

# Finance and Public Administration Committee

30<sup>th</sup> Meeting, 2022 (Session 6), Tuesday 22  
November 2022

## Budget (Scotland) Act 2022 Amendment Regulations 2023 [draft] – Autumn Budget Revision

### Purpose

1. This paper invites the Committee to take evidence from the Minister for Public Finance, Planning and Community Wealth, Tom Arthur MSP, in relation to the [Budget \(Scotland\) Act 2022 Amendment Regulations 2023 \[draft\]](#).

### Purpose of the instrument

2. The purpose of these draft Regulations is to make in-year changes to the Budget (Scotland) Act 2022, which authorised the Scottish Government's spending plans for the current financial year.<sup>1</sup>

3. Alongside the instrument, the Scottish Government has published '[The 2022-23 Autumn Budget Revision \(ABR\) to the Budget \(Scotland\) Act 2022 for the year ending 31 March 2023](#)', which explains the changes being made. The Scottish Government has also provided a Guide to the Autumn Budget Revision, which is attached at Annexe A.

4. SPICe has produced a briefing to support the Committee's scrutiny of the draft Regulations, which is provided at Annexe B.

5. The changes proposed in the ABR result in an increase in the approved budget of £805.9m from £56,179.2m to £56,985.1m. The ABR supporting document states that the main changes to the Scottish Government's spending plans are as follows:

- “funding changes to reflect deployment of available resources to portfolios (total net increase to the budget of £691.5m),
- technical adjustments (net increase to the budget of £106.5m),
- Whitehall Transfers and HM Treasury allocations to the Scottish Government (£7.9m), and

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<sup>1</sup> Once the Budget Act has been approved by the Scottish Parliament, there are usually two opportunities to amend the budget as the year progresses – the Autumn and Spring Budget Revisions.

- the transfer of resources between Scottish Government portfolios.”

6. It goes on to explain that the largest element of funding deployed in the ABR of £290m relates to [cost of living measures announced by the Cabinet Secretary for Finance and the Economy on 10 February](#) which could not, due to timing, be reflected in amendments to the then Budget Bill for 2022-23. Other significant allocations include £180m in police and fire pensions, “a volatile demand led budget which has historically been managed in year”, and local government allocations of [£140m additional resource funding announced by the Deputy First Minister on 4 August](#) to “support COSLA in their negotiations with the local government workforce”, as well as £120m capital support outlined in his [letter to the Committee of 7 September](#).

7. The ABR further includes £33.9m of additional funding for measures committed through the [Emergency Budget Review \(EBR\) process](#) announced by the First Minister on 12 August. This includes £18.9m for the Scottish Child Bridging Payment, a further £10m for the Fuel Insecurity Fund, and £5m for Discretionary Housing Payments.

8. Other EBR changes are expected to be reflected in the Spring Budget Revision in early 2023.

## Procedure for scrutiny

9. The draft Regulations were laid in draft before the Scottish Parliament on 1 November 2022. They were subsequently withdrawn, and an amending instrument laid on 4 November to correct a minor error. This has no effect on the Parliamentary timetable for consideration of the draft Regulations, with the Committee due to report by 10 December 2022.

10. The draft Regulations are subject to affirmative procedure, which requires Parliament to approve them within a 40-day period. The Delegated Powers and Law Reform (DPLR) Committee, which considers the technical aspects of the instrument, considered the draft Regulations on 8 November and [in its report published a day later](#), confirmed that it had no points to raise on the instrument.

11. As lead committee, this Committee is invited to consider motion S6M-06548, lodged in the name of the Deputy First Minister and Cabinet Secretary for Covid Recovery, John Swinney MSP—That the Finance and Public Administration Committee recommends that the Budget (Scotland) Act 2022 Amendment Regulations 2023 [draft] be approved.

12. To inform the Committee’s consideration of the motion, there is an opportunity to take evidence on the draft Regulations from the Minister and his officials before moving to formal consideration of the motion. During formal consideration of this motion, Standing Orders provide that only the Minister and Members may participate in the debate.

## Next steps

13. The Committee will publish a report to the Parliament setting out the findings of its scrutiny in relation to the instrument, by the deadline of 10 December 2022.

Committee Clerking Team  
November 2022

## Finance Update – 22 November 2022

### For the Finance and Public Administration Committee

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## A. Guide to the Autumn Budget Revision

1. The Autumn Budget Revision is part of the annual budget process. The budget process for 2022-23 commenced with the publication of the *Scottish Budget* and annual Budget Bill which provided details of the Scottish Government's spending plans. These plans (as amended at Stages 2 and 3 of the Budget Bill) were approved by the Scottish Parliament on 10 February 2022.
2. Once the Budget Act has been approved by the Scottish Parliament, there are usually two opportunities to amend the budget as the year progresses - the Autumn Budget Revision and a Spring Budget Revision.

### A.1 Summary of the Autumn Budget Revision

3. The Autumn Budget Revision is routine parliamentary business that proposes amendments to better align the Government's budget with its planned spending profile.
4. The changes proposed in the Autumn Budget Revision result in an increase in the approved budget of £805.9 million from £56,179.2 million to £56,985.1 million.
5. The changes to the Budget are broken down in to four main areas:
  - A.2 - Funding changes to reflect deployment of available resources to portfolios (total net increase to the budget of £691.5 million);
  - A.4 - Technical adjustments (net increase to the budget of £106.5 million);
  - A.3 - Whitehall transfers and HM Treasury allocations to the Scottish Government (£7.9 million); and
  - A.5 - The transfer of resources between Scottish Government portfolios.
6. The main changes included under each heading are categorised in table 1.2 in the Budget Revision document and summarised below.

Scottish Government Portfolios	Resources other than Accruing Resources as shown in Budget Act	Changes Proposed				Revised Budget
		Funding Changes	Technical Changes	Net Whitehall transfers	Net Transfers within Scottish Block	
		£m	£m	£m	£m	
Health and Social Care	18,039.8	41.0	89.4	0.0	-95.0	18,075.2
Social Justice, Housing and Local Government	16,044.3	580.2	-7.3	6.5	93.1	16,716.8
Finance and the Economy	1,538.1	-14.3	6.8	0.0	19.5	1,550.2
Education and Skills	4,757.4	50.3	-0.1	0.0	6.5	4,814.2
Justice and Veterans	2,989.7	180.0	4.0	1.3	-27.6	3,147.5
Net Zero, Energy and Transport	4,465.1	-101.5	11.5	0.0	-7.6	4,367.4
Rural Affairs and Islands	966.8	-44.5	-2.1	0.0	-4.7	915.5
Constitution, External Affairs and Culture	298.4	0.1	-0.2	0.0	-16.0	282.2
Deputy First Minister and Covid Recovery	42.8	0.0	-0.2	0.0	2.4	45.1
Crown Office and Procurator Fiscal	180.9	0.0	3.7	0.0	0.2	184.8
<b>Scottish Government</b>	<b>49,323.4</b>	<b>691.3</b>	<b>105.6</b>	<b>7.9</b>	<b>-29.2</b>	<b>50,099.0</b>
Scottish Housing Regulator	5.3	0.0	0.0	0.0	0.0	5.3
National Records of Scotland	59.6	0.0	0.0	0.0	-0.2	59.4
Office of the Scottish Charity Regulator	3.4	0.0	0.0	0.0	0.0	3.4
Scottish Courts and Tribunals Service	133.5	0.2	0.4	0.0	29.3	163.5
Scottish Fiscal Commission	2.3	0.0	0.0	0.0	0.0	2.3
Revenue Scotland	7.9	0.0	0.0	0.0	0.0	7.9
Registers of Scotland	8.5	0.0	0.5	0.0	0.0	9.0
Environmental Standards Scotland	2.2	0.0	0.0	0.0	0.0	2.2
Food Standards Scotland	23.0	0.0	0.0	0.0	0.0	23.0
Scottish Teachers' and NHS Pension Schemes	6,470.4	0.0	0.0	0.0	0.0	6,470.4
<b>Scottish Administration</b>	<b>56,039.5</b>	<b>691.5</b>	<b>106.5</b>	<b>7.9</b>	<b>0.0</b>	<b>56,845.4</b>
<b>Direct-Funded Bodies</b>						
Scottish Parliamentary Corporate Body	128.0	0.0	0.0	0.0	0.0	128.040
Audit Scotland	11.6	0.0	0.0	0.0	0.0	11.637
<b>Total Scottish Budget</b>	<b>56,179.2</b>	<b>691.5</b>	<b>106.5</b>	<b>7.9</b>	<b>0.0</b>	<b>56,985.1</b>

