OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit Committee

Thursday 1 December 2022

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

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PUBLIC AUDIT COMMITTEE
29th Meeting 2022, Session 6

CONVENER

*Richard Leonard (Central Scotland) (Lab)

DEPUTY CONVENER

*Sharon Dowey (South Scotland) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Craig Hoy (South Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stephen Boyle (Auditor General for Scotland)
Fiona Diggle (Audit Scotland)
Richard Robinson (Audit Scotland)
Liz Smith (Mid Scotland and Fife) (Con)

CLERK TO THE COMMITTEE

Lynn Russell

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Public Audit Committee

Thursday 1 December 2022

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Richard Leonard): Good morning. I welcome everyone to the 29th meeting in 2022 of the Public Audit Committee.

The first item on our agenda is a decision on whether to take items 3 and 4 in private. Are we all agreed?

Members *indicated agreement*.

"Scotland's public finances: Challenges and risks"

09:00

The Convener: The principal item on our agenda is consideration of the recent Audit Scotland report, "Scotland's public finances: Challenges and risks". I welcome our witnesses, Fiona Diggle, who is a manager at Audit Scotland; Richard Robinson, who is a senior manager at Audit Scotland; and the Auditor General for Scotland. You are very welcome. I also welcome Liz Smith, who joins the committee this morning for this part of our agenda. We will all have a series of questions to put on the briefing, but I first invite the Auditor General to make a short opening statement.

Stephen Boyle (Auditor General for Scotland): Thank you, convener. Good morning.

We have previously reported on the financial sustainability challenges that the Scottish public sector faces. Those challenges have been worsened by, first, the Covid-19 pandemic and, now, the cost of living crisis. There is record inflation, high energy costs, falls in real earnings and higher operating costs for public bodies. The Scottish Government faces a combination of an inflation-diminished budget, increased costs and unresolved demands for higher public sector pay deals. It needs to carefully manage its financial position to avoid overspending its 2022-23 budget. Overspending this year could be clawed back from next year's budget, exacerbating existing pressures on public spending.

The challenges that the Scottish Government faces are set to continue into next year. Therefore, there will be difficult choices when setting the 2023-24 budget, as there is limited financial flexibility available to the Scottish Government, and it will have to take into account the United Kingdom Government decisions on tax and spending. A balance must be struck between short-term necessities and longer-term priorities, and the Scottish Government might need to revisit its priorities should the economic and fiscal position worsen.

Given the financial challenges that the Scottish Government faces, my report highlights the need for the pace and scale of public sector reform to increase. Past attempts at reform have seen a gap between ambition and actual delivery. It is vital that future reforms be delivered effectively and with public engagement to deliver financial sustainability and future sustainable services that improve people's outcomes.

As ever, my colleagues and I look forward to answering the committee's questions.

The Convener: Thank you very much for setting the scene. We have quite a number of questions on the areas that you have already identified as being critical to the assessment that you have made.

I will ask you first about the timing of the briefing. Obviously, it came out prior to the Chancellor of the Exchequer's autumn statement, which was made on 17 November. Why produce it prior to that statement? Why not produce it after the statement had been delivered?

Stephen Boyle: Convener, you and the committee will recognise that there has been a huge amount of volatility in the fiscal environment over the past few months, with notable changes to the timing of UK Government public fiscal events. We plan our work many months in advance and look to capture as many of the relevant events as possible. When we set our publication date for the briefing paper, there was a degree of coincidence that it coincided with the latest UK Government fiscal event. It will not be the last statement that we make on fiscal matters. We will capture that as part of our rolling programme considering the fiscal sustainability of the Scottish Government, which is part of our programme into next year.

The Convener: That is helpful.

Turning to the autumn statement, what difference do the key points that were made by the chancellor in the autumn statement make to any conclusions that you have made in the briefing that we are considering this morning?

Stephen Boyle: It is perhaps difficult to draw definitive conclusions yet. I will bring in colleagues in a moment on any additional detail that they wish to add. The challenges that the Scottish Government faces will continue to exist alongside the impact of the autumn statement. The Scottish Government still has to resolve many of the public sector pay deal pressures. It will still face significant challenges around energy costs. Also, the cost of living, through inflation rates, will have a significant bearing on the Government's purchasing power and its obligations. In the briefing paper, we touch on, for example, the Government's requirement to reference inflation rates alongside the uprating of social security benefits. That will still have an impact on its budget for next year.

On a couple of specifics, the chancellor referred in his autumn statement to £1.5 billion of Barnett consequentials. We are looking for the detail of that; I am sure that the Government itself, advisers and economic interests are, too. It is difficult to be definitive yet about what will flow through to the Scottish Government's budget.

I will pause for a minute to check with colleagues whether there is anything that they wish to add.

Richard Robinson (Audit Scotland): The first point to make is that the contents of the budget do not change the challenges that are outlined in the briefing paper; the challenges remain. They give a bit more context about the environment in which the Scottish budget will be set on 15 December.

The Auditor General touched on spending. From the UK autumn statement, we have seen what the Scottish Parliament information centre recently described as a bit of a game of two halves when it comes to spending growth. There is £1.5 billion that will come through Barnett consequentials; that is expected over the next couple of years before a tailing off of the increases thereafter. That means that more Barnett consequentials are coming through, but, as the Scottish Government has already mentioned and as is included in the paper, there is also the inflationary effect on the buying power of that money to bear in mind.

A brief second point is around income and funding. As the committee knows, there are devolved taxes now, the largest of which is Scottish income tax. There have been changes of late at a UK level to which the Scottish Government will have to decide how to respond, because those changes will affect the overall size of the budget envelope.

The Convener: Let us look at the Barnett consequentials element. You make the point in the briefing that, if the Scottish Government—or the Scottish Parliament—wishes to allocate additional help to alleviate the cost of living crisis, the Government will need to find it from its own resource rather than necessarily or even at all relying on Barnett consequentials. Will you perhaps elaborate on that?

Stephen Boyle: Yes, I am happy to start on that, and Richard might wish to say a bit more about the nature of the flow of the Barnett consequentials and, if the committee would find it helpful, how that operates.

