OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit Committee

Thursday 19 January 2023

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Thursday 19 January 2023

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PUBLIC AUDIT COMMITTEE
2nd Meeting 2023, 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)
Michael Oliphant (Audit Scotland)
Helen Russell (Audit Scotland)

CLERK TO THE COMMITTEE

Lynn Russell

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Public Audit Committee

Thursday 19 January 2023

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Richard Leonard): Good morning. I welcome everybody to the second meeting in 2023 of the Public Audit Committee. The first item on our agenda is consideration of taking agenda items 3 and 4 in private. Do we agree to take those items in private?

Members *indicated agreement.*

Section 22 Report: "The 2021/22 audit of the Scottish Government Consolidated Accounts"

09:00

The Convener: The principal item on our agenda is consideration of a section 22 report, "The 2021/22 audit of the Scottish Government Consolidated Accounts". I am pleased to welcome our witnesses this morning: the Auditor General for Scotland, Stephen Boyle; Michael Oliphant, audit director at Audit Scotland; and Helen Russell, senior audit manager at Audit Scotland. We have an extensive range of questions to put, but before we get to that, I ask the Auditor General to make a short opening statement.

Stephen Boyle (Auditor General for Scotland): Many thanks, convener. Good morning, committee. I am presenting this report on the 2021-22 audit of the Scottish Government under section 22 of the Public Finance and Accountability (Scotland) Act 2000.

The Scottish Government's annual consolidated accounts are a critical component of its accountability to the Parliament and the public. The consolidated accounts cover over 90 per cent of the budget that was approved by the Parliament for that year. The accounts show what the Government spent against each main budget heading and the reasons for any significant differences or variances. They also show the assets, liabilities and other financial commitments that it is carrying forward to future years. My independent opinion on the consolidated accounts is unqualified. That means that I am confident that they provide a true and fair view of the Government's finances and that they meet legal and accounting requirements.

There are three areas from my report that I would like to highlight. The first is on budget performance. Net spending for the year was £49.2 billion, which was £2 billion less than budget and an underspend of about 4 per cent. Spending levels remained significantly higher than in pre-pandemic financial years, with around £5.8 billion of the 2021-22 expenditure relating to the Covid-19 response.

The second area is financial sustainability. The Scottish Government is facing intense challenges in managing its finances, as tougher economic conditions, such as higher inflation and increased interest rates, emerge. Public sector pay issues remain unresolved in several key sectors. The demand for health and social care services remains unsustainable and the number of people accessing social security benefits is significant. Those are just some of the areas that will add further financial pressures in the current year and beyond.

I welcome the Government's increased focus on financial sustainability and the longer-term focus on managing its finances. Therefore, it will be important for the Government to ensure that its policy choices and spending commitments are fully costed in forthcoming budgets and that its approach to using reserves is more transparent, particularly where there are funding implications for the wider public sector.

The third area is financial reporting. Last year, the Scottish Government committed to a revised timetable for the development of a devolved public sector account on a two-stage basis. However, progress on finalising the stage 1 draft account remains slow. The need for a comprehensive assessment of the state of Scotland's public finances has never been greater, and I am, therefore, asking the Scottish Government to move more swiftly to fulfil its commitments in delivering this important account.

As ever, my colleagues and I will do our best to answer the committee's questions. Thank you.

The Convener: Thank you very much indeed. I turn straight away to Craig Hoy, who has questions on financial management.

Craig Hoy (South Scotland) (Con): Good morning, Mr Boyle. Your report identifies a £2 billion underspend across the capital and resource budgets. Is that level of underspend reasonable? Is it reasonable to reflect and expect that the reason for a significant portion of that underspend relates to the Covid pandemic and the expenditure of those funds, especially given that we are in year two or three of Covid and should have more predictability about the way in which those funds are disbursed?

Stephen Boyle: In a moment, I will bring Michael Oliphant in, but I will first consider some of the Covid dynamic of the underspend. In exhibit 1 of our report, we look to set out, under departmental headings, the range of underspends that contribute primarily to a resource underspend of just under £2 billion. The two departmental lines that contribute to that most significantly are finance and economy, and education and skills. Actually, there is a third: net zero, energy and transport. It is true is that the underspend is larger than we have seen in previous years and we make the connection in our report with Covid and some of the unpredictability about how moneys for Covid would be spent and when they were actually delivered. We have been speaking to the committee about that over the past year to 18 months or so.

The report is something of a snapshot of the year ending March 2022: moneys that had not been spent at that point would be reflected in the underspend. We go on to say in the report—Michael might want to say a bit more about this—that what that means is that, as the public health crisis has ebbed, moneys that had been intended for a Covid response might not necessarily now need to be used in that way and will be available for other purposes.

My last point is that there is also a transparency component. There should be visibility around what the money was intended for and what it will be used for in the future. Again, we are making the point that the Government should improve the transparency of how it spends money relative to what was originally intended.

I will pause there, Mr Hoy. Michael may want to say a little more about the Covid dynamic.

Michael Oliphant (Audit Scotland): Although the overall underspend is higher than it has been in recent years, it is still low in percentage terms. By comparison, previous years' underspends have been just over 1 per cent, while the underspend that we have seen in the past year is 3.7 per cent. The Government cannot overspend its budget, so it has quite a challenging job to get the underspend as low as possible.

It is important to be aware that only a proportion of the underspend is effectively cash that is transferred through the Scotland reserve into subsequent financial years, which the Scottish Government has budgeted for. The vast majority of the underspend, including £674 million in relation to student loans, represents technical accounting adjustments; it does not represent cash. So, for example, £300 million in relation to capital borrowing was not used. A decision was made on that after the last opportunity to amend the budget, so the underspend ended up being higher than perhaps would otherwise have been wished. The spring budget revision represents the last opportunity to amend the budget for the year.

Craig Hoy: That is fine. I am just looking at the Covid-related funds. It appears that business support and energy programmes are two areas where there was, perhaps, a significant underspend. Does the scale of the underspend in those areas reflect any structural issues in the way that those funds were built or any weaknesses in the approaches to programme planning? I am just thinking, for example, of some funds that constituents contacted me about. The window of opportunity to apply for them was very short, and therefore there was underspend in relation to those programmes and initiatives because they were undersubscribed. Is there an issue, perhaps, in the way that those funds were constructed?

Michael Oliphant: Not that we are aware of, or not that we found during the course of the audit. Given the nature and the dynamic of the Covid pandemic as it emerged—for example, the omicron variant that emerged towards the end of last year—the Government had to move quickly to pull funds together to make funding available for those different streams. Clearly, it spent less than it thought it would, but that money is not lost; it has been rerouted to other parts of the public sector. The business support schemes—where there was a £184 million underspend—and the self-isolation support grants have to be led by applications, so the demand has to be there in order for the amounts to be issued.