## A.2 Funding Changes

7. Funding changes represent additional budget that provides spending power within portfolios and programmes, and also some reductions where funding has been returned to the centre for redeployment elsewhere. Table 1.2 provides the funding changes on a net basis by portfolio of £691.5 million, however the gross impact is shown below.

<b>Scottish Government Portfolios</b>	<b>Funding Additions</b>	<b>Funding Reductions</b>	<b>Net Funding Changes</b>
Health and Social Care	41.0	0.0	41.0
Social Justice, Housing and Local Government	600.2	-20.0	580.2
Finance and the Economy	19.1	-33.3	-14.3
Education and Skills	50.3	0.0	50.3
Justice and Veterans	180.0	0.0	180.0
Net Zero, Energy and Transport	47.0	-148.5	-101.5
Rural Affairs and Islands	0.0	-44.5	-44.5
Constitution, External Affairs and Culture	0.1	0.0	0.1
Deputy First Minister and Covid Recovery	0.0	0.0	0.0
Crown Office and Procurator Fiscal	0.0	0.0	0.0
<b>Scottish Government</b>	<b>937.6</b>	<b>-246.3</b>	<b>691.3</b>
Scottish Housing Regulator	0.0	0.0	0.0
National Records of Scotland	0.0	0.0	0.0
Office of the Scottish Charity Regulator	0.0	0.0	0.0
Scottish Courts and Tribunals Service	0.2	0.0	0.2
Scottish Fiscal Commission	0.0	0.0	0.0
Revenue Scotland	0.0	0.0	0.0
Registers of Scotland	0.0	0.0	0.0
Environmental Standards Scotland	0.0	0.0	0.0
Food Standards Scotland	0.0	0.0	0.0
Scottish Teachers' and NHS Pension Schemes	0.0	0.0	0.0
<b>Total Scottish Administration</b>	<b>937.8</b>	<b>-246.3</b>	<b>691.5</b>
<b>Direct Funded Bodies</b>			
Scottish Parliament Corporate Body	0.0	0.0	0.0
Audit Scotland	0.0	0.0	0.0
<b>Total Scottish Budget</b>	<b>937.8</b>	<b>-246.3</b>	<b>691.5</b>

### A.2.1 Gross Funding Changes

8. The largest element of funding deployed in the budget revision relates to the cost of living measures announced by the Cabinet Secretary for Finance and Economy during the Stage 3 Budget debate on 10 February. As there was not sufficient time to reflect these amendments to

the Budget Bill, this funding is allocated at the next available opportunity which is the Autumn Budget Revision.

9. The statement included a commitment to fund a Council Tax reduction scheme for households in bands A-D amounting to £150 per household. This has been included at a cost of £280 million.
10. The other element of the Cost of Living Support package announced in February was £10m of funding provided to the Fuel Insecurity Fund. This has subsequently been increased to £20 million following the conclusion of the Emergency Budget Review and the revised amount is included within this Budget Revision.
11. Other gross funding increases relating to the Emergency Budget Review are the £18.9 million Scottish Child Bridging payment and the £5 million for Discretionary Housing Payments. Further details on the EBR are included in section B.
12. The Local Government allocation also includes the £140 million of additional funding announced by the Deputy First Minister on 4<sup>th</sup> August to support COSLA in their negotiations with the local government workforce as well as £120.6 million of capital support.
13. Following the First Minister's statement on the 16<sup>th</sup> of March the Social Justice, Housing and Local Government portfolio has also been allocated £15.8 million to facilitate the effective and timely integration of refugee arrivals from Ukraine in partnership with local authorities and the Scottish Refugee Council.
14. All amounts detailed in paragraphs 8 to 13 have been allocated to the Social Justice, Housing and Local Government portfolio and total £600.2 million
15. The second largest allocation (£180 million) relates to Police and Fire Pensions which has been added to the Justice and Veterans portfolio. This is a volatile demand led budget with additional budget pressure beyond the core allocation managed in year.
16. £47 million is being provided to the Whole Family Wellbeing Fund within the Education and Skills portfolio. The funding is part of a larger commitment (£500m) over the lifetime of Parliament to drive transformational change in how families are supported, shifting investment to early intervention and prevention, so that families can access support before crisis point.
17. Transport Scotland have been allocated an additional £47 million of funding which was carried forward from 2021-22 in the Scotland Reserve as a targeted underspend to meet expected additional commitments. These amounts are split between £25 million of additional support for Rail Services in Scotland and £22 million of funding for free travel for Under 22s. This has been formally allocated to the NZET portfolio.
18. £41 million has been allocated to the Health and Social Care portfolio. This additional funding is to aid the ongoing recovery from the pandemic and to address the cost of living issues of the health and social care workers

19. Additional gross funding changes include:

- £7 million to Highlands and Islands Enterprise in Finance & Economy for the Cairngorm Furnicular.
- £6.7 million to Ferguson Marine in Finance & Economy for additional funding for the build and completion of vessels 801 and 802.
- £3.9 million to Tourism in Finance & Economy to fund visitor management projects.
- £2.8 million to Education and Skills for Capital projects, specifically within Disclosure Scotland and the Student Awards Agency Scotland.

#### A.2.2 Reductions to Portfolios

20. The largest reduction in funding within the budget revision is the £91.8m of capital funding which has been returned by Energy. These amounts are spread across 3 areas (Energy Efficiency, Heat in Buildings and Energy Industries Divisions) and reflect lower than anticipated uptake from both private sector and local authority partners. The ongoing workforce and supply chain issues in the construction sector is a contributory factor to the demand issues. By returning these forecast underspends early in the financial year, Energy have allowed these amounts to be redistributed to other priority areas.
21. £23 million of Financial Transactions budget has also been surrendered by Energy Efficiency. This again reflects lower than expected demand in the current year.
22. £28 million of budget has been surrendered by Digital Connectivity within the Finance and Economy portfolio. This relates to a forecast capital underspend on the R100 programme. Following early delays in the programme linked to both Covid-19 and supply chain issues the timeframe for these works has been extended with forecast spend in the year reduced.
23. £20.7 million released from Concessionary Fares and Bus Services within the Net Zero, Energy and Transport portfolio to reflect lower than expect demand for free Under 22 travel. It is important to note there is no change in the qualification criteria; this is a result of lower than forecast uptake.
24. £33.7 million deferral of UK Government Ring-fenced funding which will be returned to Rural Affairs in future years.
25. Following a review of recruitment plans for 2022-23, Social Security Scotland have returned £20 million of resource budget. This has no impact on benefit expenditure.
26. Further funding reductions include:
- £9.5 million of savings in Agriculture and Rural Economy through a combination of revised forecasts and modifications within the Scottish Rural Development Programme.
  - £5.3 million of savings in the capital budget in Finance and Economy in respect of the Shared Services Programme.
  - £5 million from Scottish Forestry within the Net Zero, Energy and Transport portfolio to reflect additional anticipated EU funding.
  - £2.5 million capital funding from Forestry and Land Scotland Grants within the Net Zero, Energy and Transport following the decision to expedite spending in 2021-22.