You are essentially right, convener, in your description of devolved matters, whereby the decisions on choosing to make additional spending rest with the Scottish Parliament. Our briefing paper refers to some operations in which the Scottish Government has chosen to do that, such as cost of living support and additional energy efficiency matters; there are also references to bridging payments for young people who are in receipt of free school meals. Those are some of the decisions that the Scottish Government can take itself, but you are right to say that that has a bearing on and has to be funded from its own budget.

For spending decisions that the UK Government takes, if those are on devolved matters, there is a flow of funds, but that might not mean that it is clear. As we touched on in our earlier answer, we are still waiting for the detail of the £1.5 billion and what that will mean for next year's budget and the budget for the year after. I will stop there, and Richard can elaborate with more detail if he wishes.

Richard Robinson: Barnett consequentials and the block grant remain key parts of the Scottish Government budget. It might be good to contrast that with the Covid-19 finances that we brought reports to you on. Much of the spending in reaction to that crisis was in devolved areas, which meant that there were in-year flows of Barnett consequentials for areas such as health—that was the predominant one—and elements of education. As we point out in the report, to date, the UK Government responses to the cost crisis have been in reserved areas such as energy support and relief, which means that there is no necessary flow to the Scottish budget, even though they apply to people in Scotland.

One issue is the extent to which the Scottish Government must manage its in-year position from the resources that it has available in its existing funding. With Covid-19, there were elements of, in effect, fresh funding coming through, and that could be deployed to new events. In the cost crisis, to date, the Scottish Government has had to manage its in-year position closely, given that there might not be the same flow of in-year Barnett consequentials that we have had in recent years.

The Convener: The report that you published on Covid-19 spending indicated that a very high proportion—I cannot remember the figures off the top of my head—of additional spending that was available to the Scottish Government was the result of Barnett consequentials.

Stephen Boyle: Yes, you are absolutely right. Fiona Diggle might have the numbers to hand. If she does not, we will come back to the committee in writing. On the relative scale of Covid funding that came to Scotland, the vast majority was as a result of Barnett consequentials. The Scottish Government reprofiled some of its own spending where it knew that, as a result of changes in public spending patterns, there would not be the same demand. We have talked previously to the committee about examples such as support for bus operators, which was one of the undersubscribed funds that were reprofiled. However, in total, it was a small percentage of the overall funding, most of which came from Barnett consequentials.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Good morning, Auditor General. Public sector wages is obviously a big issue at the moment. There are many demands out there. Some have been met and settled; with others, we have no idea what the end result will be. What is clear is that inflation has wiped something like £1.9 billion in purchasing power off the Scottish Government's budget. Even if all the Barnett consequentials come through and are available to the Scottish Government, they will barely offset that.

It seems logical that money will have to be found somewhere to meet those wage demands either in part or in full. There are only two ways to do that: either we cut the budget in different places or taxes go up. Those seem to be, fairly starkly, the two available options, because, as you say, the Scottish Government has to balance its budget; it does not have any leeway in that.

The tax base is shrinking. People will have less disposable income because of increased energy costs and the cost of living crisis, so there will be less VAT spent because people will not be making the purchases that they would in normal times. For the UK, corporate taxes will go down as well, so there will be pressure there, too.

Wages are about £22 billion across the public sector, and funding for those deals will have to come out of the 2022-23 budget. What are the implications of that, including for budgets in future years? Your briefing is basically a red flag to remind everybody of the pressures that are coming through and to make sure that they are met. What will be the implications for future years?

09:15

Stephen Boyle: You describe the context, as we set out in the paper, absolutely correctly, Mr Beattie. There are public sector pay deals and, alongside that, significant growth in energy costs, both of which are unresolved. We know that energy costs are anticipated to rise further into early 2023 and that industrial dispute discussions are still taking place on public sector pay. If those disputes are resolved in this financial year, pay awards will have to be met from public funds within the 2022-23 budget and in the expectation that they will be consolidated, as is typically the case. They are not one-off pay awards to see public workers through the current year; they are added to the baseline that is applied into the next financial year. That will all have to be factored into the Scottish Government's 2023-24 budget-setting arrangements for next year.

Again, I agree with the context that you describe of the choices that the Government will have to make next year: public expenditure pressures and demands will be met either through taxation arrangements or through finding efficiencies in existing public spending.

On efficiencies, there are flexibilities, as we set out in the paper. Any Government can make different choices into the medium and longer term; it is much harder to do that in the short term. Finding the levers that the Government will want to use will be much harder.

In effect, we look to set out in the paper that there are in-year financial pressures. We want to be quite clear that, perhaps for the first time since devolution, the Scottish Government faces a real risk of overspending against its budget and that, with some of the spending choices that are available as Parliament considers the budget in the next couple of weeks and months beyond, there will be a very difficult fiscal environment in 2023-24.

Colin Beattie: I think that everybody would agree about the difficult fiscal environment. At this point, there is no reason to believe—tell me if you think otherwise—that the Scottish Government will not have a balanced budget. The budget has been balanced every year since 1999, so there is no reason to think that it will not take steps, however unpleasant those steps are. It has no choice: it has to balance that budget. There is no other option for the Government and no reason to think that it will not do that.

Stephen Boyle: The purpose of our paper was to highlight that there is a very real risk rather than to say that there is no expectation. There is a risk that that would be the case this year. That is not to say that the Government is not taking action. Again, the paper touches on it. In a moment, I will bring in Fiona Diggle to talk about some of the steps that the Scottish Government is taking this year. The Government has identified a total of £1.2 billion of savings through the emergency budget review and is looking to see what levers are available to it in-year. What that does not do is address—you started with this point—the still very significant unresolved costs that the Scottish Government faces in public sector pay and, of course, energy costs, given the volatility that is happening in the wider world.

I will pause and bring Fiona in to say a bit more on some of the levers that the Government has used already.

Fiona Diggle (Audit Scotland): The Scottish Government has been developing its strategy for financial sustainability over the past year. The work aims to provide a better understanding of the fiscal risk across the whole of the Scottish Government and to start to improve the data that is available to it. For that to work, it is important that it is shown transparently to improve the scrutiny of the financial position and highlight those risks as early as possible.

Colin Beattie: Let me move on to something slightly different. Exhibit 1 in your briefing states:

> “Councils currently spend around £86 million on food each year”,

mainly for school meals and in care settings. It is estimated that food costs will increase by 5 per cent over the next two years. Where did that figure come from? Given what we are seeing in the press, it seems a bit unlikely that it will be only 5 per cent.