Craig Hoy: Yes, and obviously there are rules governing how much can be carried over from one year to the next into the reserves. Is there a risk that any money was actually lost during that process, or can it all be redeployed into other areas?

Michael Oliphant: The final amount is yet to be confirmed, but it is within the levels that can be put into the Scotland reserve and drawn down. It is in line with what the Government announced in the provisional outturn statement, back in June, when it said around £650 million would transfer into the following year. It is within the tolerance levels of the Scotland reserve.

Craig Hoy: Okay. The capital expenditure underspend was higher—I think it was 7.5 per cent—and focused on energy and housing capital programmes. Will that underspend in any way jeopardise the meeting of targets and outcomes in two important areas of the public policy landscape?

Stephen Boyle: It is hard to give you a definitive assurance one way or the other. One of the things that businesses, the public sector and private individuals have seen is that the cost of capital programmes is increasing. There is a building inflation component that is making those projects more expensive. The cost will not be fixed or stable; we can safely say that the cost will be increasing. The fact that there is an underspend probably reflects progress towards delivery of the programmes. The money is not lost—it will be there—but public bodies need to make a regular assessment of the future cost of delivering their capital ambitions.

Craig Hoy: Going back to Covid and transparency, a huge amount of money was made available to support public services and the public through the pandemic; I think that it was £5.8 billion in 2021-22. Do you consider that the Scottish Government has done enough to respond to concerns about transparency in the reporting of Covid-19 spend? Is there any legitimacy in fears that money that should have been destined for Covid projects was squirreled away for other areas of Government expenditure?

Stephen Boyle: We have been consistent on that. There is recognition that the systems of budgeting, budget amendments and subsequent financial reporting were not designed to cope with the volume of change that we saw over the course of the pandemic. I have lost count, Mr Hoy, but I remember, from previous discussions with the committee, that there were many hundreds of separate funding announcements in the earlier stages of the pandemic. The budget reporting system does not allow for that level of volatility. We have made a recommendation—and we repeat the general transparency point in today's report—about the need to take stock of the experience of the pandemic and look at whether there is enough transparency and visibility for the Parliament and decision makers in public bodies to support good, effective, high-quality public spending.

On the question whether the moneys have not been used, as Michael said, within the confines of the fiscal framework, unless underspends are technical in nature, such as that relating to student loans, they will be made available in subsequent budget years through the Scotland reserve provisions.

We make one further final point. It would be helpful if there were more visibility of the Scotland reserve and the numbers involved. The Scottish Government's consolidated accounts would be a useful place to set that out more clearly.

Craig Hoy: Yes. Looking at past expenditure and as we come through the recovery, what further action would it be appropriate for the Scottish Government to take to address any remaining or on-going concerns about the transparency of the spending of those Covid moneys?

Stephen Boyle: It would be helpful to set out the totality of the Covid-related spending in subsequent budget announcements and, ultimately, the outcomes that were achieved from that spending. How the Government chooses to do that is a matter for it to set out. It probably speaks to the point, which we have made in our more recent reports, that it is becoming harder to track Covid-related activity in public spending. Mr Hoy, you and the committee will be familiar with the fact that there is no separate Covid-related budget, as there was in previous iterations, but there is still Covid-related activity. We are seeing the tail of that and its impact on public services. Rounding that off would be helpful to support the Parliament's understanding and public scrutiny.

Craig Hoy: Do you plan to do any further work on that from an audit perspective, or will you wait to see where the Government gets to and then report through approaches such as this?

09:15

Stephen Boyle: We are giving some thought to how best to round off our specific Covid-related work. The last paper that we brought to the committee recognised that there was still some unresolved public spending. We want to fulfil our obligations in terms of Covid spending. We hope to clarify our thinking on that in the next few weeks and will update the committee in due course.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): The education underspend that was discussed a moment ago represents almost a third of the entire underspend, but, as it turns out, it is not real money; it is a technical adjustment. Mr Oliphant gave the figure of, I think, £674 million. Why is that so high? That is a huge technical adjustment, is it not?

Stephen Boyle: It is. Michael is well placed to talk the committee through that. In general terms, it relates to the scale of the student loans amount that is reflected in the Scottish Government's accounts. That is a significant number, so any marginal changes in the interest rates that apply to it reflect a significant adjustment. That is it, in broad terms. Michael is better placed to give a more detailed answer.

Michael Oliphant: The student loans model is very complex. It relies on a number of external factors and a lot of economic variables. Every year, there is a charge to the model that represents the cost to the Scottish Government of issuing loans. That is based on the likelihood that loans will be repaid, so it is linked to likely future earnings and so on. What we have seen this year, which has been quite unusual when compared with previous years, is a big movement in interest rates. At the start of the year, the retail prices index was 1.5 per cent; it moved to 9 per cent during the year. That really impacts the calculation when you are discounting the values back to the present day to derive a charge. That is where you get a very significant adjustment. It is not cash; it is a technical adjustment that is required in the accounts to represent the cost of the Scottish Government issuing loans.

Willie Coffey: Is the £132 million difference between those two figures—the £806 million in the report and your figure of £674 million—deployable elsewhere? Can that be carried forward to other expenditure, topics or items elsewhere, or does it have to be for student loans?

Michael Oliphant: It will be for other parts of the education budget.

Willie Coffey: Okay. Thanks.

The Convener: Colin Beattie has some questions, but I know that he has to give a presentation to another committee. Do you want to ask your questions now, or do you want to leave it?

Colin Beattie (Midlothian North and Musselburgh) (SNP): I do not think that there is time at the moment. Are you okay with that?

The Convener: That is absolutely fine.

Auditor General, I turn to what seems to be a recurring section of these reports, which is the financial position of the Crown Office and Procurator Fiscal Service. People will, no doubt, be aware of outstanding cases against the Lord Advocate in connection with the acquisition of Rangers Football Club. The report states that the cases that have been resolved total £35.5 million in costs up to March 2022,

"with a further £24.5 million provided in respect of cases still to be finalised."

First, what does that mean for the overall financial position of the office? Secondly, can you update us on where those outstanding cases are? Are there further cases yet to be settled?

Stephen Boyle: Thanks, convener. I will say as much as I am able to. The position that we set out in the report is consistent with our understanding and my colleagues' engagement with the auditors of the Crown Office and Procurator Fiscal Service. Helen Russell might want to come in in a moment to say a bit more about the detail of that.

There are two components to what we set out in the report and the figures that you quote. One is the settlement arrangements that have already been entered into of £35.5 million, and the other is the assessment that has been made of the likely additional cost. The amounts that have been provided bring us to a collective figure of around £60 million of public expenditure that has been paid as a result of the arrests and prosecutions of those connected with the acquisition of Rangers Football Club.

