

PUBLIC AUDIT COMMITTEE

Wednesday 18 November 2009

Session 3

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PUBLIC AUDIT COMMITTEE

17th Meeting 2009, Session 3

CONVENER

*Hugh Henry (Paisley South) (Lab)

DEPUTY CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

COMMITTEE MEMBERS

*Willie Coffey (Kilmarnock and Loudoun) (SNP)
*Cathie Craigie (Cumbernauld and Kilsyth) (Lab)
*George Foulkes (Lothians) (Lab)
*Bill Kidd (Glasgow) SNP
*Anne McLaughlin (Glasgow) (SNP)
*Nicol Stephen (Aberdeen South) (LD)

COMMITTEE SUBSTITUTES

Derek Brownlee (South of Scotland) (Con)
Linda Fabiani (Central Scotland) (SNP)
James Kelly (Glasgow Rutherglen) (Lab)
John Farquhar Munro (Ross, Skye and Inverness West) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Mr Robert Black (Auditor General for Scotland)
Angela Cullen (Audit Scotland)
Barbara Hurst (Audit Scotland)
Michael Oliphant (Audit Scotland)
Stephen Reid (Audit Scotland)

CLERK TO THE COMMITTEE

Tracey White

SENIOR ASSISTANT CLERK

Joanna Hardy

ASSISTANT CLERK

Jason Nairn

LOCATION

Committee Room 6

Scottish Parliament

Public Audit Committee

Wednesday 18 November 2009

[THE CONVENER opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Hugh Henry): Welcome to the 17th meeting in 2009 of the Public Audit Committee. I ask those present to ensure that all electronic devices are switched off. We have received no apologies. Do members agree to take item 3 in private?

Members *indicated agreement.*

Section 23 Report

“Scotland’s public finances: preparing for the future”

The Convener: Item 2 is consideration of a section 23 report by the Auditor General for Scotland and Audit Scotland entitled “Scotland’s public finances: preparing for the future”. The report is slightly unusual for the committee, as it looks not just at historical processes but at some of the challenges confronting the Scottish public sector and the budget. It will be interesting to see where the discussion goes. The report is apposite, and the Parliament would be well advised to give it serious consideration, not just in this committee but elsewhere. I invite the Auditor General to introduce the report.

Mr Robert Black (Auditor General for Scotland): I am sure that the committee is aware that, from time to time, I publish overviews of the finances and performance of major sectors such as health and further education. In those overviews, we mention, where appropriate, issues such as the risks that we see arising from the most recent audit reports. Audit Scotland also publishes, on behalf of the Accounts Commission, similar overviews of local government. The report that we are discussing today is similar to overviews that we have published in the past, although it deals with all devolved spending in Scotland. It draws on recent audit reports and highlights some of the financial pressures and risks, as we see them from our work.

The report was published on fireworks day: I hope that no one thinks that it is either an explosive device or a damp squib. The serious point is that, although the report is addressed to Parliament and, in particular, the Public Audit Committee, its main aim is to promote knowledge and understanding throughout the public sector of the financial challenges that lie ahead, to intensify the sense of reality and urgency that surrounds the environment in which we will work over the next few years. I hope that the report will be seen as a useful contribution to the debate about what needs to happen next. It is essentially that—a contribution to the debate. I do not expect for a moment that there will be an instant response to the report this morning.

The report highlights the growing financial pressures facing the public sector, as we see them through the audit process. We mention the growing needs of the ageing population; the backlog of maintenance and repair of buildings, roads and other physical assets; the rising costs of free services; and the extra pressures on public services as a result of increases in unemployment during the recession. All those pressures are

intensifying, just as the public finances are likely to peak and to start to decrease.

As I am sure members know well, the budget has grown every year since devolution in 1999. However, it is generally accepted that 2009-10 is likely to be the peak spending year. Various experts predict that budget reductions will be between 7 and 13 per cent by 2013-14, compared with 2009-10. There is nothing exact about the numbers, but the direction and broad magnitude of some of the changes are clear. The exact scale of the reductions will depend on the length and depth of the recession and on United Kingdom Government policy towards reducing debt levels.

If public sector spending continues on the same basis as now, by 2013-14 the gap between planned spending and the money that is available could be between £1.2 billion and £2.9 billion. I have inserted those numbers into the report. The Scottish Government's current programme of 2 per cent efficiency savings aims to release around £1.6 billion in the three years to 2010-11. The Government has not yet identified the level of savings that it will require beyond that point. However, I can say with some certainty that the gap between the planned spending and the budget that is available will not be met by 2 per cent efficiency savings alone, therefore the public sector as a whole needs to find different ways of reducing public spending.

In the report, I offer some comments on the budgeting and financial management arrangements in the Scottish Government. I comment on the financial skills that exist within the Government, but the points that I wish to highlight this morning relate to the budget process. The three-year spending review sets the overall financial framework, but most of the indicative numbers in the spending review relate to the future costs of on-going services and new policy commitments. The annual budget is largely determined on an incremental basis that assumes that the current pattern of spending is broadly right and that activities will continue for the most part on the same basis as before. I would be the first to acknowledge that that incremental approach has had some advantages of simplicity and ease of implementation in times of growth, but it will not work well during a period of financial constraint when hard choices will have to be made between competing priorities within static or, in all probability, declining resources.

The Scottish Government has strengthened its financial management—I would be the first to acknowledge that. We have seen significant improvements in the past few years. Nevertheless, still more could be done to evaluate how well money is being spent in delivering against Government priorities and improving public

services. It is essential that financial monitoring goes beyond focusing on actual and projected spend against the budget. It should include information on how well money is being used to deliver front-line services, to improve productivity and to achieve the national outcomes.

The Finance Committee has highlighted the need to improve the quality of information to support better scrutiny. That issue has also been mentioned in reports by the Public Audit Committee over recent years. I emphasise that there is an urgent need for better information that links spending with actual service delivery, costs and performance. There are two reasons why that is important. First, the needs of the people of Scotland must be met by continuing access to good services, day in and day out. If the Scottish Parliament and the Scottish Government are to be assured that that is happening, particularly in times of constrained resources, performance at that level must be understood and reported. Secondly, access to high-quality services is essential for the delivery of outcomes, which are often expressed at a high level and are longer-term aspirations—and there is nothing wrong with that. Only through good and accessible services on a sustained basis over the years will many of the longer-term outcomes that have been specified by the Scottish Government be achieved. A practical example of that link between services and outcomes is given in exhibit 14 on page 25 of the report, and there are many others.

I welcome the work of the Finance Committee to strengthen the budget scrutiny process. I am sure that that will bring improvements. Audit Scotland will support the experiment of having a financial scrutiny unit by seconding Michael Oliphant, who is present with the Audit Scotland team today, to support that exercise. Towards the end of my report, I have offered some ideas on how you might further improve scrutiny, but I do not expect you to respond to them today.