Stephen Boyle: Fiona, do you have the detail?

Fiona Diggle: Absolutely. Those figures came from a response from the Convention of Scottish Local Authorities, the Society of Local Authority Chief Executives and Senior Managers and the Chartered Institute of Public Finance and Accountancy to the Finance and Public Administration Committee’s consultation over the summer. However, as you say, figures have been moving. It is a very fast-moving environment and those figures may have changed since then.

Colin Beattie: Already, we understand, there is a joint letter from COSLA, SOLACE, CIPFA and the Finance and Public Administration Committee saying that that money no longer reflects the actual cost of delivery. We have heard about the challenges that children living in poverty already have. We know that a huge percentage—25 per cent or thereabouts—go to bed hungry every night, so school meals are vital for those who fall into that category. What priority has been given to ensuring that the funding stays sufficient in that area, given what we have said about 5 per cent over the next two years sounding a bit light and the fact that already those organisations are saying that the money does not really cover it?

Stephen Boyle: I am happy to start and, again, I will bring colleagues in as they wish.

The point about 5 per cent is probably illustrative of the real volatility of change in costs. Even going back to when the Scottish Government set its budget for this financial year, there was an inflation assumption of around 3.5 per cent—I think that that is the figure that we refer to in the paper—and the consumer prices index was in double digits, the retail prices index was higher and there were differential rates of inflation. The point that you make is absolutely right: families, like public bodies, are not all experiencing the same inflation rates, and, if you are on a low income and most of your budget is spent on either energy or food, you will experience additional hardship. Therefore, it matters all the more that public bodies are able to do all that they can to support and prioritise—I think that that is the point that you made—to help to mitigate that.

We have touched on some of the steps that the Scottish Government has taken, such as bridging payments for free school meals, alongside initiatives in parts of the country to use public buildings as places of warmth for people. It is also important to highlight the fact, which is touched on in the paper, that last month saw the implementation of the extension of the Scottish child payment as one of the measures to mitigate some of the effects of the cost of living crisis.

Ultimately, it will be about prioritisation and for central Government bodies—the Scottish Government—and local authorities in Scotland to decide what they can do. That probably speaks to the wider point that, although many of the costs are fixed, central Government bodies in Scotland certainly do not have access to the borrowing arrangements that Scottish local authorities may use. Setting aside the rights and wrongs of borrowing for revenue purposes, which is what that would be, the matter will ultimately come down to steep prioritisation by the Scottish Government and local authorities of the steps that they choose to make to offset some of the real cost of living challenges.

Colin Beattie: You have touched on the fact that the Government and councils will be looking to provide some sort of safety net for those who are most vulnerable and will be most impacted by what is happening around us. I will broaden out the discussion beyond school meals. Your briefing talks about how the costs of supporting people through the crisis have increased. You say:

> "Social security spending is a key channel through which the Scottish Government provides support to individuals, and in 2022/23 accounts for approximately ten per cent of the Scottish Government budget."

New support is being given by the Scottish Government, which, I think, you also touched on, and, obviously, more costs will be attributed to that. Are you able to give a little more information on how you see that developing? With such a tight and fixed budget that must always be balanced, the inability to borrow and the fact that we are reliant on private sector taxes to support the whole public sector and the whole of this effort, the anxiety is about how it comes together. How are that support and the costs related to it being handled?

Stephen Boyle: I will bring in Fiona again in a second to talk the committee through some of our current understanding. As something of a caveat to much of our response and as you have heard a number of times this morning, forecasts, whether on inflation or public spending, are changing quickly given the volatility of the environment that we are in. We expect updated forecasts from the Scottish Fiscal Commission to support the Scottish budget later this month. The most up-to-date numbers on social security spending are set out at paragraph 20 of the paper, where it is stated that, in the next two financial years—2023-24 and 2024-25—an extra £369 million of public spending is required to support additional social security costs.

Alongside that, the Scottish Government is required by the Social Security (Scotland) Act 2018 to have reference to the current rates of inflation when setting future social security rates. The scale of change that is already anticipated, which is likely to be updated further from the SFC's forecast, alongside inflation running at double digits, clearly shows that there remains a possibility that the 10 per cent that social security spending already consumes of the overall Scottish budget will be required to increase. As you rightly say, that does not take away from the fact that the overall budget has to be balanced, and it therefore points again to the Scottish Government having to make clear prioritisation, whether that be on spending or taxes, to set that balanced budget in future years.

I will stop again and let Fiona add anything that she wishes to say.

Fiona Diggle: When the paper was published, we mentioned that we did not know what would come in the autumn statement and what the UK Government's intentions were regarding uprating benefits. We now know that it intends to uprate in line with inflation for working-age benefits, and, as we understand it, that will flow through to the block grant adjustments for the larger benefits that are devolved. The newer benefits, such as the Scottish child payment, are entirely funded from the Scottish budget, and no additional funding is provided through the block grant adjustments. Those will have to be covered by funding from the Scottish budget. We will know more about the Scottish Government's intentions for uprating benefits when it publishes its paper—that should be later this month—and when the Scottish Fiscal Commission publishes its updated forecast alongside the budget in December.

The Convener: Early in the briefing, you quote the Scottish Government's assessment that it faces

> "significant financial challenges".

Sharon Dowey has a series of questions that address that.

Sharon Dowey (South Scotland) (Con): Good morning. Page 9 of the briefing states:

> "Without very close management of the budget, there is a real risk the Scottish Government overspends against its 2022/23 budget".

Paragraph 24 states:

> "Early in 2022/23, the Scottish Government was forecasting a significant budget gap for the financial year, which was larger than could be managed through its usual budget processes."

Paragraph 25 goes on:

> "The Scottish Government has recognised that the financial situation it faces is by far the most challenging since devolution … The potential consequences and how this would take shape are unclear at this stage."

Can you share your views on what the potential consequences are? To what extent might the Scottish Government be preparing for that outcome?

Stephen Boyle: The very real consequence is that, for the first time since devolution, the Scottish Government may overspend against its budget. That event has not happened before, and a bit of thinking is required about what it means. In broad terms, overspends will be clawed back against next year's budget. There is also some reputational risk for the Scottish budget from overspending, given that the budget is fixed and, until now, has been managed against those fixed requirements. It is fair to say that some of the events that have followed since the Government's recognition of the significant risk that overspending posed will have gone some way to mitigate that risk.

