

Finance and Public Administration Committee

9th Meeting, 2022 (Session 6), Tuesday 8 March 2022

Budget (Scotland) Act 2021 Amendment Regulations 2022 [draft] – Spring Budget Revision

Overview

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 2021 Amendment Regulations 2022 \[draft\]](#).
2. The supporting document, '[The 2021-22 Spring Budget Revision to the Budget \(Scotland\) Act for the year ending 31 March 2022](#)', explains the changes proposed in the instrument. The Scottish Government has also provided for the Committee a detailed *Guide to the Spring Budget Revision*, which is attached at Annexe A. This includes information on the Scotland Reserve position and a comprehensive overview of Covid-19 budget allocations and expenditure.
3. The Financial Scrutiny Unit in SPICe has produced a briefing to support the Committee's scrutiny of the Regulations, which is provided at Annexe B.

Purpose of the Regulations and the scrutiny procedure

4. The Regulations, which were laid before Parliament on 3 February 2022, amend the Budget (Scotland) Act 2021, which authorised the Scottish Government's spending plans for the current financial year¹. The 2021-22 Spring Budget Revision document explains that the main changes to these spending plans are:

- funding changes, including Covid-19 allocations, to reflect deployment of available resources to portfolios (total net increase to the budget of £1,428.3 million),
- Whitehall transfers and HM Treasury allocations to the Scottish Government (£131.2 million)
- technical adjustments (net decrease of -£357.3 million)
- transfer of resources between Scottish Government portfolios (budget neutral).

5. It goes on to state that, in total, these changes will increase the Scottish Government's budget by £1,202.2 million from £56,495.2 million to £57,697.4 million.

¹ There are usually two in-year budget revisions, the first in Autumn and the second in Spring.

6. The 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 Regulations on 22 February and had no issues to report.

7. As lead committee, this Committee is invited to consider motion [S6M-03069](#), lodged in the name of the Cabinet Secretary for Finance—

That the Finance and Public Administration Committee recommends that the Budget (Scotland) Act 2021 Amendment Regulations 2022 [draft] be approved.

8. To inform the Committee's consideration of the motion, there is an opportunity to take evidence on the 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

9. The Committee will thereafter publish a report to the Parliament setting out its recommendation on the instrument, by the deadline of 23 March 2022.

Committee clerks
March 2022

Finance Update – 22 February 2022

For the Finance and Public Administration Committee

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A. Guide to the Spring Budget Revision

1. The Spring Budget Revision is part of the annual budget process. The budget process for 2021-22 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 9 March 2021.
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. The Spring Budget Revision provides the final budget figures, against which outturn is reported in the Scottish Government's annual accounts.

A.1 Summary of the Spring Budget Revision

3. The Spring 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 Spring Budget Revision result in an increase in the approved budget of £1,202.2 million from £56,495.2 million to £57,697.4 million.
5. The changes to the Budget are broken down in to four main areas:
- A.2 - Funding changes (including COVID-19 allocations) to reflect deployment of available resources to portfolios (total net increase to the budget of £1,428.3 million);
 - A.4 - Technical adjustments (net decrease to the budget of -£357.3 million);
 - A.3 - Whitehall transfers and HM Treasury allocations to the Scottish Government (£131.2 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.

	ABR Budget	Funding Changes	Technical Changes	Whitehall transfers	Internal Transfers	Revised Budget
	£m	£m	£m	£m	£m	£m
Scottish Government Portfolios						
Health & Social Care	17,720.7	682.0	141.0	67.7	-213.0	18,398.4
Social Justice, Housing & Local Government	16,252.8	97.4	-99.7	2.1	158.5	16,411.1
Finance & Economy	2,128.8	464.3	0.7		22.2	2,616.0
Education and Skills	4,921.4	-9.4	-374.2		49.0	4,586.8
Justice and Veterans	2,837.8	224.5	14.6	53.0	-6.4	3,123.5
Net Zero, Energy & Transport	4,556.7	-27.2	20.3	7.0	-20.7	4,536.1
Rural Affairs & Islands	1,016.2	-73.8	3.0	0.8	1.5	947.7
Constitution, External Affairs & Culture	293.5	55.0	10.0	0.1	-4.0	354.6
Deputy First Minister & Covid Recovery	64.7	6.9				71.6
Crown Office and Procurator Fiscal	161.7	14.5	2.0		1.6	179.8
Scottish Government	49,954.3	1,434.2	-282.3	130.7	-11.3	51,225.6
National Records of Scotland	64.3	-0.9	0.3		-2.6	61.1
Office of the Scottish Charity Regulator	3.6					3.6
Scottish Courts & Tribunals Service	167.3		0.3	0.4	10.5	178.5
Scottish Fiscal Commission	2.0					2.0
Revenue Scotland	7.1					7.1
Registers of Scotland	15.4	-4.3	8.8		1.1	21.0
Food Standards Scotland	19.5	0.3	0.3	0.1	1.9	22.1
Scottish Housing Regulator	5.1	-0.3				4.8
NHS and Teachers' Pensions	6,121.0		-94.2			6,026.8
Scottish Administration	56,359.6	1,429.0	-366.8	131.2	-0.4	57,552.6
Direct-Funded Bodies						
Scottish Parliamentary Corporate Body	124.5	-0.7	3.5		0.4	127.7
Audit Scotland	11.1		6.0			17.1
Total Scottish Budget	56,495.2	1,428.3	-357.3	131.2	0.0	57,697.4

A.2 Funding Changes

7. Funding changes represent additional budget that provides spending power within portfolios and programmes, and also some deductions 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 £1,428.3 million, however the gross impact is shown below.

