

Public Audit Committee  
Wednesday 5 March 2025  
8<sup>th</sup> Meeting, 2025 (Session 6)

## Fiscal sustainability and reform in Scotland

### Introduction

1. At its meeting today, the Public Audit Committee will take evidence from the Permanent Secretary on the Auditor General for Scotland's (AGS) report, [Fiscal sustainability and reform in Scotland](#), which was published on 21 November 2024. The Permanent Secretary will be accompanied by the Director-General Scottish Exchequer, Director-General Strategy and External Affairs and the Director-General Corporate.
2. The Committee previously took evidence from the AGS on this report on [5 December 2024](#). Follow up written evidence has been provided by the AGS, this can be found at **Annexe A**.
3. A copy of the report can be found in **Annexe B** to this paper.
4. The Committee will decide any further action it wishes to take following the evidence session today.

Clerks to the Committee  
February 2025

18 December 2024

Richard Leonard MSP  
Convener  
Public Audit Committee  
Scottish Parliament

Dear Convener

Fiscal sustainability and reform in Scotland

On 5 December 2024, I gave evidence to the Committee on my report, Fiscal sustainability and reform in Scotland. I agreed to provide a breakdown of the allocation, and use of ScotWind monies across the financial years and this is detailed below. It is also worth noting that this is the allocation of ScotWind option fees only and does not reflect any associated interest.

It is not clear from our papers how the ScotWind monies have been used in each of these financial years and whether this is consistent with the earlier intentions, expressed throughout 2022, for this money to be invested in addressing the climate and biodiversity crises. The Committee may wish to follow up on this matter with the Scottish Government.

Year	Budget £m	Spend £m	Balance £m	% Spent
Scotwind option fees			756	
2022/23				
- Budget	40			
- Emergency budget review	56			
2022/23 expenditure		96	660	12.7%
2023/24				
- Budget	310			
2023/24 expenditure		0	660	0%
2024/25				
- Budget	200			
- Additional measures announced of up to £460 million*				
- Formalised drawdown at Autumn Budget Revision (ABR)	224			

Year	Budget £m	Spend £m	Balance £m	% Spent
2024/25 forecast expenditure**		160	500	21.2%
2025/26				
- Budget	336			44.4%
Future years	164			21.7%

\* In September 2024 the Cabinet Secretary for Finance and Local Government wrote to the Finance and Public Administration Committee and stated that 'At present, I am also planning on the basis of utilising up to £460 million of additional Scotwind revenue funding.' However in the ABR the following month the requirement was reduced to £224 million.

\*\* Based on current projections as detailed in the 2025/26 budget.

Yours sincerely

**Stephen Boyle**  
**Auditor General for Scotland**

# Fiscal sustainability and reform in Scotland



AUDITOR GENERAL 

Prepared by Audit Scotland  
November 2024

# Contents

Key messages	3
Recommendations	5
Background	6
1. The Scottish Government's leadership on fiscal sustainability	8
2. Progress on public service reform	19
3. Impact of the reform programme	29
Endnotes	35



## Accessibility

You can find out more and read this report using assistive technology on our website [www.audit.scot/accessibility](https://www.audit.scot/accessibility).

## Audit team

The core audit team consisted of:  
Fiona Diggle, Thomas Charman, Kerry Macleod, Kirstin Scott and Richard Robinson, under the direction of Carole Grant.

# Key messages

- 1** The Auditor General has previously reported that the Scottish Government needs to change its approach to public spending and public service delivery models to be financially sustainable. The Scottish Government continues to take short-term decisions, reacting to events rather than making fundamental changes to how public money is spent. This approach has so far been effective in balancing the budget, but risks disrupting services at short notice and restricting progress towards better long-term outcomes for people. The gap between the Scottish Government's spending and funding is forecast to continue to grow in coming years.
- 2** Fiscal pressures have placed considerable strain on the Scottish Government's management of its budget. In the last three years, the Scottish Government's decisions about pay have led to additional financial pressures. For 2024/25, the pay deals agreed and anticipated have, in part, been met by delaying spending and drawing down one-off sources of funding, including £460 million of ScotWind revenues. The Scottish Government does not know how this higher spending will be funded in the future.
- 3** The Scottish Government has identified a growing gap between its medium-term funding and spending position, but it has not yet set out a clear vision of how it will change public service delivery models to better support sustainable public finances and services. It does not yet have a good enough understanding of its cost base or made progress against audit recommendations to improve its future responses to crisis events.

- 4 The Scottish Government has not provided the necessary leadership to public sector bodies to help deliver a programme of reform. It has not yet fully established effective governance arrangements for reform, and it is unclear what additional funding is required.
  - 5 The fiscal context remains uncertain. While the recent UK Autumn Budget provided additional funding for the Scottish budget, it is still unclear whether this will be sufficient to bridge the affordability gap in Scottish public finances. Reform across the public sector is still required.
  - 6 The Scottish Government has not been sufficiently transparent with the Scottish Parliament or the public about the current fiscal situation. There has not been enough communication of medium-term risks and what choices the Scottish Government needs to make to balance its budget. The Medium-Term Financial Strategy, the Health and Social Care Portfolio Medium-Term Financial Framework and the Infrastructure Investment Plan pipeline reset have all been delayed. The absence of these documents makes scrutiny of the current uncertain financial situation more difficult. The Scottish Government has committed to publishing a Fiscal Sustainability Delivery Plan alongside the Medium-Term Financial Strategy in 2025.
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# Recommendations

## The Scottish Government should do the following:

Given the ongoing fiscal risks and uncertainty, the Scottish Government should publish its financial and infrastructure medium-term strategies at the earliest opportunity.

The Scottish Government has committed to publishing a Fiscal Sustainability Delivery Plan alongside the next Medium-Term Financial Strategy. This should be fully transparent about the scale of the risks to the affordability of public services and options for how the Scottish Government can manage them.

Reform will play an important role in making services affordable. The Scottish Government should:

- As part of its public service reform programme update in summer 2025 set out a clearer vision of what reform will achieve, including:
  - how reform will contribute to its objective of fiscally sustainable public services
  - commentary on the costs involved in making the changes required
  - clear milestones and timescales for delivery
  - the likely impact on services and people.
- Before the end of 2024/25 embed the new governance arrangements to deliver this vision and to support greater collective action on public service reform.
- In time for the 2026/27 budget, improve the quality of information collected from its directorates and public bodies on savings, costs and progress on reform, and integrate these into wider information collection processes. This will help understand the progress and demonstrate the impact of reform.
- By September 2025, review and update the mandate letters it issued in September 2023, and use these to maximise the effect of portfolio spending towards reform and government priorities. If the Scottish Government chooses not to publish mandate letters, then this information should be included in other publications.
- Build equalities and human rights into its decisions about public service reform to understand how financial decisions will affect different groups in society and minimise the negative impacts on people's lives. The Scottish Government should be able to report significant progress on this by the end of 2025.



# Background

1. In November 2022, the Auditor General reported on the urgency and severity of the financial challenge facing the Scottish Government. In September and November 2023, the Auditor General published two further briefings setting out the difficulties facing the Scottish Government's [capital programme](#) and the [public sector workforce](#). The Auditor General [has stated that](#) the Scottish Government must develop a clear plan for how the design and delivery of public services will be transformed.

2. In the **Medium-Term Financial Strategy (MTFS)** published in May 2023, the Scottish Government acknowledged the fiscal pressures it faces and set out a strategy for achieving fiscal sustainability. This strategy consists of three pillars of activity that the Scottish Government said will underpin its medium-term approach to managing public finances:

- **Focus spending on achieving the Scottish Government's critical missions.** The Scottish Government will focus its spending on the programmes that have the greatest impact on achieving its three missions of equality, opportunity and community.<sup>1</sup> Reforming public services is a key component of this pillar. Other work on spending includes developing the Scottish Government's pay strategy, major health reforms and the New Deal with Local Government.
- **Support sustainable, inclusive economic growth and generation of tax revenues.** The Scottish Government aims to promote sustainable and inclusive economic growth. This will provide additional funding for public services through the growth of the tax base and increased tax revenues.
- **Maintain and develop a strategic approach to tax.** The Scottish Government has stated that it will publish a longer-term tax strategy alongside the draft 2025/26 budget in December 2024, and is considering reforms to council tax and other local taxes.

3. In the May 2023 MTFS, the Scottish Government noted that, in the short term, it would focus on spending decisions, as this is the most immediate lever through which they can affect fiscal sustainability.

