
Scotland's public finances in 2022-23 & the impact of Covid

The Auditor General's submission to the Finance and Public Administration Committee

Overview

1. As the Auditor General for Scotland, I am a crown appointment made on the recommendation of the Scottish Parliament. I provide independent assurance to the Parliament that public money is spent properly and is providing value for money. I am committed to supporting Parliament as the response and recovery from the pandemic continues. I work closely with the Accounts Commission and Audit Scotland to deliver public audit in Scotland.

2. The need for an independent voice as events unfold has never been more important. Audit can contribute to this by focusing in on the flow of spending and informing the conversation about the risks and challenges the public sector faces. As the Auditor General for Scotland I take a wide perspective of public sector activity, and in Audit Scotland we are taking a 'whole-system' approach to auditing the Scottish Government's Covid-19 spending across the public sector.

3. I am pleased to provide this written submission to the Committee's call for views on Scotland's public finances in 2022/23 and the impact of Covid, and I set out my views on these issues below. This is to assist the Committee's scrutiny of the Scottish Government's proposed financial response to the impact of the pandemic on people and the public finances. Of course, the key challenge will remain getting public money to where it is needed most. In doing so the Scottish Government will need to:

- co-ordinate its approach to address the short and longer-term effects of the pandemic on people, public services and the economy
- keep the public finances on a sustainable footing
- have an effective plan for recovery and renewal over time
- maintain transparent and robust decision making.

The impact on people

The Scottish Government is responding to a public health crisis with complex and changing implications for people

4. It is likely that the health, societal and economic impact of the pandemic will be felt for many years. While the pandemic had an immediate effect on the nation's health, Covid-19 may have long-term implications for life expectancy, a healthy workforce and mental wellbeing. The pandemic has also led to an increase in NHS backlogs and waiting times.

5. The negative impact on the economy has led to increasing levels of poverty. These will be difficult to reverse quickly, and income inequalities may widen further. Disruption to education could have long-term implications for young people's development and life chances. The long-term effects of the disruption to education are most likely to be felt by those who already economically and educationally disadvantaged.

6. These issues will need to be carefully tracked and managed by the Scottish Government in the future. Addressing these impacts in a way that prevents a further widening of inequalities will bring increasing financial pressures.

Some groups are being disproportionately affected

7. Covid-19 has disproportionately affected Scotland's most vulnerable citizens, and it has exacerbated inequalities that already existed in Scotland. Our recent [report](#), *NHS in Scotland 2020*, we highlighted the diverse impact on Covid-19 on different groups of people. Through our *Tracking the implications of Covid-19 on Scotland's public finances* [briefing](#) papers, we have highlighted that increasing inequality is a significant risk emerging from the pandemic.

8. Research shows there are a number of factors in determining an individual's level of risk to Covid-19, including age, deprivation, ethnicity, location, disability, and pre-existing health conditions. Women are around a third more likely to work in shut down sectors or restricted parts of the economy. In addition, people with pre-existing mental health conditions, young adults, women, and individuals in lower socio-economic groups appear to be reporting higher levels of psychological distress.

9. The Scottish Government stated in *Scotland's Wellbeing: The Impact of COVID-19* that the many effects on people in Scotland are connected. Considering the range of outcomes together will remain important to Scotland's recovery from the pandemic.

Spending needs to be joined-up, balancing different priorities over time

10. Inherent tensions between different policy priorities can bring risks of spending programmes not being well coordinated or even working against one another. These risks are likely to be exacerbated because of the pandemic, with decisions being made at speed to deal with urgent pressures. For example, short term financial support for some business sectors may not necessarily fit well with wider aims in areas such as climate change or wider economic policy.

11. Scottish Government responses also need to work alongside UK Government and local government measures. Having a clear picture of how initiatives at each level of government are working together is needed to properly understand the effectiveness of Covid-19 measures and to support budgeting and financial planning. Effective communication and cooperation between governments will be central to this.

12. We have seen examples of good cooperation and coordination across the public sector in its response to the pandemic. For example, in my joint [report](#) with the Accounts Commission *Improving outcomes for young people through school education* we highlighted effective joint working by the Education Recovery Group (CERG) during the pandemic. Good habits that have been established should be maintained during the recovery phase.

13. The Scottish Government should also be clear about its priorities following the pandemic and how these align with the National Performance Framework. The decisions and trade-offs between areas of spending must be considered alongside how they will affect the desired outcomes for people in Scotland. The Committee may wish to consider how clear links between spending decisions and the anticipated impact on people's wellbeing are.

The impact on the public finances

Difficult decisions lie ahead for Scottish public finances

14. Financial pressures are both acute and unpredictable. Alongside increasing pressures on public revenues and spending, the Scottish budget is subject to ever more volatility, uncertainty and complexity. It will be challenging to match spending to the available funding in the coming years and keep public services on a sustainable footing. This will need to be done in a way that minimises the disruption to individuals, public bodies and services, ensures value for money is maintained and avoids unintended consequences.

15. The pressures on Scotland's public finances will increasingly reflect the financial consequences of delays or disruption to other services caused by the pandemic, such as addressing NHS treatment and courts backlogs. These demands on public finances, must be managed alongside pre-existing financial sustainability pressures in areas such as the NHS and local government.

Fiscal flexibilities can help in the short-term but can't insulate Scottish public finances from the pandemic's effects

16. One of the principles that underpins the Fiscal Framework agreement is that the UK government should continue to manage risks and economic shocks that affect the whole of the UK. This has operated largely as anticipated during the pandemic with the UK Government's fiscal policy decisions flowing through to the block grant. This has then enabled the public spending response implemented by the Scottish Government.