Portfolio	Gross Funding Changes	Reductions	Net Funding Changes
Health & Social Care	782.0	-100.0	682.0
Social Justice, Housing & Local Government	207.4	-110.0	97.4
Finance & Economy	555.8	-91.5	464.3
Education and Skills	57.8	-67.2	-9.3
Justice and Veterans	252.5	-28.1	224.5
Net Zero, Energy & Transport	0.6	-27.8	-27.3
Rural Affairs & Islands	13.0	-86.8	-73.8
Constitution, External Affairs & Culture	57.6	-2.6	55.0
Deputy First Minister & Covid Recovery	6.9	0.0	6.9
Crown Office and Procurator Fiscal	14.5	0.0	14.5
Scottish Government	1,948.1	-513.9	1,434.1
National Records of Scotland	0.1	-1.0	-0.9
Scottish Courts & Tribunals Service	3.8	-3.8	0.0
Registers of Scotland	1.9	-6.2	-4.3
Food Standards Scotland	0.3		0.3
Scottish Housing Regulator		-0.3	-0.3
Scottish Administration	1,954.2	-525.2	1,428.9
Direct-Funded Bodies			
Scottish Parliamentary Corporate Body		-0.7	-0.7
Total Scottish Budget	1,954.2	-525.9	1,428.2

A.2.1 Covid-19 Funding Changes

8. The majority of the net funding changes here are Covid-19 related. Further information on Covid-19 cumulative allocations is detailed in section B but the equivalent gross and net splits for this budget revision are detailed below.

Covid-19 Funding Changes (£m)	Gross Funding Changes	Reductions	Net Funding Changes
Health & Social Care	782.0	-100.0	682.0
Social Justice, Housing & Local Government	62.0	-7.8	54.2
Finance & Economy	460.1		460.1
Education and Skills	13.7	-25.2	-11.5
Justice and Veterans	6.8		6.8
Constitution, External Affairs & Culture	54.2		54.2
Deputy First Minister & Covid Recovery	6.9		6.9
Scottish Government	1,385.7	-133.0	1,252.7
Registers of Scotland		-6.2	-6.2
Scottish Administration	1,385.7	-139.2	1,246.5
Direct-Funded Bodies			
Total Scottish Budget	1,385.7	-139.2	1,246.5

9. The largest Covid-19 allocation relates to Health and Social Care with £782 million of gross funding. This comprises £52 million of Capital and Financial Transactions funding and £730 million of Fiscal Resource. Health Barnett resource consequentials have been passed in full to the Health and Social Care portfolio. All funding is passed on to NHS Health Boards, Integration Authorities and core directorates on the basis of costs associated with the pandemic response.
10. Allocations to NHS Boards (that utilise the majority of additional funding available) are provided to them across the year, with costs subject to scrutiny by Scottish Government officials. Of the additional funding provided to Health and Social Care portfolio at Spring Budget Revision, £300 million has been passed to the Boards to address winter pressures. The remainder relates to Covid costs where we are committed to meeting additional reported costs within health and social care sector in full. The deduction of £100 million relates to the amounts which were re-prioritised for wider public health measures in December, including Self Isolation Support Grants.
11. The Finance and Economy Covid-19 allocation includes the following:
- £295 million in Business Support for distribution by local authorities.
 - £131 million allocated for Self Isolation Support payments.
 - £24 million of Capital Grants for businesses to provide ventilation.
 - £10 million for Visit Scotland (part of the Cultural Support package of £64 million).
12. Whilst the budget was provided to Business Support in full the specific allocations by programme have been announced through distinct tranches over the course of subsequent weeks. This is detailed further in section B.3 below. The balance of the cultural support package is included within the allocation to Constitution, External Affairs and Culture. The majority of this (£41.5 million) being funds allocated to Creative Scotland for distribution.
13. Other significant Covid funding elements include:
- £30 million of non-discretionary support for Local Government to assist with Covid-19 pressures.
 - £25 million of Covid-19 support (part of the 2021-22 winter package) to allow Local Government support low income households with food and fuel support.
 - £11.2 million for higher education student bursary schemes. This is a “net” impact of £20 million in Covid related pressure on the budget offset by savings as a result of decreased applications.
 - £7 million to assist with CO2 and ventilations assessments and monitors.
 - £6.8 million further support for legal aid resilience fund to support the Justice sector through the pandemic.
14. Reductions to allocations include the following:
- £7.8 million release of Covid-19 funds initially allocated to Social Justice across an array of programmes. Partly due to programmes now commencing in 2022-23 and partly as a result of further funding provided during the winter package.
 - £25 million reduction in Scottish Funding Council funding due to lower than expected demand on further education student support schemes.
 - £6.2 million of Covid funding released by Registers of Scotland as a result of better than forecast income received.

A.2.2 Other Funding Changes

Non Covid Funding Changes (£m)	Gross Funding Changes	Reductions	Net Funding Changes
Health & Social Care	0.0	0.0	0.0
Social Justice, Housing & Local Government	145.4	-102.2	43.2
Finance & Economy	95.7	-91.5	4.2
Education and Skills	44.1	-42.0	2.2
Justice and Veterans	245.7	-28.1	217.7
Net Zero, Energy & Transport	0.6	-27.8	-27.3
Rural Affairs & Islands	13.0	-86.8	-73.8
Constitution, External Affairs & Culture	3.4	-2.6	0.8
Deputy First Minister & Covid Recovery	0.0	0.0	0.0
Crown Office and Procurator Fiscal	14.5	0.0	14.5
Scottish Government	562.4	-380.9	181.5
National Records of Scotland	0.1	-1.0	-0.9
Office of the Scottish Charity Regulator	0.0	0.0	0.0
Scottish Courts & Tribunals Service	3.8	-3.8	0.0
Scottish Fiscal Commission	0.0	0.0	0.0
Revenue Scotland	0.0	0.0	0.0
Registers of Scotland	1.9	0.0	1.9
Food Standards Scotland	0.3	0.0	0.3
Scottish Housing Regulator	0.0	-0.3	-0.3
NHS and Teachers' Pensions	0.0	0.0	0.0
Scottish Administration	568.5	-386.0	182.4
Direct-Funded Bodies			
Scottish Parliamentary Corporate Body	0.0	-0.7	-0.7
Audit Scotland	0.0	0.0	0.0
Total Scottish Budget	568.5	-386.7	181.7

