

## **Scotland's Public Finances: Challenges and Risks**

**Report by David Gladwin, Acting Chief Financial Officer**

### **Report for Information**

#### **1 Recommendations**

Audit Committee is recommended to:

- Consider the Audit Scotland report; and
- Note that the key messages have been considered by Council Officers and are embedded in the Medium Term Financial Strategy Report considered by Council on Tuesday 31<sup>st</sup> January and also the quarter 3 suite of financial governance reports to be presented to Council on Tuesday 21<sup>st</sup> February.

#### **2 Purpose of Report / Executive Summary**

The purpose of this report is to provide Audit Committee with a summary of the Scotland's Public Finance: challenges and risks report published by Audit Scotland in November 2022 and is appended to this report.

Three main messages come from the report covering rising costs and increasing demand, limitations on Scottish Government's ability to manoeuvre in balancing their 22/23 and 23/24 budgets and commentary on the pace and scale of reform required across the public sector.

**Date** Thursday 26 January 2023

**Report Contact:**

David Gladwin, Acting Chief Financial Officer

[David.Gladwin@midlothian.gov.uk](mailto:David.Gladwin@midlothian.gov.uk)

### **3 Background**

- 3.1** Audit Scotland is a statutory body established in April 2020, under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission for Scotland.
- 3.2** Audit Scotland has prepared the attached report 'Scotland's public finances – challenges and risks' (Appendix B) for the Auditor General for Scotland. The Auditor General appoints auditors to Scotland's central government and NHS bodies; examines how public bodies spend money; helps them to manage their finances to the highest standards; and checks whether they achieve value for money.
- 3.3** The report sets out the challenges and risks that affect the current financial position (up to the point of issue), the significant financial pressure that public finances are under and information on how the Scottish Government aim to tackle these in its resource spending review.

#### Key Messages

- 3.4** 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 2022/23 budget. Whilst cost and inflation pressures are well documented for all areas of the public sector and beyond the main concern highlighted is the risk that an in-year 2022/23 overspend on the Scottish Government budget would have on 2023/24.
- 3.5** Recognition of the restrictive position that the Scottish Government find themselves in to balance their 2022/23 budget due to limited areas of flexibilities that remain available.
- 3.6** The pace and scale of reform across the public sector needs to increase. A gap exists between ambition and delivery which must narrow but also which must be resourced and delivered in a sustainable way.

### **4 Report Implications (Resource, Digital and Risk)**

#### **4.1 Resource**

None

#### **4.2 Digital**

None

#### **4.3 Risk**

None

**4.4 Ensuring Equalities (if required a separate IIA must be completed)**

None

**4.4 Additional Report Implications (See Appendix A)**

See Appendix A

**Appendices**

**Appendix A – Additional Report Implications**

**Appendix B – Scotland's public finances – challenges and risks**

## **APPENDIX A – Report Implications**

### **A.1 Key Priorities within the Single Midlothian Plan**

Not applicable

### **A.2 Key Drivers for Change**

Key drivers addressed in this report:

- ☐ Holistic Working
- ☐ Hub and Spoke
- ☐ Modern
- ☐ Sustainable
- ☐ Transformational
- ☐ Preventative
- ☐ Asset-based
- ☐ Continuous Improvement
- ☐ One size fits one
- ☒ None of the above

### **A.3 Key Delivery Streams**

Key delivery streams addressed in this report:

- ☐ One Council Working with you, for you
- ☐ Preventative and Sustainable
- ☐ Efficient and Modern
- ☐ Innovative and Ambitious
- ☒ None of the above

### **A.4 Delivering Best Value**

Not applicable

### **A.5 Involving Communities and Other Stakeholders**

Not applicable

### **A.6 Impact on Performance and Outcomes**

Not applicable

### **A.7 Adopting a Preventative Approach**

Not applicable

### **A.8 Supporting Sustainable Development**

Not applicable

**APPENDIX B****Scotland's public finances – challenges and risks**