

Address:
110 George Street
Edinburgh
EH2 4LH

Telephone:
0845 146 1010
Fax:
0845 146 1009

Website:
www.audit-scotland.gov.uk



News release

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Scotland's public sector needs to focus on the long-term financial sustainability of public services

Scotland's public sector is in the first year of major spending cuts and public bodies must focus on their long-term financial sustainability to ensure effective public services in the future.

An Audit Scotland report published today, *Scotland's public finances – addressing the challenges*, says bodies need to have clear priorities, and plan their budgets and workforces to deliver these.

Scotland's public sector budget in 2011/12 for running costs and day-to-day spending is £27.5 billion, a drop of 6 per cent or £1.7 billion in real terms from £29.2 billion in 2010/11. Public bodies have budgeted for this in 2011/12, but they need to make significant savings during the year and there is a risk they won't achieve this due to cost pressures being greater than expected or unforeseen events.

Public bodies are facing increasing pressures and demands, such as Scotland's ageing population, the effects of the recent recession, and the public sector's maintenance backlog. Meanwhile budgets will continue to drop; the planned 2014/15 budget of £25.9 billion will be 11 per cent, or £3.3 billion, smaller than in 2010/11. Pay restraint and reducing workforces are the most common approaches being taken by public bodies to reduce costs over the next few years. Many bodies have already reduced staff numbers through recruitment freezes and voluntary redundancy schemes, and further reductions are planned.

Auditor General for Scotland Robert Black said:

“Strong leadership and governance in Scotland's public bodies are vital to deal successfully with the most difficult financial conditions since devolution. The public sector needs to reduce costs but there is also an opportunity to reform the way public services are delivered. Public bodies should overhaul the way they plan by looking at long-term sustainability, setting clear priorities and intended outcomes and then setting their budgets based on these.”

The report sets out some of the key risks and issues public sector leaders and politicians face. These cover the areas of public service reform, financial sustainability, leadership and governance, and workforce reductions. Few people within the public sector today have experienced budget cuts of the current levels, and there is a significant risk in focusing on short-term solutions rather than long-term plans.

Accounts Commission for Scotland chair John Baillie said:

“Local authorities have already done substantial work to address the very challenging financial outlook, and they face very difficult decisions in prioritising services and allocating money. It is crucial that they continue to focus on the outcomes they intend to achieve, and not just on short-term decisions driven by the need to reduce costs. For example, council workforces are a significant proportion of councils' spending. Many bodies have cut staff numbers through recruitment freezes and voluntary redundancy, and further cuts are planned. However, good workforce planning is also about making sure you have the right people with the right skills to deliver effective public services in the future.”

For further information contact Simon Ebbett Tel: 0131 625 1653 sebbett@audit-scotland.gov.uk or Fiona McCall Tel: 0131 625 1651 fmccall@audit-scotland.gov.uk

Notes to Editors:

1. Budget figures are presented in real terms at 2010/11 prices and relate to the total Departmental Expenditure Limit (DEL) budget, which covers day-to-day spending and running costs. The Scottish Government plans to publish a Scottish Spending Review for years 2012/13 to 2014/15 in September 2011.

2. The report is an interim report and designed to be one in a series of reports on the way public bodies are managing budget reductions. It follows on from *Scotland's public finances – preparing for the future*, published in November 2009, which contained an overview of the financial environment in Scotland at that time.
3. All Audit Scotland reports published since 2000 can be found on Audit Scotland's website www.audit-scotland.gov.uk
4. Audit Scotland is a statutory body set up in April 2000, under the Public Finance and Accountability (Scotland) Act, 2000. Audit Scotland has prepared this report jointly for the Auditor General for Scotland and the Accounts Commission for Scotland:
 - The Auditor General is responsible for securing the audit of the Scottish Government and most other public bodies in Scotland, except local authorities. The Auditor General is independent and is not subject to the control of the Scottish Executive or the Scottish Parliament.
 - The Accounts Commission looks at whether local authorities, fire and police boards spend public money properly and effectively. It is independent of both central and local government. Commission members are appointed by Scottish ministers.