AUDIT SCOTLAND

Audit Scotland's annual statement on sustainable economic growth for 2017/18

The Public Services Reform (Scotland) Act 2010, section 32(1)(a) requires listed public bodies to publish a statement on sustainable economic growth as soon as possible after the end of the financial year.

The following statement sets out the steps that Audit Scotland has taken in 2017/18 to promote and increase sustainable growth through the exercise of its functions. Further information on this and our audit work is contained in our Annual Report and Accounts 2017/18 which is on our website at www.audit-scotland.gov.uk

Introduction
Audit Scotland is a statutory body that supports the Auditor General and the Accounts Commission in making sure public money in Scotland is used properly, efficiently and effectively by undertaking audits and investigations of Scottish public bodies. To ensure objectivity in our work, Audit Scotland is independent of the Scottish Government and ministers.

Sustainable economic growth and contribution to the Scottish Government's National Performance Framework
Strong and effective public services play an important part in ensuring sustainable economic growth. Public audit provides assurance to financial markets, investors and key decision makers that public money is well managed and that governance arrangements for public services are sound.

Audit Scotland has an interest in the extent to which the Scottish Government is making progress against the outcomes contained in the National Performance Framework which was refreshed in 2016. We do this by carrying out performance, Best Value and financial audits to provide assurance that money and resources are being used properly, efficiently and effectively and to highlight areas for improvement.

We audit public bodies, with a total spend of about £40 billion a year. In 2017/18, we audited 310 sets of accounts and completed 18 performance and Best Value audits.

Our annual audit reports cover the full range of audit work done in the year, providing the audited bodies and stakeholders with a comprehensive and independent view of financial management, governance and performance in public bodies. Auditors review the financial position and sustainability of public bodies and promote good financial management and planning. This year no auditor opinions were qualified.

We carry out performance audits across the public sector to help public bodies improve the quality of their services, do more with their money, and find more efficient and effective ways of working to the same or better standards. Our audit reports carry recommendations for public bodies to help them improve, and we publish good practice checklists and case studies.

Examples of how, through the exercise of our audit function, we help sustainable economic growth include:

- **Significant risks" to delivering early learning and childcare plan by 2020**
  A joint Accounts Commission and Auditor General report noted there are "significant risks" surrounding the Scottish Government's ambition to double early learning and childcare hours by August 2020.

  Councils are preparing to provide 1,140 funded hours for all 3 and 4 year-olds and eligible two year-olds so as to improve outcomes for children and to support parents to work, study or train.

Providing the hours will require a large increase in the number of childcare staff and changes to premises that will be difficult to achieve in the time available.

The report noted that detailed planning by the government should have started earlier to help councils meet the 2020 deadline and noted the considerable gap between what local councils and the Scottish Government expect the policy to cost.

The report also assessed the, earlier 2014, expansion of funded early learning and childcare to 600 hours. The government did not identify measures of success before committing almost £650m to this increase, making it difficult to assess whether it is delivering value for money.

The expansion was agreed without evidence that it would achieve the desired outcomes for children and parents and without considering other ways of achieving those objectives.

The government and councils worked well together and parents were very positive about the benefits of funded hours to their children, however parents surveyed as part of the research said funded hours had a limited impact on improving their ability to work.

- **Reform of NHS is progressing but fundamentals still need addressed**
  Audit Scotland's reported that significant activity is under way to transform Scotland's healthcare system, but a number of crucial building blocks still need to be put in place.

  The report stated that NHS says staff are committed and overall patient satisfaction is high. But that costs are increasing and demand growing, amid signs that the NHS is struggling to maintain the quality of care.

  In 2016/17, the health budget was £12.9 billion - 43 per cent of the total Scottish Government budget. Funding increased, but operating costs are also rising and NHS boards had to make unprecedented savings of almost £390 million in order to break even.

  The report says the NHS faces significant challenges, including:
    - More people are waiting longer to be seen;
    - The majority of national performance targets were not met;
    - Scotland's health is not improving, and significant inequalities remain;
    - General practice is under pressure, including recruiting and retaining GPs and low morale.

  There are some signs of progress in areas such as integrating health and social care, developing better data, and embedding a 'realistic medicine' approach, but some key building blocks still need to be put in place by the Scottish Government, NHS boards and integration authorities.

  A comprehensive approach to workforce planning should be put in place, with input from staff. A capital investment strategy should also be developed to ensure that the NHS estate can deliver more community-based services.

