**Audit Scotland's annual statement on sustainable economic growth for 2018/19**

The Public Services Reform (Scotland) Act 2010, section 32(1)(a) requires listed public bodies to publish a statement on sustainable economic growth as soon as possible after the end of the financial year.

This statement sets out the steps that Audit Scotland has taken in 2018/19 to promote and increase sustainable growth through the exercise of its functions. Further information on this and our audit work is contained in our Annual Report and Accounts 2018/19 which is on our website.

**Introduction**
Audit Scotland is a statutory body that supports the Auditor General and the Accounts Commission in making sure public money in Scotland is used properly, efficiently and effectively by undertaking audits and investigations of Scottish public bodies. To ensure objectivity in our work, Audit Scotland is independent of the Scottish Government and Scottish ministers. The independence, quality and timeliness of audit performed in the public interest is essential.

**Sustainable economic growth and contribution to the Scottish Government's National Performance Framework**
We audit 220 public bodies, with a total spend of about £44 billion a year and in 2018/19, we audited 297 sets of accounts and completed 19 performance and Best Value audits.

Audit Scotland has an interest in the extent to which the Scottish Government is making progress against the outcomes contained in the National Performance Framework. We do this by carrying out performance, best value and financial audits to provide assurance that money and resources are being used properly, efficiently and effectively and to highlight areas for improvement.

We are committed to supporting the Scottish Parliament and the public to understand how devolution is changing the landscape for public finances, and how well public bodies are taking on the significant responsibility of managing Scotland's increasing financial powers.

In the past year, we have worked to provide clarity around complex issues such as devolved new financial powers and EU withdrawal, as well as highlighting the pressures public bodies are under and the impact these are having on their financial management.

Strong and effective public services play an important part in ensuring sustainable economic growth. Public audit provides assurance to financial markets, investors and key decision makers that public money is well managed and that governance arrangements for public services are sound. This helps create a strong and effective system of accountability and transparency which supports the best use of public money in the public interest.

We carry out performance audits across the public sector to help public bodies improve the quality of their services, do more with their money, and find more efficient and effective ways of working to the same or better standards. Our audit reports carry recommendations for public bodies to help them improve.

Our work during the year, provided audited bodies and stakeholders with a comprehensive and independent view of financial management, governance and performance in public bodies and this year no auditor opinions were qualified.

Examples of how, through the exercise of our audit function, we help sustainable economic growth are included in the section below:

**The National Fraud Initiative in Scotland** published July 2018 identified nearly £19 million of fraud and error across the public sector. Almost 100 public bodies participated in the latest National Fraud Initiative (NFI), which is coordinated by Audit Scotland every two years.

The NFI compares electronic data about individuals held by different public bodies, such as councils and NHS boards, to help identify fraud or error. Matches resulted in an estimated £18.6 million of outcomes since the last report in 2016. This figure includes future losses prevented by the work carried out.

The latest exercise in Scotland has led to:
- £4.8 million of overpayments being recovered to date
- 4,802 council tax discounts reduced or removed
- 280 occupational pensions stopped or reduced
- 4,505 blue badges stopped or flagged for future checks
- 710 housing benefit payments stopped or reduced
- £1.8 million in further savings from the NFI 2014/15.

The matches which generated the most results were pensions (£6.3m), council tax discounts (£4.4m), blue badges (£2.6m) and benefits (£2.1m).

There is strong evidence that most bodies take advantage of the opportunities provided by the NFI, but some could act more promptly to investigate matches, prevent frauds and correct errors.

The Accounts Commission report challenges and performance 2018 published in April 2018 found that Councils are balancing a real terms funding cut of 9.6 per cent over the last eight years with increasing demand, particularly from a growing older population.

Under the current funding formula, some councils face receiving less cash from government as their total population falls but the number of old people - and associated demand for services - increases. Without service redesign or policy changes councils could be spending nearly 80 per cent of their budgets on education and social work alone by 2025/26.

The report found:
- Councils need to clearly set out the impact budget reductions are having so they can plan for the future.
- Some councils have maintained or improved their performance in a number of areas despite budget reductions. For example, councils are spending less on secondary schools but pupils from all backgrounds are performing better.
- Other evidence suggests that budget cuts are having a negative impact, with public satisfaction falling in areas such as refuse collection, street cleaning and libraries.
- Adult social care services are not keeping up with demand, with older people facing long waits for an assessment of their needs and a further wait to receive their care package.
- Some services have borne the brunt of funding reductions. For example, planning department staff numbers have been cut by over 20 per cent in the last decade, and environmental staff by eight per cent between 2016 and 2017.

The joint Auditor General and Accounts Commission report children and young people's mental health published in September 2018 called for a step change in the way the public sector responds to the mental health needs of children and young people. The report found that the current system is geared towards specialist care and responding to crisis, despite government strategy being focused on early intervention and prevention. Around 6,000 more referrals to specialist services have been recorded over the last five years - a 22 per cent increase. And rejected referrals are rising faster, with over 1,400 more noted in the same period - a 24 per cent increase.