09:30

We have already touched on some of the planned budget changes that the Government has made to offset parts of that risk, and we set those out in a bit more detail in exhibit 2. In spite of that, I do not think that we can sit here, in December, with the best part of four months of the financial year remaining, and say that the risk has been entirely mitigated, given the volatility of energy prices, unresolved public sector pay deals and rates of inflation that are far higher than they were when the Government's budget was first set at the start of 2022-23. It is safe to say that steps have been taken but they have not done away with the remaining risk.

Sharon Dowey: What scope might there be for the Scottish Government to identify further savings or carry out a reprioritisation of budgets to achieve a balanced budget for 2022-23?

Stephen Boyle: We can answer that up to a point. It may be that the Government is better placed to share with the committee, should you wish it to, some of its additional options and thinking. It has identified £1.2 billion of savings already, some of which have meant quite hard prioritisation choices for the Government, as they are in areas of significant policy and parliamentary interest, including employability schemes, mental health support and so forth.

That indicates that many of the easy choices have already been made, as have some of the difficult ones. However, the levers available to the Government become harder to exercise, given that most of the budget is already fixed. We touched on the extent to which the budget is related to staff costs, and the Government has committed to a policy of no compulsory redundancies. Alongside that, it has unresolved public sector pay deals to address. All of that shows that there is work still to be done to secure a financial balance in the current financial year, although we recognise that some significant steps have been taken.

Sharon Dowey: You have touched on some of the points in my next question. At the fifth bullet point of paragraph 29, the briefing states that reductions in spending include

> "£53 million in funding for employability schemes, and £38 million of mental health spending that has been reprioritised to support the NHS pay offer."

How is the £53 million reduction in funding for employability schemes likely to impact on achieving targets for tackling child poverty? Will your future work in adult mental health consider the extent to which the services have been impacted on by the £38 million of spending that has been reprioritised?

Stephen Boyle: I will start the answer and then bring in my colleagues. Taking your questions in reverse order, we are in the midst of our audit of adult mental health services in Scotland. We will publish that during 2023. As with all our audits, we will consider the funding environment and the budget available. I cannot be definitive this morning on whether that audit will specifically go into the effect of the £38 million in totality against the overall budget, but we will certainly look at the budget and the outcomes achieved from it for adult mental health services in Scotland. We will bring that to the committee next year.

On employability schemes, my colleagues may be able to say a wee bit more, but our understanding is that the Government was able to attribute the employment rates in Scotland and the anticipated demand for employability schemes as a factor in its being able to offer them up as a saving. Will that be a consolidated saving? If there are the anticipated changes in employment rates—as we are in a recession or are likely to move into one, that is likely to bring further changes in employment rates in the country—the availability of those schemes will be important and the Government will weigh that up.

You are correct in saying that we have been working on child poverty arrangements in Scotland. However, in the most recent briefing paper, we did not include the impact of reduced employability schemes, although we signalled our intent to carry out further audit work on child poverty arrangements. The availability of employment is a key factor in household income and lifting families out of poverty, so it is firmly on our radar for future activity.

I will pause and check whether my colleagues wish to add anything.

Richard Robinson: Briefly, one point is that there are financial consequences to making decisions, and then there are the consequences for people to be considered. One of the points that we make in the briefing is that, although difficult decisions might need to be made, and although they may have more of an impact on certain groups than on others, it is about the extent to which people are consulted and made aware of the impact of those, and the extent to which the Scottish Government can demonstrate how it can mitigate that impact where it can, and what the consequences are, in a transparent way.

The briefing brings out the sense of a need for reform over the medium term. It is not just about whether the Scottish Government budget comes in on its budget this year. If it did not, and it was borrowing from next year, there would be a cumulative impact, because there would be a smaller budget for next year.

One of the points is about demonstrating the need for reform to keep to the medium-term RSR. In paragraphs 72 to 74, we talk a little about what the Scottish Government is doing on that. That includes the public spending portfolio board, which is being set up to consider how the reforms can come together to ensure the flow of the RSR. That is a critical area in making sure that the medium-term position continues to be considered alongside the need for reform in the public sector.

The Convener: I need to refer members to my entry in the register of interests. I want to ask a little bit more about wages and salaries, because that issue is part of your public sector reform agenda and you have mentioned it a couple of times this morning already. Economists often look at wages and salaries as a percentage of overall gross domestic product in the economy as a whole. Have you looked at wages and salaries as a percentage of public expenditure in Scotland over, say, the past decade? Is the percentage going up or down, or is it about the same? If you are not able to supply that information immediately, it would be of great interest if you could follow that up.

Stephen Boyle: I am happy to come back to the committee with any additional detail that we have. By coincidence, we had a similar conversation with colleagues earlier this week. It is 10 years since Audit Scotland published a report on Scotland's public sector workforce. Given the intended prioritisation—Richard Robinson mentioned the Government's resource spending review—it feels timely for us to revisit some of that work.

We are thinking carefully about how and when we best report on Scotland's public sector workforce, given the changes that have happened in the intervening period. You will not be surprised to hear me say this, convener, but getting access to high-quality data, which we would want when making some of the overall judgments, is often a challenge.

What is clear—this is one of the things that we want to consider carefully—is that, although we will have statistics and numbers on the amount and percentage of Scotland's public sector workforce, the number who deliver services on behalf of the public through public funding is, typically, far higher. Funding through grants goes to voluntary organisations and third-sector providers that are involved in delivering public services, and which are just as crucial, but they will not necessarily be captured in the statistics. We will think carefully about how to scope that work, given its importance for public spending and some of the reforms that will be necessary in future. We can come back to the committee in writing to keep you informed of our thinking on that.

The Convener: That would be great. You are well versed in dealing with complicated matters and in giving us succinct reports, so thanks for that.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Auditor General, I draw your attention to paragraphs 13 to 15 of your report. In your opening remarks, you described the budget as "inflation-diminished". Can you put a figure on that? The First Minister put a figure of £1.7 billion on it, as you mention in paragraph 14. Are you broadly in agreement with that?

Stephen Boyle: As you say, we quote the First Minister's figure that there is, in effect, £1.7 billion less public spending purchasing power as a consequence of the really volatile inflation rates that we have all seen in the past year or so. To repeat some of the earlier comments, that is not universally felt. Some families will be experiencing a far higher rate of inflation than others, and the same applies to public bodies.