15. Significant funding changes include:

- £183 million of additional funding for Police & Fire Pensions in Justice & Veterans.
- £47.5 million additional funding for Emergency Services Mobile Communications in Justice & Veterans.
- £32.9 million additional funding to Social Justice to support the delivery of Scottish Child Payment Bridging Payments for around 150,000 children and young people from low income households.
- £19 million to support the delivery of Scotland's export growth plan in the Finance & Economy portfolio.
- £16.6 million capital allocation for Social Security programme costs.
- £15.6 million additional funding to Local Government to support the Teacher Induction Scheme and allow the employment of around 3,000 teachers on their induction year in schools.
- £15 million additional funding for working capital for the Scottish Police Authority in Justice & Veterans.

- £12.3 million additional funding provided to enable unitary charges from the Schools for the Future programme's revenue funded projects.
- £12.2 million additional funding for Cities Investment in Finance and Economy.

16. Funding changes to support the 100 Day Commitment include:

- £50 million additional funding to increase teacher numbers by 1,000 and classroom assistants by 500 to assist with education recovery in Local Government.
- £25 million additional funding to 3,000 SMEs to invest in digital capability to increase competitiveness, productivity and growth in the Finance & Economy portfolio.

17. Reductions to allocations include the following:

- £77 million of ring-fenced funding reprioritised for use on Farmers, Crofters and Land Managers journey towards net zero, with a small proportion of underspend relating the demand-led variance which can occur in agricultural or rural schemes in the Rural Affairs and Islands portfolio.
- £40 million released from the Affordable Housing Supply Programme due to ongoing supply issues and the effect this has on the pace of delivery.
- £33.3 million reduction from Enterprise, Trade and Investment as a result of lower financial transaction uptake couple with significant investment exits within Scottish Enterprise, in the Finance & Economy portfolio.
- £24.1 million reduction from Finance and Economy due to underspends in the Young Person's Guarantee.
- £20.3 million released by the Scottish Prison Service as Covid and Brexit have caused slippage in capital programme at the Women's National Facility in Stirling as well as IT projects slowing down.
- £19.9 million returned from Social Security in respect of Advice, Policy and Programme Costs savings.
- £19.4 million returned from Social Security to reflect demand led benefit expenditure.
- £16.9 million released by the Scottish Funding Council after lower than anticipated demand from institutions for funding through the financial transactions budget, in the Education and Skills portfolio.
- £15.3 million released from Concessionary Fares and Bus Services to reflect the budget requirement for the U22 Concessionary Travel Scheme.
- £12.5 million released from Enterprise Zones as it is not required by the University of Strathclyde to complete works during the current financial year on the National Manufacturing Institute Scotland building.
- £10.7 million released by the Scottish Funding Council following receipt of European Structural Funds income.

A.3 Whitehall Transfers

16. There are eight specific Whitehall transfers and allocations from HM Treasury recognised at the Spring Budget Revision. The net positive impact on the Scottish Budget is £131.2 million.

17. The largest of these relates to a further instalment of the migrant health surcharge of £62.4 million. This income is pooled centrally by the UK Government and redistributed on a Barnett basis. However as this is not based on additional departmental allocations by HM Treasury it is not classified as a Barnett Consequential.

18. £65 million of COP26 transfers are included across a number of budget lines, the largest being £51.5 million for increased policing and staff costs. These transfers were to cover specific costs of the Conference as agreed between the Scottish and UK Governments and have no impact on Scottish Government discretionary funding.

19. Other amounts include:

- £0.7 million in respect of the Scottish Infected Blood Support Scheme;
- A transfer from Department for Transport of £0.9 million for Dundee to Stanstead PO;
- £0.8 million transfer from DEFRA to Marine Scotland;
- £1.1 million transfer of funding from the Tampon Tax for Scottish Charities;
- a transfer to Food Standards Scotland of £0.1 million; and
- a £0.1 million transfer for the Edinburgh Cultural Summit.

A.4 Technical Adjustments

20. In line with past years, the Spring 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 Spring Budget Revision are -£357.3 million and are summarised below.

21. The largest technical change (-£298.7 million) relates to a reduction in the Student loans non cash RAB charge requirement. This is to cover the latest estimates from economists on the impact of the current macro-economic climate on impairment of the student loan book.
22. There is a reduction to the AME provision for future NHS and Teachers pension costs (-£94.2 million). This arises from reduced opening pension liability and reduced current service costs.
23. There is also an upward adjustment to the non-cash budget of £18.4 million due to increases of £12.6 million in Health and net increase of £5.8 million in other portfolios' non-cash budgets.
24. In addition, the Spring Budget Revision reflects net technical adjustments to align budgets with the year-end accounting requirements for the Scottish Budget for revenue financed infrastructure projects as set out in the Government Financial Reporting Manual (the FReM) of £36.6 million.
25. The Spring Budget Revision records other AME adjustments, as agreed with HM Treasury to cover provisions, impairments, fair value adjustments and pension liabilities (net -£44.1 million).
26. Other technical adjustments to the Expenditure Limit budget include £5 million for the Sleeper Service related to a pre-payment and £15 million to Scottish Police Authority for working capital.