## What this audit covers

4. This performance audit focuses on the Scottish Government's overall approach to achieving fiscal sustainability, with public service reform as a key component. Other elements of fiscal sustainability, including



### A medium-term financial strategy

is a document where the Scottish Government sets out its expectations and broad financial plans/projections for at least the next five years.

economic growth and tax, are covered in other audit products and may be subject to further audit in the future as events develop. For example, the Auditor General published a briefing paper on the [National Strategy for Economic Transformation](#) in February this year, and an audit on the [Scottish National Investment Bank](#) is planned for 2025.

**5.** This audit assesses how well the Scottish Government is making sure that its spending on public services is affordable and effective. It considers three main audit questions:

- How well do the Scottish Government's arrangements for governance and financial management support its aims to achieve fiscal sustainability and reform?
- How effectively is the Scottish Government progressing its fiscal sustainability and reform activity?
- How well does the Scottish Government understand the impact of its reform programme on services and the people who use them?

**6.** The audit covers the Scottish Government's overarching arrangements for fiscal sustainability and reform, and we do not comment on specific reform activity within individual public bodies, for example, in the local government sector. For more information on this topic, please refer to the Accounts Commission's recent report on [transformation in councils](#).

**7.** Similarly, the report does not make judgements about the progress or approach of individual reform workstreams, such as establishing a National Care Service, developing a Single Scottish Estate or the implementation of the new Oracle Cloud system. The Auditor General will report on the implementation of Oracle Cloud during 2025. Please refer to the recent section 22 report on [the 2023/24 audit of the Scottish Government Consolidated Accounts](#) for more information.

**8.** More information on these and other planned outputs is available via the [Audit Scotland work programme](#).

**9.** During the drafting of this audit, the UK Autumn Budget on 30 October led to additional funding being allocated to the Scottish Government. The UK Government has stated that the Scottish Government will receive an additional £1.5 billion this financial year and an additional £3.4 billion next year through the Barnett formula.<sup>2</sup> The full implications of this funding will not be known until the 2025/26 Scottish Budget is published in December. In addition, the medium-term position will become clearer in early to mid 2025 following the announcement of the UK Spending Review in the spring, and following the publication of the Scottish Government's MTFs and new Fiscal Sustainability Delivery Plan.

**10.** Audit Scotland will continue to monitor how the Scottish Government's fiscal position develops, through both financial and performance audit work.

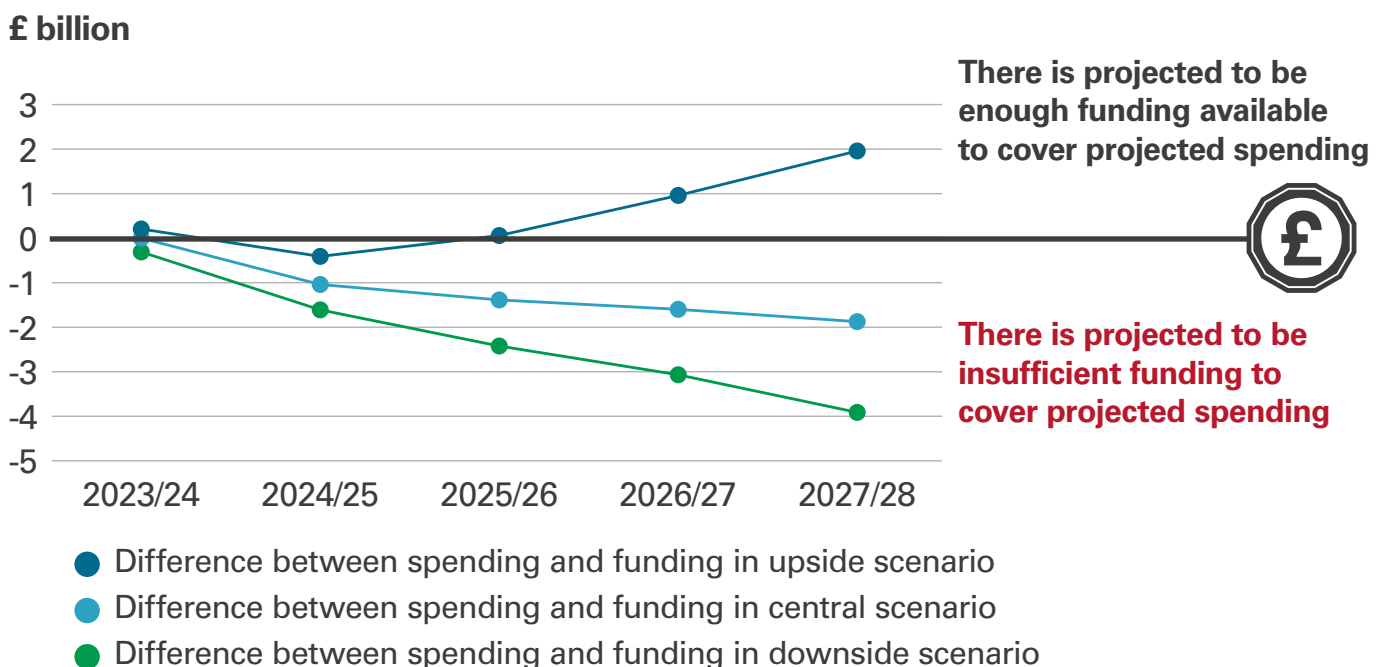
# 1. The Scottish Government's leadership on fiscal sustainability

## The Scottish Government cannot afford its current spending choices

**11.** The Scottish Government's last MTFS, published in May 2023, forecast that without corrective action, there would be a gap between spending and funding of £1 billion this year (2024/25), rising to £1.9 billion by 2027/28 ([Exhibit 1](#)). The Scottish Government's recent internal forecasts show a similar trend.

### Exhibit 1.

#### The Scottish Government predicts budget shortfalls over the coming years



Note: The scenarios are illustrative and based on Scottish Government analysis.


Source: Scotland's Fiscal Outlook: The Scottish Government's Medium-Term Financial Strategy, Scottish Government, May 2023

**12.** Since the Scotland Acts of 2012 and 2016, the Scottish budget has become increasingly complex and faces a variety of spending and funding pressures. The Scottish Government must manage its financial position closely. This includes planning for the changes that will affect the budget across current and future years, alongside responding to unexpected events.

**13.** [Exhibit 2](#) highlights some of the pressures facing the Scottish Government's budget in broad terms. Audit Scotland has set out the risks and opportunities arising from the operation of the fiscal framework in more detail within its [Scotland's New Financial Powers: Operation of the Fiscal Framework](#) papers.

## Exhibit 2.

### The Scottish Government's budget is facing a range of pressures over the short to long term

Time period	Implications for the Scottish Government
<b>UK fiscal environment</b> 	Changes to UK Government funding must be managed throughout the financial year
	Lack of a UK Government spending review means the Scottish Government does not know what funding it will receive over the medium term
	Devolved public sector funding is projected to grow at a slower rate than spending over the longer term
	Management of the financial impact of UK Government budget decisions in areas of tax and spending that are devolved
<b>Demands on the Scottish Government</b> 	Health spending to increase as result of an ageing population
	A relatively larger public sector workforce in Scotland than in the rest of the UK
	Rising costs and increased demand for public services as a result of the recovery from Covid-19 and the cost-of-living crisis
	Scottish Government budget decisions in areas of tax and spending that are devolved (eg, funding of a council tax freeze, social security spending and more generous pay deals)

Source: Audit Scotland analysis

## There are growing demands on public spending

**14.** The Auditor General has previously highlighted that the Scottish Government risks overspending against its budget because of its spending and tax choices. This risk is exacerbated by rising costs and increased demand for services. These risks remain in 2024/25, particularly given the increase in public sector workforce costs. Policy commitments made by the Scottish Government such as its funding of a council tax freeze, social security spending and more generous pay deals in Scotland have also contributed to the pressures it is experiencing in 2024/25.

**15.** The Scottish Government's 2023 MTFS states that increased spending over the medium term is due primarily to growing costs associated with health and social care and social justice. This includes spending on social security, which will vary depending on the number of people who are eligible for and choose to use the benefits. The Scottish Fiscal Commission forecasts that spending on social security will increase from £6.3 billion in 2024/25 to £8.0 billion in 2028/29.<sup>3</sup> By the end of 2028/29, the Scottish Fiscal Commission expects the Scottish Government will spend £1.5 billion more on social security than it receives from the UK Government.

