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Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
The Scottish Parliament
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Dear Kenny,

At the Finance and Public Administration Committee evidence session on the Autumn Budget Revision on 22 November, I agreed to write to the Committee to clarify a number of matters raised by committee members.

Fiscal Framework Review

I would like to provide an update to the Committee on the Fiscal Framework Review. We recently received a near final draft of the independent report which was commissioned by both the Scottish and UK Governments. I am grateful to the Committee for your contribution to the call for evidence as part of the report. Arrangements for publishing the independent report will of course need to be agreed with HM Treasury, but we intend to share the final version with this Committee once agreed.

The final scope of the review, as well as the exact timings and process underpinning it are subject to agreement with the new Chief Secretary to the Treasury. My officials are in regular communication with HM Treasury to progress this and are looking at further opportunities for engagement around the review. The review is now unlikely to commence until the new year, and we look forward to engaging with the Committee further as part of the review process.

Finance: Interministerial Standing Committee (F:ISC)

I would also like to update the committee on the Finance: Interministerial Standing committee (F:ISC). On 20 October the Deputy First Minister attended the F:ISC by teleconference with the Rt Hon Ed Argar MP, then UK Government Chief Secretary to the Treasury, Rebecca Evans MS, Welsh Government Minister for Finance and Local Government and Connor Murphy MLA, Northern Ireland Executive Minister of

Finance. This meeting had been rescheduled on several occasions due to the Conservative Party Leadership contest and difficulties with diaries and was convened at short notice, we regret that we were not able to give you advance notice. Unfortunately, the meeting was cut short by the former Prime Minister's resignation announcement, and it was agreed to reconvene at a later date. As such there is no agreed communique for this meeting. This will be agreed and published following the reconvened meeting.

Capital budgeting and flexibilities

I wanted to take the opportunity to provide some additional clarity on the discussion around the potential to switch capital funding to resource that was discussed in the Committee session.

HM Treasury rules are very clear that capital funding cannot be used for resource spending.

The £150 million of capital savings discussed at the committee were included within the Emergency Budget Review and are part of the difficult series of actions Ministers have taken to balance the overall Scottish Budget. These funds are not earmarked to support specific pay deals for NHS staff or teachers.

Ministers have requested some limited additional flexibility to offset a reduction in capital spending against resource budget commitments. This is on an exceptional basis given the specific circumstances the Scottish Government face this year. No such allowance has been granted in the past and we await HM Treasury's decision on this request.

Whilst the request has been made, and we are working through the next steps of the process with HM Treasury, there has been no assumption that it will be granted, and the Scottish Government is continuing to work towards balancing the budget within existing limits.

Rural Development Fund

I was asked to provide further details on the implication of the reduction in spend within the Rural Development Programme. A total amount of £9.5 million has been surrendered as part of the ABR but this is split into three distinct items:

- £3.5 million of Legacy EU Income
- £4 million reduction in forecasts for Agri Environment in the demand led Scottish Rural Development Programme
- £2 million reduction in forecasts for Business Development in the demand led Scottish Rural Development Programme.

These amounts reflect higher than anticipated income or lower than anticipated uptake in demand led areas. There are no longer term impacts to these changes in forecasts.

Emergency Budget Review – unfunded pressures

Following the discussions around the interaction between the Autumn Budget Revision and the Emergency Budget Review I wanted to provide some additional information on the concept of unfunded pressures

The 2022-23 Scottish Budget was published in December 2021 based on the forecasts available at this time. At this point all available funding was allocated.

As time passes forecasts and circumstances change, demand will fluctuate and ministers will make additional commitments all of which will impact on the anticipated level of spending.

The Scottish Government undertakes monthly in-year budget monitoring and management processes to track overall forecast expenditure against allocated budgets. This will highlight the scope and scale of unfunded pressures and actions taken to manage these based on the latest information.

The ongoing impact of inflationary pressure and the cost of living crisis necessitated the decisions outlined in the Emergency Budget Review to actively manage down the scale of these emerging pressures.

£40 million Capital Education savings

I was also asked to provide the Committee with details of the £40 million of Education capital projects which were outlined in the Guide. These amounts form part of the £150.1 million of capital savings outlined in the Emergency Budget Review.

The £40 million of Education savings includes a £30 million reduction in spend due to construction delays in further education projects. There is also a £10m reduced current year expenditure on digital devices, due to a requirement for more detailed scoping of the project in order to support successful delivery, with capital funding now expected to be utilised later in the project.

Publishing the ‘Guide to the Budget Revision’ provided to the committee:

Finally, I was asked to give some thought to whether publishing the ‘Guide to the Budget Revision’ at the same time as the draft SSI supporting document is possible. In considering this request I thought it best to start by outlining the current purposes of the two documents.

The supporting document includes detailed analysis of each Level 2 and Level 3 impacted by the budget revision. It also restates the tables included in the annual Scottish Budget to outline the consequences of the revision. While there is some narrative included in this document it is by and large a numerical document providing a factual before and after position following a budget revision.

The intention of the Guide is to aid the Committee in its scrutiny of the budget revision. It is a bespoke document produced for the Committee, to provide further

context and details about the numbers that have been included in the supporting document. There is no set format and it is produced by officials to reflect areas that are believed to be most relevant.

By waiting to produce the guide closer to the committee session, it allows events which have taken place subsequent to the budget revision publication to be included. This helps ensure the document remains relevant even when there are a number of weeks between the draft SSI being produced and the Committee scrutiny session.

To illustrate this, the recent Committee session rightly placed a lot of focus on the Emergency Budget Review, and its interaction with the Autumn Budget Revision, with the guide used to support that engagement. This would not have been possible if the guide was produced at the same point as the budget revision.

I believe that publishing the guide at the same time as the budget revision supporting document will blur the distinction between the supporting document itself and what is effectively explanatory notes. It will also mean the guide the Committee is provided with will be less up to date and may impact on the ability to scrutinise.

The Scottish Government are committed to transparency around all financial decision making. Following the feedback from the evidence session we will arrange for the guide to be published online.

I would welcome any additional feedback relating to the Autumn Budget Revision documents and any additional information which could be provided to the committee to aid their work.

I hope this assists the Committee.

TOM ARTHUR