A.3 Whitehall Transfers

27. There are two specific Whitehall transfers and allocations from HM Treasury recognised in the Autumn Budget Revision. The net positive impact on the Scottish Budget is £7.9 million.
28. These include £6.5 million from Money Advice Service for the allocation of Scotland's share of the Debt Advice Levy and a transfer from the Cabinet Office of £1.3 million for Cyber Security. These amounts have been passed directly to Social Justice and Safe and Secure Scotland respectively.

A.4 Technical Adjustments

29. In line with past years, the Autumn Budget Revision recognises a number of technical changes which are essentially budget neutral and do not provide additional spending power for, or detriment to, the Scottish Government. The net total changes in this year's Autumn Budget Revision are £106.5 million and are summarised below.

IFRS16 adjustments:

30. Following the implementation of International Financial Reporting Standard 16 ('IFRS 16') by the International Accounting Standards Board (IASB) the accounting treatment of leases has been significantly altered.
31. Previously a distinction was made between finance leases, where ownership transfers upon conclusion of the lease agreement, and operating leases, where ownership does not transfer. A finance lease was considered to be an asset of the lessee. The asset was recognised on the entity's balance sheet with a corresponding liability also recognised. An operating lease did not consider the lessee to own the asset. Neither the asset or the corresponding liability was recognised on the entities balance sheet and the annual rental fee was included as a resource costs.
32. IFRS 16 removes this distinction. If an entity enters into a lease where it has a right-of-use ('ROU') over an asset, it must be recognised on the entity's balance sheet as an asset with the corresponding liability over the agreed length of lease.
33. The Scottish Government is transitioning to IFRS 16 in 2022-23 and the first batch of IFRS 16 adjustments have been included in the Autumn Budget Revision. The net total changes as a result of IFRS 16 are £110.3 million.
34. These changes require additional capital and non-cash budget cover to be applied for existing and new assets under lease to allow for the reclassification and subsequent depreciation. There will also be a change to the resource budget position as amounts previously included as rent are no longer budgeted for in the same way, with interest inherent in the lease the only element that is now charged against fiscal resource budgets.
35. Further IFRS16 adjustments will be included in the Spring Budget Revision document as further work is required to refine the precise impact in some areas.
36. Ring-fenced budget cover is being provided by HM Treasury to support this change in accounting treatment and the Scottish Government's discretionary funding will not be

impacted. Final IFRS16 budget cover requirements will be provided to Treasury ahead of the UK Supplementary Estimates.

#### Other Technical Adjustments:

37. Social Security Scotland have returned £7.3 million of non-cash budget following a review of depreciation requirements for the year. This is resulting in a reduction in the Social Justice, Housing and Local Government portfolio's non-cash budget.
38. There is also a reduction to the Rail Services non-cash budget of £1.5 million.
39. Other technical adjustments to the Expenditure Limit budget include £5 million for the Sleeper Service related to a prior year pre-payment.

#### A.5 Internal Transfers

40. There are a number of internal transfers within the Scottish Block as part of the Spring Budget Revision process. Transfers between and within portfolios are 'zero-sum'.
41. The significant budget internal transfers between portfolios include:
- Transfer from Health & Social Care to Education & Skills to pay teaching grant for Nursing and Midwifery students in Scotland (£64 million);
  - Transfer from Education & Skills to Social Justice, Housing & Local Government to fund the Free school meals expansion (£42.0 million);
  - Transfer from Education & Skills to Social Justice, Housing & Local Government to provide funding for summer programmes and free school meals holiday alternatives (£31.8 million);
  - Transfer from Education & Skills to Social Justice, Housing & Local Government for Additional Support for Learning in Equalities and Inclusion (£15 million)
  - Transfer from Social Justice, Housing & Local Government to transfer grant aided expenditure for Ferry funding to Transport Scotland (£13.9 million);
  - Transfer from Justice & Veterans to Scottish Courts and Tribunal Service to support the Recovery Renewal and Transformation Fund (£12 million).
42. The Autumn Budget Revision records a small number of internal portfolio transfers which have no effect on the portfolio totals, but play a role in ensuring effective internal budget management. These include:
- £399.5 million of resource budget being transferred from Rail Services to Scottish Rail Holdings (SRH) within NZET.
  - £312 million of capital budget being transferred from Rail Services to Scottish Rail Holdings.

## B. Emergency Budget Review

### B.1 – September Emergency Budget Review Savings

43. The Deputy First Minister wrote to the Finance and Public Administration Committee on the 7th of September setting out the significant financial challenges that were faced within the 2022-23 Scottish Budget.
44. As part of this letter he outlined £560 million of total resource and capital savings that the Scottish Government had identified to help enable it to balance the budget. These amounts were outlined prior to the conclusion of the Emergency Budget Review which was presented in Parliament on the 2nd of November.
45. While the amounts outlined in the letter are savings based on the in-year budget monitoring position, these do not necessarily correspond to a budget being formally surrendered as part of a gross funding movement. This is because these savings may be against forecast pressures, they are being transferred internally to other areas to fund other existing pressure or there is a delay in funding being returned.
46. Included in the table on page 9 is an analysis of how the £560 million has been included in the Autumn Budget Revision.
47. £145 million of the total relates to changes in the overall funding position. These movements result in additional budget being available to be allocated without reductions in any portfolio allocation. This movement comes from four sources:
- £41 million of consequentials received in March's Spring Statement following the £500 million expansion of the UK Government's Household Support Fund.
  - A further £41 million in May following the UK Government's decision to double the Household Support Fund in May.
  - £56 million of additional funding generated by the ScotWind clearing process.
  - £7 million of interest income expected on the cash proceeds from the sale of the ScotWind options.
48. Further details on the changes to the overall funding position are included in section C.
49. £223.9 million of the total figure of £560 million has been included within the ABR. £120 million is being provided to Local Government as capital support as outlined in section A paragraph 12. This funding has been provided following surrender of savings identified across portfolios, with the early savings identified in Energy (£91.8 million) and Digital Connectivity (£28 million) allowing this funding to be redistributed.
50. The balance of the savings which have been included at ABR have been discussed in detail in Section A above. This includes the £33 million of ring-fenced rural funding, £20.7 million of Under 22 Concessionary travel and the £20 million which relates to savings following the Social Security recruitment review.