**16.** The spending pressures the Scottish Government and the wider devolved public sector face are expected to worsen in the long term. The Scottish Fiscal Commission has projected that total spending on devolved public services would increase by 123 per cent in today's prices to £120 billion by 2072/73 if public services are maintained at their current levels ([Exhibit 3, page 11](#)). The total funding the devolved public sector receives is projected to grow at a slightly slower rate, increasing to £117 billion in today's prices.

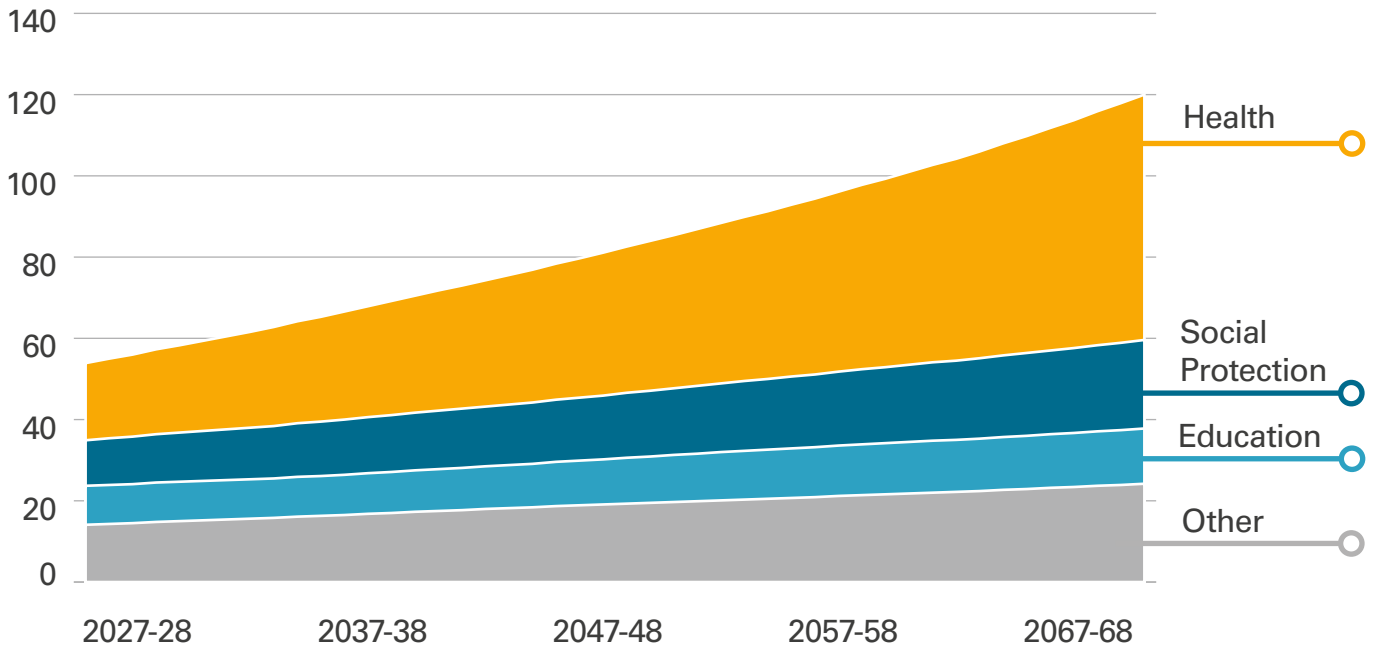
**17.** The longer-term increases in Scottish Government spending that are projected are driven largely by changes in spending on health. Over the course of the next 50 years, health is expected to take up an increasing share, growing from 35 to 50 per cent of devolved public spending.<sup>4</sup> While the Scottish Fiscal Commission expects spending on health to grow in the rest of the UK, it expects the amount the Scottish Government spends on health will not be fully covered by Barnett consequential, due to differences in the demographic projections for Scotland and England.

**18.** The Scottish Government's target of achieving net zero by 2045 is also placing pressure on its finances, and will continue to do so in the medium and long term. The Scottish Fiscal Commission estimates that, in order to meet its climate objectives, the Scottish Government will need to invest an average of £1.14 billion of additional capital spending annually until 2049/50.<sup>5</sup> However, the Scottish Fiscal Commission has also forecast that the capital funding that the Scottish Government receives will have fallen by 20 per cent in real terms by 2028/29.<sup>6</sup> This will place significant pressure on other areas of capital spending.

## Exhibit 3.

### Spending on the devolved Scottish public sector is forecast to increase significantly over the long term

£ billion, 2022/23 prices



Source: Fiscal sustainability report, Scottish Fiscal Commission, March 2023

## The UK fiscal outlook shapes the Scottish funding position

**19.** The Scottish budget has increased markedly since devolution, with the Scotland Acts of 2012 and 2016 bringing additional spending and tax powers. The powers included in the Scottish Government's **Fiscal Framework** give the Scottish Government more opportunity to prioritise and target its activities to achieve its objectives in devolved areas. With these enhanced powers, the Scottish Government also has enhanced responsibilities to effectively manage the uncertainty and volatility in its budgets arising from its new powers. It must also consider the impact of external events and its own spending choices, and ensure that money is spent effectively.

**20.** In 2018, in [Scotland's new financial powers: operation of the fiscal framework](#), the previous Auditor General highlighted that: 'Increasingly the Scottish Government will need to understand where it is most able to quickly alter spending, and understand what options are available to it in responding to budget fluctuations.'



**The fiscal framework** is an agreement between the UK and Scottish Governments setting out the Scottish Government's financial arrangements.

Fiscal means relating to government revenue (including tax) and spending.

**21.** The Block Grant from the UK Government was equivalent to almost 80 per cent of Scottish Government resource funding when the 2024/25 Budget was set (excluding Block Grant Adjustments for tax and social security).<sup>7</sup> This means that the UK fiscal outlook has a significant impact on Scottish Government funding.

**22.** The UK fiscal context is challenging. In her October 2024 budget speech, the Chancellor of the Exchequer stated that 'the scale of the challenges that are facing our public services... [mean] there will still be difficult choices in the next phase of the Spending Review.'<sup>8</sup>

**23.** Budget decisions the UK Government makes in areas of tax and spending that are devolved to the Scottish Parliament directly affect the funding available to the Scottish budget. The Scottish Government must manage the impact of these decisions, especially if they exacerbate its existing medium-to long-term fiscal position.

**24.** The timing of UK budgetary information is another pressure the Scottish Government must manage:

- The funding that the Scottish Government receives from the UK Government is not finalised until near the end of the financial year once the UK Supplementary Estimates are known, usually in February. This means that the Scottish Government has to manage the potential impacts of changes to its funding throughout the entirety of the financial year.
- The last **UK Government spending review** was in 2021. This means that it is unclear what funding the Scottish Government will receive beyond 2025/26. This has impacted on the ability of the Scottish Government to plan its budgets several years in advance.

## It is unclear how decisions to meet financial pressures are consistently and publicly set out or reflect reform ambitions

**25.** The pressures set out above must be managed when the Scottish Government sets its budget, during the financial year and over the medium term. Financial pressures are already impacting on the quality or level of services and affecting the long-term objectives of the Scottish Government.

**26.** The Scottish Government is having to make increasingly difficult decisions. This includes scaling back or stopping spending on some programmes entirely. As a part of the process to achieve a balanced draft budget in 2024/25, this included:

- Reducing resource funding for higher education by £48.5 million (a 6 per cent reduction)
- Cancelling certain employability schemes, such as the Workplace Equality Fund and the Flexible Workforce Development Fund, to save £31 million (a 23 per cent reduction).



### The UK Government

sets out its spending plans for its departments and the funding for the devolved administrations for multiple years at spending reviews. The last spending review was published in 2021, and covered spending plans up to and including 2024/25.



**27.** The long-term impact of these changes and other reductions in spending has not been consistently and publicly set out. This restricts the Scottish Parliament's ability to understand and fully scrutinise the budget bill that the Scottish Government puts forward for its approval.

**28.** During the process of developing the 2024/25 Scottish Budget, no **portfolio accountable officer** was able to provide assurance that they would be able to fund their existing commitments with the initial allocations provided to them.

**29.** Accountable officers were eventually able to provide these assurances as funding was finalised, and after identifying savings and reprioritising spending within their portfolios. Accountable officers also implemented efficiency targets.

**30.** Relevant discussions take place between the Permanent Secretary and Scottish ministers. The Cabinet makes final decisions on the Scottish budget, which is then presented to the Scottish Parliament.