The main purpose of the report is to promote a better understanding across the public sector of the financial challenges that lie ahead. There is no doubt that we will shortly enter a long, difficult period in Scotland's public finances. I hope not only that my report informs people, but that it gives a sense of the urgency with which everyone in the public sector should address the challenges. If difficult decisions are postponed, there is a risk that action that is taken later to bridge the spending gap will have a greater impact on services and jobs than if the serious planning starts now. That is my message for the whole of the public sector.

As ever, the Audit Scotland team and I will do our best to answer any questions that you have.

The Convener: Thanks very much. The report is sobering, and in it you identify a number of significant challenges that all levels of government in Scotland face. It highlights the fact that politicians of all parties are still unwilling to confront the reality. I hope that what you have identified will focus minds somewhat in the coming years, because it is clear that we cannot go on in the way that we have done. In all of our parties, we are trying to outbid one another in promising what we will do, although we know privately that much of it is not possible. I thank you for a report that will contribute usefully to public debate.

George Foulkes (Lothians) (Lab): I want to check something. Is this the first time that we have received such a report from the Auditor General?

Mr Black: Yes. I think that I mentioned that I have prepared overview reports, but the report is the first that I have prepared that distils all of our audit work and raises it to the level of an audit analysis of the totality of Scottish devolved spending.

George Foulkes: Where did the initiative to produce the report come from?

Mr Black: We consulted on the forward programme of studies. The committee was involved in that consultation. Was that last summer, Barbara?

Barbara Hurst (Audit Scotland): Yes, it was.

Mr Black: We included in that consultation our intention to prepare a report on financial management in Government. That was the starting point. I suggested including such a report because it seemed to me to be pretty clear that the growth in public spending would come to an end at some stage. When we were planning that report, we did not know that the crisis in our banking system would develop so severely or so quickly. As we were working on it, we developed it into perhaps a more significant piece of work than we originally envisaged it to be purely because of the change in the financial environment. The point is that, to consider the financial management arrangements in Government, the assumptions that were being made, the commitments that were being undertaken and what those meant for the totality of Scotland's public finances had to be considered. That is what we attempted to do in the report.

George Foulkes: I welcome the report. It is a good thing to look forward and plan in such a way. However, my recollection is that every time a member of the committee has raised an issue relating to forward expenditure in the past, the Auditor General has said that the issue is not in his remit. The convener was alluding to that in his introductory remarks when I arrived. Has there been a change of philosophy or policy?

Mr Black: I would like to think that our approach has been entirely consistent. For example, we have discussed in previous overviews of the national health service's finances and performance the build up of pressure in the NHS and matters such as the use of the current funding and pressures resulting from pay deals and drug bills.

In essence, when I talk about such things, I use the language of risk. When we look at the public finances now, we see risks ahead. That is an appropriate approach for auditors. We do not reperform the calculations or come to the committee with the Auditor General's view of the future; rather, we say that there are significant risks under the current analysis. It is appropriate for us to report such risks at the level of the totality of devolved spending just as we report them at the levels of individual health boards, local authorities and other public bodies. We have done that for a number of years.

George Foulkes: In the report, you recommend that the committee should consider forward spending as well as historical spending. Is that right?

Mr Black: Forgive me if I have given you that impression. I hope that I have not done so.

George Foulkes: The report says:

"The Scottish Parliament should consider ... inviting the Finance Committee and the PAC to plan and implement a rolling programme".

The Convener: That relates to performance reviews.

George Foulkes: So it is all based on historical expenditure.

Mr Black: Yes. I go back to the comment that I made at the beginning. We have prepared overviews not only of sector spend, such as spend on health and further education, but of spend on, for example, drug and alcohol services, delayed discharges and palliative care services, as members will recall. The budgets and spends of a number of agencies have been considered in those overviews to try to build up a picture of what is happening throughout Scotland. We will continue to do that. However, as always, I take the strong view that Audit Scotland is a resource for the Parliament. It reports to the Parliament. I simply offer the thought that, if the Parliament were minded to address the future challenges of declining resources, one element could be a programme of systematic reviews of major areas of spend, and Audit Scotland could play a part in that. We must maintain our independence, but we would take into account any areas that you or other parts of the Parliament thought it would be helpful for us to consider.

10:15

Murdo Fraser (Mid Scotland and Fife) (Con):

The report is helpful. It is extremely useful to have the information presented in this way.

As the convener said in his introduction, the key challenge in the next 10 years for the Scottish Government, whatever its political persuasion, and the Scottish Parliament will be how to address the cost pressures. It is striking from the Auditor General's comments and the report that we were already facing difficulties because of demographic pressures, such as the ageing population, and the rising costs of delivering public services. Those difficulties existed before the reduction in public sector finance arose because of the recession. We have been hit with a double whammy—on the one hand, costs are increasing, and on the other, there will be a substantial cut in anticipated, planned spending. That leaves us in a difficult place.

I have two or three questions on some of the detail. In paragraph 61, you mention the Scottish Government's annual target of 2 per cent efficiency savings, but you state that such savings

"will not be enough to bridge the gap".

Did you assess what level of efficiency savings would be required to bridge the gap and whether that would be a feasible way in which to address the issues?

Mr Black: No. In the report, we simply put the target for cash-releasing efficiency savings, which should release about £1.6 billion, next to the projection for the Scottish Government's spending in real terms to 2013. Simple arithmetic points to a gap.

I recognise that your question is an important and relevant one, but I counsel everyone not to get too tied up in the precise numbers because, to be frank, we do not know them yet. The Government has not yet indicated what it expects to achieve beyond the current programme of efficiency savings, how it sees the size of the gap, and how it will manage the public spending environment.

Murdo Fraser: But you are quite clear that efficiency savings will not be the solution and that we will require more fundamental reductions in programmed spending.

Mr Black: That seems to me to be the case, yes.

Murdo Fraser: You state that cost overruns on various capital projects have to be taken into account. Something that came up this week is the additional costs incurred in relation to the Commonwealth games, the projected budget for which you reported on previously. Do you intend to

look at that again, now that we have a suggestion that the costs are already starting to escalate?

Mr Black: We will report to the Parliament tomorrow on the Commonwealth games. I will briefly explain the background to that, in view of the current interest in the matter. It seemed to me that the commitment to the Commonwealth games was a great achievement and a great feather in the cap for Scotland as a whole, but that the delivery would be challenging. Particular risks are associated with the games, namely they must be delivered on time and there can be no slippage; they involve many partners and lots of significant investment; and, above all, the finances will be affected by the wider financial environment.

It seems to me that Audit Scotland could play a role by doing a number of interim reviews of governance and spending control as the project rolls out, just as we used to do when we looked at major private finance initiative deals as they went through the system. In such cases, we do not reperform analysis or second-guess the role of the management; we look at the governance procedures and controls and provide an independent commentary on them. The report that we will publish tomorrow will comment on those matters.