You will know, convener, that the Government has committed to holding a judge-led inquiry into the circumstances. That is why we have chosen to report the public expenditure related to that through the Scottish Government section 22 report. We will not take a view on whether there will be any further audit-related reporting in respect of the matter until we see the conclusion of any judge-led review of the circumstances.

Helen might want to add a little bit about the other discussions that we have had with the auditors on those issues.

Helen Russell (Audit Scotland): As at 31 March 2022, £11 million was paid during that year, and £24 million had been spent in the previous financial year, which is the £35 million total that you just heard about. The provision of £24.5 million refers to a few more cases that are outstanding. Of that, as you are probably aware, a payment of about £15 million was made in October 2022, which reduces the provision to about £9 million at this point.

That is probably all that I want to add just now. I am happy to take any more questions.

The Convener: You refer in the report to the £60 million additional payout from the Crown Office and Procurator Fiscal Service as “unplanned costs”. Can you give us an idea of how £60 million compares with the annual budget of that public service?

Stephen Boyle: Yes, I can. I draw the committee’s attention to Exhibit 1. The last line but one in the table sets out the budget of £180 million for the Crown Office and Procurator Fiscal Service relative to expenditure of £185 million, meaning an overspend within that budget line of £5 million. The Government, together with the Crown Office, clearly has an obligation, as they determine it. They have made payments to those who have pursued in respect of the Rangers case. There have been subsequent budget adjustments during the year to allow for the additional liabilities related to it.

To answer your question, £60 million is not insignificant as it relates to the overall running of the Crown Office. As Helen mentioned, additional payments were made in October 2022, in this new financial year. Those will also need to be reflected in the budget and calculations for the 2022-23 year.

Sharon Dowey (South Scotland) (Con): Good morning. The report notes that the Scottish Government can borrow £450 million per year, up to a cumulative total of £3 billion, for capital spending. It then points out that capital borrowing in 2021-22 was £150 million; it has been below the £450 million threshold in each of the last four years. You also note that there is limited information on how capital borrowing is being used.

The Scottish Government can also borrow for resource spending, up to a maximum of £300 million per year and up to a cumulative maximum of £1,750 million.

Is the Scottish Government sufficiently transparent about its decisions to undertake both capital and resource borrowing?

Stephen Boyle: We think that the Government can do more in setting out its capital and resource borrowing and how it is using those borrowing amounts to deliver outcomes as part of its programme of work.

The parameters for resource and capital borrowing are set within the fiscal framework between the Scottish Government and the United Kingdom Government, but there is insufficient detail in the consolidated accounts. There are some disclosures, I should say, in the Scottish consolidated fund accounts, and we used those numbers in the section 22 report. However, in the single document of the consolidated accounts, we do not think that there is enough detail. This committee’s predecessor committee—the Public Audit and Post-legislative Scrutiny Committee—took evidence from Government officials in 2018-19 when it explored this point about the relationship between capital borrowing and what it was then being used for.

Our position remains the same: there needs to be more transparency and a clearer link between what capital borrowing is being made and which projects it is being used to support. Our expectation is that that information will be available and that, ultimately, to secure the borrowing from the national loans fund through the relationship with His Majesty’s Treasury, the Government in Scotland would be placed to set out what it intends to use the borrowing for. We think that that information could be set out more transparently than it currently is.

Sharon Dowey: What better information could be provided to support effective scrutiny of the use of capital borrowing powers and the specific projects that it supports?

Stephen Boyle: Well, it is exactly that. There is not a clear enough description of which projects the capital borrowing is being used for; instead, the description is of the totality of overall borrowing arrangements. Given that there are specific requirements, thresholds and caps on capital borrowing, we think that it would mean stronger financial management and be more transparent if that information were included in the consolidated accounts for Government, which set out what has been borrowed and how that money is being used. It remains our position that more transparency could be achieved.

Sharon Dowey: Do you have any concerns about the increasing level of repayment charges for the borrowing, and does the Scottish Government take any view on what is considered reasonable?

Stephen Boyle: I will turn to Michael Oliphant in a moment; he may wish to add something on this point. As we are now a number of years into this fiscal framework, it is clear that the Government is borrowing more. I appreciate that discussions are on-going between the Scottish Government and the United Kingdom Government about any modifications to the fiscal framework but, as borrowing levels increase, that comes with further repayment requirements. We have seen the volatility in interest rates and inflation rates, so it all speaks to a more complex picture that requires careful management. We know that the Government is within the confines of the fiscal framework limits, but it requires careful management as the number of projects and the borrowing increases. It is not just for the Government's benefit but for the benefit of the Parliament and the public that that should be more clearly set out. Michael is closer to some of the detail of how that works, and he may wish to say a bit more.

Michael Oliphant: At this stage, our concern, if I can phrase it like that, is the repayment charges that go with that; that is, repaying the capital as well as the interest rates. We have noted that it was £95 million in the last financial year, so the more the Government borrows, the more the repayments will increase. That takes up a bigger proportion of your available money in each year. There is a balance to be struck by the Government in determining how much it will borrow in each year. It needs to look at the levels of repayments over a number of years as well as at the sources of borrowing. For example, we talked about capital, and the default position is that you borrow capital over 10 years in line with the fiscal framework, but the fiscal framework allows the Scottish Government to agree with the UK Government on either a shorter or a longer timeframe. That all needs to be factored into the overall model and the repayments that come with that. The Government needs to consider on an annual basis not only new borrowing, but the repayments that it has to make as part of that year's budget.

Sharon Dowey: Okay. Thank you. I will move on to investment in private companies. Specifically, the paper mentions Prestwick airport, Ferguson Marine (Port Glasgow) Holdings Ltd, Burntisland Fabrications Ltd, or BiFab, and the Lochaber aluminium smelter. Starting with Prestwick airport, what are the financial implications for the Scottish Government of continued failure to find a buyer for it?

Stephen Boyle: At paragraph 32 of our report, we set out some of the history of the totality of Government support since the airport was purchased by the Scottish Government in November 2013. Up to the end of March 2022, it provided loan support of £43.4 million, and, as with any loan a lender makes, it had to assess the recoverability and the value of that loan, and the Government's assessment is that it is now valued at £11.6 million.

On paper—that is an important point to stress—that is a loss of £31.8 million. Interest on that had been accrued at £7.4 million, and that is currently valued at nil as well, so, going back nearly 10 years, the valuation reflects a loss of over £31 million. We do not have detailed insight into what comes next. We know that there have been discussions to find a buyer, but those have not yet come to fruition. I do not have an annualised figure in my mind to say what the Government's support will mean for Prestwick airport, but you can see that, annually, many millions of pounds of public expenditure is being used to support the airport and to sustain jobs and services there. That will remain the case for as long as the airport remains in public sector hands.