**31.** It is not clear how activity to reform services, and the savings and costs involved, is taken into account when making decisions on the budget.

## The Scottish Government regularly makes large in-year changes to its budget to break even

**32.** The Scottish Government does not know where it can flex its budget easily to accommodate short-term fluctuations or longer-term commitments. In the short term, much of the Scottish Government's budget is fixed and committed, and there are limits to what can be changed without significant disruption. Much of the public spending incorporated in the Scottish budget is for areas such as staff costs that are difficult to change quickly.

**33.** It is unclear how the changes the Scottish Government is making to its budget in-year reflect its stated priorities. In [Scotland's public finances: challenges and risks](#), the Auditor General highlighted that reducing budgets in an unmanaged way could significantly affect the quality of services provided, how accessible services are and on people's long-term outcomes.

**34.** The Scottish Government made significant in-year changes to its budget due to fiscal pressures in 2022/23 and 2023/24. For example, during the 2022/23 financial year, following periods of high inflation, the cost-of-living crisis and the cost of public sector pay deals, the Scottish Government identified £1.2 billion of in-year savings and spending reductions through an Emergency Budget Review process.

**35.** In both years, the Scottish Government used savings (which were primarily identified by portfolios) alongside additional Barnett consequentials from the UK Government to fund increases in other areas of the budget. As [Exhibit 4 \(page 14\)](#) shows, the funding areas that saw the most significant increases are the same in both years.



**The Scottish Government** is organised into a number of portfolios, each of which has responsibility for a different policy area.







**Accountable officers** are officials within the Scottish Government and public bodies who are responsible for the finances and performance of their portfolio.



## Exhibit 4.

### Examples of in-year reductions and increases in funding in 2022/23 and 2023/24

Funding decreases in 2022/23 	Funding increases in 2022/23 
<ul style="list-style-type: none"> <li>• Energy and energy efficiency</li> <li>• Housing and building standards</li> <li>• Agricultural support</li> <li>• Scottish Water</li> <li>• Enterprise, trade and investment</li> </ul>	<ul style="list-style-type: none"> <li>• Health and social care</li> <li>• Local government pay awards</li> <li>• Police and fire service pensions</li> <li>• Ukrainian refugee resettlement</li> <li>• Social security benefits</li> </ul>
Funding decreases in 2023/24 	Funding increases in 2023/24 
<ul style="list-style-type: none"> <li>• Energy efficiency and decarbonisation</li> <li>• Active travel, low-carbon and other transport</li> <li>• Ferry services</li> <li>• Scottish Funding Council</li> <li>• Learning</li> </ul>	<ul style="list-style-type: none"> <li>• Health and social care</li> <li>• Local government pay awards</li> <li>• Police and fire service pensions</li> <li>• Ukrainian refugee resettlement</li> <li>• Social security benefits</li> </ul>

Source: Audit Scotland analysis of Scottish Government budget revision documentation

### In-year budget changes include short-term fixes that will not address ongoing pressures







**36.** In addition to the large additional pay costs the Scottish Government managed in 2022/23 and 2023/24, further in-year pressures have materialised in 2024/25. The Scottish Government's pay policy for 2024/25 was not published alongside the Scottish budget; it was unclear what assumptions it made about pay costs when the budget was set, and it is unclear what plans the Scottish Government made to manage the budget under different scenarios for pay.

**37.** The pay policy published in May 2024 set out that, even if Scotland were to receive additional Barnett consequentials as a result of UK pay deals, because the public sector workforce is relatively larger and better paid than in the rest of the UK, the cost of matching a UK pay deal in Scotland would not be fully covered by the consequentials it would receive. Additional spending on pay deals would need to be covered by cutting spending in other areas, re-designing services, reducing headcounts or increasing taxes or charges.

**38.** In Parliament on 3 September 2024, the Cabinet Secretary for Finance and Local Government identified that pay deals could be as much as £800 million more than budgeted for 2024/25 and set out over £900 million of savings and other measures that are to be utilised to balance the budget this year. These are set out in [Exhibit 5](#).

## Exhibit 5.

### Savings and additional funding used to balance the 2024/25 budget

Category	Detail		Total
Savings			£
	<b>Savings already announced</b>	<ul style="list-style-type: none"><li>Ending the pilot which removed peak train fares</li><li>No concessionary fares for asylum seekers pilot</li><li>Agreement with Local Government that they can draw on existing programmes to fund the pay deal</li></ul>	£65m
	<b>New savings</b>	Includes savings and reprofiling of spending spread across eight portfolios	£188m
	<b>Emergency spending controls</b>	Targeting savings in recruitment, overtime, travel and marketing on top of the circa £40 million already identified	£60m
	<b>Winter fuel payments</b>	Diverting funding previously planned for universal winter fuel payments for pensioners	£160m
Allocation of additional spending			
	<b>ScotWind</b>	Revenue from leasing designated areas of the seabed for offshore wind farms. The first round of leasing generated £756 million	£460m
Total			£933m

Source: [Pre-Budget Fiscal Update](#), Scottish Government, September 2024

**39.** This approach contains some significant risks to the long-term sustainability of the budget:

- Due to changes in UK Government policy on the Winter Fuel Payment, £160 million of funding provided to the Scottish Government to deliver this benefit that will now be used to balance the budget will eventually need to be returned to the UK Government. The Scottish Government has the option to defer this repayment until a later date, but has not yet taken a decision on this.
- The ScotWind balance is one-off funding that cannot be used to cover the impact of this year's pay deals in future years. The Cabinet Secretary for Finance has stated that her intention is to minimise the drawdown on this funding. If the Scottish Government decides to draw down the full amount of funding before the end of the financial year, then the ScotWind fund will be empty.
- Delaying spending increases funding pressures in future years.

**40.** The Scottish Government has not set out how the recurring pressures will be met. It is unclear how the additional £1.5 billion of UK Government funding from the Autumn Budget will be used to manage the Scottish budget this year. More information is expected as part of the Spring Budget Revision in early 2025.

## **The Scottish Government has set out an overarching approach to fiscal balance, but the detail and medium-term plans to support this are missing**

**41.** The Scottish Government had planned to publish an MTFS in 2024. This was initially delayed as a result of the appointment of the new First Minister in May 2024. Following the announcement of the UK general election, the new publication date would have been within the UK pre-election period, and the Scottish Government assessed that deferring the publication of the MTFS was appropriate, in line with the Civil Service Code and pre-election guidance.<sup>9</sup> As a result of these delays, the Scottish Government has not published a medium-term assessment of its finances since May 2023. Since then, Scotland's public finances and services have come under even greater pressure. The absence of up to date information on the fiscal position makes scrutiny more challenging and prolongs key decision-making processes, which increases uncertainty.

**42.** The Cabinet Secretary for Finance and Local Government has committed to further updates on the timing of the 2025 MTFS once the UK Government announces the publication of its multi-year spending review.<sup>10</sup> Given the risk to the medium-term position, it is vital that the Scottish Government produces a clear medium-term financial plan as soon as possible.

**43.** Alongside the MTFS, the Scottish Government's Infrastructure Investment Plan pipeline reset, a key document for scrutinising the prioritisation of capital spending in the budget, is also delayed. Later than

planned publications of pay policies in recent years has also meant that information on planned pay growth has not been available at the point of budget approval. Capital spending and pay are large and important parts of the Scottish Government's spending power, and the absence of this information during the budget scrutiny stages negatively affects budget transparency and oversight.

**44.** The Scottish Government has informed us that it plans to publish a separate, more detailed Health and Social Care Portfolio Medium-Term Financial Framework. As the Auditor General set out in [the Scottish Government's workforce challenges](#), the NHS and its workforce are a substantial part of the overall Scottish budget, and therefore a key part of the path to affordable services. It will be important, however, that the information and assumptions included in this document are consistent with the planned overall MTFS.

**45.** As set out in [paragraph 2](#), in the latest MTFS, published in May 2023, the Scottish Government set out three pillars of activity that will underpin its medium-term approach to managing public finances. The pillars comprise of focusing spending on achieving the Scottish Government's missions, sustainable, inclusive economic growth, and a strategic approach to tax.

**46.** The three-pillar strategy sets out a broad direction of travel, but does not provide specific details about how each area of activity will contribute to fiscal sustainability or how long it will take. This makes it difficult to judge if this approach is likely to be enough to close the gap between funding and spending and support the delivery of sustainable public services.

