

Finance and Public Administration Committee

Budget Scrutiny 2022-23

Letter from the Cabinet Secretary for Finance and the Economy to the Convener of 4 February 2022

Dear Kenneth,

2021-22 Scottish Budget – funding information

Further to my session with the Committee on Tuesday, and Members' interest in the underlying detail of the evolving funding position, I wanted to offer a rounded update following our publication yesterday of the Spring Budget Revision (SBR) for 2021-22 (weblink www.gov.scot/publications/spring-budget-revision-2021-22-supporting-document/).

As I indicated on 27 January during the Budget Bill Stage 1 debate, and in my letter to you on 29 January, we had in the preceding days received new funding information from the UK Treasury in respect of their forthcoming Supplementary Estimates for 2021-22. However our funding position will only be formally confirmed once the UK Supplementary Estimates 2021-22 are finalised: I expect this to be published later this month, but do not know the precise date.

Meantime we needed to proceed with our SBR, and it captures the latest provisional information from the Treasury regarding Supplementary Estimates as it stood before the Chancellor's announcement yesterday.

Further to the advance notice of £440 million for 2021-22 that the Treasury gave in December, their updated indication in late January was for a net consequential funding increase of £852 million (i.e. the latter figure supersedes the former). This comprised £984 million of increased resource (non-recurring Covid consequentials), offset by £123 million reduction to capital grant and £9 million reduction to Financial Transactions (i.e. these latter two figures are 'negative consequentials'). This net figure of £852 million was the latest estimate of the position on the date the SBR was finalised and we have therefore provided allocations on this basis.

As I indicated at Committee on Tuesday, the advance notice of £440 million included and confirmed the previously expected £145 million linked to the UK Government's Non-Domestic Rates material changes of circumstance legislation (following their announcement last March; weblink www.gov.uk/government/news/business-rates-relief-boosted-with-new-15-billion-pot). In the Scottish Budget 2022-23 document this expected £145

million (as carry-forward) had formed part of the £620 million of assumed funding. However, some of that £145 million – after it was subsequently confirmed within the Treasury’s £440 million – instead had to be allocated later in December towards our package of support in response to the Omicron variant (i.e. in 2021-22). Had no further 2021-22 funding emerged during the Supplementary Estimates process, there would therefore have been a shortfall against our assumed £620 million for 2022-23. However the increased uplift indicated in late January means that I now expect to carry forward the equivalent £145 million in the Scotland Reserve alongside the additional £120 million set aside for local government.

In light of this funding information, the SBR formally sets out our proposals to amend 2021-22 allocations, and we will as usual provide an accompanying briefing for the Committee in due course.

As you will be aware, yesterday the Treasury again updated the funding position, linked to the Chancellor’s announcement of support regarding rising energy costs. Whilst they publicly stated “around £290 million” of consequential for the Scottish Budget (with freedom to allocate this in either 2021-22 or 2022-23), the direct information we have had from Treasury is that our net outcome from Supplementary Estimates in light of this announcement is still being worked through. Accordingly I do not know whether we have an additional £290 million over and above the position reflected in the SBR.

Given that I received no prior indication of the nature or funding implication of yesterday’s announcement, and indeed that the upshot for our funding position is still to be confirmed, it was not reflected in the SBR. The First Minister stated yesterday in the chamber that the full consequential funding linked to the Chancellor’s announcement, once known, will go towards helping people in Scotland to deal with the cost of living crisis. I will of course update the Committee once we have funding clarity from Treasury regarding the Supplementary Estimates outcome.

For the avoidance of doubt there has been no change to our 2022-23 funding information from the Treasury since I published the Budget in December, and we await the UK Spring Statement scheduled for 23 March. I am not proposing further amendments to the Budget Bill at Stage 3.

I hope that the Committee finds this update helpful. I also indicated during Tuesday’s session that we would revert with further information regarding Scotwind – this will follow separately.

Kate Forbes