09:30

Sharon Dowey: Moving on to the smelter, paragraph 32 of your report notes that in 2016

"the Scottish Government issued a 25-year financial guarantee contract to SIMEC Lochaber Hydropower Limited".

The complexity of the financial arrangements is also mentioned. What are the implications of the continued high level of provision in relation to the Scottish Government's financial guarantees to the smelter?

Stephen Boyle: I will bring in Michael Oliphant on that issue. It is probably worth setting out a bit of detail in addition to what we have in the report. The complexity that you refer to concerns the Government's support for the arrangement and the financial consequences of it. There are annualised implications and longer-term ones. Through our audit work, we are satisfied with the disclosures that the Government has made in the accounts about the asset, which is the fee for the guarantee and its longer-term potential liability. All of that is, of course, complicated by some of the external factors relating to the variety of companies and their funding arrangements associated with the smelter.

Before I pass over to Michael, I will reiterate my commitment to, and long-standing interest in, the matter. We continue to monitor the progress with the investment and viability of the smelter through our audit work, and we will report further as necessary. I will stop there. Michael may want to come in on some of the detail.

Michael Oliphant: The financial guarantee contract is still in place. The 25-year financial guarantee will continue unless something happens. The uncertainty relates to the financial standing of the parent company, GFG Alliance, but also of Lochaber Hydropower and the smelter itself.

At the moment, all payments are up to date, as far as our audit work has looked at. If there were an insolvency event or something that would trigger a call on the guarantee, that is where a series of events would kick in. For example, if there were a call on the guarantee, the Scottish Government would have to pay Greensill, a special purpose vehicle, which purchased all future payments to the hydro co from the smelter. Those were bonds that were placed with investors. The Scottish Government would then claim that money back from GFG Alliance, but, depending on the financial position there, doing so would probably be unlikely, so the Scottish Government would call on the security package that it has, which involves the land, the smelter and the assets. Its full exposure is reduced by the value that it would get from the potential sale. That would then arrive at the provision that is in the accounts. At the moment, nothing has happened to trigger such an event, but the situation is still quite risky. As we know, GFG Alliance is going through a global refinancing and is under investigation by the Serious Fraud Office, so that risk is still there, and that is why it has to be accounted for appropriately.

Sharon Dowey: Moving on again, paragraph 35 states:

> "In March 2022, the Scottish Government published its Business Investment Framework to outline its principles and approach for decisions about future investment in private companies."

Is the framework sufficiently robust for informing decision making in that area?

Stephen Boyle: Michael may want to come in on that, because he has had much involvement in it. We welcome the progress in that the Government now has a business investment framework to support any investments that it or its public bodies will make in private companies. My predecessor and I have both commented that this felt like a real gap in the Government's investment architecture, and that has been borne out by some of the investments that we referred to in the paper that have not been successful and are unlikely to deliver value for money. Having said that, we go on to say in the paper that we think that there is scope for further development in the financial controls over interventions, a rounded assessment of how the investment will support public jobs and growth opportunities and the overall balancing component of risk appetite.

I think that we can define our response as a qualified welcome. It is important that the framework is in place, but we think that there is opportunity for Government to do more to satisfy itself that that provides it with the framework for its investments. Bear in mind that the investments that the Government is likely to make will be higher risk. They are likely to be opportunities that will come its way when companies have exhausted other opportunities, whether through private finance or other public sector support through enterprise companies. Therefore, it matters that the framework is tight and that all the risks and opportunities are properly weighed up. There are a couple of final steps that the Government can take to make sure that that is rounded off in respect of its management of risk.

Sharon Dowey: That brings me to my last question. Is there sufficient transparency in the Scottish Government's investment in private companies, including the rationale for investment and the reasons behind failed or rejected bids for subsequent sales of investments? How could transparency in that area be improved?

Stephen Boyle: We are trying to be slightly pragmatic about this, because we recognise that these are commercial transactions. There is an inevitability that many of those conversations need to take place behind closed doors so that commercial confidentiality is respected. Balanced against that, it is public money and these are public investments. The public and the Parliament will want to be satisfied that the Government is getting best value for its investment. Transparency has to happen, but it also has to happen at the right time. A long-standing point that both I and Audit Scotland have made is that there needs to be improved transparency around investments and outcome and exit arrangements for investment in private companies.

The Convener: Before I bring in Willie Coffey, can I go back to what you said about the business investment framework? I think that you said that it was almost there. However, the summary of the document says:

> "This guidance is not exhaustive because each investment decision is different and will have its own unique characteristics."

That sounds like a continuation of the approach that has been followed hitherto, which is that it is all case by case. Does it sound different to you?

Stephen Boyle: That probably speaks to the point that we refer to in the paper, convener. There is an implication of flexibility there—perhaps too much flexibility to support a consistent review and assessment of what the Government's intended outcomes are for its investment and to ensure that there is clarity on public spending and the totality of what will be achieved, whether that is growth, job opportunities or the management of risk. We do not want to say that there has not been progress. Our assessment is that the Government and its officials are in a better place to make effective investment decisions, but we think that a number of steps are missing. One of those includes the extended flexibility that is on offer.

The Convener: Further in, the document talks about the comprehensive business case that needs to be made in order to give the green light for Government intervention in a commercial business. It talks about the strategic case, the economic case, the commercial case, the financial case and the management case. Were any of those cases the subject of proper scrutiny for the investments that are listed in your report?

Stephen Boyle: It is relatively straightforward to say that the investments listed were not subject to the rigour that the Government is now trying to bring in through the enhanced business investment framework. It probably speaks to our view that progress has been made. It is all well and good having it down on paper; the test will be when future opportunities are applied against the new investment framework. Where appropriate—this is the harder point to the deputy convener's question about transparency—and where investment has been made, the Government will want to satisfy all those tests and report that it has applied them. It will be equally valuable, however, where the Government has chosen not to invest, to have evidence that the framework was robust and led it to the point at which investment was not deemed to be appropriate because of the extent of the risk. I appreciate that that is harder, but we would encourage Government to think about how it could best illustrate both where it has chosen to make those investments and where it has chosen not to.

The Convener: Are you aware of any instances, since the framework was published in March, where the Government has decided against making an investment according to those criteria?

Stephen Boyle: I will bring colleagues in if they have any examples in mind. We know generally that, perhaps before the framework, the Government decided not to make some investments. The Government receives requests repeatedly from businesses that enter into financial distress and there have been some high-profile examples of the Government not investing. I will check with colleagues about more recent cases, since the framework has come to fruition; if no-one has any examples, we can check our records and come back to the committee in writing, convener.

Michael Oliphant: I am not aware of specific cases. Partly, that is about the development of the strategic commercial assets division that has been created, in effect, to carry out the work that is behind the framework. It was due to get up and running in December, and we expect such evaluations to be a key part of the work of that division.