**47.** The Scottish Government committed in late October 2024 to publishing a five-year Fiscal Sustainability Delivery Plan alongside the next MTFS. It is intended that this will provide clarity and transparency on progress on delivery against the objectives that are set out in the MTFS.

## **The Scottish Government will have more clarity on future funding following the UK Government spending review next year**

**48.** The Scottish Government published multi-year portfolio spending plans in the Resource Spending Review in 2022. However, inflationary pressures over the course of 2022/23 changed expectations of spending and funding significantly. The Scottish Government had committed to publishing multi-year spending allocations alongside its 2024/25 Budget, but ultimately it did not do so.

**49.** A multi-year budget would allow for a more strategic approach to managing fiscal pressures and provide greater scope for the Scottish public sector to plan their finances and delivery of services over the medium term.

**50.** Following the UK General Election in June 2024, the UK Government has stated plans to publish its next spending review in spring 2025.

This will set out funding settlements for the UK Government's own departments and the devolved administrations for at least the next three years. The Chancellor of the Exchequer has also stated that spending reviews will be conducted at least every two years in future.

**51.** This will provide greater certainty for the Scottish Government around the levels of funding it will receive from the UK Government in future years, and will allow it to set multi-year budget settlements with greater confidence. In her update to Parliament in September 2024, the Cabinet Secretary for Finance and Local Government indicated that the Scottish Government is considering establishing a more regular rhythm for its own spending reviews.

### **To date, efforts to improve fiscal sustainability have not reduced fiscal risks, meaning future budget decisions will be increasingly difficult**

**52.** In April 2023, the then-Deputy First Minister and Cabinet Secretary for Finance committed to managing Scottish public finances on to a sustainable and balanced trajectory by 2026.<sup>11</sup> It is unclear what is meant by a sustainable trajectory in this context; however, fiscal risks remain high, and there is no evidence that the fiscal gap set out in [Exhibit 1](#) is narrowing.

**53.** The Scottish Government has a clear understanding of the risks to fiscal sustainability it faces over different timescales; however, it is not clear how it will achieve fiscal sustainability over the medium term. Corporate risk registers continue to identify risks to fiscal sustainability and score them highly, despite the range of actions the Scottish Government is taking.

**54.** The Scottish Government is continuing to develop how it manages risk in this area, including:

- Accountable officers must give assurances to the Permanent Secretary that their portfolio's spending is affordable.
- Portfolio assurance meetings are to focus more on fiscal sustainability.
- Accountable officers are asked to give assurance that they can manage their commitments over several years.
- An assessment of fiscal risks is discussed by the executive team, the corporate board, and the Cabinet.

**55.** These are reasonable steps, but these changes are adjustments and additions to processes that primarily focus on short-term pressures, and in light of the scale of the medium-term fiscal challenge, they are not enough.

**56.** Progress towards fiscal sustainability may require a more radical approach than has been seen to date. Failure to make sufficient progress with reform and other measures aimed at achieving fiscal sustainability will significantly affect the Scottish Government's ability to achieve its goals, improve outcomes and continue to deliver public services. In addition, it may be increasingly difficult to balance the budget.

## 2. Progress on public service reform

### The need for public service reform was recognised 13 years ago but there has not been enough progress

**57.** The Scottish Government, the Scottish Parliament and the bodies that hold them to account have had a shared consensus for over a decade that reform of public services is needed to deliver better outcomes for the people of Scotland. The Christie Commission reported on the future delivery of public services in 2011,<sup>12</sup> and the Scottish Government set out its priorities for reform in a response later that year.<sup>13</sup> Reflecting on the report in 2021, the Auditor General said: 'Unlike many reports, it has shown remarkable longevity. Its ongoing relevance reflects that fact that the need for change persists.'<sup>14</sup> This continues to be the case 13 years after the original report was published. The Scottish Government is working on pathfinder projects and pilot projects with local authorities, but the timelines for scaling up these projects across the country is unclear.

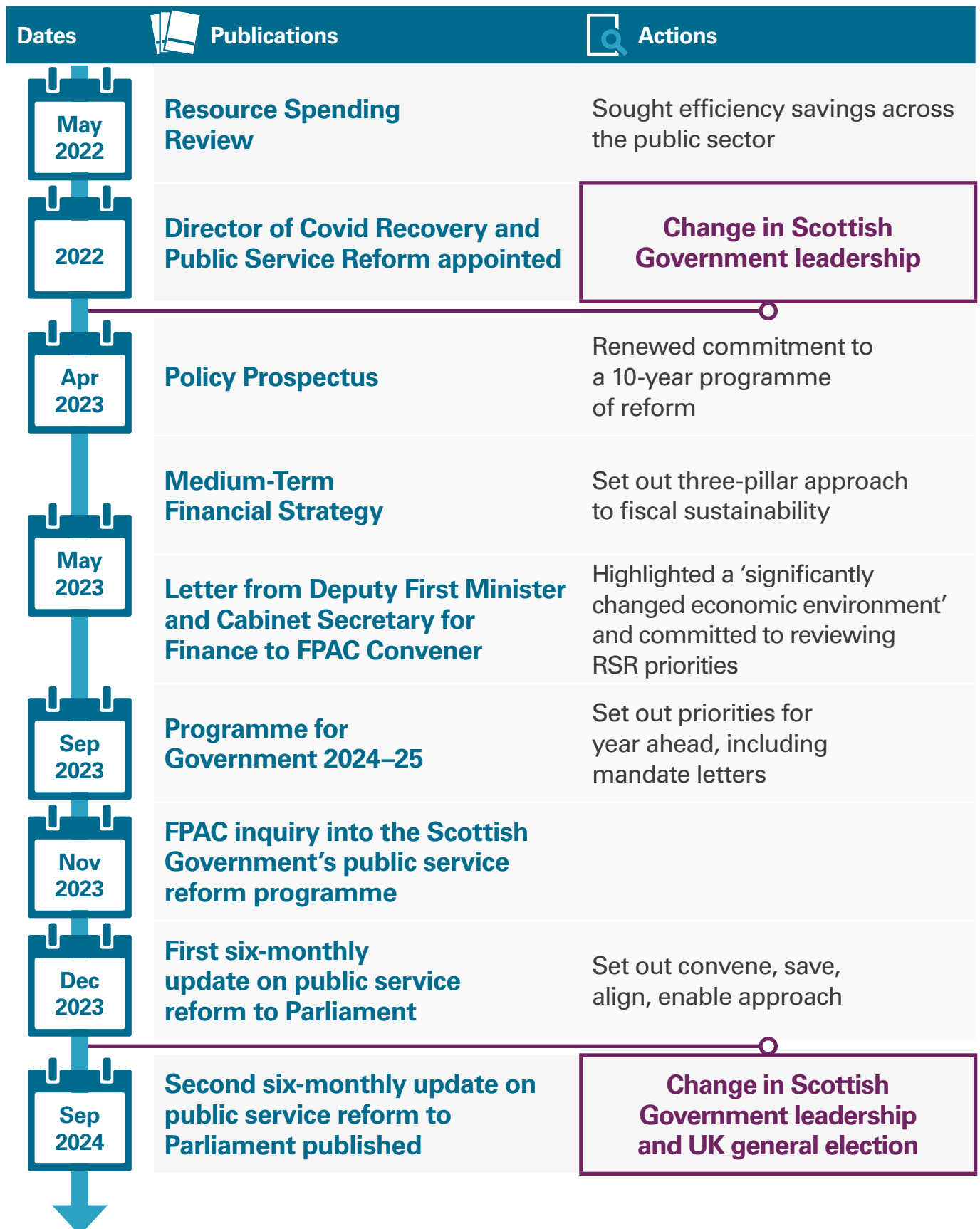
**58.** Since the Covid-19 pandemic, the need for public sector reform has become more urgent. The Scottish Government set out three approaches to reform over the period, in the Resource Spending Review, the 2023 MTFS and in the December 2023 update to the Scottish Parliament ([Exhibit 6, page 20](#)). The December 2023 update pulled together the existing work established by the previous two approaches.

**59.** The change in emphasis across these approaches makes it difficult to determine the baseline for reform and to understand when the Scottish Government expects to achieve fiscal sustainability, or delivery milestones towards that goal. Parliamentary committees have over a number of years highlighted the need to set timescales for reform and explain the implications of any delays. The convener of the Finance and Public Administration Committee previously highlighted the challenges of scrutinising a 'rolling' programme, as it is hard to grasp and analyse.<sup>15</sup>

**60.** In the past, the Auditor General has identified a gap between the Scottish Government's ambitions to reform the public sector and its ability to make changes on the ground, for example in social care and education reform.<sup>16</sup> The Scottish Government has not stated explicitly how it will close this gap in future reforms.

