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More work needed in managing historic change in public finances

The Scottish Government is well-organised to deliver game-changing new tax and spending powers but more work is needed to build a clearer picture of what the changes will cost and how staffing challenges will be addressed in the next stage of financial devolution.

An estimated £22 billion will be raised in Scotland by 2020 - five times more than the £4 billion raised prior to the 2012 and 2016 Scotland Acts. Establishing new social security arrangements is an exceptionally complex task and by 2021 the Scottish Government expects to process as many transactions in a week as it now does in a year.

Audit Scotland's latest report on financial devolution says the Scottish Government has updated its structures for overseeing the new powers and has good programme management processes in place.

Implementing and managing the new financial powers will have major staffing implications for the Scottish Government. It's identifying the staff and skills it needs, but recruiting enough people with the required abilities may prove difficult.

At the end of 2015/16, £18.5 million had been spent to implement new powers and costs will increase significantly over the next four years, as new social security responsibilities come online. The Scottish Government needs a clearer picture of potential future costs and to plan how it will fund these.

A more strategic approach to public financial management and reporting is needed, including a medium-term financial strategy based on clear policies and principles. There's also an urgent need for the Scottish Government to finalise and publish its approach to borrowing and reserves.

The Scottish Government is taking steps to provide a more comprehensive picture of public finances, but more work is required to make sure the parliament and the public have the information they need to understand and scrutinise financial decisions.

Caroline Gardner, Auditor General for Scotland, said: "Implementing and managing the new financial powers will transform the work of the Scottish Government on an historic scale.

"It's made some good progress by getting the foundations in place for managing the new powers but the major funding and staffing implications of the next stage of financial devolution must be planned for and managed in an open and transparent way."

The report also reviews Revenue Scotland's progress in implementing devolved taxes; the setting-up of the Scottish Fiscal Commission; and progress in planning to deliver the new social security powers, for which 2017 is a critical year.

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Notes to editors

1. This is the latest in a series of reports by Audit Scotland on the progress of financial devolution. Find out more about our work in this area **here.**

2. The 2012 and 2016 Scotland Acts (the Scotland Acts) devolve a range of powers to the Scottish Parliament. This includes powers over the Crown Estate's economic assets in Scotland, policing of

the railways, drink-driving limits and licensing for onshore oil and gas extraction. The Scottish Parliament’s financial powers are also changing substantially, with new responsibilities for taxes, social security and borrowing being devolved (see Exhibit 1).

3. Over the next four years, spending is set to rise from about £38 billion to over £40 billion each year. The amount of money raised in Scotland will go up from about £4 billion before the Scotland Acts were introduced, to £22 billion. This means that around 50 per cent of devolved spending in Scotland will be met by money raised directly, once the Scotland Act 2016 powers are fully implemented. This compares to around ten per cent before the Scotland Act 2012.

4. The Scottish budget is becoming increasingly complex, with more reliance on forecasting than ever before and more adjustments likely throughout the budget cycle. The Parliament's Finance and Constitution Committee has established a Budget Process Review Group (BPRG) consisting of Scottish Parliament and Scottish Government officials and external experts, including the Auditor General for Scotland. Their interim report is available here.

5. The Scotland Act 2016 and accompanying fiscal framework increased the Scottish Government's capital and revenue borrowing powers to help it manage the increased risk and volatility its budget is now exposed to. The Scottish Government to date has not borrowed any money but estimates it will need £30 million in 2017/18 to start repaying what it plans to borrow in 2016/17 (see table on p33).

6. Audit Scotland has prepared this report for the Auditor General for Scotland. All Audit Scotland reports published since 2000 are available at www.audit-scotland.gov.uk

- The Auditor General appoints auditors to Scotland’s central government and NHS bodies; examines how public bodies spend public money; helps them to manage their finances to the highest standards; and checks whether they achieve value for money. The Auditor General is independent and is not subject to the control of the Scottish Government or the Scottish Parliament
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