As part of our on-going audit work, we will look at the investments that are being considered, albeit with that element of commercial confidentiality. We will do that particularly in cases where public funds are being committed, and we will also get an indication of where the decision is not to invest and the reasons for that. Reasons may well include that businesses can use enterprise agencies and they might get access to funding from banks and so on, so the support is not always financial. That will really bring to fruition how successful the framework has been. As the Auditor General said, we feel as though there are steps that could be taken to strengthen the framework beyond its current status.

The Convener: Okay. Finally, I just want to touch on the situation with GFG Alliance. I welcome your commitment this morning, Auditor General, that this is an area of continuing interest to you. In the financial year covered by this report, the supply chain banker to GFG Alliance, Greensill Capital, has gone into administration. As Michael Oliphant mentioned, the Serious Fraud Office is looking at GFG Alliance around concerns over fraud and money laundering. Quite unusually, GFG Alliance's own auditors resigned. I think that its finance director left. Its corporate structure has been described by another parliamentary committee as "opaque". I understand that the most recent accounts for the Lochaber smelter are not going to be audited. Do you have a view about the overall risk that we now seem to be facing here?

Stephen Boyle: All those factors are concerning. The lack of transparency and the complexity of that arrangement are concerning. Stepping back to the point that Michael described, there is exposure to the Scottish Government in both annual terms and totality that is set out in the accounts. At the initial point of the deal, the Scottish Government took steps to safeguard its risk, so there are guarantees and security. As yet, however, it is unclear what all those factors will mean and whether that complexity of transaction will ultimately have to be unravelled.

09:45

We are keeping a close eye on it, but you can see, from the detail that is in the report and that you describe, that it is a really volatile set of circumstances. As we have seen in other fast-moving cases, it can unravel quickly. We know that the Government is watching carefully for what it means. We refer in our report to the role of Highland Council, similarly, to secure provision for the continued operation of the plant. Beyond our on-going commitment, we are keeping a close eye on this, and we will undertake further audit work as necessary.

The Convener: Do you, as Auditor General, have a view about reports that the most recent accounts of the Lochaber smelter will not be audited?

Stephen Boyle: That is concerning. We agree that, for all investments that public bodies make, we want to see that level of transparency, so not having a set of accounts audited is a concern. It matters, therefore, that the Government, as one of the investment partners, satisfies itself about the integrity of its investment. That is my overall point: we continue to engage with the Government so that it can satisfy itself about the integrity of its investment and its associated liability. That is very much part of our work during the 2022-23 audit.

The Convener: Thank you. That message is received loud and clear.

Willie Coffey: Auditor General, could I briefly take you back to the comments that you made about Prestwick airport? You said a couple of times in response to questions that that investment, perhaps along with one or two of the others that have been discussed, is unlikely to achieve value for money. I am interested in how Audit Scotland defines value for money. When you look at the wider circumstances of Prestwick, you can see that the Government's investment saved the airport and the jobs. That also happened at Ferguson's, where the workers agreed that the investment saved the yard and the jobs. The Ayrshire growth deal depends to a great extent on the existence of the airport to support the wider economy and the aerospace industry there. The Mangata investment is coming, bringing 575 jobs that would probably not come if the airport were not there. Given those wider circumstances and the impacts on the Ayrshire economy, how can you possibly say that the Government's investment is unlikely to deliver value for money?

Stephen Boyle: We have not formed an overall value-for-money judgment on the investment in Prestwick airport. We have come closer to being definitive, if I can use that term, about some of the other investments, but we have qualified our assessment of Prestwick, because we have not made a detailed review of that investment in the way that we had a more focused interest in, for example, our report on the Clyde and Hebrides ferries back in February, in which we said words to the effect of "unlikely to deliver value for money". When the original investment was made—we have discussed some of the figures on Prestwick—we were clear that the Government had not formed in totality its understanding of what the overall investment would be and what outcomes that investment was intended to achieve.

Typically, as we have seen from the new business investment framework, all those components need to be factored in at an early stage. We are not challenging the value that has come from the new jobs that you refer to in relation to the airport, but they were not part of the assessment at the time that the original intervention was made. That is why we welcome a stronger framework to assess the most crucial intended outcomes, and part of that is about value for money. Our position is qualified at this stage, and, in the event of our undertaking any further work on performance audit and value for money, that would be part of our thinking.

Willie Coffey: Thank you for that. Is Audit Scotland's principal concern to get back the money that was invested? On balance, when you look at that investment and the other investments and benefits that I described, is it principally about the financial transaction and getting that cash back at some point?

Stephen Boyle: No, it is not. It is not about getting the money back. When public money is invested, it is about the intended outcomes and what will be achieved being clear. Those are long-term commitments that are taking many millions of pounds of public expenditure. For any investment, whether it is in the public or private sector, when investing that amount, it goes back to the business case: what do you intend to achieve from that? For many of the investments that we set out in private companies, the intended outcomes were less clear at the start. The financial value is one part of it, but much more significant for all public investment is what was achieved and what it was hoped would be achieved. All our audit work is based on the measure of whether the policy objectives were delivered and, ultimately, produced value for money.

The Convener: Thanks very much, Willie. We will turn to you again, because you have questions about the replacement for the European Union structural funds and how that will be audited and overseen.

Willie Coffey: My question is about the section in the report on the European structural funds and their replacement. Last night, some wonderful news was announced in the media about some of the initial projects in the levelling up funds, totalling £177 million. Very welcome as that is, in this Parliament and this committee, we pride ourselves on the rigour of the scrutiny, governance and accountability that applies to those processes. Where do you see those functions in that process of replacing the European structural funds with the levelling up funds? Where is that rigour, scrutiny and accountability taking place?

Stephen Boyle: We are as enthusiastic as the committee is, Mr Coffey, that there is rigour and transparency of public expenditure where it is being applied in Scotland. There is no statutory role for Audit Scotland or the Auditor General in respect of the levelling up funds—the successor arrangements—and the shared prosperity fund.

Previously, we provided the Public Audit Committee with information around the structural funds. We look to do so today as that relates to the flow of funds through the Scottish Government consolidated accounts. The Accounts Commission for Scotland, which audits local government, and Audit Scotland are keen to maintain a level of transparency to support the committee's interest in how those funds are spent. However, that would be to support the committee's information rather than to provide an audit opinion on how the funds have been spent. Ultimately, the flow of funds is now from the UK Government to individual bodies in the public sector or the third sector in Scotland, so there will be a variety of arrangements.

I am working together with the Accounts Commission and Audit Scotland to support the committee's interest, and we look forward to continuing to engage with the committee, but the set of arrangements will be different from those that we have known. We are keen that the transparency of the totality of the money is clear, but, as I said, Mr Coffey, it will not be an audit of the individual allocation of funds; that will be a matter for the UK Government.