Children and young people are also waiting longer for treatment, with 26 percent who started treatment in 2017/18 waiting over 18 weeks, compared to 15 per cent in 2013/14. Youngsters also face a range of barriers to accessing services. For example, early intervention services - such as school counselling and primary mental health workers - are patchy. And access to specialist support varies across the country. Meanwhile, poor financial and performance data means it is difficult to identify how much is being spent on services or the difference they are making to young lives.

The Auditor General report Scotland's colleges 2018 published in June 2018 noted the sector reported a very small surplus in its underlying financial position in 2016/17, compared to the previous year's £8m deficit. But the upturn masks wide variations between institutions, with several colleges facing significant financial challenges.

The report notes that:

- The sector estimates harmonisation of pay and conditions could add £50m a year to staff costs - absorbing projected savings from college reform.
- The college estate needs urgent and significant investment, with the sector facing an estimated £360m repairs bill.
- Differences in how colleges prepare their six-year financial forecasts mean they are neither comparable nor provide a reliable picture of the sector's sustainability.
- The sector exceeded its learning targets, delivering a greater proportion of credits to deprived, ethnic minority, disabled and care-experienced students.
- The attainment gap between students from well-off and poorer areas is widening.

The Auditor General Superfast broadband for Scotland published in September 2018 looks at public sector spending to reach areas not covered by commercial providers. Up to 31 March 2018, £259 million had been paid to BT for broadband roll-out. Lower costs and higher take-up are expected to enable around 60,000 more premises to be reached than originally planned.

People's experience of broadband speeds is often lower than those claimed, depending on technology and the package chosen. Overall speeds have increased across Scotland, but rural homes and offices still lag behind urban areas - around a quarter cannot receive 10 Mb/s.

The "Reaching 100 per cent" programme says every home and business will have access to superfast broadband (speeds of 30 Mb/s or more) by the end of 2021.
The Scottish Government has committed £600 million initial investment to deliver superfast broadband to 147,000 premises, with contracts to be awarded early next year. Further investment may be required to reach all premises.

The report also points out that Community Broadband Scotland (CBS) did not deliver on its anticipated benefits. CBS was set up to back local initiatives but only 13 of the 63 it helped finance have proved successful.

Two reports, the Auditor General's NHS in Scotland 2018 published in October 2018 and a joint report for the Auditor General and the Accounts Commission Health and social care integration report published in November 2018, found that performance continued to decline in 2017/18 and the NHS is not financially sustainable in its current form. Pressure is building in several areas, including major workforce challenges, rising drug costs and a significant maintenance backlog.

In 2017/18 the health budget was £13.1 billion – 42 per cent of the total Scottish budget. Taking into account inflation, this was a 0.2 per cent decrease from 2016/17. NHS boards struggled to achieve unprecedented savings of £449.1 million, relying heavily on one-off savings.

No NHS boards were able to meet all eight key national targets and performance against these targets declined nationally. More people waited longer for outpatient and inpatient appointments. Only one of the eight key performance targets were met nationally.

The Scottish Government's recent health and social care medium-term financial framework and other measures are welcome steps, but more needs to be done. Audit Scotland will be carrying out further work to understand how this new approach will work in practice.

Audit Scotland's Local Government in Scotland financial overview and Challenges and performance 2019 published November 2018 and March 2019 respectively, found that councils face a complex range of challenges and continuing pressure on finances.

Increasing demand for the wide range of services delivered to local communities has to be met against tightening budgets and uncertainty from external factors such as EU withdrawal. Some services are beginning to show signs of pressure and change is needed to tackle a growing gap between demand and resources.

One of the most significant issues for councils continues to be resources. In 2017/18, funding from the Scottish Government reduced by 2.3 per cent in real terms. This reduction was largely offset by increases in council tax and councils' fee income, with most councils applying the maximum three per cent increase to council tax.

The reports found that:

- councils are using savings and reserves to manage budgeted funding gaps of 4 per cent.
- overall rises in spending on education and social work were offset by reductions in other services.
- some services are beginning to show signs of pressure and change is needed to tackle a growing gap between demand and resources.

Audit Scotland also contributes to sustainable economic growth and the Scottish Governments National Performance Framework as an employer. For example:

- This year staff received an average of 9.1 days training and personal development to increase knowledge, skills, efficiency and effectiveness. We run one of the largest public sector accountancy training schemes in Scotland. We have 42 trainees and staff working towards professional qualifications thereby increasing the skills base of Audit Scotland, and Scotland in general.
- We continued to focus management and professional support to staff well-being and attendance. In 2018/19, our sickness absence remains low compared to the public sector average. Our sickness absence was on average 4.85 days which was a slight

increase on last years figure of 4.4 days per employee.

- We have offices in Edinburgh, Glasgow and Inverness and have many staff located in audit sites across the country, contributing to their local economies.

- Not all the work that we do is carried out by Audit Scotland staff. We contribute to economic activity by appointing firms of accountants to carry out audits on behalf of the Auditor General and the Accounts Commission and specialists to contribute to performance audits. This amounted to almost £4.5 million this year.