- **IT project for rural payments ends but significant issues remain**
  Audit Scotland reviewed the progress made in resolving serious issues with the Common Agricultural Policy (CAP) Futures programme, created to enable the Scottish Government to provide financial support to farmers and rural businesses in line with European Commission (EC) reforms.

  The Scottish Government oversaw the £178 million IT and business change programme, which closed at the end of March 2017. Significant changes in leadership have been introduced which have brought about a renewed effort to stabilise the programme. However, to date the programme has not delivered value for money or planned benefits for applicants.

The report noted that the applications process has improved, but there are still problems with making payments. The Scottish Government will need to incur further costs to develop the IT systems used for payment applications and maintain existing processes. There is not yet a fully developed or tested plan for recovering the systems in the event of a breakdown.

The Scottish Government has used loan schemes to get money to farmers more quickly. Payment delays for 2016 applications meant loans took longer to recover than planned, which introduced more risk to the wider Scottish budget and put pressure on payment timescales and staff.

There is a risk of fines if the payments system doesn't comply with EC regulations, for example by missing deadlines or weaknesses in controls. The Scottish Government is still to carry out a detailed analysis of what penalties it may face, so it can decide where to focus future funding to ensure the system is compliant. Audit Scotland's latest assessment is that fines of up to £60 million are possible.

The Scottish Government is making changes to improve longer-term strategic thinking and capacity. These will need time to embed and management time is still being taken up by responding to short-term risks. Transferring knowledge from programme contractors to government staff is also essential, but will be a challenge due to short timescales and immediate payment priorities.

- **New long-term strategy required for Scotland's ferries**
  Audit Scotland reported that spending on Scotland's ferry services has more than doubled since 2007/08. But the full extent of future spending requirements is not known and could be substantial.

  The report says Transport Scotland, the Scottish Government agency in charge of national transport spending, needs a new long-term plan for Scotland's ferry services.

  Transport Scotland currently supports 32 ferry routes through three main contracts and, overall, the operators of these contracts are performing well. More than £209 million was spent on ferry services and assets in 2016/17, an increase of 115 per cent since 2007/08. This is mainly due to an increase in services, new boats and the impact of the Road Equivalent Tariff, which has reduced the cost of ferry travel in the Clyde and Hebrides.

  The report says Transport Scotland has made significant progress in its current ferries plan although this is largely focused on the Clyde and Hebrides routes. Major developments lie ahead, including reducing fares to the Northern Isles from 2018, but the full costs of these are not known. Substantial investment is required in harbours, but the full extent of this is also unclear. All of this underlines the need for a new, long-term strategy, covering the whole of Scotland, to determine and prioritise future investment.

  The report says Transport Scotland does not routinely measure the social and economic impact made by ferries. Ferry users are generally happy but want to be better informed and involved in decisions which affect their services.

  The report recommends that Transport Scotland improves its procurement arrangements for ferry services, after finding weaknesses in the arrangements for the recent Clyde and Hebrides contract.

Transport Scotland only received one compliant tender and was not required to analyse the 350 commitments made by CalMac in its successful bid. This means it cannot fully show the added value that the new contract will provide.

The contract was awarded from October 2016 at a cost of £868 million over eight years. Transport Scotland expects this to increase to reflect planned timetable and other changes and estimates the current cost at £975 million.

All our reports are published on our website at www.audit-scotland.gov.uk

Audit Scotland also contributes to sustainable economic growth and the Scottish Governments National Performance Framework as an employer. For example:

- This year staff received an average of 7.4 days training and personal development to increase knowledge, skills, efficiency and effectiveness. We run one of the largest public-sector accountancy training schemes in Scotland and there are 42 trainees in the scheme. In 2017/18 we extended the scheme to encourage school leavers with the necessary qualifications to access a career in accountancy and audit. The trainees work towards professional qualifications thereby increasing the skills base of Audit Scotland, and Scotland in general.

- We continued to focus management and professional medical support to staff well-being and attendance. In 2017/18, our sickness absence remains low compared to the public-sector average. Our sickness absence was on average 4.4 days which was a slight decrease on last years figure of 5.32 days per employee.

- We have offices in Edinburgh, Glasgow and Inverness and have many staff located in audit sites across the country, making a contribution to many local economies.

- Not all of the work that we do is carried out by Audit Scotland staff. We contribute to economic activity by appointing firms of accountants to carry out audits on behalf of the Auditor General and the Accounts Commission and specialists to contribute to performance audits. This amounted to almost £4.4 million this year.