It is my intention for Audit Scotland to revisit the issue in a couple of years' time, say—although we have not set an exact timescale—and provide a further interim report on how things are going. Parliament might well ask questions if I produced a report with perfect hindsight in 2015 saying how things should have been done differently in 2009 or 2011. That is why we will follow that process.

Turning to the second part of the question, as I might have mentioned in the past, we intend to undertake a further review of the management of capital programmes. That is planned for late next year, I think.

Barbara Hurst: In fact, we are kicking it off early next year.

Murdo Fraser: That is helpful—we look forward to tomorrow's report on the Commonwealth games with interest.

I have a question on a different subject: the issue of strengthening financial management, which you spoke about earlier. I refer to page 25 of the report. Exhibit 14, which is referred to in paragraph 103, is a flow chart that links services with outcomes. You seem to be saying that there is a lot of emphasis on inputs, but perhaps not enough on outputs or outcomes. That is highly relevant in the debate around education. There is a lively debate about class sizes and teacher numbers, but perhaps there is less discussion of educational attainment and pupil outcomes. Have we got the balance wrong in the policy debate?

Should we look more at results, rather than inputs?

Mr Black: Essentially, that is a policy matter, so I do not wish to say too much about it. I will say, however, that, as appendix 2 shows, the Scottish Government has—with the endorsement of the Parliament, to an extent—put in place five strategic objectives, 15 national outcomes and 45 indicators. I personally think that that is a step forward, in that it highlights priorities and the expectation of outcomes. However, although that is desirable and in many ways essential, it is not sufficient. If we are going to achieve the national indicator that is shown at the bottom of the central column on page 31, to

“Increase healthy life expectancy at birth in the most deprived areas”,

we need to know about access to and the quality of public health and acute health services in deprived areas. We need to know between now and 2020, say, whether access to and the quality of the services and care that are being delivered are actually making a difference in the short term. If we do not know that, we are flying blind towards that anticipated outcome.

We give the example, which is drawn from one of our studies, of chronic obstructive pulmonary disease. We found a problem of patchy, poor-quality information about access to and the quality of services across Scotland, not least in deprived areas.

Bill Kidd (Glasgow) (SNP): You mention in paragraphs 87 and 88 that the Scottish Government’s “incremental approach” to its budgets has been successful up until the present time, when it has been reasonable to operate according to that format, but that in unstable financial times such an approach will not help to prioritise spend or reduce costs.

Three issues in paragraph 89 have also been highlighted by the Finance Committee’s budget adviser. Those are the need to

“identify which services:

- the public sector can no longer afford to provide
- will have to be charged for
- can provide further efficiency savings.”

You have stated that it is not really for you to decide on efficiency savings, and the other two points would be politically very difficult for any party or Government to implement. Can you project any way in which the Scottish Government might adopt a more priority-based approach to budgeting? Might cutting certain projects to allow the delivery of others be a reasonable approach for a Government to take, given the constraints in the finances? Do you agree that, whether or not

the Government wants to do that, it will have to, because there really is not enough money to deliver everything that everybody wants?

Mr Black: If I may, I will go back to paragraph 89, where you started. I thought that it was appropriate to reflect the sombre message that the Finance Committee’s budget adviser gave to that committee. However, the three bullet points in that paragraph are by no means the whole story. My answer is in the context of exhibit 13, which outlines what a priority-based approach might look like. Several questions need to be addressed, not only that of what money is available. What are the key objectives for the period? What are the most important services that the Scottish Government and its partners must deliver? What is the most effective way in which to deliver those services with the available money? How will the Government know whether the spend is delivering high-quality and accessible services?

We will not get to a situation of perfection in the short term. It will be difficult for everyone but, nevertheless, we urgently need to start thinking about the processes that we need and, above all, how we can improve the quality of the information that is available to the Government and the Parliament to support those processes. Frankly, we also need to be able to present a reasoned argument about the direction of travel that we are following to the people of Scotland who depend on the services.

Bill Kidd: That is where I hoped you were going. Murdo Fraser said that the focus should be on outcomes, rather than on what is put in. However, we do not want to wait until we fail to achieve outcomes before we discover whether we are delivering on policy. Given that, in exhibit 13, you outline a new priority-based approach to budgeting under the current restraints, are there better ways to measure progress towards the outcomes than those that are used now?

Mr Black: The short answer is yes. I am confident that the Government is thinking about those issues fairly hard. We are aware of on-going work to consider the links between outcomes and service delivery. Angela Cullen or someone on her team can say a little more about that.

Angela Cullen (Audit Scotland): We acknowledge in the report that the national performance framework and the development of the outcomes are steps in the right direction. The Government has started to evaluate some of the services that are delivered to find out whether they contribute towards the outcomes. In the report, we suggest that that needs to happen more systematically, to identify the services that are contributing to the outcomes and those that perhaps are not as successful. Those services should be considered to find out whether they

should be stopped or changed in some way to ensure that they contribute towards the outcomes and that everyone in the public sector is successful.

The Convener: Mr Black, I take you back to your comment about the speed with which the financial crisis developed. You said that it was unanticipated and talked about the difficulties that it has brought. You have identified potential pressures from present and future budgetary constraints. However, some of the issues are not necessarily linked to that crisis.

To what extent did you examine policy objectives or policy promises that were made but were clearly undeliverable? For example, Murdo Fraser referred to the policy on class sizes. Officials in the education department told ministers after May 2007 and before July 2007 that the class size policy could not be delivered in the current session of Parliament—indeed, that it might not be delivered in the next session. How much attention did you pay to policy aspirations that the Government lacked the wherewithal to deliver?

10:30

Mr Black: We did not look at the Government's policy objectives at all. However, we took a sample of new programmes and analysed in some detail the assumptions that were made in putting them together. Barbara Hurst can probably describe some of the work that we have done in that area, which is not fully reflected in the report but provides significant assurance about the robustness with which the programmes are put together.

Barbara Hurst: For such reports, we often audit a lot of the work that underpins Government programmes, but we do not necessarily give the detail of those programmes in the reports. For example, the team considered whether inflation and demographics were taken into account and what scenario planning had been done in a number of budget areas to see whether the end figures looked reasonable. Stephen Reid will give you more detail on the programmes that we examined.

Stephen Reid (Audit Scotland): As Barbara Hurst says, we considered a number of budget areas, including fees, grants, bursaries, education maintenance allowances, affordable housing and capital income. As part of our audit, we considered the assumptions that were made regarding inflation, demographics and costing. We also considered how up to date the information was that was used by the Government in arriving at those costing assumptions. We highlight in the report some issues that we identified around capital income, such as the fact that the actual

income that will be delivered, following the onset of the recession, will be much less than what was budgeted for on the basis of the assumptions that were made at the time. However, overall, we identified broadly that the assumptions that were used in each of the areas that we examined were reasonable.