A.5 Internal Transfers

27. 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'.
28. The significant budget internal transfers between portfolios include:

- transfer from Health & Social Care to Social Justice, Housing & Local Government to support the Adult Social Care Winter Plan (£142.3 million);
- transfer from Health & Social Care to Social Justice, Housing & Local Government for the Best Start Foods Scheme (£12.0 million);
- transfer from Health & Social Care to Social Justice, Housing & Local Government for the Self Isolation Assistance service (£9.1 million);
- transfer from Health & Social Care to Marketing for public awareness campaigns about Covid-19 (£15.0 million);
- transfer from Health & Social Care to Marketing for various Health marketing campaigns (£6.8 million);
- transfer from Health & Social Care to Education & Skills in respect of nursing and midwifery education (£13.3 million);
- transfer from Health & Social Care to Education & Skills in respect of Clinical Academies and SAGP funding (£7.3 million);
- transfer from Social Justice, Housing & Local Government to Finance & Economy for the Community Recovery Fund (£9.0 million);
- transfer from Net Zero, Energy & Transport to Finance & Economy to fund Offshore Wind projects (£6.5 million);
- transfer from Finance & Economy to Education & Skills for additional college courses and grad internships (£9.5 million); and
- transfer from Finance & Economy to Education & Skills for the National Transition Training Fund (£7.5 million).

29. The Spring 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.

B. Covid-19 Allocations and Expenditure

1. Since the outset of the pandemic there has been significant interest in Covid-19 related expenditure, and the comparisons with the level of Covid-19 funding (Barnett Consequentials) which the Scottish Government has received. There are a number of points to note in any analysis:
 - The timing of and scale of UK funding announcements. The Scottish Government may be given advanced notice of a certain level of funding being made available in relation to specific UK measures, but without the detail on whether this funding is Covid related or not. Final confirmation of funding levels and detail of the Barnett consequentials may vary and is often after the Scottish Ministers have made allocation decisions based on provisional figures. It is has often been necessary to provide rapid Scottish Government responses as the Covid pandemic has evolved and is not practical to await confirmation of the final detail of the consequential funding before doing so.
 - Similarly there may be differences in initial funding allocations and final take up of that funding for individual measures announced by Scottish Ministers. This means that final Scottish Budget allocations may not reconcile with the initial funding announcement.
 - Judgement on what is Covid-19 expenditure. In many cases, such as business support and some health expenditure, there is a clear (or clearer) distinction between Covid and Non Covid expenditure. Where discretionary funding is provided to Local Government, as just one example, the distinction is less clear.
 - Covid funding may support on-going activities of an individual organisation, for example where it has been allocated to compensate for loss of income as a result of the pandemic.
 - Formal Covid-19 allocations do not necessarily reflect all Covid-19 expenditure. As an example increased staff costs are generally classified as non-Covid despite these costs increasing for some core areas of Scottish Government and other public sector bodies as a direct result of the pandemic.
 - As the pandemic moves from a direct response phase to a recovery phase the judgement on the distinction between Covid and non Covid expenditure will become increasingly blurred. In addition the UK Government have indicated that specific Covid-19 funding will cease in 2022-23.
 - Covid-19 is not a formal budgetary or accounting classification. The Scottish Government has to balance its budget and remain within overall control aggregates, whilst ensuring that its Accounts are compliant with International Financial Reporting Standards (IFRS). Overall funding availability and budget limits must take precedence when budget allocations are finalised.
2. Despite these challenges and caveats this section seeks to provide the comparisons between Covid-19 allocations, Covid-19 Funding to date and an estimate of Covid-19 expenditure to December for financial year 2021-22.

B.1 Cumulative Covid-19 Consequentials and Budget Allocations

3. The 2021-22 UK Supplementary Estimate brings the total Covid-19 funding received from the UK Government to just over £14.5 billion. Final confirmation of this position was received after the Spring Budget Revision was finalised.

UK Government Covid Allocations to SG (£m)	Resource	Capital and FTs	Total
2020-21 Funding Allocated by UK Government as Barnett Guarantee	8,600		8,600
2020-21 Funding Allocated by UK Government at Supplementary Estimate	874	278	1,152
2021-22 Funding Allocated by UK Government - UK SR20	1,328		1,328
2021-22 Funding Allocated by UK Government - Budget	1,206		1,206
2021-22 Funding Allocated by UK Government - Main Estimate	1,000		1,000
2021-22 Funding Allocated by UK Government - UKSR21	516		516
2021-22 Funding Allocated by UK Government – Estimated Supplementary Estimate	707	55	762
Total	14,231	333	14,564

- The £707 million here includes £143 million of “Budget Cover transfers” in relation to Test and Trace/vaccination. The UK Government did not classify this as a Covid-19 Barnett Consequential but has been included in this total for completeness.
- This is the cumulative total of Covid-19 funding received across financial years 2020-21 and 2021-22. £1.15 billion received at Supplementary Estimate 2020-21 (the amount over and above the £8.6 billion guaranteed) was deferred into 2021-22. The timeline of Scottish Government Covid-19 funding allocations is as follows.

Deployment of funds to support Covid response By Scottish Government (£m)	Resource	Capital and FTs	Total
2020-21 Budget Revisions	8,677	11	8,688
2021-22 Scottish Budget Bill as Amended	3,593	278	3,871
2021-22 ABR	1,050		1,050
2021-22 SBR	1,162	84	1,246
Total	14,482	373	14,855

- The SBR brings total Covid-19 funding allocations to over £14.8 billion, c£300 million more than the UK funding received (with the balance over and above the UK allocations made up from central reserves and reprioritisation). As indicated above there are some points to note in considering direct comparisons.
- Firstly this is the “net funds deployed” . This shows the total budget allocations used to support Covid-19 after some Covid funding has been redeployed on other Covid-19 measures. Examples would include support originally earmarked for health being redeployed for self-isolation grants and demand led transport and business support schemes being adjusted to reflect the most emergent needs.
- Secondly, the £278 million of Capital and Financial Transactions in the Scottish budget were not specifically delineated between Covid-19 and Non Covid expenditure. Capital and Financial Transactions budget by their nature have to be managed in totality and used to support the Capital Spending Review and to deliver the projects and programmes outlined in the Infrastructure Investment Plan. Nonetheless capital has been deployed to support Covid-19 measures, in areas such as ventilation, as shown in the latest Spring Budget Revision allocation.
- Thirdly, there was a small element of Covid-19 resource funding (c£70 million), which indirectly ended up supporting the Non-Covid Budget following the UK Budget in March. This was as a result of the March UK Budget reducing Non-Covid funding which was allocated in the UK Spending Review of 2020, but adding greater volumes of Covid-19 funding.
- However what this analysis does show is that, despite the complications with timing, classification and judgement, the Scottish Government has deployed all of the Covid-19

funding it has received over the course of the pandemic to directly support Covid-19 response measures.

