

Rùnaire a' Chaibineit airson Ionmhas agus na h-
Eaconamaidh
Cabinet Secretary for Finance and Economy
Ceit Fhoirbheis BPA
Kate Forbes MSP



Scottish Government
Riaghaltas na h-Alba
gov.scot

T: 0300 244 4000
E: scottish.ministers@gov.scot

Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
Scottish Parliament
Edinburgh
EH99 1SP
fpa.committee@parliament.scot

15 July 2022

Dear Kenneth,

Update on income assumed at the 2022-23 Scottish Budget

1. I am pleased to report that I have reached agreement with the Chief Secretary to the Treasury (CST) on settling the historic element of Personal Allowance (PA) Spillover Dispute, in line with assumptions made within the Scottish Budget 2022-23.
2. For some time now both governments have been in agreement that a spillover effect arises from changes made by the UK Government (UKG) to the Personal Allowance threshold, but have disagreed on the counterfactual against which the spillover effect should be measured and, therefore, the amount owed.
3. The CST has now agreed that the UK Government will transfer £375 million to the Scottish Government this financial year, via the supplementary estimates process. The amount is a negotiated figure that both governments agree has resolved the dispute up to and including 2021-22.
4. We have agreed that treatment of the spillover effect from 2022-23 onwards will be considered as part of the forthcoming Fiscal Framework Review.
5. This settlement has required compromise on the part of both governments. Although it provides less than would be owed under the Scottish Government's preferred treatment of

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot



INVESTORS
IN PEOPLE

Accredited
Until 2020



the spillover, it provides more than the original proposal by the UK Government. I believe it was right to seek a resolution to the longstanding dispute, and I am pleased to reach a compromise with the UK Government - not least given the material sums denied to the Scottish Budget while it was ongoing.

6. In accepting a negotiated figure the Scottish Government is not conceding its stance on the appropriate treatment of the PA spillover, but it is recognising that in this instance the dynamic of the current Fiscal Framework dispute arrangements work against us.

7. Specifically, if the dispute process were to run its course without resolution, there would have been a real risk that the dispute would ultimately fall and no payment would be forthcoming.

8. It was also right to seek a settlement this year, when we can use the additional funds to support our spending plans and help tackle inflationary impacts on the 2022-23 Scottish Budget. Moreover, in light of the recent political turmoil within the UK Government, I judged it was important to seek a settlement now that gives additional certainty to the Scottish Budget at this time.

9. Furthermore, the agreement to split future and past treatment of the spillover represents a major concession on the part of the HMT, and improves the Scottish Government's position heading into review negotiations, and the agreement represents a material increase and compromise on HMT's starting position.

10. As we have reached agreement on the dispute, the CST and I have also agreed that it is no longer necessary to publish underlying work on the analytical framework for the dispute, mentioned in my previous correspondence to the committee.

11. The attached annex provides a broader update on 'other income' assumed at Budget 2022-23, taking account of this settlement.

Yours sincerely,

KATE FORBES

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot



INVESTORS
IN PEOPLE

Accredited
Until 2020



Annex – Latest projected ‘Other Income’ supporting the 2022-23 Scottish Budget

12. The draft 2022-23 Scottish Budget contained a £620 million “Other Income” line which was to be funded from three sources, Scotwind Revenues, expected consequentials and settlement of the spillover. Whilst this was not itemised in the draft budget it was underwritten by a “zero assumption” on Scotland Reserve funding. It was acknowledged in the Budget document that these funds were uncertain but on balance were a prudent assessment of the totality of the funding which would be available.

13. By the time of the Budget Bill the assumed ‘Other Income’ line had increased to £740 million as a result of £120 million attributed to reserve draw-down and added to the local government settlement at Stage 2 of the Budget

14. Following the 2021-22 provisional outturn, the confirmation of Scotwind revenues and the agreed settlement of the Spillover dispute the latest position is as follows

Fiscal Resource (£m)	Latest Projection 14/07/22
Spillover Settlement	375
Scotwind Crown Estates Revenues	40
Scotland Reserve (including specific consequentials carried forward)	421
Total Other Income Assumption	836

15. On the basis of these figures, the Other Income at the Scottish Budget has therefore been surpassed by £96 million. Clearly the Financial Position remains challenging and all of this funding will be allocated to support the Cost of Living Crisis and pressures which have emerged since this Budget was laid. The Minister for Public Finance, Planning and Community Wealth will provide further details alongside the Autumn Budget Revision in September.

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

St Andrew’s House, Regent Road, Edinburgh EH1 3DG
www.gov.scot



INVESTORS
IN PEOPLE

Accredited
Until 2020