Cathie Craigie (Cumbernauld and Kilsyth) (Lab): Thank you very much for the report, which is very interesting. I am particularly interested in the last part, about the way in which the Scottish Parliament has engaged in the budget process. Way back at the start, the financial issues advisory group wanted the process to be open and transparent and to involve the Parliament. The Auditor General highlights that in the report. However, I have my doubts as to whether we have been able to achieve that over the past 10 years. The Finance Committee recommended to the Parliament—and the Parliament agreed—that we should set up a financial scrutiny unit, but I wonder whether that will just add to the costs for public services rather than do any good.

I am interested in finding a way to enable members of the Scottish Parliament to have a better insight into the whole budget process. The report suggests that the Public Audit Committee could have a look at the Scottish Government's accounts and report to the parliamentary committees before the budget process is signed off, but I note from your report that the Scottish Government's annual accounts are published in October.

In my view, it would be impossible for the Public Audit Committee to carry out proper scrutiny of the accounts and to report to the subject committees and the Finance Committee before those committees had completed their work. In the budget process, committees take forward work that the Finance Committee has recommended. If we do not have better oversight of the process, our involvement will be limited to the final stages. That is a long preamble, but is there any possibility of the accounts being published before October, to provide the Public Audit Committee with more time to consider them before reporting to the subject committees?

Mr Black: I will give a full answer to the range of questions that you have asked. We all recognise that the Finance Committee has done some really good work on these issues, not least in the reports that it published in the summer, in which it restated its belief that there should be a strategic review of finance at least once in every parliamentary session. The question is, how will we do that? The budget is so large and complex that it may be rather difficult. At the back of our report there is a large chart that shows where all the money goes. How would a strategic review cope with all of that?

It is for the Finance Committee, with the Parliament, to work through the matter. However, it could look at major policy areas at least once in a parliamentary session, supported by a small budget scrutiny unit that could really get into the issues. Experts might be brought in on short-term secondments; if we were looking at the justice portfolio, for example, we could bring in one or two people who really know about the area. We would take into account in our forward planning of work the intention to examine the justice portfolio, for example, the following year. Such an approach would enable us to work our way through the budget systematically.

You asked about the Public Audit Committee's role in scrutinising the annual accounts. Until recent years, it would not have been possible to do anything to influence a current budget cycle. The statutory deadline for laying of the consolidated accounts is the end of the calendar year. I do not want to go back into the dim and distant past, but in past years there was a breathless rush to get the accounts out for Christmas, which provided everyone with a headache before the festive period, never mind after it. That is rather late. Through stronger financial management and smarter auditing, we are getting the accounts out in October.

I acknowledge in the report that a PAC report on the previous financial year could be taken into account in the current year's budgeting only to a fairly limited extent. It might be possible to identify one or two higher-level issues. However, the PAC might consider looking at bigger issues that might be taken into account in the long-term planning for the next financial year.

In paragraph 99 of the report we give examples of the different ways in which information is presented between the budget and the accounts. There is a risk that that may become a more significant issue if, in the future, formal budget approval relates to a single-line budget, supported by a wealth of information about indicative allocations to portfolios such as justice and education. In that situation, it would be entirely reasonable for the committee to satisfy itself at the year's end about whether the money had been spent where intended: was it spent in the portfolio to which it was allocated at the beginning of the year; if so, what results were achieved with it? Did it move somewhere else?

In the report, we talk about some of the adjustments that have been made in the current year to boost the housing budget, by taking money from health. It is perfectly appropriate for the Government to do that if housing is a priority, but there should be accountability for the decision at the end of the year. By looking back at the

accounts in the way that I have described, the committee could inform the forward debate.

Cathie Craigie: Will you say a bit more about paragraphs 96 and 97, where you say:

"The Scottish Government is currently proposing to introduce a single statutory budget limit"?

You mentioned that in your earlier remarks. Does the Scottish Government have the power to do that given the way the Parliament was set up and what the FIAG said about transparency and the involvement of the Parliament? If there were a single budget figure, it would curtail the Parliament's ability to scrutinise the budget.

Mr Black: The Scottish Parliament has absolute power to determine what the budget act looks like. The decision is ultimately for the Parliament to make. I hesitate to say more than that because it would be moving too far towards the proper interests of the Finance Committee.

Willie Coffey (Kilmarnock and Loudoun) (SNP): As usual, the Auditor General and his team have presented a report that gives us all food for thought and contains pearls of wisdom about planning, scrutiny and so on. That is a common theme that runs through the Public Audit Committee. However, I sometimes think that we are constrained by the finances available year on year or on a three-yearly basis.

This is not a political point, but the UK Government has found that it had to double its borrowing in one year to deal with the recession in which we find ourselves. Do we need to start asking questions about how Governments plan their finances, perhaps over five, 10 or 15 years? Should they look to plan, invest or save for rainy days so that we do not get the negative impacts on the economy and the cuts that might follow in the next few years? Is there a lesson there for Governments—not just in Edinburgh and London—to invest and save so that they do not need to resort to that level of public finance borrowing but instead draw on reserves and try to ensure consistency in planning?

Some people's comments and proposed solutions to the situation in which we find ourselves are reactive—"We have a budget cut so we have to cut services." That is a natural reaction to which one or two members alluded, but the challenge probably lies beyond that in better and different types of financial planning for the future. I do not know whether the Auditor General can step into that discussion, but I would appreciate any thoughts that you might have on whether what I suggest might be a way forward.

Mr Black: As I am sure Mr Coffey will understand, I do not feel confident that it is appropriate for me to say much on that subject,

but I was struck by one piece of analysis that we reflected in paragraph 20 of the report. It was that

“HM Treasury estimated that the UK’s ability to produce goods and services in the long-run has fallen five per cent.”

That affects fundamentally the tax base of the UK economy. We are where we are and that estimate is simply a further indication that in the future we will be operating in a significantly different and more challenging financial climate than we have ever experienced in the past.

Willie Coffey: It seems that we live in a reactionary environment rather than a carefully planned one. It might be helpful if the Scottish Government—or any other Government—could sit down and make some kind of contingency plan for budget processes over the next five or 10 years. It would be useful if, rather than running to borrow to try to get short-term fixes, there were some thinking in that direction in future.

Mr Black: That takes the discussion into areas of Treasury management over the economic cycle on which I am unable to comment.

The Convener: It also takes the discussion into what the present Administration in Scotland is able to do and to what extent it can build up balances and reserves.

How much can local government build up in balances to anticipate future problems? Are many councils raiding such money to pay for services rather than planning for the future? Those are much bigger issues that go beyond the committee’s remit.

