

Audit Scotland's annual statement on sustainable economic growth for 2016/17

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 2016/17 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 2016/17 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 2016/17, we audited 326 sets of accounts and completed 20 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 seven auditors opinions were qualified; one in further education, two in central government, one in the NHS and three in local government.

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:

- Audit Scotland's latest report on financial devolution says the Scottish Government has updated its structures for overseeing the new powers and has good programme management processes in place. However, a more strategic approach to public

financial management and reporting is needed, including a medium-term financial strategy based on clear policies and principles. There's also an urgent need for the Scottish Government to finalise and publish its approach to borrowing and reserves.

An estimated £22 billion will be raised in Scotland by 2020 - five times more than the £4 billion raised prior to the 2012 and 2016 Scotland Acts. Establishing new social security arrangements is an exceptionally complex task and by 2021 the Scottish Government expects to process as many transactions in a week as it now does in a year.

At the end of 2015/16, £18.5 million had been spent to implement new powers and costs will increase significantly over the next four years, as new social security responsibilities come online. The Scottish Government needs a clearer picture of potential future costs and to plan how it will fund these. The Scottish Government is taking steps to provide a more comprehensive picture of public finances, but more work is required to make sure the parliament and the public have the information they need to understand and scrutinise financial decisions.

The report also reviews Revenue Scotland's progress in implementing devolved taxes; the setting-up of the Scottish Fiscal Commission; and progress in planning to deliver the new social security powers, for which 2017 is a critical year.

- Scotland's economy is worth around £142 billion. Our report - *Supporting Scotland's economic growth: The role of the Scottish Government and its economic development agencies* reviews the work of Scottish Enterprise and Highlands and Islands Enterprise, which have a specific remit to support economic growth, and how they aid delivery of the Scottish Government's economic strategy.

Despite spending reductions in recent years, we found that both agencies have been successful in their respective roles, with clear strategies and good governance arrangements in place. They collectively work with or assist around 11,200 businesses each year and there are good examples of the agencies working with partners to achieve a positive impact, such as creating jobs.

Our report recognises that economic growth is complex, and concludes that the Scottish Government needs to be clearer on how its strategy will be implemented. A stronger approach is also needed to measure progress towards achieving the government's economic priorities. For example, though the enterprise bodies perform well against their individual targets, it's not possible to measure how they contribute to delivery of the government's strategy.

- Our report - *Maintaining Scotland's roads: a follow-up report*, prepared for the Accounts Commission and the Auditor General, says proper maintenance of the roads network is vital for economic prosperity and for people to get around safely. However, roads authorities, locally and nationally, urgently need to be more innovative, develop robust ways to compare relative efficiency, and engage better with road users. Sharing roads maintenance services on a regional basis can offer significant benefits but progress in developing this has been slow and there is still no clear plan or timetable to deliver it in practice.

Councils maintain most of Scotland's roads network. The proportion of these roads classed as being in acceptable condition has remained constant at around 63 per cent over the four years 2011/12 to 2014/15. Councils' spending on maintenance fell by 14 per cent over the same period. There is a wide variation among councils and concern that current surveys do not always pick up damage to lower road layers.

Transport Scotland maintains motorways and key trunk routes where spending fell by four per cent between 2011/12 and 2014/15. The proportion in acceptable condition also fell from 90 per cent to 87 per cent over the same period. Transport Scotland spent £24 million less on structural maintenance in 2014/15 than it considered necessary to maintain road condition at current levels.

- The Scottish Government wants everyone in Scotland to be able to access the internet at any time and on any device, by 2020. To help achieve this, BT was appointed to extend Scotland's existing fibre broadband network in 2013 at a cost of £412 million. The Scottish Government and Highlands and Islands Enterprise (HIE) are making good progress in widening access to high-speed broadband, but extending coverage to rural areas remains a challenge.

In our report - *Superfast broadband for Scotland: a progress update*, we note that 2.2 million out of 2.6 million premises across Scotland had access to fibre broadband (86 per cent) by March 2016 – 1 per cent more than the Scottish Government's original target. More than 500,000 of these gained access through the contracts.

Assuming BT continues to meet its contractual targets, the Scottish Government can expect to meet its 95 per cent coverage target by December 2017. But work has so far focused on easier to reach areas, and the remainder of the roll-out will be more challenging. While 26 of Scotland's 32 council areas have met contractual targets for fibre broadband coverage, the areas that remain are rural or remote, and are likely to need more complicated and costly engineering solutions. Premises in rural areas also currently receive lower average speeds.

The Scottish Government has much to do if its ambition for world class digital infrastructure is still to be achieved by 2020. This includes defining clearly what world class means and setting out plans for how it will be achieved. The Scottish Government must also decide how it plans to spend a further £42million available for extending broadband coverage outside of the contracts.

- In 2016 we published our fourth update on the progress of the five-year Futures programme, an IT and business change scheme started in 2012 to deliver European Union's Common Agricultural Policy (CAP) reforms. The CAP provides financial support to farmers, crofters and rural businesses.

The programme has experienced considerable difficulties, particularly with the slow delivery and poor performance of a new IT system to process support claims. This has caused lengthy delays, missed payment targets, and rising costs. The delays have had a negative impact on farmers, many of whom were already experiencing financial difficulties caused by low milk prices and severe flooding.

The Scottish Government made a number of decisions in order to speed up payments and meet ministerial targets, which then slowed the progress of other key stages in the programme.

Originally estimated to cost £102million, the programme now has a final budget of £178million and a reduced scope. At the end of March 2016, it had spent £126million and funds could run out before the IT system fully meets European Commission regulations. If it does not comply, it may lead to financial penalties of between £40million and £125million being imposed on the Scottish Government.

We have identified a number of problems with the programme's management, including significant tensions between teams, confused governance and accountability arrangements, and a failure to deal effectively with a significant conflict of interest held by a contractor on the programme.

- Our report - Audit of higher education in Scottish universities notes that Scotland's higher education sector is financially healthy but faces future challenges, and tough choices are likely to lie ahead if public funding is to deliver government policy ambitions.

We report that the sector is successful and internationally renowned. However, it faces significant challenges from increasing costs, potential further reductions in Scottish Government funding, and risks to universities' ability to continue increasing income from other sources.

While the sector is in good financial health overall, this masks underlying risks. Some of Scotland's 19 higher education institutions are heavily reliant on Scottish Government funding, and there is increasing dependence on income generated from fee-paying students from the rest of the UK, and outside the EU.

In 2014/15, the Scottish Government provided £1.7 billion to universities and individual students to support its policy ambitions for higher education, including widening access, world-class research and improving innovation. The Scottish Funding Council's (SFC) funding approaches make achieving these ambitions challenging, and the SFC needs to review its strategies in these key areas.

The report also examines the student population in Scotland, looking at numbers, debt and application rates. It notes that most students have a positive experience of higher education, and recent figures show that the majority progress to employment or further study. However, it also highlights that levels of student debt are growing, and it's becoming more difficult for Scottish students to gain a place at university.

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 4.7 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. We have 35 trainees and staff working 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 2016/17, our sickness absence remains low compared to the public sector average. Our sickness absence was on average 5.32 days which was a slight decrease on last years figure of 5.62 days per employee and continues to be under the public sector average of 6.4 days.
- 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 £5 million this year.