Portfolio by Budget Line	Total savings	Funding changes	Included as saving in ABR	Pressure reductions
<b>CEAC</b>				
Historic Environment Scotland	1.2			1.2
Various	2.4			2.4
<b>Corporate Running Costs</b>	1.6			1.6
<b>DFMCR</b>	0.8			0.8
<b>Education and Skills</b>				
Educational Maintenance allowance (EMA)	3.0			3.0
Gaelic Support	1.0			1.0
Scottish Funding Council savings across programmes	20.0			20.0
Teacher Training	2.0			2.0
Various	16.7			16.7
<b>Education and Skills and Finance and Economy</b>				
Flexible Workforce Development Fund	3.0			3.0
<b>Finance and Economy</b>				
City and Regional Deals	1.3			1.3
Employability	53.0			53.0
Income - various streams	10.0		6.1	3.9
Staff costs	4.4			4.4
Various	18.7			18.7
<b>Justice and Veterans</b>				
Recovery Renewal and Transformation Fund	5.5			5.5
Various	3.6			3.6
<b>Net Zero Energy and Transport</b>				
Concessionary Travel	37.6		20.7	16.9
EC Receipts	5.0		5.0	
Forestry and Land Scotland	4.0		4.0	
Forestry Land Scotland	1.0		1.0	
Various	12.2			12.2
<b>Rural Affairs and Islands</b>				
Agriculture and Rural Economy operations	8.4		8.4	
EU Income	3.5		3.5	
Marine Scotland	2.2		2.2	
Ring fenced rural funding	33.0		33.0	
Various	14.2			14.2
<b>SJHLG</b>				
Consequential - 2 x £41m Barnett				
Consequential	82.0	82.0		
Employee costs	20.0		20.0	
Various	6.1			6.1
Scotwind £56m and £7m interest income	63.0	63.0		
<b>Total Resource Savings</b>	<b>440.4</b>	<b>145.0</b>	<b>103.9</b>	<b>191.5</b>
Capital Support for Local Government (from multiple portfolios)	120.0	0.0	120.0	
<b>Total Resource and Capital Savings</b>	<b>560.4</b>	<b>145.0</b>	<b>223.9</b>	<b>191.5</b>

51. The balance of £191.5 million relates to amounts which have not been reflected within the Autumn Budget Revision. The vast majority of these amounts are reductions to previously unfunded pressures which have emerged since the Scottish Budget was published. There may be savings included in this list that will come through in the SBR exercise.

## B.2 – November Emergency Budget Review Savings

52. The Deputy Fire Minister presented the Emergency Budget Review to the Scottish Parliament on 2nd of November.
53. The EBR process identified approximately £615 million of additional options for spending reductions and reprioritisations in order to support the urgent priorities of enhancing public sector pay and cost of living support. These can be grouped into three categories:
- **£400 million** of reprioritisation within the Health and Social Care portfolio to support a fair pay offer of approximately 7% to NHS Agenda for Change staff and to manage wider pressures in the Health and Social Care sector.
  - **£33 million** of further resource saving from across the Scottish Government to add to the £440 million announced on 7 September, to support balancing the budget, and to fund emerging Government priorities and the policy measures set out in this document.
  - **c£180 million** of capital and Financial Transaction reductions to support wider financial management, taking account of the market outlook for demand-led investment, global supply chain issues and construction capacity.
54. The full balance of the £400 million Health and Social Care reprioritisation will remain within the Health and Social Care portfolio. The net impact on the portfolio budget as a whole is nil, although there will be some movement of funding within the portfolio. These movements have not been reflected within the ABR. The reprioritisation within the portfolio will be reflected in the Spring Budget Revision where necessary, but will not affect the overall funding available to be allocated at SBR.
55. None of the amounts which make up the further resource saving balance of £33 million have been included within the ABR. The majority of these amounts are savings against allocated budgets that will result in increased funding being available for reallocation at the Spring Budget Revision.

Portfolio by Budget Line	£m
<b>Education and Skills</b>	<b>2.9</b>
Further Education	1.3
Raising Attainment	1.6
<b>Finance and Economy</b>	<b>3.3</b>
Economic Development	1.8
Tourism Special Projects	1.5
<b>Justice and Veterans</b>	<b>21.2</b>
Safer Communities	14.2
Justice Demand Led Budgets	7
<b>Net Zero, Energy and Transport</b>	<b>1.2</b>
Various	1.2
<b>Social Justice, Housing and Local Government</b>	<b>5</b>
Social Security	3
Communities	2
<b>Total</b>	<b>33.6</b>

56. In addition to the resource savings which have been outlined there are approximately £150 million of capital and £30 million of financial transaction savings which have also been identified. These are detailed in the tables below.

#### Capital savings

Portfolio by Budget Line	£m
<b>Education and Skills</b>	<b>40</b>
Education Capital Projects	40
<b>Finance and Economy</b>	<b>33</b>
Digital capital projects	16
Planning capital projects	3
Economic Development capital and financial projects	14
<b>Net Zero, Energy and Transport</b>	<b>60.9</b>
Energy capital projects	15
Future Transport Fund and support active travel	28.5
Roads and Taxis capital projects	7.2
Rail Capital projects	5
Scottish Canals capital projects	2.5
Forestry Capital projects	2.7
<b>Rural Affairs and Islands</b>	<b>6.2</b>
Agri-Environment	1.5
Marine Scotland Projects	2.1
European Maritime Fisheries Funds	2.6
<b>Social Justice, Housing and Local Government</b>	<b>10</b>
Housing capital projects	10
<b>Total</b>	<b>150.1</b>

57. Only the £16 million 'Digital capital projects' saving, which was part of the £28 million total capital return of funding on the R100 project, and £2.5 million of Forestry capital projects have been returned at ABR. The balance will be returned at the Spring Budget Revision

Financial Transactions savings:

<b>Portfolio by Budget Line</b>	<b>£m</b>
<b><u>Finance and Economy</u></b>	<b>19</b>
Capital and Financial Transactions	19
<b><u>Social Justice, Housing and Local Government</u></b>	<b>12.2</b>
Digital capital projects	12.2
<b>Total</b>	<b>31.2</b>

58. None of the £30 million of financial transaction savings have been reflected within the ABR. These are savings against allocated budgets and that this will result in increased funding being available for reallocation at the Spring Budget Revision.

B.3 – November Emergency Budget Review Policy Measures

59. In addition to identifying savings to support the balancing of the 2022-23 Scottish Budget while also providing enhanced pay awards for public sector workers, a small number of additional policy measures have been announced as part of the Emergency Budget Review. These were:

- Doubling the value of the December Scottish Child Bridging payment (£18.9 million).
- Doubling the Fuel Insecurity Fund to £20 million (£10 million).
- Providing funding to local authorities for additional Discretionary Housing Payments (£5 million.)
- an Island Cost Crisis Emergency Fund to support island households who are already experiencing higher costs of living (£1.4 million).

60. As noted in section A paragraph 11 the first three measures outlined above have been included within the Autumn Budget Revision at a total cost of £33.9 million. The £1.4 million Island Cost Crisis Emergency Fund is being funded from reprioritisation within the Rural Affairs and Islands portfolio and no additional budget is required.

61. The remaining measures outlined in the Policy Measures section of the Emergency Budget Review do not have a budgetary impact for the Scottish Government.

## C. Scotland Reserve and Funding Position Details

62. Table 1.7 of the Budget Revision document sets out the Funding Position that supports the revised Scottish Budget. The table below breaks this down by the HM Treasury budget classifications of Fiscal Resource, Capital and Financial Transactions.

£m	Resource	Capital	FTs	Total
Closing Reserve balance brought forward from 2021-22	421	183	46	650
Scottish Government Contribution to Ukraine		- 65		- 65
Additional Barnett Funding	447	13	-	460
Other Movements in Funding	23	25	-	48
<b>Total funding available for deployment at ABR</b>	<b>891</b>	<b>156</b>	<b>46</b>	<b>1,093</b>
Already deployed in 2021-22 budgets	- 120	- 118	- 61	- 299
Deployed at Autumn Budget Revision	- 713	- 10	23	- 699
<b>Total Funding Deployed after ABR</b>	<b>- 833</b>	<b>- 193</b>	<b>- 38</b>	<b>- 1,063</b>
<b>Balance left for deployment at SBR</b>	<b>58</b>	<b>28</b>	<b>8</b>	<b>94</b>

63. This presentation *begins* with the Scotland Reserve as reported in the 2021-22 provisional outturn statement. It then aggregates all movements in funding in arriving at the Autumn Budget Revision position.