10:45

Anne McLaughlin (Glasgow) (SNP): Thank you for the report, which makes stark reading, as everyone has said. Exhibit 7 on page 15 projects Scottish Government spending and budgets to 2013-14 in the worst and best-case scenarios, but even the best-case scenario makes quite grim reading.

In paragraph 8 you say that the squeeze on UK budgets

“will have a significant impact on the amount of money available to the public sector in Scotland, because Scotland receives most of its funding from the UK Parliament”,

but the Scottish Government plans to have held a referendum by 2013-14, which might well completely change the country’s economic make-up. Does scope exist for Audit Scotland to produce a report similar to “Scotland’s public finances” that is based on the two most-favoured options for the future, without being party political?

One option is increased borrowing powers, as is proposed in the Calman report, which is being talked about today in connection with the Queen’s

speech. Such an increase would change Scotland’s economic make-up. The other option is of course independence, which I support. That would give Scotland full control of its economic plans. Either option could significantly change how Scotland recovers from the economic recession. By 2013-14, our finances might not depend on what happens in the rest of the current UK. Does Audit Scotland’s remit have scope for a similar report about the other options for the future?

Mr Black: The short answer is that such a report would be beyond the bounds of what audit might reasonably be expected to do because it would—to be frank—be conjecture about what might result from different constitutional arrangements. That would be well beyond what it is appropriate for Audit Scotland and me to do.

To be constructive in answering, I suggest that whatever might happen to the constitutional arrangements between Scotland and the rest of the United Kingdom would not happen quickly. We await the Queen’s speech, but even if something in it were built around the Calman proposals I understand that that would not be introduced until after the next UK Parliament election.

Similarly, if a referendum were held, the resulting decisions would take some time, as would drafting the legislation after that. Some issues of decoupling Scotland from the hitherto UK state would be extremely complex and would take many years to deal with, in my opinion. Meanwhile, public finances would continue to deteriorate. A sense of urgency applies to how we will cope and how we will actively plan for and manage what is ahead in public finances, because that will not change for the better.

Anne McLaughlin: All the discussion is based on some conjecture, because we do not know what will happen to the UK economy and we do not know how quickly it will recover. I was just making the point that we should be aware that we do not know where Scotland’s constitutional future will go in the next couple of years.

The Convener: I will explore an issue that relates to that point. You say that you cannot engage in conjecture about Scotland’s constitutional future. When will you report on the expenditure in relation to Scotland’s constitutional future that is being made now?

Mr Black: If significant expenditure is indeed being incurred in planning for a new constitutional arrangement, that will be reflected in the audited accounts in due course. Whether that would be a material issue for reporting on separately to the Parliament is an issue on which I could not make a judgment at this point.

The Convener: Will we be able to see those items of expenditure in the audited accounts and

then engage in a debate on whether such expenditure was appropriate?

Mr Black: As I am sure all members know, the committee is empowered to examine any of the laid accounts relating to devolved expenditure in Scotland, including the consolidated accounts for the Scottish Government. It is for the committee to ask any questions that it wants to ask.

George Foulkes: I have a follow-up question on the same point, in which Mr Black knows I take an interest. The Audit Scotland poster “The Scottish Budget—your guide” contains a very interesting chart—

The Convener: Please do not cover your microphone with the poster.

George Foulkes: People have never had a problem hearing me before.

Can the Auditor General point out, in this fascinating chart, under which heading the expenditure on the national conversation and preparations for the referendum bill will appear?

Mr Black: Convener, can we come back to that question once my team has had a chance to satisfy itself with the details of that chart?

The Convener: Okay.

George Foulkes: I had thought that the information might be instantly available.

The Convener: Anne McLaughlin will follow through with her other two questions.

Anne McLaughlin: Under the heading “Key questions for the Scottish public sector” on page 5 of “Scotland’s public finances”, the section 23 report poses this very good question:

“What are the implications of an ageing workforce for the staffing of front-line services such as education, health, social work, police and fire services?”

I know that the ageing workforce and population have been highlighted in other reports, but is there scope—I hope that people do not think that I am continually coming up with ideas to give the auditors more work—to produce a specific report on the ageing workforce in the public sector and the pressure that an ageing population of service users will put on public services?

Mr Black: We would certainly have the capacity to do that. I will ask Barbara Hurst to detail any parts of our work in which we are considering those issues. We do not currently have a piece of work in hand or planned that would look at the totality of the issue across the public sector, but the issue is looked at in some of our specific studies.

Barbara Hurst: We have done quite a lot of work on older people’s services, ranging from

specific reports on the quality of care homes right through to reports on the implications for councils and health boards of free personal and nursing care. At the moment, we are kicking off a project on community health partnerships. We should possibly think of taking that as a theme for the project because it is quite difficult to audit a partnership; we need some way of getting in to see what is happening. As has been mentioned, we need to take on board not just social care services but the whole range of services that affect older people.

That might be a slightly unsatisfactory answer to the question, but the issue is quite close to our hearts—I know that auditors do not traditionally have hearts—and we are very interested in it. If we can build the issue into our current programme of work, we will do so.

Anne McLaughlin: Thank you. We are all aware that budgets are being cut and that public services are under pressure, but I just feel that the ageing of the public sector workforce and of the service users, which is highlighted in the section 23 report, is an interesting issue. I look forward to seeing any work on that that comes out of Audit Scotland’s current projects.

Mr Black: We will certainly take that issue away and think about it seriously. We might need to take the issue on board as we refresh our work programme.

The Convener: As Anne McLaughlin has identified, this critical issue has two facets: the pressure that an ageing population will exert on demand and the significance of the fact that the workforce is itself ageing.

There is a particular issue in the public sector in the United Kingdom: we now have to face the consequences of decisions to expand the public sector that were made by the Labour Government in the mid to late 1970s. We are already seeing the pressures on the police and fire services, which tend to have a 30-year span. The rest of the public sector has a span of around 40 years. Whatever happens, a large number of people—the baby boomer generation—will come to retirement age at around the same time. That puts pressure on organisations to recruit more people. If we have a smaller pool of people to recruit from, that will create pressure. Added to that, pressure arises due to the affordability of maintaining jobs in the public services at that level. The need to replace that generation has been running for the past two or three years and will run for the next five or six years. Has any work been done on the consequences of that? Have you done any work on the costs of allowing that generation to go early?

George Foulkes: You mean retire early.

The Convener: Yes.

George Foulkes: Not euthanasia.

The Convener: No; I will leave that for others to pursue.

Many public bodies allow staff to retire early, but that creates an on-going cost to the public purse, as it must fund not only the added lump sum but the added annual increments from future budgets. Have you done any work on what that is costing and whether we can continue to allow people—particularly those at the top—to leave their jobs early, at a huge cost to the public sector?