In terms of the scale of change, 3.5 per cent was the inflation assumption when the Scottish budget was set for 2022-23. The most recent inflation rate is, I think, over 11 per cent for CPI and will be slightly higher for RPI, and the figure is anticipated to remain high for a while as we move into 2023. All of that points to the Government's budget buying less than it would have when it was anticipated, and those challenges will remain into 2023-24.

Willie Coffey: Paragraph 15 sets out that the comprehensive spending review projected a 3.3 per cent real-terms growth in budgets, but the figure is now expected to be 1.9 per cent. Is that a further expectation of a diminishment, as you put it, of the budget? That is on top of the other issue, is it not? Have you estimated what the value of that might be?

Stephen Boyle: I am not sure whether I have the detail of that to hand. We may need to come back to the committee on that in writing, but it is certainly another example of the fiscal environment being incredibly challenging in the current year and moving into next year. Public funds, as they exist in the current spending plans, are at risk of doing less than was intended when the budget was originally set.

Willie Coffey: I am just trying to get a flavour of what the inflation element plus the diminished spending review percentage, which will be much less than was forecast, will be when added together. If we then compare that with the Barnett consequential that was mentioned of £1.5 billion, where do we end up? Do we have any idea of the totality of the impact on the Scottish budget?

Stephen Boyle: You will certainly have a better idea in the next couple of weeks, when the Scottish Government presents its draft budget to Parliament. I am conscious that I am using the word "volatility" a lot this morning, but the circumstances that the Scottish budget is facing are unprecedented, given the risk of overspending in the current year, along with the fiscal impact of what that means for next year's budget.

You will know more in the next couple of weeks. In particular, you will have updated forecasts from the Scottish Fiscal Commission that will inform what the Scottish Government can do to set its budget for next year and then whatever policy choices, of course, the Government looks to make on taxation and spending as it sets its priorities for 2023-24.

Willie Coffey: I seek clarification on exhibit 2, which you mentioned earlier. There is an orange section that shows £193 million of increased income. I can see no detail surrounding that. What is that, and where has it come from?

Stephen Boyle: Fiona Diggle will talk you through that. One of the bullet points in paragraph 29 gives a bit of additional information about some of the receipts that the Government has had from the ScotWind clearing process, and other factors. Fiona can say more.

Fiona Diggle: That is right. In September, the Scottish Government announced additional Barnett consequentials of £82 million, but additional income was also applied from the ScotWind process. Since then, there have also been smaller additional receipts from capital projects.

Willie Coffey: Okay, that clarifies that. It is a small drop in the ocean, but we are looking for any good news in this briefing.

You mentioned the fiscal framework levers in the report. They were not really designed for this scenario or the current circumstances; they were meant just to adjust for volatility here and there. What is your impression of the fiscal framework levers? Are they adequate to cover the situation in which we find ourselves? Should there be a revision or reconsideration of what the levers do?

09:45

Stephen Boyle: I am happy to start. I will ask Richard Robinson to come in and say a bit more about the fiscal framework arrangements. I will say a couple of things. First, it is fair to say that the fiscal framework was not designed to cope with the level of change that the fiscal environment is causing for Scotland's budget. To all intents and purposes, it was designed to cope with annual volatility in tax receipts and to provide limited borrowing powers to cope with changes in the Scottish Government's spending plans; it was not designed to cope with what we are seeing in terms of somewhat uncontrolled energy costs, inflation in double digits and so forth.

My role is not to comment on policy choices; negotiations between the Scottish Government and the UK Government must determine what changes to the fiscal framework would look like and whether there will be a successor to it. Of course, Audit Scotland will keep a close eye on that and the implications for future fiscal sustainability arrangements.

Before I hand over to Richard, I will repeat, if I may, that it is perfectly fair to say that the framework, as it stands, was not designed for the environment in which we are operating.

Richard Robinson: Devolution of some taxes and borrowing, alongside the extension of devolution of social security, brought with them a host of new complications and nuances in managing the budget during the year. I will touch on a couple of those.

We have already mentioned social security: the Scottish Government has to manage demand against its policy choices. On taxes, the Scottish Government will have to make decisions about the relative performance of Scottish income tax and its policies to the UK base, by which it is obviously affected. Those things are within the Scottish

Government's gift, but there could be difficult decisions to make. How those work through will be complex. We will see how it all works with the Scottish budget and the Scottish Fiscal Commission forecasts.

We touched on the comprehensive spending review earlier. Another complication is that the UK Government does not, as we understand it, currently intend to do another CSR, so the Scottish Government's management of the medium-term financial position in relation to what is in place is important.

How any additional spending by the UK Government is funded also matters. If it were to be funded by new borrowing at UK Government level, that could generate a Barnett consequential for the Scottish Government to employ. However, if the UK Government increases spending in one area by decreasing it in another, that will not come through to the Scottish Government as a Barnett consequential. The fiscal framework brings additional powers, but it also has complications attached to it, which is why monitoring the budget and the medium-term position is so important.

Willie Coffey: Okay. Thank you very much for that.

Lastly, you mentioned a number of possible levers that might provide us with flexibility. You talked about use or otherwise of reserves. You talk in your paper about capital borrowing powers, and you mentioned flexibility in relation to ring-fenced funding and so on. Can you give us a flavour of whether those can be realistically deployed, varied or whatever, to help us through the situation that we are in?

Stephen Boyle: I would be delighted to do that. I might bring Fiona back in, in a second, to give a bit more detail. All those levers are being used to support the Government's attempts to deliver financial balance in the current financial year. Paragraph 39 of the report—if I have the right reference—confirms the Government's attempts to use reserves this year to support financial balance.

In terms of some of the wider public sector flexibilities that existed, the Scottish Government and its partners in local government have used some additional flexibility to allow local government bodies, including councils, integration joint boards and health and social care authorities, to access reserves to support public sector pay arrangements. Those flexibilities are important in the particular year, but they can be used only once. That is the issue; it does not necessarily provide a template for addressing the financial challenges in the following financial year.

Richard Robinson rightly mentioned that it led us to the point that is made in the part of the paper on the future—that in order to secure financial balance and the health of public sector finances and service delivery, there should be more focus on what reform might look like. That will, ultimately, be the most important lever that the Government will have to deliver high-quality and fiscally sustainable public services.