64. What this presentation does not do is provide a full breakdown of the Scottish Government funding envelope by source, nor does it reflect the full *forecast* position for the remainder of the year. The sections below provide further detail on the movement across all sources of funding, as well as the forecast Scotland Reserve position.

### C.1 Funding Envelope Breakdown

65. Annexes A and B detail the funding envelopes for each of the three key budget classifications at the Budget Bill, along with the changes allocated within the Autumn Budget Revision and the latest unallocated position.

66. The totals reconcile to the breakdown set out above, which in turn reconciles to table 1.7 in the supporting document. There are a number of points to draw attention to given previous correspondence with the Finance and Public Administration Committee. It should also be noted that these totals detail discretionary funding only and not the technical or AME related changes.

#### C1.1 Fiscal Resource

67. Borrowing Costs have historically been included within the Finance and Economy Portfolio allocation but deducted from the Scottish Budget as they are a charge on the Scottish Consolidated Fund. As Budget Revision documents are prepared on a Scottish Budget basis the change in these costs of c£8m is included here as a funding change. Following the Resource Spending Review, these costs will be included on the “funding side” of the Scottish Budget for all subsequent budget documents.

68. The £620 million “Other Income” assumption in the Scottish Budget contained three specific sources, Scotwind Income (£40m), Income from settling the Spillover dispute (£400m) with the UK Government and expected Barnett Consequentials (£180m).

69. Given the significant volatility in the period between January and March this year a number of changes were made to these assumptions:

- £120 million was added to the Scotland Reserve assumption in the Scottish Budget to fund the additional allocation to local government.
- £296m of Consequentials from the Cost of Living Announcement in February were deferred outside of the Scotland Reserve and are therefore included within the total Resource Consequentials line of £447 million.
- The majority of the £180 million anticipated consequentials were received, but in 2021-22, and therefore these items were deferred *within* the Scotland Reserve.

70. In subsequent months the following additional changes occurred:

- Spillover dispute concluded with a settlement of £375m, the difference of £25 million is in part due to financial year 2022-23 being excluded from the agreement, with all future years being subject to resolution in the fiscal framework review.
- £56 million of additional Scotwind clearing funds being added as per the Deputy First Minister's letter to the committee of the 7<sup>th</sup> September.
- £156 million of other income arising from a number of sources including; the voluntary donations from recipients of rate reliefs during Covid, additional interest income, and a correction to historic errors in Income tax BGAs (this is included in full within the Other line.)

71. Whilst this is a complicated picture, the full "Other Income" funding assumptions have been met, and surpassed by £324 million when the borrowing cost adjustment is reflected in full.

72. Changes to the consequentials line include the £296 million which were deferred (as per above), and the £151 million of Barnett Consequentials which have arisen following UK Cost of Living announcements in the Spring and early summer as well as the full effect of the UK Main Estimate Process.

### C1.2 Capital and Financial Transactions

73. Changes to the Capital and Financial Transactions position are more straightforward.

74. The excess £65 million Capital which became available in the Scotland Reserve following the provisional outturn process was used to fund the Scottish Government contribution towards military support for Ukraine. This does not get attributed to portfolio expenditure and is directly deducted from funding.

75. Further changes to Capital include an additional £25 million of City Deals funding and £13 million of Barnett consequentials received at the UK Main Estimate.

76. The only change to the Financial Transactions position is the deduction of £15 million in respect of Scotland Reserve availability. However this "funding pressure" has already been met from within the £23 million of FT budget returned to the centre.

### C.2 Anticipated funding changes not in budget revision

77. Just as the changes to portfolio allocations reflected in the Autumn Budget Revision do not reflect the full forecast pressure on the Scottish Government Budget; the "unallocated" funding

following the Autumn Budget Revision (of £94 million) does not reflect the full extent of likely resources available for deployment in the Spring Budget Revision or to support the spending which will ultimately be reflected in outturn.

78. Changes to block grant adjustments, fully devolved tax proceeds, borrowing, as well as additional migrant surcharge funding and to other smaller sources of income are currently factored in to the Scottish Government budget monitoring forecasts. But these forecast changes do not meet the level of certainty required for inclusion within the Autumn Budget Revision. Note that Non Domestic Rates and Income Tax are locked into the funding position when the Budget is set and will not change other than through the reconciliation process in subsequent years or with NDR, through the pool.
79. As a general rule, the level of certainty required for formally updating the Scottish Budget increases with the passage of time. A Scottish Budget requires a higher level of certainty than a Spending Review, the certainty required for an Autumn Budget Revision is higher still; and the Spring Budget Revision more so.
80. At the time of this publication the net tax and block grant adjustment position had improved by £31 million – as a result of revisions to BGAs and SFC forecasts between December and May, plus a projected £35 million in estimated adjustment to the BGAs as result of the Stamp Duty Land Tax announced as part of the UK “mini budget”. Demand led Social Security forecasts also increased by £105 million on the basis of the same SFC forecast in May which also alters the Scottish Government’s resource borrowing limits. Currently, the Scottish Government anticipates having to maximise its Resource Borrowing capacity to address these specific changes, and the challenging fiscal position more broadly, but all of these positions are subject to considerable further volatility.
81. The Block Grant Adjustments (published on the 17th November alongside the OBR forecast) will determine the final BGAs for the 2022-23 Scottish Budget, but the equivalent SFC forecasts in December will not. Gross changes to Social Security expenditure and Devolved tax receipts will continually be updated right until the end of March. Final decisions on Resource borrowing will be taken close to the end of the financial year based on the latest budget monitoring position.
82. The Migrant Surcharge income is collected by the Home Office and re-distributed to Devolved Governments on a Barnett basis. These amounts tend to be added at a Supplementary or Main Estimate based on continually updated assessments. Of the £92 million anticipated at the Scottish Budget only c£60 million has been formally added to date but we currently anticipate the Budget figure to be surpassed when the final funding adjustment is included within the 2022-23 UK Supplementary Estimate process.
83. Other small sources of income such as the King’s Lord Treasurer Remembrancer (KLTR, formerly QLTR) are dependent on the monthly receipts.
84. In addition it should be caveated that the opening Scotland Reserve position included within the Autumn Budget Revision is based on Provisional Outturn as reported to Parliament in June. This position will be updated to reflect the Final Outturn position when the equivalent funding tables are presented as part of the Spring Budget Revision.

### C.3 Scotland Reserve

85. The full Scotland Reserve position from prior years, updated with provisional outturn detail in respect of 2021-22, is detailed below.

	<b>Resource £million</b>	<b>Capital £million</b>	<b>FT £million</b>	<b>Fiscal £million</b>
2019-20 Opening balance	(381.1)	(65.3)	(158.6)	<b>(605.0)</b>
2019-20 Drawdowns	248.8	60.0	120.0	<b>428.8</b>
2019-20 Additions	(85.1)	(74.3)	(96.9)	<b>(256.3)</b>
2019-20 Closing balance	<b>(217.4)</b>	<b>(79.6)</b>	<b>(135.5)</b>	<b>(432.5)</b>
2020-21 Opening balance	(217.4)	(79.6)	(135.5)	<b>(432.5)</b>
2020-21 Drawdowns	170.6	79.6		<b>250.2</b>
2020-21 Additions	(357.9)	(6.8)	(61.4)	<b>(426.1)</b>
2020-21 Closing balance	<b>(404.7)</b>	<b>(6.8)</b>	<b>(196.9)</b>	<b>(608.4)</b>
2021-22 Opening balance	(404.7)	(6.8)	(196.9)	<b>(608.4)</b>
2021-22 Drawdowns	404.7	6.8	196.9	<b>608.4</b>
2021-22 Additions (provisional outturn)	(421.0)	(183.0)	(46.0)	<b>(650.0)</b>
2021-22 Closing balance (provisional outturn)	<b>(421.0)</b>	<b>(183.0)</b>	<b>(46.0)</b>	<b>(650.0)</b>
2022-23 Opening balance	(421.0)	(183.0)	(46.0)	<b>(650.0)</b>
2022-23 Planned Drawdowns	421.0	183.0	46.0	<b>650.0</b>
2022-23 Additions				-
2022-23 Closing balance	-	-	-	-

86. As is illustrated above, all Reserve availability is planned to be utilised to support the 2022-23 financial position. Therefore as discussed in section C.2 the “balancing” unallocated figure of £94 million will not remain in the Scotland Reserve, it simply hasn’t been formally allocated in the Budget. All remaining funding is set against the range of pressures which the Scottish Government continues to manage and which has to balance over the remainder of the financial year.

