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Clerk to the Public Audit and Post-Legislative
Scrutiny Committee
Room T3.60
The Scottish Parliament
EDINBURGH
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Via email: papls.committee@parliament.scot

2 November 2016

Dear Mr Shevlin,

Scottish Government Consolidated Accounts 2015-16.

I refer to your letter of 10 October inviting me to give evidence to the Committee in relation to the report published by the Auditor General alongside the Scottish Government's Consolidated Accounts 2015-16.

I will be pleased to attend and propose to be accompanied by:

- Alyson Stafford, DG Finance
- Aileen Wright, Deputy Director, Finance
- Nicola Richards, Director People
- Anne Moises, Chief Information Officer

Thank you for the opportunity to provide a response to the report published by the Auditor General alongside the accounts. I appreciate that this letter will be provided to the Members and be made publicly available.

The Auditor General report is intended to support the scrutiny of the accounts, and is not, therefore, a typical performance audit. The report provides a digest of data and commentary on information within the accounts; the full accounts are available from SPICe and on the SG website at <http://www.gov.scot/Publications/2016/09/8846>. SG Finance colleagues would be pleased to provide any further information on the accounts or respond to any questions in advance of the session. Annex B provides a list of the full suite of accounts reporting on the Scottish Budget.

This is the eleventh consecutive year that the Scottish Government's accounts have received an unqualified audit opinion and I welcome the Auditor General's

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confirmation that the accounts include a “robust and audited financial report” (paragraphs 80 to 82) and conclusion that the Scottish Government has a good track record of financial management, together with governance arrangements and a commitment to further development of the National Performance Framework which form a strong base to meet the challenges of continuing pressures on public finances and the changes associated with new financial powers.

The Auditor General highlights significant audit findings and areas of financial and performance management and reporting for further action.

Significant audit findings; EU cap Futures and Structural Funds

The Auditor General highlights significant audit findings and I want to reassure the Committee that action is being taken in each case.

The separate Committee session on CAP Futures will address the position there. The Scottish Government has accepted the AG’s recommendations in her May 2016 report on this topic and published detailed responses alongside Mr Ewing’s statement to Parliament of 13 September. As the AG says in this latest report, it is too soon yet to see the results of these latest actions. The separate Committee session will consider this in detail.

In relation to EU Structural Funds, the report explains the suspension of payment of claims by the European Commission for three of the four 2007-13 programmes in 2015. All three suspensions have now been lifted by the European Commission (two formally on 11 August 2016 with notification of the third in early September 2016, with formal confirmation expected in the course of this year).

The Scottish Government has learned from this suspension in the preparation for the 2014-20 programmes, and has worked closely with auditors and beneficiaries to deliver improved guidance and training to minimise errors and avoid EC imposed financial penalties. The Audit Authority has provided an unqualified opinion on the Scottish Government’s management and control systems for the 2014-20 ESF/ERDF programmes.

Developing budget and financial reporting; Performance reporting

The Scottish Government is committed to maintaining the highest standards of financial reporting. The Auditor General highlights (para 43) the broad programme of work in progress to develop financial reporting, alongside the implementation of new financial powers. I appreciate the Committee’s interest in this area and provide a paper on this as Annex A, explaining what has been achieved since our last appearance in December 2015 and our plans going forward.

Performance reporting also extends beyond the accounts; Annex A also provides more detailed information on performance management and reporting. I hope Committee members find this helpful.

Governance

Finally, I would like to provide more information about the Governance Review noted in the Governance Statement in the accounts and referenced at paragraph 55 to 60 of the report.

I commissioned the review of our corporate governance arrangements to ensure that the SG is well placed to respond to the current and future challenges we face, including: preparing for new powers, the significant increase in tax raising responsibilities, the use of digital to deliver public services, growing the economy and making the most effective use of our organisation's human and other resources. Against that backdrop of ongoing change it is essential that we have arrangements in place that allow effective decision-making, performance setting and clarity of direction. At the same time, we also need to ensure that we can offer appropriate levels of assurance to Parliament and the people of Scotland about our accountability for the efficient and effective use of the resources under our control.

The new governance arrangements went live at the beginning of October. I will be closely monitoring the new arrangements as they bed in to ensure they are delivering the quality of corporate governance that is required.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Leslie Evans', with a long horizontal flourish extending to the right.

LESLIE EVANS

DEVELOPING BUDGET FINANCIAL AND PERFORMANCE REPORTING

Context for Development: new financial powers

The Scottish Government and the Scottish Parliament have come a long way since the first spending plans presented to the Scottish Parliament for financial year 2000-01 by the then Minister for Finance, Mr Jack McConnell, amounting to £16.7 billion.

Since 1999 the reporting of Scotland's Public Finances has evolved with the initial adoption of Resource Accounting and Budgeting, followed by conversion to full International Financial Reporting Standards from (and including) financial year 2009-10.