Willie Coffey: Only last night, I spoke, to the leader of East Ayrshire Council, who is not aware of any scrutiny, governance or accountability arrangements being requested of the council by anyone. A recurring issue at the committee for quite some time has been about where that scrutiny lies. In effect, we seem to be getting public investment announcements by press release. Do you agree that that could hardly pass as the rigorous process that we pride ourselves on in this Parliament?

Stephen Boyle: That is a matter for the Department for Levelling Up, Housing and Communities in the UK Government. As the funder, it is for it to determine what audit and assurance arrangements it wishes to have for its public expenditure. Should it wish to have individual audits undertaken, it will pursue that conversation with the UK National Audit Office. As ever, we look to support that. We look to support the Scottish Parliament Public Audit Committee's on-going interest in it. Together with the Accounts Commission in respect of local government funding, we look to provide information to the Scottish Parliament Public Audit Committee. However, as I say, Mr Coffey, that will fall short of an audit, given that it is not part of our jurisdiction.

Willie Coffey: Okay. I will leave it at that. Thanks very much.

The Convener: I turn to another area of committee interest that is highlighted in the report: the use of reserves. You make a point in the report about transparency. You say that

> "There is a need for greater transparency over the Scottish Government's policy and approach to using reserves to manage existing cost pressures, particularly where there are funding implications for the wider public sector."

Please elaborate a little bit on that and tell us what your concerns are.

Stephen Boyle: I am happy to do so, convener. I will bring in Michael Oliphant to support my answer. Let me give you an example that builds on a question that Mr Hoy asked earlier about the totality of the use of reserves. How the Scotland reserve operates is set out by the fiscal framework. There are reserves in other public bodies, principally local authorities in Scotland. In the current financial year, there has been engagement between the Scottish Government and local authorities' integration joint boards about accessing some of the funding that had been intended for Covid so that it could be used for other purposes, principally to support public sector pay arrangements. Perhaps by necessity, all of that had to be quite flexible and respond to events. However, it does not really support transparency or parliamentary or public understanding of what funding is sitting in reserve and how it is intended to be used, other than its feeling quite flexible and reactive. It brings us back to our overall point that there needs to be more transparency about how moneys that sit in reserve and are carried forward from one year to the next will be used in the medium and longer term.

The Convener: You go even further than that when you say that

> "The Reserve balance is not disclosed within the Scottish Government consolidated accounts."

It is a matter not only of where the reserve is and transparency over its movement, but of the figure itself not even being disclosed in the consolidated accounts.

Stephen Boyle: That is correct, convener. Michael will explain why that is currently the case. We are absolutely clear that there is a bit of a gap here. Given how important the Scotland reserve is and its place in the fiscal framework arrangements of Scottish public finances, it would provide an overall picture of what is available to the Government to fulfil its ambitions for moneys having been spent. Given the scale of the Covid investment that there has been and the larger than typical underspend that exists this year, it would be more helpful to map that and report it more clearly and publicly. The consolidated accounts are a very useful place in which to do that. Michael can say a bit more.

Michael Oliphant: That is the central point. We feel that it is a missed opportunity not to have the reserve in the consolidated accounts. The balance and the movements in and out of the Scotland reserve are reported in other places, but that does not make it transparent. It has to be accessible to the user, clearly understood and so on.

I mentioned earlier that the £650 million that we talked about and that will be put forward into this year's budget was first indicated back in June, in the provisional outturn statement to members of the Parliament. However, that was six months away from the conclusion of the accounts. Further sums can go into the reserve balance, and further drawdowns can be made. In the absence of any other account, it feels that that would be the natural home for it, and it provides that clarity of sight around the money that has been transferred from one year to the next.

10:00

The Convener: That very much leads me to my next question, which is about where we are with the production of the Scottish Government's whole-of-Government consolidated accounts, which I think you said rather diplomatically are being introduced at too slow a pace. Why has there been that lengthy delay, and what justification has been presented for it?

Stephen Boyle: I should highlight two or three factors. First, we are seven years beyond the date on which the Government first committed to preparing a public consolidated account. Factors in the current year have brought about slower progress. The stage 1 account was provided to Audit Scotland for comment. We did that over the spring and summer of this financial year. We have not yet received it for audit. The second stage thereafter was for Government to bring in the wider parts of the public sector, beyond the Scottish Administration, that have consolidated accounts, as well as a few other bodies. That has been delayed because the Government in Scotland was planning to align the arrangements with the whole-of-Government accounts, but the whole-of-Government accounts have suffered delays this year as a result of information technology issues.

Those are relevant factors in the current year, but, as I said at the start, we are now seven years into this process. There have been, and there always will be, in-year challenges and reprioritisations, but we have a real gap of a single picture of what Scotland owes, owns and spends, and what its income is each year. We have touched a number of times this morning on transparency, which matters, but, especially since we are in challenging financial times, a single public sector account will help better decision making to support the Government's plans around prioritisation for public sector reform and delivering its outcomes. In our view, a public sector account is an essential component of rounded financial reporting, and, again, we repeat the call for much quicker action to deliver it.

The Convener: Thank you. We may well have the permanent secretary before us in the coming weeks to give evidence, so we might raise that with him.

Happily, Colin Beattie has rejoined us. Colin, you had questions on social security, which is another important part of the report. I invite you to put those questions to the Auditor General.

Colin Beattie: Good morning, Auditor General. I am looking at fraud, which we have discussed before, specifically on the social security side. The benefit expenditure administered by the Department for Work and Pensions is £3.3 billion. According to the papers, you estimate that overpayments in Scotland could amount to £67.5 million. There are two questions on that. First, how do you calculate that out of thin air? Secondly, is that a normal level? Is that what would be expected?

Stephen Boyle: Good morning, Mr Beattie. There is a model and rationale for the calculation of benefits that are subject to audit through the audit of Social Security Scotland, and there is an inherent understanding that some payments from within a benefits system, in particular, will be made in error as a result of claimant error, public body error or, more significantly, fraud. There is that assumption. The auditors, and primarily the organisation, have to come up with an approach and a model that sets out their assessment of fraud and error. Helen Russell can say a bit more about how that is undertaken. It then falls on the auditors to take a view about how robust that model is. Social Security Scotland's auditors have assessed that estimate and have taken a view that it is a reasonable assessment. They have consequently arrived at the figure that you mentioned of £67.5 million of potential overpayment of benefit expenditure for Scotland.

Colin Beattie: There is a formula. You can look back and see how close to reality that formula has been in the past. How close has it been?

Stephen Boyle: Helen can say a bit more about that. It is an important part. Mapping all of that is complicated because, ultimately, it will break down into individual claimant circumstances, which change over time. At one point, you might have an overpayment and then a legitimate payment and back payments. What I am trying to describe is not necessarily a linear process. The overall process, however, speaks to the fact that the auditors' assessment is that it is robust and there is a reasonable figure of—if I can get the right number—between 1.5 and 5.2 per cent of expenditure.