## Exhibit 6.

### Timeline for Scottish Government public service reform



Note: FPAC, Finance and Public Administration Committee.

Source: Audit Scotland



## **The Scottish Government's current approach to public service reform aims to balance sustainable services and improving outcomes, but it is difficult to see what activities are being prioritised**

**61.** Reform that leads to more efficient services being delivered in ways which cost less or deliver better outcomes is one way to achieve a more sustainable level of public spending. Reforming public services is central to achieving the first pillar of the Scottish Government's approach to achieving fiscal sustainability. The Scottish Government has set ambitions for reform that aim to balance outcomes and fiscal need. It has identified ways to create an environment where longer-term reform and reducing preventable demand for services is possible.

**62.** The Scottish Government's aim is that reform will make services fiscally sustainable and improve outcomes. The aim of the Scottish Government's public service reform (PSR) programme is to:

- ensure public services remain fiscally sustainable by reducing costs and long-term demand through investment in prevention
- improve outcomes, which will improve lives and reduce demand
- reduce inequalities of outcome among communities in Scotland.

**63.** The Scottish Government's current PSR programme has over 30 elements, covering a range of different types of reform, from large-scale changes to budgets and taxes, to providing individual services more efficiently, as set out in [Exhibit 7 \(page 22\)](#).






**64.** Despite the different scale of the reforms set out, the levels of resource and effort being invested in each one, the extent of the change that will ultimately be delivered, or how these work towards the objectives set out [\(paragraph 62\)](#), are not clear.



## Exhibit 7.

### Examples of reform that the Scottish Government are considering

We have mapped PSR reforms into five categories.

Types of reform		Summary	Examples of coverage of the PSR programme
	<b>Fiscal reform</b>	Budgetary reform at governmental level including revenue-raising, reform and spending changes.	Implement the commitments of the Verity House Agreement; work with public bodies who can charge for services to recover costs; consider investment and disinvestment.
	<b>Structural reform</b>	Changes to portfolios and public bodies, which may include reclassification/alignment/merger of bodies or function.	Reform of the education and skills system; the National Care Service.
	<b>System reform and efficiencies</b>	Changing how public bodies use their assets and resources.	Single Scottish Estate; introduction of new shared systems (eg, Oracle Cloud).
	<b>Process and service delivery reform</b>	Changing how public bodies provide services.	Commercial Value for Money work, aiming to ensure value for money from grants.
	<b>Outcomes-based and policy-based reform</b>	Changing how multiple services and interventions are delivered together.	The Promise to people who are care experienced; pilots in different cities and regions, for example the No Wrong Door project in Glasgow to support families.

Note: Audit Scotland analysis of Scottish Government reform update.

Source: [Scottish Government response to the Finance and Public Administration Committee Pre-Budget Scrutiny Report](#), 19 December 2023





**65.** As set out below in [paragraph 71](#), some of the key foundations for good reform are missing or incomplete. These include appropriate governance and accountability structures, as well as a clear vision of, and leadership on, reform. Without these, reform is progressing more slowly than planned.

**66.** In December 2023, the Scottish Government presented a new set of four workstreams to deliver public service reform over the next three years. These aim to create a shared programme of work for the public sector by bringing resources together to identify where savings can be made, and removing barriers to reform.

**67.** In principle, this approach is appropriate. Under the workstreams, however, are over 30 activities which vary in scale (ranging from developing the monitoring framework for PSR to establishing the National Care Service). However, progress against each activity is not always set out consistently, and in many cases there is no detail on costs or timelines. This makes it harder to judge whether the approach set out is adequate. A short summary is provided in [Exhibit 8](#).

## Exhibit 8.

### Progress against PSR workstreams

Workstream	Aim	Progress
<b>Convening</b> 	Agree a vision across the public sector for achieving sustainable public services and put in place the governance, partnerships and engagement that are needed to progress reform.	Work has progressed in several areas, but a lack of capacity has been highlighted as a risk to further progress in three of the five areas of activity.
<b>Saving</b> 	Identify where quantifiable savings can be made, setting out targets for reducing or avoiding costs through efficiencies and supporting a longer-term approach to reformed services.	Two activities out of eight have been completed, and £80 million of direct savings identified for 2024/25. However, other areas of activity show little progress.
<b>Enabling</b> 	Create the conditions for reform and removing barriers to changing how services are provided.	There are 16 activities. Up to £25 million of cashable savings are projected for 2024/25 from different activities in this workstream (such as the Commercial Value for Money Programme and Single Scottish Estate).  Other activities are in progress but are constrained by capacity limitations.
<b>Aligning</b> 	Ensure consistency across large-scale reforms within the public sector.	Covers a range of public service reforms, including the National Care Service, care and wellbeing portfolio, The Promise, education and skills reform, and the Vision for Justice. The Align workstream focuses on the prevention of future costs, but the overall scale of the costs the Scottish Government expects to avoid is unclear.

**68.** The Scottish Government updated the Scottish Parliament's Finance and Public Administration Committee on its progress in September 2024. It will continue to provide updates every six months.

## **The Scottish Government does not know what savings will result from reform, or what reform efforts will cost**

**69.** The Scottish Government required all portfolios to lay out their savings and reform plans by the end of the financial year.<sup>17</sup> These plans contain different levels of detail and estimates of how reform will affect costs and budgets. Together they do not provide the information needed to estimate how much reform will save.

**70.** The Scottish Government has contacted public bodies three times since January 2023 to assess their ability to carry out reform. These requests did not generate concrete information on the quantity, quality or anticipated impact of public bodies' collective work on reform. Furthermore, the information did not establish how far these reforms would help the public sector meet the challenge of fiscal sustainability. As part of the August 2023 responses, public bodies set out the support that they would require from the Scottish Government to overcome barriers to reform. A summary of this support is set out in [Exhibit 9 \(page 25\)](#). There is no evidence that specific action has been taken to remove these barriers.

## Exhibit 9.

### Examples of support that public bodies requested from the Scottish Government to remove barriers to reform, August 2023

	A budget for digitalisation
	A funded voluntary redundancy programme
	Clarity on the aims of reform and Scottish Government approaches and responses to independent reviews
	Clarity on what resources are available in the short and medium term
	Certainty about medium-term capital funding
	Better coordination of funding from different funding sources with different reporting requirements
	Certainty about progress on reform, how long it will take, how it will be managed and who is responsible
	More consultation on future pay settlements, recognising what smaller bodies can afford

Note: Some public bodies also identified issues specific to their own sectors, which have not been included here.

Source: Audit Scotland analysis of public body responses

## The Scottish Government's governance arrangements for reform were ineffective and have recently changed

**71.** The governance structures have not been effective to date in driving forward the reform agenda. The Director General Communities is responsible for putting the PSR programme into place successfully, supported by the Public Service Reform Strategy and Governance Unit made up of 5.8 full-time equivalent civil servants. Under the governance arrangements set up in 2023, Director General Communities was supported in this role by:

- an action group made up of Scottish Government directors from across different portfolios involved in the reform programme. The terms of reference for this group described it as 'a key decision-making forum'

- a steering group, made up of non-executive directors, chief executives of public bodies and academics, provides advice on how to progress the PSR programme but does not make decisions.

**72.** While Director General Communities is responsible for the programme, moving individual reforms forward is dependent on decisions made, and funding identified, by other directorates. The Action Group should have helped make sure that the PSR programme corresponded with decisions made by individual portfolios. However, in practice this group did not make these decisions and the forum was used more for sharing information across portfolios. The key governance forums for the PSR programme did not regularly discuss the progress of individual workstreams and it was not a standing item on their agendas. This was a gap in the scrutiny and governance of the programme.

**73.** In spring 2024, key stakeholders in PSR agreed that a more formal governance arrangement was required, and plans for a PSR board were developed. The Scottish Government's plan is that this board will drive the delivery of PSR and will have the authority to direct existing PSR work and establish new areas of work that are required to carry out PSR. To do so, it will be able to draw on resources from across government. Accountable officers within portfolios will retain responsibility for delivering specific programmes. The first meeting of this group was delayed, and it met for the first time in September 2024.

**74.** These changes should strengthen the governance structures for carrying out reform, although it is too early to say if they will be enough to speed up progress on the programme and provide greater collective leadership.

