

Audit Scotland report: Scotland's public finances: Challenges and risks

Committee Audit and Standards

Date of meeting 25 November 2022

Date of report 17 November 2022

Report by Chief Executive

1. Object of report

To advise the committee on the issue of an Audit Scotland report titled '*Scotland's public finances: Challenges and risks*' and outline the key messages and implications for SPT contained therein. Members are reminded that the full report was emailed separately.

2. Background

The report says the Scottish Government is facing increased costs, including a higher public sector wage bill, while the cost-of-living crisis is driving greater demand for public services. Without careful management of public finances, there is a risk that the government could overspend in 2022/2023, which could have implications for future budgets.

The report adds that most of this year's budget is already committed, leaving ministers little flexibility in the short term. The government also faces difficult choices in setting the 2023/2024 budget, which will be impacted by the UK Government's spending and tax decisions. Ministers will need to balance short-term necessities and longer-term priorities, particularly around the government's reform agenda.

The report finds significant financial pressures on public services existed before the current crisis. The government has outlined how it will tackle these challenges in its resource spending review, but it has struggled to deliver reforms as planned in the past. If services are to remain financially sustainable in the future, it is vital that these latest reforms are delivered effectively.

The full report can be found at:

<https://www.audit-scotland.gov.uk/publications/briefing-scotlands-public-finances-challenges-and-risks>

3. Outline of findings

The key messages outlined in the report are:

- rising costs and increasing demands mean that the Scottish Government has to closely and carefully manage its position, to avoid the real risk that it will overspend on the 2022/2023 budget;
- the Scottish Government has limited room for manoeuvre to make changes to balance the 2022/2023 budget, and will face difficult choices setting the 2023/2024 budget;

- the pace and scale of reform required across the public sector needs to increase.

The report adds that the cost of living crisis adds to the pressures on budgets including:

- enhanced pay offers;
- electricity and gas costs;
- costs of capital projects are also increasing, with councils reporting increases of around 30 per cent on anticipated costs.

Implications from the Audit Scotland report key messages

SPT, like all public sector bodies, has to deal with the immediate challenges that external events bring. Balancing short and long-term demands is always a difficult task with inflation now adding to these pressures.

The Revenue Monitoring and updated Financial Forecast for Financial Year 2022/2023 presented to today's Strategy & Programmes committee outlines SPT's current income and expenditure levels and pressures.

4. Committee action

The committee is asked to note the contents of this report and the Audit Scotland report titled '*Scotland's public finances: Challenges and risks*'.

5. Consequences

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| Policy consequences | <i>None.</i> |
| Legal consequences | <i>None.</i> |
| Financial consequences | <i>None.</i> |
| Personnel consequences | <i>None.</i> |
| Equalities consequences | <i>None.</i> |
| Risk consequences | <i>None.</i> |
| Climate Change, Adaptation and Carbon consequences | <i>None.</i> |

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