B.2 Actual Covid-19 Expenditure

11. As indicated above, the focus for Scottish Government outturn and publication of actual expenditure is through the annual accounts process. The accounts are prepared on a total funding basis under IFRS classifications. Nonetheless for the period 2020-21 the Scottish Government did provide an update on the outturn of Covid-19 expenditure, which was further clarified through responses to freedom of information requests. This analysis is summarised by portfolio at level 2 in Annex A.
12. This analysis shows £8.78 billion of Covid-19 expenditure versus the £8.69 billion of (net) funds deployed through the budget allocations process in 2020-21. However there are a number of offsetting differences here for example the proportion of Capital expenditure shown as Covid-19 related is greater than the Capital funding allocated for Covid-19 purposes (partly as a result of differences between budgeting and accounting classifications). Equally the resource outturn is less than Covid-19 budget allocations as a result of lower demand led expenditure on Transport support schemes and re-profiling of Health funding into 2021-22.
13. The latter points on Health and Transport also help to explain the overall resource outturn position and the Scotland Reserve addition in respect of 2020-21, as the Minister for Public Finance explained in the Provisional Outturn statement in June 2021. The Scotland Reserve is discussed in more detail in section C below.
14. At this point in the financial year there remains scope for considerable volatility in the final outturn data for Covid expenditure for 2021-22. Nonetheless the Scottish Government estimates Covid expenditure for the period 1 April to 31 December has reached £3.05 billion. The three main portfolios incurring the majority of the Covid spend to December are:
 - Social Justice Housing and Local Government with actuals of £1.26 billion; £726 million being business rates relief and £429 million to Local Government.
 - Health actuals to date of £862 million. Figures reported are chiefly based on the allocations provided to Health Boards up until the end of December. There have been significant additional allocations provided since, reflecting the full year costs of a number of areas of Covid expenditure. This funding is provided on a non-repayable basis to all Boards, ensuring that all will deliver a balanced financial outturn. This is in line with the approach taken in 2020-21.
 - Finance and Economy actuals of £524 million includes spend in Business Support of £507 million. The vast majority of this relates to the Business Support vehicles open at the start of the financial year. The majority of the Business Support package announced in December 2021 will be captured in quarter 4 expenditure of 2021/22.
15. The table below provides further details of actual Covid expenditure for the period 1 April to 31 December 2021. Please note figures provided are based on a strict interpretation of where expenditure can be clearly distinguished between Covid and non-Covid. This should therefore be seen as an interim (and conservative) estimate to date.

Portfolio	Area of Spend	Actuals as at Dec-21 £m
Health & Social Care	Health	862
Health & Social Care TOTAL		862
Social Justice, Housing & Local Government	Non-Domestic Rates	726
Social Justice, Housing & Local Government	Local Government	429
Social Justice, Housing & Local Government	Anti-Poverty Measures	73
Social Justice, Housing & Local Government	Carers Allowance Supplement	19
Social Justice, Housing & Local Government	Self-Isolation Payments	9
Social Justice, Housing & Local Government	Other	3
Social Justice, Housing & Local Government TOTAL		1,259
Finance & Economy	Business Support	507
Finance & Economy	Tourism	8
Finance & Economy	Employability	5
Finance & Economy	Self-Isolation Payments	5
Finance & Economy	Registers of Scotland	1
Finance & Economy	Other	13
Finance & Economy TOTAL		524
Education & Skills	Central Government Grants to Local Authorities	20
Education & Skills	Higher Education Student Support	15
Education & Skills	Scottish Funding Council	12
Education & Skills	Learning	12
Education & Skills	Early Learning and Childcare	6
Education & Skills	Advance Learning	2
Education & Skills	Children & Families	2
Education & Skills TOTAL		70
Net Zero Energy & Transport	Rail Services	144
Net Zero Energy & Transport	Bus	70
Net Zero Energy & Transport	Ferry Services	12
Net Zero Energy & Transport	Active Travel	11
Net Zero Energy & Transport	Air Services	10
Net Zero Energy & Transport	Nature Scotland	2
Net Zero Energy & Transport	Royal Botanic Gardens Edinburgh	2
Net Zero Energy & Transport	Environmental Services	1
Net Zero Energy & Transport TOTAL		252
Justice	Scottish Courts and Tribunal Services	21
Justice	Scottish Police Authority	6
Justice	Community Justice Services	5
Justice	Scottish Prison Service	2
Justice	Scottish Fire and Rescue Service	2
Justice	Armed Forces Support (Veterans)	1
Justice TOTAL		37
Constitution, External Affairs & Culture	Historic Environment Scotland	20
Constitution, External Affairs & Culture	Creative Scotland & Other Arts	18
Constitution, External Affairs & Culture	Cultural Collections	2
Constitution, External Affairs & Culture	Covid Inquiry	4
Constitution, External Affairs & Culture	Other	1
Constitution, External Affairs & Culture TOTAL		46
Corporate Running Costs	Corporate Running Costs	1
Corporate Running Costs TOTAL		1
TOTALS		3,052

B.3 2021-22 Business Support

16. Following the announcement of £375 million of additional business support, the Spring Budget Revision provided the budget allocation in full to business (£295 million) and cultural sectors (£64 million). However the specific funding allocations to businesses have occurred in distinct tranches. The transport allocation of £16 million is not shown as an addition in the Spring Budget Revision as this was funded by offsetting savings elsewhere within the NZET portfolio.