## **The Scottish Government is not providing effective leadership on reform**

**75.** Scottish Government accountable officers play a critical role in delivering reform. The Scottish Government has not allocated or identified funding to support portfolios or public bodies to cover the costs of delivering reform. For example, it has not created an enabling fund of resources to support change. Instead, portfolios must manage this work alongside existing spending commitments and pressures, and teams must design and implement reform alongside their day-to-day duties.

**76.** The lack of detail in the plans developed by the Scottish Government to date, the limited resource dedicated to the PSR programme and the issues with the governance of the programme set out in [paragraph 70](#) mean that portfolios' plans for reform vary widely in their approach.

**77.** The Scottish Government has said that it does not want to implement a top-down approach to reforming public services but instead wants to agree a vision of reform across the public sector. In December 2023, it committed to agreeing on a shared approach by March 2024, working with local government and with the wider public and third sector to align, enable and deliver savings.

**78.** This commitment has not been met, and so far there is no evidence of a clear shared approach across the public sector. The Scottish Government did not provide any detail on what this agreement would look like. Although a shared vision and approach does not, in and of itself, lead to change, it is an important step to clarify expectations. Recent audit reports, such as the Auditor General and Accounts Commission's report on [Tackling digital exclusion](#), have highlighted the need for clearer leadership and focus.

## The Scottish Government's difficulties in managing cross-cutting issues are longstanding

**79.** Reforming public services, as opposed to making savings and cutting services, will require **cross-sector** working over several years. This is crucial to address the Scottish Government's priorities of eradicating child poverty, growing Scotland's economy, tackling the climate emergency and improving public services, which all require investment in prevention and different parts of the public sector working closely together.

**80.** In our view, the Scottish Government structures are not designed to support cross-sector working. For example, the PSR team proposed a cross-government 'spend to save' challenge fund for the 2024/25 Budget. This was aimed at investing money in projects which would save money in the future. There was no money allocated to this, meaning that finding that funding would have required Cabinet Secretaries and accountable officers to forgo funding for their portfolios. There is therefore no central fund set aside to provide additional support to cover the costs of reform.

**81.** In [Scotland's financial response to Covid-19](#), the Auditor General and the Accounts Commission recommended that the Scottish Government learn the lessons from the challenges of responding to Covid-19 and develop robust processes to improve the public sector response to future crises or other cross-cutting issues. The Scottish Government has yet to make any significant progress on this recommendation.

**82.** In 2021, the Scottish Leaders Forum considered the barriers to the cross-sector working required to implement the National Performance Framework. The group noted: '(the) current system of accountability does little to encourage cross-organisational working and holding individuals to account for their role in ensuring their organisation contributes to the performance of a collection of organisations'.<sup>18</sup>

**83.** Most recently, as part of the Scottish Government's work on health and social care reform, including the Care and Wellbeing portfolio, there is an acknowledgement that long-term and cross-sector investment is needed to improve the wider factors that affect health. The Auditor General reported in [NHS in Scotland 2023](#), however, that there was a high risk that the immediate priorities of the Care and Wellbeing portfolio will not be successfully delivered because of a lack of strategic direction on the scope of the reform work and its priorities.



### Cross-sector

In some instances, important government priorities such as climate change, public health and reducing child poverty cut across portfolios. Achieving these priorities will require portfolios, public bodies, local government and other partners to work together.

## To overcome these issues, the Scottish Government must show greater leadership and strategic direction

**84.** A clear vision and strategic direction for reform from senior levels of the Scottish Government will help portfolios and public bodies work together and provide them with assurance that they are working towards the same goals and objectives.

**85.** In 2023, the First Minister issued mandate letters to each Cabinet Secretary. Approaches such as these mandate letters, published alongside the Programme for Government, are positive steps in improving strategic direction. The mandate letters set out:

- the aims of the government
- the objectives for each portfolio for the financial year (2023/24)
- the priorities to the end of the parliamentary term.

**86.** The Scottish Government should strengthen this approach by expanding it to clearly link to the National Performance Framework and include details on how spending changes in portfolios affect existing and new priorities.



# 3. Impact of the reform programme

## The Scottish Government has not yet developed a programme monitoring framework

**87.** Two of the three objectives of the reform programme are aimed at improving outcomes. The Scottish Government has not established an approach for monitoring how reform will affect outcomes. As a result, the impact on outcomes is not currently considered or monitored as part of the reform process.

**88.** The PSR team is developing a performance monitoring framework for the programme, but to date progress has been slow because of capacity constraints. Until metrics for ways of monitoring reform are in place it will not be possible to measure its progress or assess the impact of reform on services or different groups in society.

**89.** The plan for the intended framework does not include details about monitoring how reform affects equalities and human rights. Discussions with the Scottish Government suggest that these issues are currently considered as part of the impact assessment process within individual reform workstreams, but it is not clear how they will align with and be considered through the framework for monitoring reform. It is essential that equalities and human rights issues are integrated into metrics for the PSR programme.

**90.** Work is under way across the Scottish Government to better understand and improve the data underpinning the impact of policy on outcomes, equalities and human rights in Scotland. The Scottish Government should prioritise this work by dedicating appropriate levels of resource and spending towards improving its data. This will require a whole system approach.

## Integrating human rights and equalities considerations will help the Scottish Government make better decisions about reform

**91.** Each year, the Scottish Government publishes an Equality and Fairer Scotland Budget Statement alongside the budget. This sets out the impact of the budget on each protected characteristic and area of socio-economic disadvantage. However, for the 2024/25 Budget, more information could have been provided on the impact of changing or reduced spending on **different groups of users**.



### The Welsh Government

publishes a Strategic Integrated Impact Assessment as part of its annual budget. In 2024/25, this included an analysis of where the Welsh Government had chosen to reduce or reprioritise spending, and how these changes might impact different groups.








**92.** The evidence reviewed as part of this audit suggests that the Scottish Government is not considering equalities and human rights when making decisions about its PSR programme. Under [the Equality Act 2010](#), public bodies must evaluate any new or changing policies, procedures and decisions, to redress the unequal impact of a policy or decision. It is therefore important that the Scottish Government understands how the financial decisions it takes as part of its PSR programme will affect different groups in society, to minimise the negative impacts of changes to public spending on people's outcomes. These decisions have the potential to advance equalities and human rights and successfully improve outcomes in Scotland.

**93.** In 2019, the Scottish Government's Equality and Human Rights Budget Advisory Group (EHRBAG) published [informal guidance for policy makers](#) to help bodies consider equalities and human rights issues in their decision-making. The guidance sets out six key questions to ask when making decisions about raising revenue and spending, and decisions about maintaining or reforming policy or introducing new policy ([Exhibit 10](#)).

## Exhibit 10.

### Six key questions to ask when making budget decisions

<b>1.</b>	What outcome is the policy and associated budget decision aiming to achieve?	
<b>2.</b>	What do you know about existing inequalities of outcome in relation to the budget area?	
<b>3.</b>	How will your budget decisions impact different people and places?	
<b>4.</b>	How will your budget decisions contribute to the realisation of human rights?	
<b>5.</b>	Could the budget be used differently to better address existing inequalities of outcome and advance human rights?	
<b>6.</b>	How will the impact of budget decisions be evaluated?	

**94.** Taking an equality and human rights-based approach helps to deliver better outcomes for everyone. The Scottish Government should incorporate this approach into its overall PSR programme as soon as possible, to ensure the results are used to inform decisions about changes to policies and services. This work should be clearly aligned to the new National Performance Framework.

**95.** An example of good practice in relation to equalities impacts in recent years can be seen in the approach the Scottish Government took in its Emergency Budget Review in November 2022 ([Case study 1](#)). This highlighted that reducing or delaying spending has negative effects on outcomes and set these out clearly. This supports better decision-making and scrutiny.

**96.** A similar approach was taken in September 2024 with the Scottish Government's Pre-Budget Fiscal Statement and accompanying Equality and Fairer Scotland Impact Assessment.

## Case study 1. Considering the impact of changes to spending on equalities

### Scottish Government Emergency Budget Review: summary of evidence on equality and fairness

The Scottish Government's Emergency Budget Review (November 2022) considered the impact of in-year changes to the 2022/23 Scottish Budget on equalities in Scotland, following a period of unprecedented change. This work sets out the reprioritisation of resources at a portfolio level and considers the impact of changes to budgets in-year on services, workforces and people.

For example, £65 million was saved in primary care by reducing the planned growth rate for the Primary Care Improvement Fund. In practice, this meant the planned increases in community links and mental health worker numbers did not take place during 2022/23.