17. The Fiscal Framework was established in a period when there were a small number of decision points during the year. Responding to Covid-19 has required a much more dynamic response from the UK and Scottish Government. Recognising this, the UK Government guaranteed levels of funding to the Scottish budget during 2020/21. This provided the Scottish Government with some additional certainty, but also provided challenges and complexities in other respects. For example, it was not always clear whether specific UK spending announcements resulted in further funding.

18. Existing fiscal framework flexibilities are largely designed to smooth the impact of forecasting errors and enable limited flexibility between financial years. Using flexibilities to meet immediate spending pressures may help to balance the budget, but it does not tackle the underlying challenges to financial sustainability.

19. Increasingly, the Scottish Budget is subject to a high degree of change during the financial year. This volatility has been exacerbated during the pandemic. The budget revision process is an important way in which the budget

is updated, and formally approved by Parliament. Scrutinising these revisions will remain a key role for the Committee.

20. The speed at which spending plans have developed in response to the pandemic means that the Scottish Government has had to develop its approach to managing the overall position. Given the increase in financial risk due of the pandemic, the Committee may wish to extend its scrutiny to understand how Scottish Government manages the overall budget position on an ongoing basis.

A thorough understanding of existing commitments is needed

21. As the Scottish budget is increasingly uncertain and volatile, it is more challenging to match spending to the available funding. A key aspect of the Scottish Government's ability to do this will be its ability to control its spending programmes in the short term. This requires understanding how spending supports priority areas and the outcomes set out in the National Performance Framework, as well as the costs of policy decisions over the longer term.

22. Any changes to spending need to minimise the disruption to individual public bodies and services and maintain value for money. Much of the public spending in the Scottish budget is for areas such as staff costs that are difficult to change quickly. The Scottish Government needs to understand where it can quickly alter spending when responding to budget fluctuations.

23. Understanding the financial picture across all devolved public services is important for managing risks. The Scottish Government has committed to produce a consolidated account to cover the whole public sector in Scotland, including total assets, investments and liabilities such as local government borrowing and public-sector pension liabilities. I have recently highlighted that there is a need, more than ever, for Scottish Public Sector Accounts and an outstanding commitment from the Scottish Government to prepare and publish such a complete picture of what Scotland's public bodies own and owe.

Transparent decision making is essential in a fast-moving environment

24. As more spending and funding announcements are made in response to the pandemic, and as Scottish Government moves into the post-vaccine recovery phase, tracking the budget will become more complex. It will likely become increasingly hard to identify what is Covid spending, as spending links more with other goals. In such a fast-moving environment, it is more difficult to demonstrate how each measure has been chosen and how overall spending is being managed. The Committee will continue to play a key role in ensuring the Scottish Government maintains transparency over this.

Longer-term planning is essential for Scotland's recovery and renewal

25. Understanding the longer-term pressures facing the Scottish budget is increasingly important in this environment. The Committee's predecessor recommended that the incoming Committee considers inviting the Scottish Fiscal Commission (SFC) to publish a long-term fiscal sustainability report at least once during each session of the Parliament. In my view this would be a valuable addition to the information available to support Parliamentary scrutiny.

26. Planning for the medium term in periods of significant uncertainty and volatility is difficult, but necessary. The Scottish Government published its latest medium-term financial strategy alongside the 2021/22 Scottish budget. It will be

important that the Scottish Government updates this to ensure that the wider context for the 2022/23 budget is understood. The current strategy includes broad funding and spending scenarios and sets out the Scottish Government's overall priorities. In my view, future updates should include better information about planned spending options and how these could affect outcomes.

Budgeting needs to underpin the transition from response to recovery

27. The pandemic is ongoing and the direct effects of it are still being felt. The initial financial response has continued into 2021/22. Increasingly, financial measures will need to be introduced to support recovery from the wider impact of the pandemic on the economy, wellbeing and public services.

28. In determining its budget proposals, the Scottish Government will need to have a clear understanding of how it plans to transition from its initial financial response to more of a recovery phase. But given the continuing uncertainties about the course of the pandemic it is also likely to need to maintain a flexible approach to its financial planning. The Committee may wish to explore how the Scottish Government is addressing these challenges as part of its scrutiny.

Audit response

29. A key part of the public audit model in Scotland is auditing the accounts of all public bodies ensuring that their financial reporting is robust and transparent. We are using our unique perspective to provide assurance about how Scotland's public services are responding to Covid-19. Our [work programme](#) sets out the audit work we plan to deliver during 2021/22, based on the following priorities:

- Economic recovery and growth: how public money is being used to support the economy and its response to, and recovery from, Covid-19.
- Policy priorities: progress on key policies and public services' ability to deliver on long-term strategic priorities and outcomes.
- Inequalities and human rights: the impact of Covid-19 on different groups in society.
- Innovation and transformation: how public bodies are learning lessons and innovating and transforming public services.
- Governance and accountability: how public bodies are ensuring the proper and effective use of public money within the public sector.

30. We will retain our focus on producing high quality, evidence-led audit judgements and recommendations. The programme also needs to be dynamic, and we are reviewing it every three months to ensure it responds to the current volatile and uncertain context.

31. An important component of our plans is our *Following the Pandemic Pound programme*. In the short term, we will assess how much public bodies have spent on Covid-19, and on what. In the longer-term we'll assess what difference that spending has made. Audit Scotland continues to track Covid-19 spending and its implications for Scottish public finances. We published our most recent

update on this in February, and the next update is planned for September. I would be happy to discuss this further with the Committee once available.

32. Through all our work I will continue to promote financial transparency, support scrutiny, and help focus on what difference spending is making to support people through the health and economic impact of the pandemic.

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