Mr Black: That is one of a number of big issues that are facing the Scottish public sector. On the particular issue of the pension burden, we did a piece of work in 2005-06 in which we examined the unfunded pension liabilities in the Scottish public sector and came up with a figure of £53 billion. Because of the age profile of the workforce, some of the liabilities are now crystallising for the reasons that you indicate. We plan to have another look at the state of play in public sector pensions next year.

The Convener: Is it normally the case that public bodies justify enhanced early retirement for those who go just before their official retirement age on the grounds of cost efficiency, as they are, for example, slimming down a department from 20 jobs to 10?

Mr Black: There is always a requirement to demonstrate value for money in the decision.

The Convener: What about when someone is allowed to retire early with an enhanced package but there is no demonstrable saving? Is that acceptable?

Mr Black: It is for the body itself to be satisfied and to be able to report that an early retirement improves the efficiency of the service.

The Convener: That body—whether it is a council reporting to councillors or a health board reporting to members of its board—should be able to specify the sums that are involved that justify its decision?

Mr Black: Yes.

Bill Kidd: My point is not about pensions, but about paying for them. Has any work been done on the projected impact, which is perhaps already being made, of inward migration and the fresh talent initiative? That might be our only way of seeing ourselves through the potential trap of an ageing population, whose pensions cannot be met.

11:00

Mr Black: We have certainly not done any work on that. Do we have any knowledge of work at UK level?

Barbara Hurst: Sorry. We do not.

Mr Black: We cannot help you there.

Anne McLaughlin: I have one final question, which I do not think will stir up as much debate as the previous ones. One of the key questions that you have posed for the public sector in Scotland is whether there are areas in which spending needs to happen now to deliver recurrent savings in the future. This might be outwith your remit, but has Audit Scotland identified any areas in which we could invest money now to save in the future?

Mr Black: That is a perfectly reasonable question. Behind the question that we posed was the thought that, quite often in public services, if money is spent on new information technology and so on, services or activities can be delivered more efficiently, but up-front investment is required to achieve the benefit later. If someone thinks that bringing their staff together in different ways—in different teams, for example—might increase efficiency and effectiveness, an up-front spend might be required on sorting out accommodation and so on. There are a number of areas in which up-front investment might lead to service improvements and cost reduction in future years.

Nicol Stephen (Aberdeen South) (LD): I agree with the other comments on the excellent report. With regard to the chart, I had exactly the same question as George Foulkes about spending on the proposed referendum and the national conversation, so I will be interested in the answer.

I am interested in the budget heading, “Administration £273.3m”, which appears in light blue in the bottom-left corner of the chart. What does that cover? Is administration in the other areas identified separately? Are the administration costs from all the different areas on the chart pulled into the blue blob in the bottom-left corner? There does not seem to be much detail on what the £273.3 million covers. I would be interested in having further information on that.

I am also interested in the proposed spend on the new Forth crossing. Murdo Fraser correctly drew attention to the costs of the Commonwealth games and their potential to escalate—indeed, we have already seen cost escalation. Many of us are concerned about the funding of the proposed Forth crossing, whether the costings stack up and whether there is a solid plan for affording the new bridge. The Auditor General said that he was monitoring spend on the Commonwealth games and producing reports over time. Does he have a similar intention with regard to the Forth crossing

project, which I assume is the biggest capital project that we have seen in Scotland? A number of us will have serious questions to ask about the project as it progresses. Given its scale, I guess that, in certain years—perhaps for a significant number of years—it will have a major impact on the overview that Robert Black has given us today.

The Convener: Before you answer that, Auditor General, there is an interesting issue with regard to George Foulkes's question that, to some extent, takes us back to one of your earlier reports on capital projects. A lot of time and effort is put into considering projects after they have been delivered, and commenting retrospectively on project management and project preparation. Nicol Stephen raises the perfectly valid point that it would be interesting to know whether you intend to do any work on the replacement Forth bridge project—as you are doing on the Commonwealth games—on looking at the process as it develops and highlighting emerging issues so that we do not encounter the problems that we have encountered with other projects in the past. The same approach could also be taken to other large projects such as the Borders railway, in respect of which there are huge unforeseen issues that remain to be examined. It would be interesting to know whether your approach to such large projects could be refined.

Mr Black: I will address those points in turn.

On the spending on the referendum—

George Foulkes: And the national conversation.

Mr Black: As you might imagine, we think that that probably falls within the area of the office of the First Minister.

George Foulkes: Under which heading?

Mr Black: Having said that, this is the budget—it is not spending.

George Foulkes: The Government has to budget for it. Which heading would it come under—would it be culture and Gaelic?

Mr Black: I do not think that we would be able to identify that specifically. It is important to bear in mind that the Government has the opportunity to move resources between different headings.

Angela Cullen will address the second point, on the administration costs.

Angela Cullen: The figure that was quoted refers to the central administration costs of the Government. We do not know the exact detail, but those will include staff costs, the costs of buildings and such like. The figure represents the administration costs for the running of the Government.

Nicol Stephen: Only the Government—it does not include Scottish Enterprise, the health boards, the councils or any of the public bodies that are funded by the Government.

Angela Cullen: That is right. Those costs would be in each of the other different-coloured lozenges.

Nicol Stephen: So, the internal administration costs for the other areas are included under the separate spending headings, except for those costs that are met by the Scottish Government. Those administration costs are removed and put under that catch-all heading.

Angela Cullen: That is right.

Nicol Stephen: Okay. It is interesting that it is done in that way, as that makes it difficult to identify the administrative costs that are associated with individual spending departments.

The Convener: However, as the Auditor General says, this is the budget, not the expenditure. This is the projected budget for—

Angela Cullen: For the current financial year—2009-10.

The Convener: I presume that similar figures will be available for 2008-09. Now that the accounts have been published, depending on what we decide to do in respect of the budget, there will be the opportunity to compare actual expenditure against budgeted expenditure under those headings.

Angela Cullen: For 2008-09, yes.

The Convener: We might come back to that.

Michael Oliphant (Audit Scotland): The expenditure level that is reported in the accounts is not given in the same detail as in the budget documents. For example, spend figures can be seen under the headings in the chart; however, there is more detail in the budget documents but that is not disclosed within the accounts.

The Convener: Nevertheless, if the figures do not match up we can have an interesting debate about how people can be held to account if the Government is budgeting in one way and accounting in another way and there is no coming together of the two processes. If we intend to hold people to account for budgets, we must be able to examine expenditure—perhaps we all need to learn that lesson as we go along.

Nicol Stephen: Does the committee get an annual report that compares outturns against budgets? Has the committee received information on that historically?

Mr Black: No.

Nicol Stephen: It would be extremely helpful if the committee received a report on that at least once a year.

The Convener: How would that be done?

Mr Black: Can you leave that with us? If the committee wants pursue that, it could certainly be done but I do not want to give an off-the-cuff answer about exactly how we would do it.