Recent years have seen rapid and major changes to the Scotland Act; in 2012 [with two new devolved taxes, the Scottish Rate of Income Tax and limited borrowing powers], and in 2016 [more powers over income tax, enhanced borrowing powers, Air Passenger Duty, VAT plus material new areas of spend including some social security devolution]. These have heralded significant changes in the devolved fiscal arrangements for Scotland. The Scottish Government has, in parallel, developed the institutional landscape of Scotland to support the delivery and additional scrutiny of the expanding fiscal powers now in train.

The draft budget for 2015-16 published on 9 October 2014 set out spending plans in excess of £30 billion and included estimates of two new devolved taxes (Land and Buildings Transaction Tax and Scottish Landfill Tax), the subject of the first tax legislation to be enacted in Scotland for over 300 years.

The Scottish Government's accounts for 2015-16 account for £33.3 billion expenditure. In 2015-16, of the total expenditure budget available to the Scottish Administration, in the order of 12 % was raised through direct taxes subject to policies and decisions of Scottish Ministers. It is estimated that by 2019-20 that percentage will increase to two thirds, so our emphasis has been to establish the arrangements for income reporting so as to put this on a firm foundation, alongside our expenditure reporting.

Financial Year 2015-16 Developments: reporting on funding and spending

A Fiscal Framework and associated Technical Annexes have been agreed between the Scottish Government and Her Majesty's Treasury and have been published (Fiscal Framework Agreement on 25 February 2016 and Technical Annexes on 15 March 2016) in support of the Scotland Act 2016.

The Scottish Consolidated Fund 2015-16 account, laid in the Scottish Parliament and published on 30 September 2016, has been developed to set out the increased range of income that now supports expenditure in Scotland. (The timing of this account has also been brought forward (the 2014-15 account was published on 26 November 2015.)

We have agreed with Audit Scotland the framework for reporting on Devolved Taxes. In September 2016, Revenue Scotland published an account of its own running

costs and a separate account reporting on the two devolved taxes administered by Revenue Scotland. Revenue Scotland has produced its first annual report, and issues monthly stats for Land and Buildings Transaction Tax and Scottish Landfill Tax, as well as quarterly KPIs.

The Scottish Fiscal Commission, established by Scottish Ministers in June 2014 as an independent non-statutory commission, has published its out-turn report on the tax performance for 2015-16 in September 2016, as well as reporting on the forecast estimates included in the 2016-17 draft budget. The Scottish Fiscal Commission will become a statutory body and will report to the Scottish Parliament from 1 April 2017 as per the Scottish Fiscal Commission Act 2016 which received Royal Assent on 14 April 2016.

The Scottish Government has prioritised the implementation of new powers, its accountability for income raised through taxation and has set out from the outset a transparent set of measures for the taxes raised and the corresponding block grant adjustment.

With more tax income being raised directly in Scotland, the Block Grant from Westminster has to be reduced to take account of different flows of funds (known as the Block Grant Adjustment). The Scottish Government set out the position in the 2015-16 and 2016-17 Draft Budget documents with specific chapters dedicated to Scotland Act 2012-defined fiscal arrangements. Joint Scottish Government and UK Government Section 33 reports were published in March 2016 to provide a joint transparent account of the progress with fiscal devolution as defined by the 2012 Act.

The Scottish Government has made the following improvements to the “expenditure reporting” in accounts.

- a) The content of the Scottish Government’s consolidated accounts has been reviewed to explain how the Scottish Budget as a whole is funded and to make the link to the other accounts now prepared as a consequence of the changing fiscal landscape in Scotland.
- b) Other streaming and simplification has been applied to make the accounts more accessible.
- c) The performance and accountability sections meet the required principles of the FrEM (Financial Reporting Manual) with pages 4-20 of the accounts summarising financial performance for the year and signposting links where helpful.

These changes have been welcomed by the Auditor General.

Planned Further Developments

The Committee will be interested in the following new publications and developments for financial reporting:

- a) Prior to the next draft budget, to publish a short accessible guide to Scotland's public finances.
- b) Publish by 31 December a statement to the Parliament for the out-turn report for 2016 for the Scottish Administration.
- c) In January 2017, publish the 2016 snapshot of the key facts of the Financial Statements of the Scottish Administration for the year ended 31 March 2016. (This is after the statutory 31 December when all accounts have to be laid in Parliament).
- d) On the proviso that Local Authorities in Scotland are expected to be fully compliant with IFRS for the accounting year 2016-17, and both LAs and Executive NDPBs commit to date sharing for this purpose, aim to produce for Audit in Spring 2018, a 'tailored for Scotland' consolidated public account - the scope, format and content to be agreed by April 2017.

Performance Reporting

The Performance Board was established and met for the first time in January 2016, and met subsequently in March, April and August 2016. From October 2016, it was re-scoped as the Performance and Priorities Board.

The Performance Board has looked into existing good practice in the organisation, such as prototyping of a portfolio approach to democratic renewal and the transferable elements of outcome-focused approaches employed in the justice field relevant to other areas. The Board has also looked at performance indicators and measurement in relation to economic competitiveness and educational attainment, and is overseeing on-going work to refresh the National Performance Framework. It has also commissioned work with lead directors for the National Outcomes to highlight and spread a strategic portfolio approach to outcomes.