87. As the Deputy First Minister outlined in Parliament on the 2nd November, the 2022-23 budget challenge also has a knock-on impact for 2023-24 funding assumptions. The resource spending review funding assumptions included some anticipated Scotland Reserve carry forward, (£279 million). However any 2023-24 reserve availability is based on specific funds being deferred or underspends being generated in the latter months of 2022-23.

88. As is always the case at this time of year, the funding position and the spending that it supports, remains subject to further change. The level of uncertainty surrounding expected UK Block Grant funding has been particularly acute given the amount of UK political upheaval. A final Block Grant position will only be confirmed at the conclusion of the UK Supplementary

Estimate process. There remain a number of significant potential budget pressures that are not yet fully quantified, including key public sector staff groups where pay agreements have yet to be settled. Active management of the position will continue to be required to balance the 2022-23 Budget. It is hoped that the Spring Budget Revision will include all major changes to both funding and budget allocations that will be required, to support appropriate scrutiny, but further adjustments to spending plans may subsequently be required.

## Appendix A

### Fiscal Resource Funding Envelope Breakdown

Fiscal Resource Line Item (£m)	2022-23 Budget	ABR Confirmed Changes	2022-23 Revised Position
HMT Technical Baseline	34,322		34,322
Consequentials		447	447
Rail Resource Grant	80		80
Ringfenced Funding	624		624
<b>Total UK Settlement (A)</b>	<b>35,026</b>	<b>447</b>	<b>35,473</b>

Social Security (BGA)	3,587		3,587
BGA<	-	14,639	-
Scottish Income Tax (Gross Figure)	13,671		13,671
LBTT<	749		749
SLT<	101		101
Non-tax income	25		25
Haircut on Net Tax BGA Uplift			-
<b>Net Tax/BGA/SS BGA Position (B)</b>	<b>3,493</b>	<b>-</b>	<b>3,493</b>

Reconciliations	-	15	-	15
Resource Borrowing		15		15
Borrowing Costs transferred from spending and revised		-	160	-
Scotwind	40		56	96
Scotland Reserve	120		301	421
Migrant Surcharge	92			92
QLTR	5			5
Other	180	-	24	156
Spillover	400	-	25	375
Machinery of Government			8	8
<b>Total Other Income (C)</b>	<b>837</b>	<b>156</b>	<b>156</b>	<b>993</b>

<b>Total Fiscal Resource Funding</b>	<b>39,356</b>	<b>603</b>	<b>39,959</b>
<b>Total Fiscal Resource Budgeted Spend</b>	<b>39,356</b>	<b>713</b>	<b>40,069</b>
<i>Borrowing Costs transferred to funding</i>		-	<i>168</i>
<b>Fiscal Resource Spend (adjusted)</b>	<b>39,356</b>	<b>545</b>	<b>39,901</b>
<b>Unallocated Funding</b>	<b>0</b>	<b>58</b>	<b>58</b>

£620 million Other Income Assumption in the Scottish Budget comprised as follows:

- Scotwind £40 million
- Spillover £400 million
- Other (expected consequentials) £180 million
- Scotland Reserve £0m

The Scotland Reserve assumption was specifically increased to £120 million for fiscal Resource during Stage 2 amendments to fund the additional allocation to local government.

## Appendix B

### Capital and Financial Transactions Funding Envelope

Capital Line Item (£m)	2022-23 Budget	Confirmed Changes	2022-23 Forecast Position
Barnett - CDEL	4,469	13	4,482
Ringfenced Funding (HMT)	643		643
Capital Borrowing & Other per policy	450		450
Scotland Reserve	118	65	183
Fossil Fuel Levy	44		44
City Deals	100	25	125
Deduction to Funding for Arms to Ukraine		- 65	65
<b>Total Capital Funding</b>	<b>5,824</b>	<b>38</b>	<b>5,862</b>
<b>Total Capital Budget Allocations</b>	<b>5,824</b>	<b>10</b>	<b>5,834</b>
<b>Unallocated Funding</b>	<b>- 0</b>	<b>28</b>	<b>28</b>

  

FT Line Item (£m)	2022-23 Budget	Confirmed Changes	2022-23 Forecast Position
Barnett - FTs	466		466
Scotland Reserve	61	-15	46
Other	0		0
<b>Total FT Funding</b>	<b>527</b>	<b>- 15</b>	<b>512</b>
<b>Total Capital Budget Allocations</b>	<b>527</b>	<b>- 23</b>	<b>504</b>
<b>Unallocated Funding</b>	<b>-</b>	<b>8</b>	<b>8</b>

## Finance and Public Administration Committee

Tuesday 22 November 2022

### Autumn Budget Revision, 2022-23

#### Context to the 2022-23 Autumn Budget Revision

This [Autumn Budget Revision](#) (ABR) is considered at a time of economic turbulence, driven by high inflation. High inflation has forced the Scottish Government into making substantial changes to its 2022-23 spending plans, in order to fund higher than previously expected public sector pay deals and cost of living interventions.

#### Summary of the Autumn Budget Revision

The ABR amends the Budget (Scotland) Act 2022 which authorises the Scottish Government's spending plans for the financial year 2022-23.

Details of the proposed changes are set out in the [2022-23 Autumn Budget Revision to the Budget \(Scotland\) Act for the year ending 31 March 2023](#) published on 1 November 2022.

As referred to above, the Scottish Government has also issued a Guide to the 2022-23 Autumn Budget, which members have received.

The proposed changes detailed in the ABR result in an increase in the approved budget of £805.9 million from £56,179.2 million to £56,985.1 million, and can be summarised as follows:

- Funding changes to reflect deployment of available resources to portfolios increasing the budget by £691.5 million;
- Whitehall transfers and HM Treasury allocations of £7.9 million;
- Technical adjustments increasing the budget by £106.5 million; and
- The transfer of resources between Scottish Government portfolios which are budget neutral.

This paper summarises some of the key areas for discussion with the Minister.

## Funding changes

The ABR funding changes by portfolio are presented in table 1 below. This table shows the choices by portfolio for increased and reduced resource in 2022-23. Social Justice, Housing and Local Government see the largest net increase (+£580.2 million), with substantial reductions for the Net Zero, Energy and Transport (NZET) (-£101.5 million) and Rural Affairs and Islands (-£44.5 million) portfolios.