A summary of the equality and fairness evidence states that the support these workers provide on debt, social isolation and housing is crucial to the recovery from the Covid-19 pandemic, given its long-term impact on unemployment, mental health and health inequalities.

It also notes that the reprioritisation of funding for general dental services and community optometry and audiology will delay developments in services for people with sensory impairment, affecting mainly older people with low vision, hearing loss or both.

Source: [Emergency Budget Review: Summary of evidence on equality and fairness](#), Scottish Government, 2022



**97.** The Scottish Human Rights Commission has noted that the Scottish Government has a legal obligation to maximise its available resources in order to fulfil its human rights commitments. When considering budget decisions from a human rights perspective, this means ensuring that existing resources are being used efficiently and effectively without discrimination, while also ensuring that the government makes the necessary effort to generate additional resources.<sup>19</sup>

### **The Scottish Government does not have good quality data about the public sector workforce or estates, making it harder to understand the impact of future reform**

**98.** Data is a vital tool that can help public bodies tackle complex and longstanding issues. It can help target resources to where they will have the most impact and help improve planning. Audit Scotland has previously identified that radical action is needed on improving public sector data,<sup>20</sup> and this is equally relevant for reform.

**99.** In 2023, the Auditor General identified that the Scottish Government needed better data on the size, cost and skillset of the workforce, and on all publicly owned buildings.<sup>21</sup> He recommended that the Scottish Government:

- work with its public bodies to produce an overall analysis of current workforce costs in Scotland, as a priority. This should reflect public bodies' workforce plans
- collect information on the condition, occupancy and cost of the wider public estate and ensure that this information is recorded consistently and regularly by its public bodies.

**100.** The Scottish Government is still collecting this information. We note that the Scottish Government published information on the corporate costs of public bodies on 15 November 2024. Without the baseline information set out above however, the Scottish Government will find it difficult to understand how reform activity will affect costs and the ability of public bodies to carry out reform, and understand changes to productivity in the public sector. The impact of these recommendations will be considered in the next Audit Scotland impact monitoring and evaluation report, which will publish in May 2025.

### **The Scottish Government's reporting to Parliament and the public on the progress and implications of reform and fiscal sustainability has been insufficient**

**101.** The Scottish Government has not set out information on the changes that will need to be made to public services in a clear or consistent way to Parliament and the public. This includes the timelines and progress of its reform work. To date, the information it has provided

publicly has been limited. As part of its 2023/24 pre-budget scrutiny, the Finance and Public Administration Committee asked the Scottish Government to provide:

- a clear vision and strategic purpose for the programme, including what it wants to achieve and how it will provide leadership and oversight to support public bodies to achieve this vision
- the financial strategy to accompany the reform programme that the then-Deputy First Minister committed to in March 2023<sup>22</sup>
- details of each workstream under the programme, milestones for their delivery and clear measurements of success
- an explanation of how the programme will impact delivery of the national outcomes.<sup>23</sup>

**102.** The Scottish Government provided the first of its six-monthly updates on the progress of the PSR programme to Parliament in December 2023. This set out details about the planned approach for reform alongside key actions for each of the four workstreams in years 1-3. This did not fully meet the request made by the Finance and Public Administration Committee, however, as detailed information on costs, savings and timelines for measuring impact were not included. Members wanted to see more evidence of action.

**103.** Reporting to Parliament and the public is essential for supporting scrutiny and improving the transparency of public finances. Without an up-to-date picture of the financial management of the medium-term position, it will be even more challenging for the Scottish Government to deal with ongoing pressures. It also remains unclear to the public what progress the Scottish Government has made to date with its reform programme. [Scotland's Open Budget Survey 2023](#) (July 2024) by the Scottish Human Rights Commission compares the openness of Scotland's budgetary processes with those of over 100 countries. The research shows that the Scottish Government has made some progress in making the budget process more transparent over the last four years, but is still failing to reach standards considered adequate by international best practice.

**104.** The Scottish Government's pre-budget fiscal update in September 2024 announced significant in-year reductions to balance the 2024/25 Budget.<sup>24</sup> The Scottish Parliament Information Centre (SPICe) notes this is the third year in a row where the Scottish Government has made in-year changes to the budget passed by Parliament just a few months previously.<sup>25</sup> This raises important accountability questions for Parliament, as it is being asked to scrutinise, debate and vote on a budget which is going to be subject to significant in-year changes beyond the typical in-year revisions made in the past. SPICe have asked that the Scottish Government present next year's budget alongside the latest in-year position for 2024/25. The Scottish Government published an [additional disclosure](#) of prior year

comparative information for the 2024/25 Budget in January 2024, and updated it to reflect the final financial position for 2023/24 in March 2024. We would like to see the continuation of this information being published as this will improve transparency and scrutiny for stakeholders.

**105.** The type of reform the Scottish Government wants to achieve over the longer term will require significant investment, and it needs to be realistic about how these costs will be met. In practice, this may require reducing investment or redirecting spending away from existing commitments and towards its reform priorities. Whatever it decides, it will need to be clear and open with the public and Parliament about what funding reform will mean for public services in Scotland in the short term.

# Endnotes

- 1 The Scottish Government has since set out an updated set of four priorities that replace the three critical missions in its 2024/25 Programme for Government. These four priorities are eradicating child poverty, growing the economy, tackling the climate emergency, and improving public services.
- 2 [Press release: A Budget to fix the foundations and deliver change for Scotland](#), Scotland Office, 30 October 2024.
- 3 [Scotland's economic and fiscal forecasts](#), The Scottish Fiscal Commission, December 2023 – revised version, April 2024.
- 4 [Fiscal sustainability report](#), The Scottish Fiscal Commission, March 2023.
- 5 [Fiscal sustainability perspectives: climate change](#), The Scottish Fiscal Commission, March 2024.
- 6 [Scotland's economic and fiscal forecasts, The Scottish Fiscal Commission](#), December 2023 – revised version, April 2024.
- 7 [Core Block Grant from UK Government as a share of the IFRS16-Adjusted Total Funding \(Resource\) set out in the 2024/25 Scottish Budget](#).
- 8 [Autumn Budget 2024 speech](#), Chancellor of the Exchequer, 30 October.
- 9 [Deferral of Strategic Policies during the UK Election Period – Letter of 28 May 2024 to Finance and Public Administration Committee Convener](#), Permanent Secretary, 28 May 2024.
- 10 [Letter to Finance and Public Administration Committee Convener](#), Cabinet Secretary for Finance and Local Government, 2 September 2024.
- 11 [Equality, opportunity, community: New leadership – A fresh start](#), Deputy First Minister and Cabinet Secretary for Finance, 18 April 2023.
- 12 [Commission on the future delivery of public services](#), Scottish Government, June 2011.
- 13 [Renewing Scotland's public services: Priorities for reform in response to the Christie Commission](#), Scottish Government, September 2011.
- 14 [Christie 10 years on](#), Auditor General for Scotland, September 2021.
- 15 [Official report of meeting](#), Finance and Public Administration Committee, 10 January 2023.
- 16 For example, please see audits on [Self-directed support](#) (2017) and [Improving outcomes for young people through school education](#) (2021).
- 17 [Pre-Budget Scrutiny 2024–25 – Scottish Government response to Committee report](#), Scottish Government, 19 December 2023.
- 18 [Leadership, collective responsibility and delivering the national outcomes](#), Scottish Leaders Forum, 31 March 2022.
- 19 [Tax policy and the Budget – a Framework for Tax](#), Scottish Human Rights Commission, October 2021.
- 20 [Radical action needed on data](#), Audit Scotland, November 2022.

- 21 [Scottish Government workforce challenges](#), Audit Scotland, November 2023; and [Investing in Scotland's infrastructure](#), Audit Scotland, September 2023.
- 22 The Cabinet Secretary for Finance responded to the Committee's budget report in [February 2024](#). In the response, she clarified that the previous Deputy First Minister had been referring specifically to the planned health and social care medium term financial framework (HSC MTFF). This was planned for publication in Spring 2024, but has been delayed.
- 23 [Pre-budget scrutiny 2023–24: Scotland's public finances in 2023–24 and the impact of the cost of living and public service reform](#), Scottish Government, 3 November 2022.
- 24 [Letter to Finance and Public Administration Committee Convener](#), Cabinet Secretary for Finance and Local Government, 3 September 2024.
- 25 [Filling in fiscal cracks...again](#), The Scottish Parliament Information Centre, 3 September 2024.

# Fiscal sustainability and reform in Scotland



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