Willie Coffey: Deployment of those levers is in no way sufficient to get us to where we want to be. They are helpful, but they are in no way sufficient to overcome the difficulties that already exist.

Stephen Boyle: The issue is that they will help to overcome the problem only once, if they are sufficient in scale to do so. We already have unresolved public sector pay arrangements, and once those levers have been used, they will not be a source to go back to. They will not address some of the significant challenges and resulting prioritisation that local and central Government will have to face to secure high-quality services and fiscal balance.

Willie Coffey: Thank you very much for that.

The Convener: Craig Hoy has a supplementary question on that.

Craig Hoy (South Scotland) (Con): Good morning, Mr Boyle. I want to take up the point about local government flexibilities and ring fencing. Obviously, when the UK Government hands consequentials to the Scottish Government, they come with no strings attached and little in the way of hypothecation, other than, I think, some elements in relation to national insurance contributions. When that money flows to councils, however, there is a significant degree of ring fencing. With the flexibility that you have identified in-year this year, and given that the cost of living crisis and the pressures that we see are likely to last into next year and possibly the following year, should we expect that greater flexibility will be given to councils in their budgets? Would that be desirable at this time?

Stephen Boyle: Fundamentally, it is a policy choice for local government and central Government to agree on the flow of funds from central Government to local government. We have, for example, commented in previous papers on Covid spending that some requirements on public bodies, including local government and others, were eased so that they could spend as they saw fit in order to deliver services.

We have just touched on the fact that some ring fencing has been reduced in order to access financial resources to support public sector pay deals. Whether that acts as a template for how the fiscal relationship between central Government and local government will work in years to come will need to be an informed choice that both parties make. They need to understand the implications of doing so and of not doing so. Earmarking, in its purest sense, is designed to ensure that money is spent on a specific policy intent. As you will know well, Mr Hoy, there have been swings in the extent to which local government budgets have been earmarked over time. However, doing so restricts some of the wider choices and flexibility that might be required.

Craig Hoy: You referred to IJBs. The briefing states:

> "The Scottish Government has requested that some funding which is currently allocated for Covid-19 in integration authority reserves is now used for wider Covid-19 purposes."

Is it appropriate for the Scottish Government to seek to influence how integration authorities use their reserves? Do you have examples of how that money is being used in other areas?

Stephen Boyle: I will bring colleagues in, if there is anything that they wish to add. In terms of appropriateness, that has been a matter of discussion between the Scottish Government and its local government partners, through the Convention of Scottish Local Authorities, specifically exploring whether that could be a source of support for public sector pay deals and looking at the scale of the challenge in meeting that requirement. It is fair to explore whether moneys that were originally intended for Covid spending still need to be spent in that way. If that were to be deemed not to be the case, that would be why the money would be used to address other fiscal pressures.

Your question was exploring the opportunity cost and asking whether that point in the briefing means that there has been a reduction in Covid services. Those choices will have to be weighed up clearly and will have to be made again in the future, if that is the case. I will bring colleagues in on whether we have detail about use of that money beyond pay deals.

Richard Robinson: I do not have such details. One thing that we bring through in part 1 of the paper is the sense that there are now multiple challenges that the public sector must deal with all together. They include the pre-existing challenges with financial sustainability; what we have seen during the Covid-19 pandemic, and with recovery and the backlog; and the cost of living crisis. At the same time as dealing with that, it is important to maintain the long-term view and to take preventative measures. The extent to which there are flexibilities in the system to manage those things together is a policy decision. That is the context.

The Convener: I will move to another area. You will not be surprised to learn that I was drawn very much to paragraph 42, in which you spell out once again that

> "there remains a need for a public consolidated account to provide a comprehensive and transparent assessment of the state of Scotland's public finances."

Our trying to get that has been something of a mission for you and the Public Audit Committee. What progress is being made in attaining it?

Stephen Boyle: Yes—there has been a long-standing conversation between the committee, me, my predecessor and the Scottish Government on the need for that and on the progress that the Government is making on it. My section 22 report on the Scottish Government's consolidated accounts for 2021-22 will be published later this afternoon, when the Government lays its accounts. I go into quite a bit of detail therein on the progress that the Government is making, but without pre-empting publication, I will say that it is an as yet unfulfilled delivery requirement. I say more in the paper about why that is the case. Its absence, though, is a barrier to informing Parliament of choices that would lead to better public sector reform. Parliament does not have the complete picture, including the totality of assets and liabilities, which would lead to better choices on reform.

One of the risks—I am happy to go into more detail on this, if you wish—is that public sector reform will be done piecemeal rather than there being a view taken across Scotland about assets and liabilities. As yet, unfortunately, we do not have the complete public sector accounts that the committee and Auditors General have called for.

The Convener: Okay. Do you have any idea when the end point will be reached? Have you had any indication from the permanent secretary or any other part of the Government about where that is?

Stephen Boyle: It is reasonable to say that some progress has been made this year. One of the barriers—again, I will be happy to go into more detail when I brief the committee on the section 22 report—relates to challenges in preparation of whole-Government accounts across the UK. That has been delayed this year due to technical issues in His Majesty's Treasury, so the delay in progress cannot be laid entirely at the feet of the Scottish Government, but there are requirements to prioritise the matter. In the greater scheme of things, people might say that it is just another set of public accounts, but in the years to come it will be a key information source to inform policy decisions. We will continue to seek its completion as quickly as possible.

10:00

The Convener: Before we turn to Craig Hoy, who has some questions about public sector reform, I want to interrogate a little the idea that, traditionally, certain parts of Government expenditure are protected at a time when there is a retrenchment in finances. We have had briefings and statements in Parliament about the areas that the Government is prioritising, but I wonder whether you have detected, in the work that you have been doing in this area, any sense that there has been any movement or shifting of resources between one protected area and another or within a protected area—or, indeed, that the protections are being reviewed.

Stephen Boyle: We expect that, in the budget that will come to Parliament in the next two weeks, you will see a clear articulation of those priorities flowing through to budget lines. I reference the Finance and Public Administration Committee's recent report, which states that those priorities also flow to the national performance framework and the national outcomes and that it is clear that there is a connection between budget, spending and outcomes. As you will know, convener, we have not seen that clearly enough thus far. In order to support scrutiny and transparency of public spending, it matters that there is progress on those fronts.