Table 1: 2022-23 ABR funding changes by portfolio, £ million

Scottish Government Portfolios	Funding Additions	Funding Reductions	Net Funding Changes
Health and Social Care	41.0	0.0	41.0
Social Justice, Housing and Local Government	600.2	-20.0	580.2
Finance and the Economy	19.1	-33.3	-14.3
Education and Skills	50.3	0.0	50.3
Justice and Veterans	180.0	0.0	180.0
Net Zero, Energy and Transport	47.0	-148.5	-101.5
Rural Affairs and Islands	0.0	-44.5	-44.5
Constitution, External Affairs and Culture	0.1	0.0	0.1
Deputy First Minister and Covid Recovery	0.0	0.0	0.0
Crown Office and Procurator Fiscal	0.0	0.0	0.0
<b>Scottish Government</b>	<b>937.6</b>	<b>-246.3</b>	<b>691.3</b>
Scottish Housing Regulator	0.0	0.0	0.0
National Records of Scotland	0.0	0.0	0.0
Office of the Scottish Charity Regulator	0.0	0.0	0.0
Scottish Courts and Tribunals Service	0.2	0.0	0.2
Scottish Fiscal Commission	0.0	0.0	0.0
Revenue Scotland	0.0	0.0	0.0
Registers of Scotland	0.0	0.0	0.0
Environmental Standards Scotland	0.0	0.0	0.0
Food Standards Scotland	0.0	0.0	0.0
Scottish Teachers' and NHS Pension Schemes	0.0	0.0	0.0
<b>Total Scottish Administration</b>	<b>937.8</b>	<b>-246.3</b>	<b>691.5</b>
<b>Direct Funded Bodies</b>			
Scottish Parliament Corporate Body	0.0	0.0	0.0

<b>Audit Scotland</b>	0.0	0.0	0.0
<b>Total Scottish Budget</b>	<b>937.8</b>	<b>-246.3</b>	<b>691.5</b>

In terms of some of the specifics of these portfolio changes, key points for members to note are presented in the Guide (paragraphs 8-26). The most significant increases (by £ value) are as follows:

- £280 million has been added to local government to fund a Council Tax reduction scheme of £150 for households in bands A-D.
- £140 million to local government to support COSLA negotiations with the local government workforce, plus £120.6 million of local government capital support (as announced on 4 August).
- £180 million to the Justice and Veterans portfolios to fund Police and Fire Pensions.
- £47 million to the Education and Skills portfolio to fund the Whole Family Wellbeing Fund “to drive transformational change in how families are supported, shifting investment to early intervention and prevention, so that families can access support before crisis point.”
- £47 million to Transport Scotland carried over from the previous year split between £25 million in additional support to Rail Services in Scotland and £22 million for free travel for under 22s.

The most significant portfolio decreases are as follows:

- NZET portfolio sees a £91.8 million reduction in capital funding, in 3 areas (see p69 of ABR). Energy efficiency (-£37.659 million); Heat in Buildings (-£45.016 million) and Energy Industries Divisions (-£9.125 million). The Guide states that these reductions reflect “lower than anticipated uptake from both private sector and local authority partners” and cites “ongoing workforce and supply chain issues in the construction sector” as factors. **It is not clear what these reductions mean for Scottish net zero targets and ambitions and whether this funding will be returned to the NZET portfolio in future years.**
- £23 million of Financial Transactions in the Energy Efficiency budget have “been surrendered” due to lower than expected demand. **It is not clear what restrictions apply to how this funding can be spent, given the restrictions on use of Financial Transactions monies. It is also unclear what this reduction implies for climate obligations and whether this funding will be returned in the future.**
- £28 million “has been surrendered” by Digital Connectivity within the Finance and Economy portfolio. This relates to a forecast capital underspend on the R100 programme. Following early delays in the programme linked to both Covid-19 and supply chain issues the timeframe for these works has been extended with forecast spend in the year reduced.
- £20.7 million released from Concessionary Fares and Bus Services within the Net Zero, Energy and Transport portfolio to reflect lower than expected demand for free Under 22 travel. **It is not clear how this reduction relates to the £22 million increase for free travel for under 22s mentioned above, or for the future costs of this programme. It is also not clear where this**

**is presented in the Concessionary fares budget on p71 of the ABR Supporting Document.**

- £33.7 million deferral of UK Government Ring-fenced funding which will be returned to Rural Affairs in future years.

## Whitehall transfers

There are two Whitehall transfers in the ABR.

- £6.5 million from Money Advice Service for the devolution of Debt Advice Services – to be passed to the Social Justice Budget (see p21 of ABR)
- £1.3 million from the Cabinet Office for Cyber Security – to be passed to the Secure Scotland budget (see p64 of ABR).

## Technical adjustments

The ABR contains net technical changes of £106.5 million. Most of these relate to the implementation of International Financial Reporting Standards 16 (IFRS 16) which changes the accounting treatment for leases. These changes require additional capital and non-cash budget cover, although neither the Supporting Document or the Guide specify what leases these changes relate to. The Guide explains that:

“Previously a distinction was made between finance leases, where ownership transfers upon conclusion of the lease agreement, and operating leases, where ownership does not transfer. A finance lease was considered to be an asset of the lessee. The asset was recognised on the entity’s balance sheet with a corresponding liability also recognised. An operating lease did not consider the lessee to own the asset. Neither the asset or the corresponding liability was recognised on the entities balance sheet and the annual rental fee was included as a resource costs.

IFRS 16 removes this distinction. If an entity enters into a lease where it has a right-of-use (‘ROU’) over an asset, it must be recognised on the entity’s balance sheet as an asset with the corresponding liability over the agreed length of lease.”

As this quote makes clear, this is a (very) technical accountancy change, and perhaps the key thing for members to note is that the ABR states that budget cover is provided by HM Treasury for these technical transfers which means that the discretionary spending power of the Scottish budget is not impacted.

As this work is ongoing, the supporting document also notes that further IFRS16 adjustments will be contained in the Spring Budget Revision (SBR).

Excluding IFRS16 the largest technical change is a £7.3 million reduction in Social Security Scotland’s non-cash budget following a review of depreciation requirement for the year. There is additional non cash funding for Scottish Fire and Rescue Services (£1 million), and a technical accounting adjustment in respect of a pre-payment for the sleeper service (£5 million).

## Internal transfers

There are a number of internal transfers between Budget lines which move budget provision within and between portfolios. These net to zero so do not affect the Scottish Government's budget as a whole, but do reflect how spending priorities have shifted during the year. Significant internal transfers between portfolios are presented in the supporting documentation and the Guide, and reproduced below for convenience. Note that some of these transfers occur each year (for example, transfers for nursing and midwifery student teaching grants) and it is not clear why these are made in year rather than in the budget set at the start of the year.

- Transfer from Health & Social Care to Education & Skills to pay teaching grant for Nursing and Midwifery students in Scotland (£64 million), page 15 Supporting Document;
- Transfer from Education & Skills to Social Justice, Housing & Local Government to fund the Free school meals expansion (£42.0 million), page 47 Supporting Document;
- Transfer from Education & Skills to Social Justice, Housing & Local Government to provide funding for summer programmes and free school meals holiday alternatives (£31.8 million), page 49 Supporting Document;
- Transfer from Education & Skills to Social Justice, Housing & Local Government for Additional Support for Learning in Equalities and Inclusion (£15 million), page 47 Supporting Document;
- Transfer from Social Justice, Housing & Local Government to transfer grant aided expenditure for Ferry funding to Transport Scotland (£13.9 million), page 18 Supporting Document;
- Transfer from Justice & Veterans to Scottish Courts and Tribunal Service to support the Recovery Renewal and Transformation Fund (£12 million), page 64 of Supporting Document.