17. The full £295 million allocated to COBRA at SBR has now been specifically allocated as follows:

- £66 million for hospitality businesses impacted by the cancellation of Christmas parties

- £32m for eligible hospitality and leisure businesses due to impact of physical distancing and caps on attendance
- £10m targeted support for hospitality businesses most affected by the requirement for table service
- £5m for nightclubs who are required to close
- up to £28m for the taxi and private hire sector
- £19m for close contact businesses such as hairdressers and beauticians
- £17m for food and drink supply chain businesses including wholesalers
- £1m for brewers
- £9m for the worst affected businesses in the tourism sector*
- up to £5m for the sport sector
- £3m for wedding sector supply chain businesses
- additional £16 million for culture and major events
- £7.5 million to support inbound tour operators
- £6.5 million to support the childcare sector
- £3.5 million for outbound travel agents
- £3 million for city centre recovery
- £3 million to help digitalise SMEs to increase competitiveness, productivity and drive growth (Digital Boost)
- £80m Covid Economic Recovery Fund (delivered by Local Authorities)
- A further £3m allocated to the city centre recovery fund
- A further £3.3m to the childcare sector
- A further £2.4m for the outbound travel sector

* This was funded by £6m from within the £375m business support allocation and £3m reprioritised from existing budget within Tourism

18. The first elements here were included in the Cabinet Secretary for Finance and Economy's letter to MSPs on 1st February. A latter tranche of £39.5 million was announced during the opening statement of Stage 3 of the 2022-23 budget and based on consultation with affected sectors on how it can best be targeted, particularly in light of requests for funding to focus on recovery work and final allocations were announced on 21st February ahead of the Strategic Framework Update. The above specific allocations total greater than the £295m funding as underspend on some of the earlier funds announced, where business demand has been less than initially forecast, has been repurposed into later announcements.

19. The £64 million allocated to culture was already itemised in the Spring Budget Revision as follows:

- £41.5 million for Creative Scotland
- £9.8 million for visit Scotland,
- £9 million for major events,
- £2 million for National Performing Companies for Christmas losses
- £1.7 million Museums

20. This has been supplemented by a further £1 million for Major Events Sector. With Creative Scotland allocation including support for cinemas of £2.5 million.

C. Scotland Reserve and Funding Position Details

1. Covid-19 has had a significant impact on the volatility of Scottish Government funding. This has exacerbated the challenge of balancing the management of a growing budget within the narrow limits afforded by the Scotland Reserve. To assist with understanding, this section provides the Committee with:
 - An analysis of the current forecast Scotland Reserve position.
 - How this position reconciles to the Spring Budget Revision.
 - How the reserve position interacts with budgets across financial years.
2. The Scotland Reserve is a limited facility to carry forward funding across financial years. This includes:
 - Planned carry-forward for specific purposes such as the £120 million currently set aside for additional Local Government funding in the 2022-23 Budget,
 - Underspends on existing budgets which emerge late in the financial year, after they can be redeployed.
 - Changes to funding (such as devolved taxes) or to expenditure, which are formalised in the provisional outturn process after the end of the financial year.
 - Changes to funding or to expenditure, which are formalised through final outturn process and completion of the Scottish Government Accounts.
3. The Scotland Reserve position evolves continually across the financial year with the emerging outturn position for a particular year influencing the funding available to support future year funding. There is an extended period of overlap with the closing balance for one financial year impacting the drawdown plans for the next two financial years - so for example the final outturn position for 2020-21 happened concurrently with the finalisation of the 2022-23 Scottish Budget document.
4. Despite this continually evolving, volatile position, reserve limits remain fixed. Those limits being a cap of £700 million with annual drawdowns normally restricted to £250 million for Resource and £100 million for Capital and Financial Transactions combined. As we are currently within a defined period of “Scotland Specific Economic Shock” (as set out in the Fiscal Framework) the annual drawdown limits are waived but the cap of £700 million remains.
5. In practical terms this means that the scale of any planned carry-forward increases the risk of a breach in the reserve cap as there is less capacity to accommodate emerging funding and expenditure changes in outturn. A planned (or expected) carry-forward in a Budget is effectively a “target” underspend for the current financial year. Not planning a drawdown means funds are not allocated as efficiently as possible in the budget setting process as it is inevitable that some underspends emerge given the requirement to balance a budget.
6. The latest forecast position is set out in table C.1 below. To assist the Committee the following explanation seeks to show how the position changes over time.

	Resource £million	Capital £million	FT £million	Total £million
2019-20 Opening balance	(381.1)	(65.3)	(158.6)	(605.0)
2019-20 Withdrawals	248.8	60.0	120.0	428.8
2019-20 Additions	(85.1)	(74.3)	(96.9)	(256.3)
2020-21 Opening balance	(217.4)	(79.6)	(135.5)	(432.5)
2020-21 Opening balance	(217.4)	(79.6)	(135.5)	(432.5)
2020-21 Withdrawals	170.6	79.6		250.2
2020-21 Additions	(357.9)	(6.8)	(61.4)	(426.1)
2021-22 Opening balance (Final Outturn)	(404.7)	(6.8)	(196.9)	(608.4)
2021-22 Opening balance (Final Outturn)	(404.7)	(6.8)	(196.9)	(608.4)
2021-22 Planned drawdowns	404.7	6.8	196.9	608.4
2021-22 Forecast Additions (Based on latest Budget Monitoring)	(400.0)	(144.0)	(61.0)	(605.0)
2021-22 Forecast Closing Balance	(400.0)	(144.0)	(61.0)	(605.0)
2022-23 Forecast Opening balance	(400.0)	(144.0)	(61.0)	(605.0)
2022-23 Planned drawdowns	332.0	118.0	61.0	511.0
2022-23 Forecast Additions	-	-	-	-
2022-23 Forecast Closing Balance	(68.0)	(26.0)	-	(94.0)