During the summer, the Scottish Government Directors responsible for delivery of each of the National Performance Framework Outcomes were asked about arrangements for delivery. I was reassured to hear that in each case, there are a set of policy goals, a set of actions being taken to move us forward, and a set of measures to know whether we are moving in the right direction.

In relation to plans for future development, the Community Empowerment Act places a duty on the Scottish Ministers to consult on, develop and publish a set of national outcomes for Scotland and review them at least every five years. They must also regularly and publicly report on progress towards these outcomes – so reporting is also enshrined in legislation. National outcomes must be determined, but there is flexibility as to how they are presented and measured (SG currently uses the NPF and Scotland Performs). Consultations will take place in early 2017.

Aligning finance and performance data

Aligning finance and performance information in a meaningful way, when outcomes take often, rightly, many years to achieve, continues to present a key challenge.

A major step forward has been, as part of the 2015-16 draft budget activities, to not only produce the usual Scotland Performs update, but for each of the 16 national outcomes explanation was provided on how the budget was spent, what was achieved and how this contributed towards the relevant national outcomes. This development was welcomed by the Auditor General and we intended to develop this further.

More recently (21 October 2016) the Finance Committee has been provided with 'scorecard' information for the National Performance Framework as part of its pre-budget scrutiny.

Scottish Parliament Budget Process Review Group

The major step change that the Scotland Act 2016 brings over the course of this Parliamentary term is not only signalling changes to the richness and complexity of financial, income and expenditure reporting but also the rhythm of business for the Scottish Parliament with the continuing interface with UK Government fiscal events as well as our own budget, tax setting and reporting cycle.

As the Budget Process Review Group (established in September 2016) reaches its conclusions next year it will be important that the recommendations going forward are shared with the PAPL Committee so that future developments are co-ordinated.

Suite of reporting	Scottish Budget	2015-16 Reporting
Scottish Government Accounts:		
Finance, Constitution and Economy <ul style="list-style-type: none"> • Scottish Public Pensions Agency (www.sppa.gov.uk) • Accountant in Bankruptcy (www.aib.gov.uk) 	604	<u>30 July 2016</u> <u>11 August 2016</u>
Health, Wellbeing and Sport <ul style="list-style-type: none"> • The NHS Bodies responsible for the planning, promotion, commissioning and delivery of healthcare. NHS Ayrshire and Arran NHS Borders NHS Dumfries & Galloway NHS Grampian NHS Greater Glasgow & Clyde NHS Lanarkshire NHS Lothian NHS Orkney NHS Shetland NHS 24 NHS Education for Scotland NHS Scottish Ambulance Service • Mental Welfare Commission (www.mwcscot.org.uk) 	12,483	September and October 2016. Remaining NHS bodies are due to publish later in October. <u>10 October 2016</u>
Education and Lifelong Learning <ul style="list-style-type: none"> • Disclosure Scotland (www.disclosurescotland.co.uk) • Education Scotland (www.educationscotland.gov.uk) • Student Awards Agency (www.saas.gov.uk) 	2,969	End October <u>22 June</u> <u>23 July</u>
Fair Work, Skills and Training	270	
Justice <ul style="list-style-type: none"> • Scottish Prison Service (www.sps.gov.uk) 	2,399	<u>30 June</u>
Social Justice, Communities & Pensioners' Rights	11,617	
Rural Affairs, Food and the Environment	511	
Culture, Europe and External Affairs <ul style="list-style-type: none"> • Historic Scotland (part year) (www.historicenvironment.scot/) 	220	November
Infrastructure, Investment and Cities <ul style="list-style-type: none"> • Transport Scotland (www.transportscotland.gov.uk) 	2,321	End October
The Crown Office and Procurator Fiscal Service (www.copfs.gov.uk)	114	<u>2 July</u>
Administration	192	
Scottish Government Consolidated Accounts	33,700	<u>30 Sep</u>
Other self-accounting elements:		By end-Dec
<ul style="list-style-type: none"> • National Records of Scotland 	23	November

Annex A

• Office of the Scottish Charity Regulator	3	<u>26 June</u>
• Scottish Courts and Tribunals Service	94	<u>End October</u>
• Scottish Housing Regulator	4	<u>25 Aug</u>
• NHS and Teachers' Pension Schemes	3,398	<u>November</u>
• Revenue Scotland	5	<u>August 2016</u>
• Food Standards Scotland	16	2015/16
Final Outturn report for the Scottish Administration	37,243	No statutory requirement - by end December
Directly funded bodies:		
Forestry Commission Scotland	63	<u>August 2016</u>
Scottish Parliament Corporate Body	92	<u>October 2016</u>
Audit Scotland	10	<u>June 2016</u>
Total Scottish Budget	37,408	
Also:		
Scottish Consolidated Fund Accounts		<u>30 September 2016</u>
Related accounts:		
• Non Domestic Rates		<u>December</u>
• Devolved Taxes		<u>September 2016</u>

