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

At the Finance and Public Administration Committee evidence session on the Spring Budget Revision on 7 March, I agreed to write to the Committee to clarify a number of matters raised by committee members.

NHS and Teachers Pensions

As part of the Spring Budget Revision the budget allocation for NHS and Teachers Pensions has increased by £495.7 million from £6,470.4 million to £6,966.1 million.

NHS and Teachers Pensions are funded by Annually Managed Expenditure (‘AME’) budget. AME budget is provided directly by HM Treasury to support specific demand led areas such as NHS and Teachers Pensions. There is no impact on the Scottish Government’s discretionary spend as a result of the initial allocations or in-year movements. HM Treasury fiscal rules prohibit the use of funding provided for these areas to support other expenditure.

The budget increase as part of the Spring Budget Revision has not resulted in any funding reduction in other areas. Conversely, had an underspend against the original budget emerged this would not result in additional budget to be repurposed.

The initial budget was set in December 2021 as part of the work undertaken for the 2022-23 Scottish Budget. The increase on the figure provided is mainly due to an increase in the interest on scheme liabilities, based off the opening liability figure, when compared to the original figures provided.

This has increased from £1.7 billion up to £2.4 billion. The c.£700m in cost is offset by a reduction in service cost for both schemes.

National Care Service

I’ve been advised that my colleague the Minister for Mental Wellbeing and Social Care will be writing to the committee directly this week with an update on the National Care Service Scotland Bill. This update will cover the information requested by committee.

European Social Fund – Write-offs

Mr Lumsden requested some additional information on the £15 million of funding being provided to mitigate the European Social Fund write offs.

The Scottish Government is responsible for managing two European Structural and Investment Funds for the period 2014 to 2020; the European Social Fund (ESF) and the European Regional Development Fund (ERDF). The Funds remain operational with access to funding available until June 2024.

In November 2019, the European Commission (‘EC’) placed the ESF programme in suspension after the Scottish Government was unable to resolve all outstanding issues by this deadline. While programmes are suspended, the Scottish Government’s claims to the EC for reimbursement of funds will not be paid until all issues identified are resolved.

In 2020/21, the Scottish Government recognised that implementing the agreed methodology will likely result in greater expenditure over the course of the programme than can be reclaimed from the EC.

This £15 million of funding is being provided to mitigate the funding gap between the expenditure that the Scottish Government has paid out, compared to the funding that can be reclaimed

National Records of Scotland - Census

Mr Lumsden asked for some additional information on the £4 million of resource funding that has been provided to National Records of Scotland (‘NRS’) as part of the budget revision.

The Cabinet Secretary for Constitution, External Affairs and Culture announced in April 2022 that NRS would continue to accept census returns until the end of May 2022, an additional 4 weeks. The £4 million transfer included within the budget revision is to help fund the costs of this extension. The total cost to NRS of extending the programme is forecast to be £5.9 million. The additional costs above £4 million are being absorbed by NRS.

£30.3 million of funding was initially provided to National Records of Scotland as part of the 2022/23 Scottish Budget to fund the work on the census. This funding was provided in addition to the regular funding provided for day to day operations.

Energy

Mr Johnson and Mr Lumsden requested additional information on the nature of the underspends that have emerged over the course of the 2022-23 financial year and have resulted in Energy surrendering budget.

Demand for schemes targeted at individuals, including our fuel poverty schemes, has markedly increased in recent months. This is at least partly due to the widening of eligibility that we actioned in late 2022, in response to changes to the fuel poor demographic resulting from the cost of living crisis and other factors. This has been matched by increasing funding and installations.

As well as schemes targeted at individuals, we also fund schemes that are part of larger, more complex capital programmes. For these schemes we have seen lower than profiled levels of applications, reflecting the wider economic environment as Scotland continues on its recovery from Covid 19, coupled with inflationary impacts, supply chain issues and the cost of living crisis. However, there has been an increase in feasibility studies in some areas, with a number of projects planned to commence in the 23/24 financial year.

To increase uptake, additional funding has been provided for additional marketing of the Heating in Buildings schemes for 23/24. For example, there is an increased provision for our advice and support services delivered on behalf of Scottish Government by Energy Saving’s Trust through the Home Energy Scotland service. This service is now seeing elevated demand compared to previous years following increased marketing in late 2022.

It is important to note that many of our schemes do not target individuals but rather organisations of various size and types. This includes small businesses, social housing providers and a range of public sector organisations, including local authorities. We continue to improve our engagement with these bodies, both at scheme and wider programme level, to ensure that they are aware of our offering and the funding available to them. In some cases, this will include increased emphasis and provision for pre-capital support, particularly to assist those bodies without a specific resource to manage such early-stage works.