Notes:

- *Additions to the Scotland Reserve represent outturn versus budget for each applicable year. Further details explained in narrative below.*
- *The business as usual drawdown limits were waved in 2019-20 as a result of late reductions to Capital and Financial Transactions budgets. The drawdown limit is waved in 2021-22 and 2022-23 as a result of the Scotland Specific Economic Shock.*
- *2021-22 Forecast Additions are based on the latest budget monitoring position at time of writing and are against the Spring Budget Revision allocation.*

C.1 2020-21 Final Outturn and the Scotland Reserve

21. The current year (2021-22) Scotland Reserve balance available for drawdown is dependent on the opening balance available. This is itself linked to the final outturn versus budget position for 2020-21.
22. The process for assessing this opening balance effectively starts with the drafting of the 2021-22 Budget, which was over two months before the end of the financial year in January 2021. At this point an assessment has to be made as to what funding is expected to be available for subsequent use in 2021-22.
23. Table C2 below illustrates how projections of the available reserves at the start of the 2021-22 financial year change over time. This is not an exhaustive list of projections, rather it highlights the position at a number of key points in the financial cycle.
24. It should be noted that all in-year drawdowns were adjusted to balance the 2020-21 Budget and managing the changing carry-forward requirement. At the same time there was a need to ensure the £700 million total cap was not breached.

	Resource	Capital	FT	Total
	£million	£million	£million	£million
Opening 2021-22 Scotland Reserve Balance (projected)				
At publication of 2021-22 Scottish Budget in January 2021	231		200	431
At Stage 3 of 2021-22 Scottish Budget in March 2021	400		200	600
At 2020-21 Provisional Outturn in June 2021	421	8	203	631
At 2020-21 Final Outturn in December 2021	405	7	197	608
Planned Use of Available Scotland Reserve in 2021-22				
At publication of 2021-22 Scottish Budget in January 2021	231	0	200	431
At Stage 3 of 2021-22 Scottish Budget in March 2021	192		200	392
Late March 2021	360		200	560
At 2020-21 Provisional Outturn in June 2021	421	8	203	631
At 2020-21 Final Outturn in December 2021	405	7	197	608

25. At the time of the 2021-22 Scottish Budget the entire forecast reserve position was planned to be used to support the budget position. This was for two broad purposes:

- As a general rule this is the most efficient use of forecast funds available, by inclusion within the Scottish Budget.
- Given the Scotland Specific Economic shock rules applying in 2021-22 this provided the opportunity to support the planned FT budget at a time where the UK Government funding allocation had reduced significantly. It also minimised longer term headroom issues with the reserve, and financial transactions in particular.

26. There is a continuing challenge of managing the budget flexibly within the drawdown limits of £250 million resource and £100 million for Capital and Financial Transactions. There is a specific risk that Capital and Financial Transactions can build up over time and cannot be deployed within the drawdown limits, such that overall headroom becomes constrained. The Scotland Specific Economic shock rules provided an opportunity to mitigate this in 2021-22 and also assist with the reduction to the Financial Transactions Barnett funding applied in 2021-22.

27. Two things changed in March 2021 at the same time as stage 3 of the 2021-22 Budget process. The UK Budget provided more Covid-19 consequentials for 2021-22 than were previously expected, but also reduced Non Covid Funding. Separately there was an increasing requirement to ensure additional capacity was made in the reserve for Health and Agriculture expenditure which was being re-profiled into 2021-22. The former underpinned a reduction to the previous planned carry forward, the latter drove an increase in balance.

28. At the commencement of the 2021-22 financial year, Cabinet agreed to the principle of drawing down all available funds in the Scotland Reserve, over and above the already agreed £560 million. This relatively small balance (£71 million at the time) was to support the management of in year budget pressures as they emerge, and the effective management of Scotland Reserve headroom over time. Whilst this balance has fluctuated between provisional and final outturn this principle has remained the same for internal budget monitoring purposes.

29. The Scotland Reserve utilises the underspend against HM Treasury funding aggregates, This is different from the underspend reported in the Scottish Government Accounts. Table 3.3 below set out the differences.

2020-21 Outturn	Operating	Capital		Total
SG Accounts	373	207		580
Timing and classification differences	(15)	11		(4)
	Resource	Capital	FTs	Total
SG Underspend - HMT Funding	358	7	211	576
Repayment of financial transactions			(150)	(150)
Scotland Reserve Addition	358	7	61	426

30. The minor differences between the Scottish Government underspend as reported in the Accounts (and discussed in detail by Audit Scotland) and underspend against HM Treasury budget aggregates arise through a number of reasons; differing accounting and budgeting treatment of capital expenditure, differences in the scoring of working capital for non-departmental public bodies and different treatment of expected credit losses.
31. In addition the Scottish Government is required to repay an element of Financial Transaction budget provision to HM Treasury. This scale of the repayment was agreed in principle with the UK Treasury at the end of March and the amount finalised in mid-April.
32. The final decision on the level of repayment was taken to ensure that capital and resource funding in the reserve was protected and there was no surrender of funding required as a result of breaching the reserve limit.
33. Whilst Covid-19 has clearly exacerbated the volatility of the funding position, the issues with managing funding volatility within such a tight and fixed reserve limit grow every year as the size and complexity of the budget increases. The practical issues make it difficult to set aside reserves against future year negative reconciliations and decisions on the effective deployment of funds in the latter months of the financial year are hampered by the need to ensure the reserve cap is not breached and funding surrendered. When the Scotland Specific Economic Shock rules expire in 2023-24 this risk will increase.