The Convener: Okay. Do you have anything else, Nicol?

Nicol Stephen: My final point was on the Forth crossing. All my other questions have been answered.

Mr Black: I am sure that you have anticipated the first part of my answer. If the Forth crossing is a committed project at the next review of the management of the capital programme, it will feature, just as any other project would feature.

Nicol Stephen: I am sorry; did you say “a committed project”?

Mr Black: If the project is going ahead, it will be reflected in that review.

Nicol Stephen: So it is not currently in that category.

Mr Black: Indeed.

The Convener: At what point does a project become a committed project? In the case of the Forth crossing, legislation will be required, but that is not the case for all capital projects. At what point does a project become a capital project from your perspective?

Mr Black: When the Government decides to go ahead with it.

The Convener: In this case, given that there will have to be a legislative process, the Government has stated its intention, so it could be argued that the project is a committed project. However, because it also depends upon legislation getting through the Parliament, will that delay the project becoming a committed project until Parliament has approved the legislation? Alternatively, does it become a committed project because the Administration is committed to it?

Mr Black: It would be a matter of when the Government decides to go ahead with the building and puts together a business case that has numbers assigned to it.

Nicol Stephen: A significant amount of money is already being spent on the Forth crossing, so costs are already being incurred. If we so wished, and the Auditor General agreed, that could be the subject of scrutiny.

The Convener: Yes. An interesting piece of work could be done on some of the major capital projects that are starting to unfold. It would be interesting to discuss them.

Nicol Stephen: I would have thought that most lay people would think that successive Governments have committed to the project, going back to the earlier part of this decade. Even if that is not technically the case, there would be a lot of public interest in the issues that we would like to ask about. Some scrutiny at an earlier stage in the process would be valuable.

Mr Black: The starting point for audit engagement is when the business case is produced. If the Forth crossing goes ahead, it will be a project of such significance that I undertake that the auditors of the relevant bodies that will be affected will monitor it and report as necessary.

Cathie Craigie: I have concerns about the reliability of the information that the committee gets on capital projects. The Public Audit Committee had information that the Glasgow airport rail link project was on budget and going ahead, but within two weeks of that information being put before the committee, the minister announced that the project was being cancelled because it was running over budget. As a result, I am concerned about the information that we are getting; the next time, we will take it with a pinch of salt.

The Convener: The point is noted.

11:15

George Foulkes: I have two specific points that arise from Nicol Stephen's interesting question. I am quite gobsmacked that we do not examine outturn against budget. Has that never been done for the Scottish Government or the Scottish Executive? It is done for every organisation that I have ever had any connection with.

Mr Black: Audit Scotland has certainly not done such analysis on my behalf across the whole of Government.

George Foulkes: When I was director of Age Concern Scotland, we used to check the outturn against the budget every year. In every organisation that I have had any connection with, outturn is automatically checked against budget to find out whether there has been an overspend or an underspend. You must do that because there is an exhibit in the report—I forget which one it is—on Scottish Government underspend. How do you work that out? How do you get the figure for underspend if you do not do such a comparison? It is exhibit 9.

Mr Black: Those numbers are reported, but they have not been reported by me to Parliament at the

aggregate level before. That takes us back to our earlier discussion about whether it would be valuable to do more of such work. At the year end, public bodies in Scotland would certainly be expected to report on their outturn against their budget. The auditors of individual bodies, whether in the health service or local government, would be able to report on that in their final reports.

George Foulkes: So with bodies such as health boards and local authorities, which are the main spenders, outturn is compared with the budget.

Mr Black: Yes, indeed.

George Foulkes: But that has not been done for the Scottish Government as a whole, up until now.

Mr Black: That would be done in the consolidated accounts, but the committee has not formally considered those accounts. If I may say so, that takes us back to my suggestion that in future the committee should perhaps take a greater interest in those accounts.

George Foulkes: That would be helpful, although I thought that that was done already.

Stewart Stevenson has announced three or four times that the Forth replacement crossing will go ahead; he never seems to stop making announcements about that. As I understand it, he said that it would be paid for out of revenue. Is that not the Auditor General's understanding?

Mr Black: Forgive the trite remark, but I tend not to audit announcements, so it is rather difficult for me to comment on that.

George Foulkes: Very wise. However, there seems to be some doubt about the point at which it is decided that something should go ahead, as Nicol Stephen said. As a local member, I have been at meetings about the Forth replacement crossing, have had huge reports presented to me on it and have been to see local people who object to it. Millions of pounds must have been spent on that process. Does not the Auditor General keep an eye on that?

Mr Black: Yes.

George Foulkes: Ah, good. When will we get a report on it?

Mr Black: That will depend on the profile of expenditure and how it is reflected in the accounts of the agencies and departments affected.

George Foulkes: Nicol Stephen is very good at raising such points.

Has the Auditor General monitored the effect on the budget of introducing universal benefits at a time of restraint? Given that we are cutting back on vital provision in the health service at the same

time that we are abolishing prescription charges, and are cutting back on vital education services—many teachers are unemployed—at the same time that we are giving free school meals to the daughters and sons of advocates, doctors, peers and members of the Scottish Parliament, is that not an issue that the Auditor General should have a look at?

Mr Black: We included in the report, on pages 11 and 12, the current development estimates of the costs this year and next year of the significant services that are free at the point of delivery. As the committee will recall, we did a major piece of work on free personal and nursing care. It was influential with regard to the Sutherland committee's report, which led to the allocation of extra money.

George Foulkes: I understand that Lord Sutherland has now been pensioned off by the Scottish Government and told that his services are no longer required. That is not a matter for the Auditor General, however.

Does the Auditor General examine the question of bonuses to administrative staff in the Scottish Government?

Mr Black: No.

George Foulkes: Is that something that ought to be considered when we are under a lot of financial pressure? If we have difficulty finding money for nurses and teachers while senior executives are getting bonuses, would it not be worth taking a look at that?

Mr Black: It would be for management to determine what pay system it intends to operate to maximise efficiency and effectiveness.

George Foulkes: I was going to suggest an answer to Anne McLaughlin's earlier question: she could pop over to Dublin or Reykjavik and find out the effects of poor government.

The Convener: Thank you for that. I call Willie Coffey.

Willie Coffey: Thanks very much, convener—I do not know where to start after that. I am a wee bit disappointed by George Foulkes's complaints about free school meals also being available to people who can afford them. That measure helps a lot of underprivileged families and kids to attain a level of health that they have not experienced to date. That should be welcomed.

