

## Audit scope

# The Scottish Government's approach to fiscal sustainability and reform

AUDITOR GENERAL 

Prepared by Audit Scotland

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## Background

A period of high inflation and the aftermath of the Covid-19 pandemic means that the Scottish Government is facing its most significant financial challenge since devolution began. The latest [Medium-term financial strategy](#) in May 2023 projected a spending gap of £1.9 billion by 2027/28.

In [Scotland's public finances: challenges and risks](#) (November 2022), the Auditor General reported on the urgency and severity of the financial challenge ahead. In October and November 2023, two further briefings were published setting out the issues facing the Scottish Government's [capital programme](#) and its [public sector workforce](#). The Auditor General [has stated that](#) the Scottish Government must develop

a clear roadmap of how the design and delivery of public services will be transformed to be financially sustainable.

Reform of the public sector is needed to make public finances sustainable. This will involve making difficult decisions to prioritise and reduce spending to affordable levels while protecting public services.

Spending decisions must be well considered and realistic. The impact of budgeting for reform for services and people should be clearly communicated to public bodies, parliament and the public.

The Scottish Government intends to set out its progress on reform every six months to the Scottish Parliament. Parliamentary scrutiny has been critical of progress towards reform to date. The Finance and

Public Administration Committee noted in its [2024/25 budget report](#):

'Without a coherent reform programme in place, we are concerned that financial pressures will drive a series of uncoordinated cuts across the board, rather than genuine reform aimed at enhancing the delivery of public services.'

## Why is this audit important?

Having previously set out the severity of the fiscal challenge facing the Scottish Government, we now intend to investigate whether the Scottish Government's progress on reforming public finances to date is sufficient to address it. This includes reviewing reporting arrangements, decision-making structures and budget processes.

This performance audit will look to assess how well the Scottish Government is making sure its spending on public services remains affordable and is effective. It will focus on three main audit questions:

1. How well do the Scottish Government's governance and financial management arrangements support its fiscal sustainability and reform aims?
2. How effectively is the Scottish Government progressing its fiscal sustainability and reform activity?
3. How well does the Scottish Government understand the impact of its reform programme?

## How will we carry out this audit?

We will draw on evidence from discussions with Scottish Government and key stakeholders, desk-based research, and data analysis.

This audit will be based on financial year 2023/24 and the budget-setting and in-year budget processes for 2024/25.

This audit is part of a wider suite of audit activity looking at public services and reform. Its specific scope focusses on

central Scottish Government reform activity and financial and decision-making processes. For more details, please see our [work programme](#).

## What do we want to happen as a result?

We want this audit to provide assurance to the Scottish Parliament and the public on how well the Scottish Government is achieving a balanced fiscal position and delivering a realistic and organised reform programme. Our report will also promote transparency and provide a better understanding of how effectively public money is managed and directed within the Scottish Government's budget.

## Timetable

We aim to publish the report in the second half of 2024/25. Following publication, the Auditor General will present our findings to the Scottish Parliament's Public Audit Committee.

## Contact

If you have any questions or would like more information about this audit, please contact Fiona Diggle, Audit Manager, on 0131 625 1840 or email at [fdiggle@audit-scotland.gov.uk](mailto:fdiggle@audit-scotland.gov.uk).

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