7 April 2016

Dear Janet

BUDGET ALLOCATION AND MONITORING LETTER 2016/17

Purpose

I am writing, on behalf of the Scottish Ministers, to confirm the current budget and associated grant in aid allocated to the Scottish Qualifications Authority (SQA) for 2016/17. This letter also sets out the arrangements for monitoring the budget and for drawing down grant in aid.

The use of resources must be in accordance with the SQA's corporate plan (which has been approved and may be published by SQA), the current framework document, and any relevant guidance issued by the Scottish Ministers, in particular the Scottish Public Finance Manual. Other relevant guidance may also include the setting out, from time to time, of expectations for the way that SQA operates in support of Ministers' policy aims and objectives for the public sector as a whole.

Ministerial Priorities

Government Purpose

Ministers remain keen that SQA’s corporate plan should continue to link strategic goals with the Scottish Government’s National Outcomes. They are keen to maintain momentum on this including the continued development by the SQA of collaborative working with other public bodies.
Public Funding

The public sector funding environment is becoming more challenging and is expected to remain so for some years. In order to meet the financial challenges facing us we need to continue to control the public sector pay bill, secure year on year cash efficiency savings, reform public services to maximise effectiveness while reducing overall public sector costs, and increase the level of income generation. In doing so we need to reduce net costs to the public sector – not just the costs to individual public bodies – while at the same time continuing to make progress on key objectives.

It is imperative that in addition to the cost reductions mentioned above, the SQA, along with other public bodies, ensures commonality of purpose, reduces overlap and duplication and exploits the opportunities for shared services to help offset the effects of public finance restraints. It is important that the SQA continues to work with local and national partners to ensure that the contributions made by the various partners are complementary, lead to improved outcomes and represent an effective and efficient use of resources.

Curriculum for Excellence

Ministers welcome the key contribution the SQA is making as part of the Curriculum for Excellence (CfE). They expect the SQA to continue to provide its expert advice and assistance in the development of all aspects of CfE and to support them in the delivery of their policies.

A key priority for the SQA remains working openly and co-operatively with the Scottish Government and all partners to develop and implement the new qualifications and to do so in a way that promotes the principles of CfE. The way in which the implementation of new qualifications is handled, including engagement and communication with all key interests including the SQA’s customers, continues to be critical in maintaining and building confidence across the whole of the learning system in Scotland. We are grateful for the SQA’s help and contribution to this.

In particular, Ministers expect the SQA to continue to work closely with Education Scotland in respect of continuing professional development and the development of learning materials associated with the introduction of the new qualifications.

Developing the Young Workforce

The Scottish Government is committed to ensuring every young person in Scotland has a work-relevant educational experience. Ministers recognise the important contribution the SQA can make to this, particularly in ensuring all learners have opportunities to access a wide range of pathways and qualifications in their senior phase, including vocational qualifications.
Curriculum for Excellence allows for a blended and flexible approach to learning, where schools and their partners now have much greater flexibility to offer a wider range of pathways and options, including vocational qualifications, in line with modern labour market demands and which meet the needs of every learner. The SQA has a clear role in improving the learner journey and supporting better progression, whatever pathway a young person chooses to follow.

Scottish Ministers welcome SQA’s commitment to working with partners to implement the DYW programme and expect the SQA to continue to work closely with partners to ensure every young person has the widest range of opportunities and options in their senior phase to help prepare them for the world of work.

Budget

Your detailed budget for 2016/17, disaggregated in terms of the relevant expenditure classifications on the HM Treasury database, is shown in Annex A. In summary, your budget is:

<table>
<thead>
<tr>
<th>Classification</th>
<th>£000s</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource DEL</td>
<td>1,800</td>
<td>①②</td>
</tr>
<tr>
<td>Ring-fenced (or “non cash”) DEL</td>
<td>2,500</td>
<td>③④</td>
</tr>
<tr>
<td>Capital DEL</td>
<td></td>
<td>④</td>
</tr>
<tr>
<td>Total DEL</td>
<td>4,300</td>
<td>⑤</td>
</tr>
<tr>
<td>Expenditure classed as AME</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total budget</td>
<td>4,300</td>
<td></td>
</tr>
</tbody>
</table>

① DEL is the “Departmental Expenditure Limit” as defined by HM Treasury. The Scottish Government’s DEL budget limits are determined by the Barnett formula and are not negotiable.
② Comprises wages and salaries and operating costs offset by trading and other resource income.
③ Ring-fenced DEL comprises depreciation, amortisation and impairment (if it does not qualify as AME – see below).
④ Comprises capital grants and additions to non-current assets offset by the net book value of disposals of non-current assets.
⑤ AME is “Annually Managed Expenditure”, which covers expenditure which HMT accepts is volatile and is therefore subject to different controls. Examples are some pension adjustments and some impairments.

Transfers of budgetary provision **between** the classifications in the table above would require the prior approval of Scottish Government Finance. Any proposals for such transfers should therefore be submitted to the sponsor team. Transfers of budgetary provision **within** the classifications in the table above may be undertaken without reference to the Scottish Government, subject to any constraints on specific areas of expenditure e.g. the approved pay remit.