Looking forward, benefit expenditure in Scotland will grow as more benefits come on line. That will increase the range and potentially the risk. Until now, the figure has been drawn largely from Department for Work and Pensions estimates. As we set out in our report on social security to the committee last year, for some of the Scotland-only administered benefits, it will be an important component of Social Security Scotland's evolution that it has robust and reliable arrangements for estimating fraud and error. To reassure the committee, that remains part of our audit of Social Security Scotland, and we will report further as necessary.

I will stop for a moment, Mr Beattie, and pass over to Helen, who will say a bit more.

Helen Russell: The estimate is calculated over the range of payments made by the Department for Work and Pensions. It covers such areas as the personal independence payment, attendance allowance and a few others. It is calculated over the £3.3 billion, and each type of benefit has its own percentage rate applied. The estimate has been assessed by the Department for Work and Pensions. Each benefit has been assessed at different times as well. Some have been looked at closely, and the department has worked out a more exact percentage, according to its own processes, obviously. The latest one was for attendance allowance, which was assessed for 2021-22. As you have heard, the range covers from 1.5 to 5.2 per cent. The total estimate across all the benefits is £67.5 million. It is important to stress that that is an estimate of overpayments due to fraud and error.

You heard about the increase in benefits that will be administered by Scotland. That covers areas such as the Scottish child payment. That totalled £56 million during 2021-22, which was the first full year of reporting. That was an increase of more than £50 million from last year. There are other benefits that will increase and will be taken on board by Scotland.

Colin Beattie: You said that the £67.5 million is the average across a number of component parts. Historically, how accurate have the estimates been?

Stephen Boyle: I can say a bit more about that. Ultimately, that figure refers to the DWP's estimates of fraud and error that—

Colin Beattie: I will come to Social Security Scotland in a second.

Stephen Boyle: Okay. Thank you.

The DWP's auditors have had concerns about the overall reliability of the estimate and have drawn attention to it in their annual audit report for many years. They have encouraged the DWP to undertake more work and more sample testing to improve its reliability.

Colin Beattie: Are you saying that it is not that accurate? In what way?

Stephen Boyle: I hesitate to apply the term "accuracy". They are estimates of fraud and error. Ultimately, they rely on sample testing. We are now in a position where the estimate is more reliable as a result of additional investment that the DWP has put into reviewing the approach and methodology. That allows the auditor of Social Security Scotland to form a view on the reliability of the estimate. That is something that they are satisfied on.

The auditors of Social Security Scotland still need to amend their audit opinion. They have drawn attention to the level of overpayment, ultimately, because an overpayment of benefit is money that had not been intended by the Scottish Parliament when it approved the budget. There is a complex series of linked connections between assessing the individual claims on a sample basis through to the overall assessment of the expected level of fraud and error through to what the auditor's judgment has been.

We are seeing progress from the DWP. For me, it goes back to the point that it matters now that Social Security Scotland has its own parallel arrangements for the Scotland-only administered benefits.

Colin Beattie: What I am not hearing from you is that the estimated figures that are produced annually can be compared with an actual figure that, somehow, is thrown out, even if it is historical.

Stephen Boyle: That is not something that we looked at specifically during the audit. Ultimately, it will be a matter for the DWP and its auditors as they progress through to the preparation of robust arrangements for the prevention and detection of fraud and overpayment. We know, from building on evidence that we provided to the committee in previous years on social security, that those arrangements are improving. What I cannot say today—we can come back to the committee in writing on this—is whether the level of estimated fraud has translated to any recoveries or precise accurate calculations on top of the estimates that were produced.

Colin Beattie: It would be interesting to see the estimates over several years to see whether they have swung back and forth or been fairly constant.

Stephen Boyle: You would probably see that there is quite a range, spread across a number of benefits, between 1.5 and 5.2 per cent. We will look at what further detail we have and share that with the committee in writing. If there is anything further, it may be that the DWP or Social Security Scotland can support the committee's interest.

Colin Beattie: In the early years, which is not that long ago, when Social Security Scotland was put in place, there was a relatively relaxed regime in respect of fraud. That was gradually tightened up as the volume and complexity of its work increased. Has the Scottish Government given you enough assurance around the assessment of fraud in this year's accounts?

Stephen Boyle: That is the view of the auditors. They have been satisfied with the level of assessment, but they are drawing attention to the increasing volume and risk, as Helen mentioned, as more benefits are coming on stream that are Scotland only. It will be for Social Security Scotland to strike a balance between having a benefits system in Scotland that meets its original intentions of supporting dignity, kindness and fairness in respect of people accessing the benefit system during the most challenging periods of their lives, while, at the same time, securing public expenditure. They make the recommendation in their report that, as Social Security Scotland further invests in its fraud prevention arrangements, it should continue to have a foot in both camps where it has a robust set of processes that are also consistent and fair. The auditors are very clear that that is part of their interest and my interest for their audit work for this year and next.

Colin Beattie: Are there specific gaps or other areas where the auditor believes that there are weaknesses that the Scottish Government should be focusing on?

Stephen Boyle: In our report on Social Security Scotland's progress in delivering devolved benefits, we talked about the investment in and the size of the team, as well as the training arrangements and investment in IT to support anti-fraud measures. All of those will be components of its processes, so that it has got the right information and the data flows, where relevant, from the DWP. I think that Social Security Scotland knows the factors in which it needs to invest to have a rounded regime. We are alert to that, and we continue to factor it into our forward work.

10:15

Colin Beattie: You may recall that, some months ago, we discussed the Covid-19 business grant payments and the fraud levels there. That money came through local government, of course. I raised an issue that, south of the border, the fraud levels were massive—running into many millions—and yet, in Scotland, fraud levels were considered to be extremely small. I am pleased about that, but I am also suspicious about it. At that time, you were having another look at that. Now, according to our papers, there was a recovery of £504,000 of fraudulent Covid-19 business grant payments as at July 2022. Does that really reflect the level of fraud? Does it reflect good progress?

Stephen Boyle: I remember our discussion, Mr Beattie. I think that we had a healthy scepticism about the comparability between Scotland and the rest of the UK in anticipated or suspected fraud or error in Covid grants. I think that we repeat the figure here that we included in our Covid-19 report, which is an estimated business grant fraud rate of between 1 and 2 per cent. That is in sharp contrast with some of the Covid-related fraud concerns elsewhere, such as with bounce back loans, which were a very high-profile example of UK schemes that have been subject to high levels of fraud and error.