We note the Government's priorities as set out in the resource spending review—tackling child poverty, tackling climate change, having a fairer and greener economy and delivering excellent public services—and we expect to see them flow through.

Regarding our work, we have mentioned adult mental health, and we have further work planned on child poverty. I add for the committee's interest that we will also publish an audit of the Scottish Government's arrangements to manage its climate change ambitions. That will come in the early part of 2023. Alongside spending, there will be scrutiny to support the committee's interest therein.

The Convener: Thank you. I want to bring Liz Smith in at some point, but I will turn to Craig Hoy next and perhaps bring Liz in after that.

Craig Hoy: Paragraphs 70 and 71 of the briefing were the two that drew media attention. In paragraph 70, you state:

> "In the face of the financial challenges, the pace and scale of reform needs to increase, and this will require a sense of urgency from the Scottish Government, at a time when it is also pressing to resolve short-term issues facing the budget."

You go on to state in paragraph 71:

> "If this does not happen, it will become increasingly difficult for the Scottish Government to manage the pressures on the budget, meaning that the cuts to spending necessary to balance the budget will become larger, and the quality of public services delivered will worsen."

To move to that point, there will have to be some radical action on the pace and scale of public sector reform, which will have to start relatively quickly.

You will have seen the report about NHS managers discussing some quite radical potential solutions to the problems in the NHS, including charging for prescriptions or scaling back free prescriptions. Are those discussions happening throughout the public sector? Has the Government charged the public sector with an opportunity to look radically at the basis on which public services are operating in Scotland?

Stephen Boyle: We have seen from Government statements—particularly those that have referenced the resource spending review and those from the Deputy First Minister—that reform is inevitable. Those statements have talked about the number of public bodies that we have and the way in which public sector services are delivered. Through our work and that of my colleagues in the Accounts Commission, we have regularly called for a co-ordinated programme of public sector reform. My predecessor and I have highlighted through regular reporting the unsustainability of health and social care arrangements in Scotland. I will publish my next "NHS in Scotland" report at the end of February 2023.

All those factors point to the need for leaders—both political ones and officials—to do the thinking that will deliver high-quality, fiscally sustainable public sector services in the future. All those steps represent the types of conversations that ought to be happening.

However, it is important to emphasise that that must not be done on a traditional silo basis from one organisation to the next. Health leaders, local authorities and other public bodies need to have those rounded conversations about how services are going to be delivered. Whether they are about the workforce, the estate, the provision of services or the sharing of services, all those factors need to be taken into account so that there are sustainable public sector services in the future.

Craig Hoy: You mentioned health and social care. The creation of a national care service is attracting significant attention both in Parliament and in the care sector. When we have discussed it previously, you have said that you would not wait until after the event to provide commentary and critique of the national care service. I also note that you said earlier that there is going to be a balance between short-term necessities and longer-term priorities.

Looking at social care and what the Government has brought forward in relation to a national care service, including the financial memorandum that accompanies the bill, is the creation of such a service a short-term necessity or should it be categorised as a longer-term priority? Should we be targeting resource towards the necessity of tackling the crisis in care today?

Stephen Boyle: A paper that we published not that long ago on social care arrangements really speaks to the issues that you describe, Mr Hoy. In it, we said that there is a short-term crisis facing social care arrangements in Scotland such that we cannot wait for the creation of a national care service to deliver a sustainable level of social care.

As ever, whether in relation to a national care service or other parts of public sector reform, there will always be a coherent and reasonable argument that now is not the time. We are dealing with some very significant challenges. However, whether it is the cost of living crisis, the pandemic, Britain's exit from the European Union or the fiscal crisis before that, I fear that there will always be the next crisis that says that we cannot do things right now.

Looking at the current scale of public finances, if we do not make the radical changes in thinking that we need to make, we will be having the same conversations three, five and 10 years from now, and guarding against the risk. I repeat that we should not do this one body at a time. There must be a co-ordinated approach and leadership from the Government that says, "This is our intent and this is what we will prioritise." There will have to be prioritisations.

A last point on the national care service is that, when we wrote to the Finance and Public Administration Committee as part of its consideration of evidence on the financial memorandum to the bill, we highlighted some of the risks that are clear to us about the scale of the numbers that are set out on what the national care service might cost relative to the learning from some other progress on public sector reform. All those things have to be taken into account. We need both short-term and longer-term reform.

Craig Hoy: In paragraphs 72 and 73 of your briefing, you note that the Scottish Government has set up a new public spending portfolio board and a public spending analytical unit to help to drive the required changes and reforms. Are you confident that those organisations will be effective? Could they just further clutter what is already quite a crowded stage?

Stephen Boyle: Richard Robinson mentioned that earlier, but I will ask him to give a bit more detail.

Rather than say whether I am confident that they will be effective, I will say this: they have to be effective in order to support effective public sector sustainability and the reform that needs to be delivered for us to arrive at that point. Richard may want to elaborate, but the key point is that this must not just be done at Victoria Quay or St Andrew's house. There needs to be full transparency, collaboration and involvement of the public in the conversations about what public sector services will look like in the future. That matters, and it needs to be done in a way that is open and accessible. I will bring Richard in to say a bit more about how that is intended to work.

Richard Robinson: Fiona Diggle might want to comment as well. At a broad level, I refer back to Covid-19 and what happened with the reactive nature of spending there. One thing that came through from the Covid-19 changes was the need for collaboration among leadership to work towards shared goals and the need for analytical support to enable them to make good decisions. In that sense, having a public sector public spending portfolio board that enables that in the context that we are discussing is reasonable.

With Covid-19, we found that there were some difficulties around data and the ability to see spending across portfolios. As things have been prioritised in the current environment, the ability to see those links between elements of the budget and to see how they flow together will become increasingly important. It remains to be seen exactly what the work of the public spending analytical unit will be—we will see that over time, as it develops—but it seems sensible to have an analytical capacity to allow better joining up of data and spending across the public sector.

Craig Hoy: On the point about the lessons that were learned from Covid, the pandemic precipitated significant changes in the way that certain services were delivered with, for example, drive-through testing and vaccinations and greater use of digital. Are you picking up that those lessons and the capabilities that they could bring to public sector reform are being embraced within and across the public sector?