Your assumed trading and other resource income is £52,327M and the assumed net book value of disposals of non-current assets is zero. These amounts have been
taken into account in arriving at the budget shown above. If the amounts realised or
expected to be realised in-year are less than estimated, you shall, unless otherwise
agreed with the sponsor team, ensure a corresponding reduction in your gross
expenditure so that the agreed budget is not exceeded. (As noted below, it is
recognised that the SQA will require further grant in aid to meet operational and
Programme costs that are beyond those covered within current SG budgets).
Excluding income resulting from gifts, bequests or donations, if the amounts realised
or expected to be realised in-year are more than estimated, you must seek the prior
approval of the sponsor team before using any excess to support additional
expenditure.

**Budget Monitoring**

Forecast outturn and spend to date for the financial year should be reported to the
sponsor team by completing and submitting monthly the budget forecast and
monitoring spreadsheet provided by the Sponsor Team. A completed spreadsheet
providing the position at the end of the financial year (31 March 2017) should be
submitted to the sponsor team as requested by the Sponsor Team.

**Specified Expenditure**

The SQA is required to use budgetary provision within the classifications in Annex A
to cover the following specific items of expenditure from grant in aid drawn down as
required during the year: -

<table>
<thead>
<tr>
<th>Core Operational Costs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Grant in Aid</td>
<td>£1,800,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£1,800,000</strong></td>
</tr>
</tbody>
</table>

**Grant in Aid**

As a result of current legislative provisions, Scottish Government funding for its
sponsored bodies is shown in the annual Budget Act in terms of grant in aid i.e. the
net cash figure required to support agreed budgets. The currently authorised grant
in aid for SQA for 2016/17 is £1,800,000.

Additional funding not currently authorised as grant in aid will be allocated to SQA to
cover Programme, Accreditation, SSLN and NAR and Lowden rent and park costs
once the necessary amendments to the Budget Act have taken effect. This
additional grant in aid will be allocated in an amended letter.

We recognise that, as was the case for 2015/16, the SQA will require further grant in
aid to meet operational costs that are beyond those covered within current SG
budgets. As was the case in 2015/16, we will work with the SQA and our SG
portfolio Finance Business Partner to manage the SQA’s additional funding
requirement through the availability of any additional budget and/or SG grant in aid
to ensure that the SQA remains a viable organisation.

Grant in aid should be profiled and drawn down as agreed with the Sponsor Team.
Grant in aid should not be drawn down in advance of need. Unrestricted cash
reserves held during the course of the year should be kept to the minimum level consistent with the efficient operation of the body - and the level of funds required to meet any liabilities at the year-end. At the end of the financial year, the sponsor team and SQA will formally agree the total grant in aid attributable to that particular period.

Issues Arising

If you have any questions arising from this letter, or if you foresee any financial issues developing in the course of the year, please do not hesitate to contact your sponsor team. The sponsor team will, where necessary, consult relevant Scottish Government Finance colleagues.

Yours sincerely

ALAN JOHNSTON
Deputy Director, Curriculum, Qualifications and Gaelic
## ANNEX A

**SQA: DETAILED BUDGET ALLOCATION 2016/17**

<table>
<thead>
<tr>
<th>Description</th>
<th>Budget on HMT database £000s</th>
<th>HMT Classification*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>32,660</td>
<td>RDEL</td>
</tr>
<tr>
<td>(Gross) Operating costs</td>
<td>21,467</td>
<td>RDEL</td>
</tr>
<tr>
<td>Trading and other resource income (negative)</td>
<td>(52,327)</td>
<td>RDEL</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,500</td>
<td>Ring-fenced RDEL</td>
</tr>
<tr>
<td>Amortisation</td>
<td></td>
<td>Ring-fenced RDEL</td>
</tr>
<tr>
<td>Impairment (where not classed as AME)</td>
<td></td>
<td>Ring-fenced RDEL</td>
</tr>
<tr>
<td>Provisions etc (where agreed as being classed as AME)</td>
<td></td>
<td>AME</td>
</tr>
<tr>
<td>Accruing pension liability (where agreed as being classed as AME)</td>
<td></td>
<td>AME</td>
</tr>
<tr>
<td>Impairments (where agreed as being classed as AME)</td>
<td></td>
<td>AME</td>
</tr>
<tr>
<td>Capital grants</td>
<td></td>
<td>CDEL</td>
</tr>
<tr>
<td>Capital additions to non-current assets (including investments)</td>
<td></td>
<td>CDEL</td>
</tr>
<tr>
<td>Net book value of disposals of non-current assets (including investments)</td>
<td>(X)</td>
<td>CDEL</td>
</tr>
<tr>
<td>Total net expenditure (as recognised by HMT)</td>
<td>4,300</td>
<td></td>
</tr>
</tbody>
</table>

* For a full explanation of HM Treasury’s budgeting rules see the current version of [Consolidated Budgeting Guidance](#). “DEL” stands for Departmental Expenditure Limits, and is the more tightly controlled side of the government’s budget. It is split between resource (or revenue) “RDEL” and capital “CDEL”. Non cash budgets are ring fenced within RDEL, which means that (for example) any underspend on depreciation cannot be used to fund actual cash expenditure. “AME” stands for Annually Managed Expenditure, which covers expenditure which HMT accepts is volatile and is therefore subject to different controls.