is because of the difference in how information is collated and the methodology that is used centrally, and what the localities recognise. That reflects the difficulty of understanding, at a national level, what impact and progress there has been. There are such a number of indicators. Yes, it was challenging.

The Convener: Perhaps that could be addressed in the legislation if the Parliament was minded to look at it again.

Liam Kerr: How does the council funding work? Last year, the councils put in £2.4 billion, I think,

which came out of their budgets. These are constrained times for council budgets. Is that money fully funded by Government or were the councils instructed to carve out that £2.4 billion from their current budgets to put into the IJBs over the piece?

In any event, is there not a danger that councils, by virtue of having to fund this area, will have to cut services elsewhere, which perhaps have been mirrored?

Caroline Gardner: There is a lot in there—

Liam Kerr: Sorry.

Caroline Gardner: That is all right—I will do my best to answer your questions, and the team will keep me straight.

The intention is that councils and the NHS will, together with the integration authorities, identify how much is spent on community health services, primary health services, unplanned hospital services, and social care services—for adults in all places and for children in places where they are included in the integration scheme. They will then pool their budgets to cover that, so the money comes from their core budgets.

There has been additional funding from Government—£250 million in 2016-17, I think, and an addition in 2017-18—which went to NHS boards and then had to be passed on to the integration authorities to fund some of the services that are involved. Both the councils and the health boards are required to make efficiency savings in different ways, reflecting the overall pressure on public finances and the intention that they should be improving how they use money.

The money comes from their core budgets, with savings coming out of that, and there is additional funding. That complexity is partly why a number of integration authorities have found it difficult to agree their budgets; there are timing differences as well. In addition, as you say, if that money is coming in to the integration authority, the pressures that we recognise are affecting other council services and other parts of the NHS budget become harder to manage. All that is why this is complicated. I am sure that there is more to cover, so I will pause there and let the team come in.

Claire Sweeney: It is quite complicated to get a clear picture of IJB finances. We set out on page 12 of the report that a number of the IJBs needed to call on additional resources on top of those that were initially planned from the council and the NHS board.

The 2014 act set up the IJBs specifically so that they could agree locally who would carry the risk. We have tried to explain in the report that the situation is very different in different local areas. If

there is an overspend on the social work services that the IJBs direct, how that resource comes from the partner bodies when there is an issue is very different in different areas. Some of that is being worked through and, again, we have tried to set that out on page 12 of the report.

The Convener: As there are no further questions from members, I thank the Auditor General and her team very much indeed for their evidence this morning.

10:54

Meeting continued in private until 11:16.

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