Part of the reason why Scotland has not had that experience is that, rather than setting up a specific new scheme and arrangements, such as with bounce-back loans, it has deployed existing arrangements through Scottish local authorities and used their existing fraud and error detection arrangements, principally through the work of their internal auditors. Those arrangements have served Scotland well, if you look at the totality of fraud relative to the scale of the schemes. There were hundreds of thousands of pounds of error, but, in overall terms, there will always be fraud and error in some schemes, particularly where there is pace with which to get money to where it is needed, as was absolutely the case. Local authorities and other public bodies will continue to monitor progress and recover as necessary, but, in overall terms, I think that this is something of a success story relative to what we have seen elsewhere.

Colin Beattie: Is £0.5 million good progress?

Stephen Boyle: Michael may want to say a bit more about that, but I do not think that that figure compares poorly against the scale of some other figures. None of us wants to see any public money being spent in error or subject to fraud, but, given the pace with which money needed to be spent during the pandemic, for all the reasons that we recall, a level of fraud and error of between 1 and 2 per cent is not a significant risk or concern that we are commenting on. I will ask Michael whether he wants to add anything.

Michael Oliphant: I just want to say that the figure of £504,000 that you quoted will increase because it is provided in the accounts as a figure to date. The Scottish Government is actively working with its local authority partners to analyse those levels of fraud. It takes a wee bit of time to identify a fraud and confirm that it is a fraud; there is quite a lot of process to go through. Then, from that stage, claiming the money back can often be challenging. That will be an on-going process, and the number will rise as the Scottish Government gets richer information and on-going information from local authorities.

Colin Beattie: I have just one last question on this particular—

The Convener: We are up against the clock a bit here, so, if it is a very brief question, I will allow you to come in and ask it.

Colin Beattie: Okay. It relates to what I spoke about before. Is Social Security Scotland taking enough of the measures that it should take to assess levels of fraud and error in relation to the benefits that it directly administers?

Stephen Boyle: That is, in effect, the challenge that we speak to in the paper. As Social Security Scotland's responsibilities grow, so, too, will its fraud teams and the overall arrangements to secure the minimisation of fraud and error. We continue to track that progress against the recommendations that we made in our 2022—

Colin Beattie: But it is happening.

Michael Oliphant: Indeed. It is happening, but we have not yet come to a view on how successful those arrangements have been.

The Convener: Thank you for your co-operation. We are against the clock. There are some areas that we will follow up on in writing for completeness, but we have questions on a couple of final areas that it would be useful to put to you this morning, so that that is on the record. Willie Coffey has questions about reporting on performance.

Willie Coffey: I will combine those questions, convener, to save time.

In a previous discussion that we had with you about the public sector consolidated accounts, you referred to an IT issue at HM Treasury. Has that been resolved, and does it prevent us from making the progress that you hope that we will make?

Stephen Boyle: I will ask Michael whether he has an up-to-date position. The whole-of-Government accounts—as you may know, Mr Coffey—bring in all UK public expenditure, so that there is that single view. I do not want to labour the point, but we think that there needs to be a Scotland version of that. The IT position has delayed progress. In effect, it is submissions from public bodies and auditors into UK Government to collate all those numbers. That has been a relevant factor in why it has been delayed. If Michael has an up-to-date position, he can share that with the committee.

Michael Oliphant: As I understand it, the issue has been resolved. It is now for the Scottish Government to allocate the necessary resource and prioritise that if it so wishes.

Willie Coffey: Great stuff. I also have a question on performance reporting, which is a common thread at the committee. I want to give the Auditor General an opportunity to say a few words about that and about our pursuit of linking spend to outcomes and targets and so on. Can you say a few words about your recommendations in that area? I will leave it at that.

Stephen Boyle: Many thanks, Mr Coffey. Our recommendations are just that. We would like the consolidated accounts to make a closer connection between public spending and associated outcomes against defined measurable targets. The commentary on performance reporting, although it has improved this year—it is important that I recognise that—still tends to be about performance spending against budget, rather than the benefits of the outcomes that have been achieved from that. Having a more rounded picture and analysis of public spending against measurable targets and contributions to the national outcomes would be a step forward for transparency and understanding of how well public money is being spent in Scotland.

Willie Coffey: Would you similarly recommend that that approach be adopted in spending the levelling up money?

Stephen Boyle: As you know, Mr Coffey, it is not for me to make recommendations to the UK Government. I am happy to confine my comments to Scottish public bodies.

The Convener: I want to ask a final question about sponsorship arrangements—the relations between the Scottish Government and public bodies. In 2021, an external review was commissioned by the Government and produced 14 key recommendations. All 14 recommendations were accepted by the Scottish Government, and the permanent secretary gave an undertaking that all the recommendations would be implemented by the end of the 2022 calendar year. I know that we are only in mid-January 2023, but I reflect on the fact that, in your report that is before us, you went so far as to say that

> "The Scottish Government has committed to improving its sponsoring arrangements of public bodies, but I remain concerned as to whether the timescales will be met and whether actions planned will fully address each recommendation."

Where are we with that?

Stephen Boyle: I will give my view on where we are, convener. Michael can then say a bit more and correct me if I am misleading the committee.

I understand that 11 of the 14 recommendations have been completed. As you note, we went further in the paper to express some reservations about whether that will actually lead to improved sponsorship arrangements. The committee heard evidence from the Government towards the end of last year. One of the features of that was the level of turnover in sponsor teams and the level of seniority with which to support public bodies from within Government. That detailed understanding, support and sophistication of guidance that sponsor teams need to provide to public bodies will not be easily replicated. Even with all the recommendations, which, I am sure, will ultimately be delivered in short order, it matters, perhaps a bit like the investment framework that we spoke about, that that is subject to on-going review and testing. As with other factors, I do not feel that I am in a position to give an assurance yet that those arrangements, even with the recommendations, will be effective. Part of our on-going work, not just in the Scottish Government but elsewhere, will be about how well those sponsorship arrangements work in practice.

I will stop there. Michael may wish to update you.

Michael Oliphant: Eleven out of 14 recommendations have been completed. That was the picture as reported to the Government’s audit committee in November. Of the three outstanding ones, I saw nothing that would mean that the December timescale or anything significantly beyond that would be under threat.

The Auditor General made the key point that the Scottish Government has taken actions to respond to the recommendations, and our concern is whether that fully addresses the recommendations. For example, the role of portfolio accountable officers to clearly understand the roles and responsibilities of sponsor teams across public bodies is a big recommendation. The action taken is to provide more guidance. That is a slightly different issue, although it will help. It will take more time for the recommendations to be fully implemented, beyond the initial actions taken by the Scottish Government.

The Convener: Thank you very much for your evidence. It has been a really useful session for us. I appreciate the input from each of you. We will want to follow up on things that came out of the questioning and some things that we did not get to in the time allocated this morning.

10:27

Meeting continued in private until 11:37.

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

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