Mr Lumsden also asked about the impact of demand on our net zero targets. In the Shared Policy Programme, our capital support commitment for 2021-2026 is to invest at least £1.8 billion, however this is unlikely on its own to drive uptake to the significant levels required owing to wider market challenges, and ahead of regulation to compel building owners to take action. For example, meeting our 2030 interim climate change target will need at least one million Scottish homes to change to a zero-carbon heating system. Regulations will therefore be an important element of the Heat in Buildings Strategy and we have committed to consult in 2023 on a Heat in Buildings Bill. We expect this to provide a high-level summary of our proposals to regulate for zero

To understand progress towards our targets, we have committed to the development of a Monitoring and Evaluation Framework for the Heat in Buildings programme in 2023. This will provide increasing visibility over time of the effects our policies, regulation, funded schemes and other activities are having in transitioning Scotland’s built environment towards the targets outlined in the Heat in Buildings Strategy and wider Climate Change Emissions reduction targets.

Ferguson Marine

Mr Johnson and Mr Lumsden both asked for additional detail on the amounts being provided to Ferguson Marine as part of the budget revision as well as total spend to date. Since I attended the committee the Deputy First Minister has given an update in parliament on Ferguson Marine.

The total cost to build vessels 801 and 802 since coming into public ownership for the period up to February 2023 is £136.1 million. This is split as follows:

Total Programme cost from Public Ownership to 28 February 2023	£'m
Vessel 801	91.9
Vessel 802	44.2
Total	**136.1**

The forecast spend on the vessels for financial year 2022-23 is c£61 million. If FMPG spend to their current forecast then we would expect costs to be c£142m by 31 March 2023 for both vessels.

The full cost to complete vessels 801 and 802 since coming into public ownership, as outlined in the FMPG's CEO letter to the NZET committee in September 2022, is forecast to be £202.6m (including contingency of £6.2m). The following costs were incurred prior to public ownership:

- As outlined in the Audit Scotland Report, CMAL paid £83.25 million to FMEL under the original contract prior to the point of public ownership.
- £45 million was also provided by the Scottish Government in loans to FMEL

In addition to the capital funding there have been two material operating cost transfers in the budget revision, totalling £4.6 million. The £4.6 million can be categorised into two separate strands:

- £2.1 million consultancy budget for Strategic Commercial Assets Division (SCAD)
- £2.5 million resource budget for Ferguson Marine

The £2.1 million provided for consultancy spend is funding for the policy team that cover the entire Strategic Commercial Assets division. This policy team is housed within Ferguson Marine. This funding is not being provided solely to support Ferguson Marine. The Strategic Commercial Assets division has a number of interests. The funding is being provided for ongoing legal and commercial advice.

The £2.5 million of resource budget is being provided to Ferguson Marine. Currently Ferguson Marine only have capital budget to cover costs for the build of vessels 801 and 802 under the current contracts. This budget will cover costs that the yard may incur during 2022/23 that cannot be recovered under the 801 and 802 contracts.

Major Public Transport Projects transfers

Finally, I agreed to provide some additional information on the internal portfolio transfers out of Major Public Transport Projects to Rail Infrastructure (£44 million) and to Rail Franchise (£15.5 million).

The £60.9 million of enhancement budget reduction at the Spring Budget Revision was due to a change in profiling of Network Rail projects. This has been reallocated to other Rail capital budgets as follows:

- £44m to Rail Infrastructure relating to Network Rail (NR) Operations Maintenance and Renewals (OMR) due to an increase in the profiling of expenditure in the current control period.
- £15.5m to Scottish Rail Holdings (SRH) Capital where there was no allocated Budget. This covered capital expenditure on the transition from Abellio to Scotrail Trains.
- £1.4m to Fixed Track Access Charges (FTAC) paid to Scotrail Trains due to an increase in Consumer Price Inflation

I hope this additional information assists the Committee.

One of the main themes of discussions during the session was what information is included within the supporting document, what forms part of the Guide and the level of complexity inherent in the process. Despite the work my officials have undertaken to provide a detailed Guide to the SBR document to support transparency and scrutiny, I appreciate the process remains complex and there are a large number of transfers. If the Committee would find it helpful to engage directly with my officials to discuss the process, areas of further clarification and ways of working going forward I would fully support this.

Tom Arthur MSP