Stephen Boyle: A really strong feature of the pandemic was that public bodies set aside some of the traditional decision making—some might call it bureaucracy—around how public spending activities were delivered. Public money was spent quickly where it was most needed and, as we have discussed with the committee a number of times, that was, by and large, done well in Scotland. We did not see the levels of fraud and error that have been reported in some of the other schemes elsewhere.

However, does that mean that that is how things are operating currently? We have not done any specific work to follow that through yet. There is always a risk that, as the pandemic has now eased, some of the traditional behaviours and ways of working that we saw before the pandemic will come back to the fore. Public bodies really need to guard against that, grasp some of the innovation that we saw and embed it as part of their way of working. Those behaviours will result in better public services and lead to some of the more preventative spend—I refer to the principles of the Christie commission, which we have spoken about on a number of occasions—being embedded and delivering better public services.

We continue to monitor and report on some of the behaviours across all our annual audit work. If such approaches have not been taken, we always have the option of highlighting that through our statutory reporting to the committee.

Craig Hoy: Page 22 of the briefing states that

“The public should be fully involved in the key decisions about how public services need to change”

and how they are reformed. What evidence have you seen that the Scottish Government and other public bodies are engaging with the public? Is there a risk that there may sometimes be a difference between public opinion on a stated public policy objective, such as the creation of a national care service, and the actual deliverability and practical roll-out of that?

For example, the minister said today that the reason why the Government will press ahead with an NCS is that the public support it, but we have stakeholders such as unions, the national health service and those who are involved in care saying that they do not support the model. Is there a risk that public opinion and the reality on the ground may be divergent?

Stephen Boyle: That is a risk for the implementation of any policy. There will always be those who support it and those who do not. What matters is that public bodies, local and national Government and others are seen to follow genuine, tried and tested and, where appropriate, legislative engagement arrangements, perhaps following the Community Empowerment (Scotland) Act 2015, and that they are seen to take on views through consultation and actively listening to contributions. That will not do away with the fact that no extent of change will please everybody. However, proposed changes can be transparent so that, ultimately, the public can see their nature and what they will cost.

I refer back to the contributions that Audit Scotland and others have made on the proposed national care service. The financial memorandum contains risks. It is important that that is set out clearly so that the public understand what the change in service will be, but also what the establishment of the service will cost, should we get to that.

10:15

The Convener: We have a few minutes left, so I invite Liz Smith to ask a couple of questions.

Liz Smith (Mid Scotland and Fife) (Con): Thank you, convener. Mr Boyle, in relation to the convener’s first questions this morning, you said that a very high percentage of the Barnett consequential spend in Scotland went on Covid, which was very important in trying to get us through the pandemic. How easy is it to track where that Covid spend went? Are you aware of any unspent Covid money?

Stephen Boyle: We have published a number of reports and papers that set out that the Scottish budget and financial reporting system was not designed to cope with a fiscal event such as the financial support for Covid. Financial reporting and budget setting tend to be based around departmental budget lines. Of course, Covid spending covered all those budget lines. There is a recognition through our reporting that there needs to be a gathering up of Covid spending. As the pandemic evolved, that happened to an extent, which allowed a broader tracking of the Covid money that was spent. We are finalising some work around that, through our reporting, to set out for the committee, Parliament and public attention our assessment of total Covid spending. We will publish that early in 2023.

Overall, as we mention in the report, as was the case at the end of the 2021 and 2022 financial years, some Covid money will be held in the reserves of local authorities or integration joint boards. During this financial year, some of that has been reprioritised as it was no longer deemed necessary for the original intent, and some of it have been used to support public sector pay deals. We hope to give as much clarity as possible on that through our reporting, but it probably illustrates the point that I started with, which is that the budget and financial reporting systems were not designed to cope with that kind of pan-spending-style arrangement that we saw during the pandemic. That might speak to the point that I mentioned this morning and on other occasions: our public budgeting and spending arrangements are quite rigid in terms of departmental budget lines. There is encouragement for Government financial reporting to deploy flexibility in order to better tease out public spending that links to events and, indeed, the national outcomes.

Liz Smith: That is a very helpful answer. It is good to hear that a paper is coming in early 2023 about that. Is it your understanding that some of the money that is held in the reserves of councils or IJBs could be used to ease some of the financial pressures that councils are under just now?

Stephen Boyle: That is what we have seen through the reallocation of some of that money to support public sector pay.

Liz Smith: So, that could that help the budget, from that angle.

Stephen Boyle: I add the caveat that that is the case only up to a point. As I discussed with Mr Coffey earlier, you can use that money only once. In reality, the Covid-money part of those reserves is likely to be a pretty small part, and most of councils' reserves were earmarked for specific purposes before Covid.

Liz Smith: I have just one more question, convener.

You rightly mention in paragraph 35 that the Scottish Government has capital borrowing powers and that, while capital borrowing cannot be used to support resource spending, there are certain types of capital spending that could be moved to resource spending. Can you clarify whether there are specific criteria that need to be adhered to in order for that capital spend to be moved to resource spend?

Stephen Boyle: In short, yes. There are criteria that frame the decisions on moving spending from capital to resource. It is not a typical thing; it is safe to say that it is used in fairly specific circumstances. There is, quite rightly, a separation between capital and resource budgets, which is about short-term recurring costs relative to longer-term investments. Richard Robinson can set that out in a bit more detail.

Richard Robinson: In paragraph 35, we refer to HM Treasury's consolidated budget guidance and give an example from what we saw during Covid-19 of how that might apply. In that instance, an allowance was made for local government to use some of its capital receipts from selling buildings and so on to meet some of its short-term day-to-day spending needs. We highlight that example because there are some borrowing powers on the capital side—I think that £450 million each year is able to be borrowed—and, if something like that scenario were to happen again, the Scottish Government could use its capital borrowing to replace what had been lost.

Liz Smith: And any decision in that regard has to be set against the HM Treasury criteria.

Richard Robinson: Yes.

Liz Smith: That is helpful. Thank you.

The Convener: I conclude the evidence session by thanking Fiona Diggle, Richard Robinson and the Auditor General for the time and evidence that they have given us. We agreed that it would be useful for you to follow up some issues and get back to us on them, and we would welcome receiving that information when you are able to give it to us.

We will now move into private session.

10:22

Meeting continued in private until 11:40.

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