## How does this ABR relate to the September and November EBR announcements?

The Finance and Public Administration (FPA) Committee [received a letter from the Deputy First Minister on 7 September](#) setting out £560.4 million pounds of in-year savings to support improved public sector pay deals and cost of living support. This was followed by the publication of the [Scottish Government's Emergency Budget review](#) on 2 November. This added £615 million to the September savings, taking the total level of in-year movements to nearly £1.2 billion.

So, how much of this £1.2 billion has been set out in the ABR? The short answer is some of it is in the ABR, and the remainder will be accounted for in the Spring Budget Revision (SBR) which should be published in January next year.

Looking at the September "savings" of £560 million, the more nuanced answer comes from this paragraph in the Guide and from the table on p10.

"While the amounts outlined in the [September] letter are savings based on the in-year budget monitoring position, these do not necessarily correspond to

a budget being formally surrendered as part of a gross funding movement. This is because these savings may be against forecast pressures, they are being transferred internally to other areas to fund other existing pressure or there is a delay in funding being returned.”

**Clarification could be sought on what this specifically means and the amount of budget changes still to be reflected in the Spring Budget Revision. One interpretation is that it is not entirely possible to look at the savings presented in the September and November EBR documentation, and read across from that to the Budget Revisions. This presents challenges for the understanding and scrutiny of Budget Revisions and how they interact with higher profile announcements like the EBR.**

From reading the Guide (see paragraph 47), £145 million of the £560 million set out in September relates not to savings, but to additional funding coming into the Scottish budget from the following four sources:

- £41 million of consequentials received in March’s Spring Statement following the £500 million expansion of the UK Government’s Household Support Fund.
- A further £41 million in May following the UK Government’s decision to double the Household Support Fund in May.
- £56 million of additional funding generated by the ScotWind clearing process.
- £7 million of interest income expected on the cash proceeds from the sale of the ScotWind options.

The Guide notes that £223.9 million of the £560 million has been included in the ABR.

£120 million is being provided to Local Government as capital support and has been provided following surrender of savings identified across portfolios, with the early savings identified in Energy (£91.8 million) and Digital Connectivity (£28 million) allowing this funding to be redistributed.

**This “capital” support does not appear to be for the funding of capital expenditure as it is listed on page 18 of the Supporting document in the “operating” or resource column as being “Funding for local government pay offer (capital)”. This suggests that the terms of utilising capital only for capital spend may have been relaxed, but members may wish to ask for clarification on that point. Although day-to-day “resource” spending can be transferred to capital, it is normally the case that capital spending cannot be transferred to resource for the funding of day-to-day expenditure like public sector pay.**

The Guide goes on to say that the balance of the £223.9 million included in the ABR, totalling £103.9 million, is as presented in the following table.

Table 2: Balance of savings identified in September EBR statement

Budget line	£ million
<b>Finance and Economy</b>	
Income - various streams	6.1
<b>Net Zero Energy and Transport</b>	
Concessionary Travel	20.7
EC Receipts	5.0
Forestry and Land Scotland	4.0
Forestry Land Scotland	1.0
<b>Rural Affairs and Islands</b>	
Agriculture and Rural Economy operations	8.4
EU Income	3.5
Marine Scotland	2.2
Ring fenced rural funding	33.0
<b>Social Justice, Housing and Local Government</b>	
Employee costs	20.0
<b>Total Resource Savings</b>	<b>103.9</b>

The remaining £191.5 million of the £560 million “savings” identified in the September letter relates to amounts which have not been reflected within the ABR. The Guide states that:

“the vast majority of these amounts are reductions to previously unfunded pressures which have emerged since the Scottish Budget was published. There may be savings included in this list that will come through in the SBR exercise.”

**Clarification could be sought on what this means, including some examples of “previously unfunded pressures.”**

Section B2 of the Guide sets out additional details of the November EBR savings of £615 million, which are placed in three categories:

- **£400 million** of reprioritisation within the Health and Social Care portfolio to support a fair pay offer of approximately 7% to NHS Agenda for Change staff and to manage wider pressures in the Health and Social Care sector.
- **£33 million** of further resource saving from across the Scottish Government to add to the £440 million announced on 7 September, to support balancing the budget, and to fund emerging Government priorities and the policy measures set out in this document.
- **c£180 million** of capital and Financial Transaction reductions to support wider financial management, taking account of the market outlook for demand-led investment, global supply chain issues and construction capacity.

These changes are not contained within the ABR, so presumably will be contained within the SBR.

The £400 million in Health and Social Care is classed as a “reprioritisation” in that it will remain in that portfolio to support a 7% pay offer for the majority of NHS staff “and to manage wider pressures in the Health and Social Care sector.” Although details of this reprioritisation are not in the ABR, the EBR did identify a range of budget areas within Health that will lose resource to fund the improved deal. For example, the EBR identified Covid spend to be reduced this year by £116 million; £70 million to be saved by re-profiling areas of Social Care spend and spending on the development of the National Care Service; Primary care spending (which includes GPs, dentists, pharmacists and opticians) being reduced by £65 million; and scaling back mental health funding by £38 million this year.

## Scotland Reserve and funding position

Table 1.7 of the ABR Supporting document sets out the funding position that supports the revised budget for 2022-23. This is split into Resource, Capital and Financial Transaction monies in the Guide and is reproduced below.

Table 3: Scotland Reserve and funding position

£ million	Resource	Capital	FTs	Total
Closing Reserve balance brought forward from 2021-22	421	183	46	650
Scottish Government Contribution to Ukraine		-65		-65
Additional Barnett Funding	447	13	-	460
Other Movements in Funding	23	25	-	48
<b>Total Funding available for deployment at ABR</b>	<b>891</b>	<b>156</b>	<b>46</b>	<b>1,093</b>
Already deployed in 2021-22 budgets	-120	-118	-61	-299
Deployed at ABR	-713	-10	23	-699
<b>Total Funding deployed after ABR</b>	<b>-833</b>	<b>-128</b>	<b>-38</b>	<b>-998</b>
<b>Balance left for deployment at SBR</b>	<b>58</b>	<b>28</b>	<b>8</b>	<b>94</b>

On the £94 million balance for deployment at the Spring Budget Revision, the Guide states that “the “unallocated” funding following the Autumn Budget Revision (of £94 million) does not reflect the full extent of likely resources available for deployment in the Spring Budget Revision or to support the spending which will ultimately be reflected in outturn.” The Guide then lists a number of factors which may increase or decrease this amount for deployment – for example, tax receipts and BGAs from devolved taxes may benefit the Budget on the upside, but social security spending may put extra pressure on spending. Expectations of what the likely balance available for deployment at SBR (ie more or less than £94 million) will no doubt come up in this session.

Regardless of what balance remains to be deployed at SBR when the time comes, the Scottish Government states that “all Reserve availability is planned to be utilised to support the 2022-23 financial position...the “balancing” unallocated figure of £94 million will not remain in the Scotland Reserve, it simply hasn’t been formally allocated in the Budget. All remaining funding is set against the range of pressures

which the Scottish Government continues to manage and which has to balance over the remainder of the financial year.”

“As is always the case at this time of year, the funding position and the spending that it supports, remains subject to further change. The level of uncertainty surrounding expected UK Block Grant funding has been particularly acute given the amount of UK political upheaval. A final Block Grant position will only be confirmed at the conclusion of the UK Supplementary Estimate process.

There remain a number of significant potential budget pressures that are not yet fully quantified, including key public sector staff groups where pay agreements have yet to be settled. Active management of the position will continue to be required to balance the 2022-23 Budget. It is hoped that the Spring Budget Revision will include all major changes to both funding and budget allocations that will be required, to support appropriate scrutiny, but further adjustments to spending plans may subsequently be required.”

Ross Burnside, Senior Researcher, SPICe Research  
November 2022

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