I have a question on exhibit 9, which George Foulkes mentioned. It shows significant underspend by the Scottish Government or Scottish Executive over a period of time. In 2003-04, £600 million was underspent; the following year, £400 million was underspent and there were two further years of significant underspend. Where

does that underspent money go? Does it go back somewhere? Is it retained in the Scottish budget? It does not appear to follow the trend of the block grant allocation to the Scottish Government over successive years. There does not seem to be a connection. That is not quite prudent financial planning; it is simple underspend. However, it means that additional moneys remain in the budget, perhaps to be deployed on rainy days in the future, as I suggested earlier.

Mr Black: As you can imagine, we have monitored the performance of underspend quite closely through the audit process. I ask Angela Cullen to provide you with further information.

Angela Cullen: As Willie Coffey points out, exhibit 9 shows the decrease in underspend. There was a change in policy around 2006-07. Prior to that year, the Scottish Executive was allowed to build up any underspend and carry it forward. In 2006-07, that policy changed, and any underspends were returned to a larger pot at the Treasury. Although Scotland was able to call on money in that pot, it was not guaranteed that the Executive would have access to it.

From 2006-07 onwards, the Scottish Government made active movements in trying to reduce underspends. It was in its best interests not to underspend, because it would not necessarily be able to call on the money in future. It was much better for the Government to reduce the level of underspend and to spend the money in year.

There were also changes regarding the end-year flexibility that was around—to use the technical term. There were a few changes in policy at that time, as agreed with the Treasury, that made the Scottish Government change its practices, and it actively tried to reduce underspend.

Willie Coffey: If anything, that is a welcome change in that the Government, no matter its shape and colour, carefully considered the finances that were available to it and deployed them to best effect as it saw fit. That is to be welcomed.

I was hoping that that might lead back to my original question whether it is possible to future proof ourselves against economic recessions. Let us not kid ourselves, there will be another one. I would hate us to find ourselves again in the position that we are in now and to have to make swingeing budget cuts. I hope that that will never happen, and that we will, as my colleague said, be independent by then. However, we do not do enough future proofing and future planning; we seem to be fairly reactive to the situations in which we find ourselves. That cannot be good for the future of public finances, no matter which

Governments are in control in Edinburgh or London.

The Convener: I wonder about your point that encouraging Administrations to spend is a good thing. When I was in local government there tended to be a panic towards the end of the year. People wanted to protect their budgets and departments spent money, often unwisely, because they had to. If they did not spend it, come the next year someone might think that they did not need as much. If you are not encouraged to underspend—if, in fact, you are encouraged to spend what you have—that does not encourage efficiency and it does not encourage people to hold money back to spend on something that will come up the next year or the year after. I wonder whether the decision to retain everything centrally encourages Administrations to look at whether they could shift money that is in one budget one year and use it better in another budget the next year. I am not persuaded that encouraging people to spend the money, irrespective of how effectively they spend it, is necessarily a good thing. Perhaps that is a policy issue.

Willie Coffey: The end-year flexibility process was meant to address that and to allow moneys to be targeted, rather than spent on what you fancy to get rid of the budget.

The Convener: Yes, but I have had experience of that process and there is flexibility only within that financial year, so you are still looking at coming up with projects that are a quick spend, which is not always the best way to do it when you know that something might be coming up in six or nine months' time and that if you took your time, you could plan and deliver things more effectively. Anyway, that is not a matter for us.

Anne McLaughlin: I will return to George Foulkes's last comment. I think that I am right in saying that the committee has been shortlisted for best committee at the Scottish politician of the year awards tomorrow night. Have we been, or did I get that wrong?

The Convener: No.

Bill Kidd: We should be.

Anne McLaughlin: We should be, and it is a good committee.

Murdo Fraser: We have been.

Anne McLaughlin: I want to distance the committee from George Foulkes's comments. I think that another colleague got into a bit of trouble for gloating over the misfortunes of Iceland and Ireland. I will not focus on the fact that I think that Ireland is recovering far more quickly than the United Kingdom, but I do not think that it is right to be gloating over the fact that some countries in the world are struggling financially as well as us.

The Convener: If there was some gloating, I would also want to distance myself from it, but I did not hear—

George Foulkes: Did anyone hear me gloating?

The Convener: I did not hear any gloating. One of the things that we have to do is to reflect on the reality, potentially in other countries but also in various services. Commenting on the harsh reality is sometimes necessary and it does not mean that there is any gloating. I do not think that any member of the committee would gloat about the misfortunes of others.

Bill Kidd: I will make the small comment, convener, that we do not want to get too party political or anything like that—

George Foulkes: Oh dear, no.

Bill Kidd: No, we do not, because we have the Auditor General and his people here waiting for questions that they may be able to help us with. However, the report states:

“The UK has experienced the worst deterioration in its public sector finances of all OECD countries”.

We should not pass unqualified comment, whether it is gloating or not.

The Convener: No one was passing unqualified comment. The significant deterioration that has taken place in the finances of other countries and the impact that that has had on public services are matters of record. We are not immune from those difficulties. It behoves all of us to work together as best we can to come out of them.

11:30

Nicol Stephen: Exhibit 10 on page 18 of the report relates to the strategic board of the Scottish Government. Paragraph 69 refers to arrangements for management of the budget. Is the director of finance a director in his or her own right, or is he or she a director in name only? Is the postholder responsible to one of the directors general? The position of permanent secretary is a first-tier position and director general is a second-tier position. Is director of finance a second-tier position or a third-tier position, responsible to one of the directors general? If so, to which director general is the postholder responsible? I assume that it would be the director general for finance and corporate services.

I would like the matter to be clarified. In every organisation of which I know, the position of director of finance is very senior; often it is number 2 to the position of chief executive. It is not clear that that is the situation in the Scottish Government. I know that historically it has not been, which has been a cause of concern to me.

Mr Black: The position of director general of finance and corporate services is a relatively new post in the Scottish Government. The postholder has accountable officer status for the entire finance and corporate services function. The director of finance works closely with the director general of finance and corporate services and reports to her, but is present on the strategic board in order to contribute fully at that level.

Nicol Stephen: In short, the director of finance is at a different level from the other directors who are around the table.

Mr Black: That is correct. The most senior level of responsibility is held by the director general of finance and corporate services.

Nicol Stephen: Is the director of finance the accountable officer for anything?

Mr Black: Although accountability runs from the director of finance to the director general of finance and corporate services, I understand that the director of finance has equal status on the strategic board with its other members, under the chairmanship of the permanent secretary, and is in a position to contribute fully to the board's deliberations.

Nicol Stephen: This is not an issue to be addressed now, but it would be helpful if we could get more clarity on the matter. Perhaps we could get a note on it.

The Convener: We can seek clarification from the permanent secretary, rather than Audit Scotland.

Nicol Stephen: That would be helpful.

The Convener: I thank the Auditor General and his team for helping to stimulate an interesting discussion. I suspect that the issue will continue to develop in the coming months. We move into private session to reflect on our approach to the report.

11:34

Meeting continued in private until 11:54.

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