C.2 2021-22 Funding and the Scotland Reserve

34. As the Cabinet Secretary for Finance and the Economy has made clear on a number of occasions, the differences between the UK and Scottish Government budget processes and timetables and the limited budget flexibilities available to Scottish Ministers can also give rise to issues and this is particularly relevant in the latter half of the financial year.
35. The Scottish Government Block Grant allocation (and associated BGAs) for a particular year are determined initially at UK Spending Reviews. This Block Grant allocation will then be updated at subsequent UK Fiscal events, with Barnett consequentials related to changes in funding allocations to UK Departments for particular policy developments in areas of devolved responsibility, or for specific budget transfers from equivalent UK Departments.
36. These changes in UK funding are then incorporated within the appropriate Scottish Budget publication. So the initial budget publication for a particular financial year will use as the start point the latest Block Grant position, which would be the figure from the latest UK fiscal event – normally the UK Autumn Budget preceding the Scottish Budget. Any funding changes from UK Spring statement and UK Main Estimate would then be reflected at the Autumn Budget Revision and additional in year funding from the subsequent UK Autumn Budget and the Supplementary Estimate shown in the Spring Budget Revision.

37. One key difference between in year funding in 2020-21 and 2021-22 is the absence of a Barnett guarantee or any pre-arranged carry-forward agreement with HM Treasury outside of the Scotland Reserve.
38. As discussed above the Scottish Government had already decided to utilise all existing reserves in 2021-22 for both budget and reserve management reasons. Therefore there is no distinction between underspends in 2021-22 (HM Treasury definition) and the closing reserve forecast.
39. However at the time of the Autumn Budget Revision there remained a balance of £328 million not formally allocated within the Scottish Budget. This was theoretically comprised of the residual Scotland Reserve balance of £71 million (paragraph 24 above) along with the balance of £257 million of other consequentials which had been added at UK Main Estimate process but was not supporting the allocations made in the Autumn Budget Revision.

£'m	Resource	Capital	FTs	Total
Balance left for deployment at ABR	82	228	18	328
Of which Scotland Reserve	61	8	3	71
Of which Unallocated Funding	21	220	16	257

40. In the scrutiny of the 2022-23 budget the Finance and Public Administration's questioned whether the £20 million of resource "underspend" for 2021-22 would be allocated in the Spring Budget Revision. In reality, timing differences account for the majority of unallocated funding in any budget revision. Not every financial commitment or forecast movement in funding could be reflected in the ABR for the following reasons:
- The level of certainty of a commitment or funding allocation is unclear.
 - A commitment may be known but the quantum required to support it remains uncertain.
 - Adverse movements in funding may be known but remain subject to confirmation. The relevant example here would be the reduction in Scotland Reserve balance between provisional and final outturn.

41. It is therefore necessary to adopt a prudent approach to funding changes in the Autumn Budget revision to ensure the budget remains balanced. This is partly because there remains the option to reflect further changes in the Spring Budget Revision when commitments or funding changes will become clearer.

C.3 SBR Position, 2022-23 Carry forward and Late Funding Changes

42. The UK Supplementary Estimate and Scottish Spring Budget Revision processes overlap and any delay in finalising UK Supplementary Estimate funding can impact on whether a final budget position can be fully incorporated in the SBR. In many years the impact of this overlap is insignificant with any funding changes that are confirmed after the SBR is finalised relatively minor. These can be picked and reflected as part of the outturn position and incorporated in the movements in the Reserve, or if HM Treasury agree, deferred into the subsequent financial year. 2021-22 does illustrate that where there is significant late volatility in the funding

position, the need to complete the SBR in accordance with the Scottish parliamentary timetable can give rise to issues.

43. To comply with the Scottish parliamentary processes the SBR was published on 3 February. To enable finalisation of the document officials had pressed for confirmation of the final UK funding position. HM Treasury provided an updated funding position on 26 January, which included a clear indication that this was close to final, with any subsequent movement likely to be in the region of plus or minus £20 million. This is the position that is reflected in the SBR document and that underpins the decision taken to use the Scotland Reserve to carry forward the £120 million of additional funding allocated to Local Government as part of the 2022-23 Budget process.
44. On 3 February, the same day as publication of the SBR, the UK Government announced the package of Cost of Living measures with an associated consequential impact for Scottish Government of around £290 million. In subsequent days it became clear that the Supplementary Estimates funding position as whole was being revised and the £290 million of anticipated consequentials were effectively being fully offset with reductions in the levels of funding previously indicated (funding that was fully incorporated in the Spring Budget Revision). On 10 February the Cabinet Secretary for Finance and the Economy set out the Scottish Government Cost of Living measures which fully utilise the c£290 million of consequentials allocated as a result of the UK equivalent announcements on 3 Feb. These consequentials will be deferred into 2022-23 to fund these measures, so will not form part of the 2021-22 funding envelope.
45. Tables 1.7 (a) and (b) of the Spring Budget Revision supporting document provide details of the sources of funding that support the changes applied in the revision and the overall movement on available resources.
46. Table C2.1 below sets out a funding analysis that reconciles to the position shown in table 1.7 of the document and then flows through the impact of the subsequent changes to the final Block Grant allocation.

£m	Resource	Capital	FTs	Total
Closing Reserve balance brought forward from 2020-21	405	7	197	608
Additional funding from UK Main Estimate	1,025	222	16	1,263
Other Movements in Funding	3	- 54	-	- 51
Additional UKSR Consequentials	516	89		605
Estimated Impact of Supplementary Estimate	984	- 123	- 9	852
Total funding available for deployment at SBR	2,933	141	204	3,278
Already deployed in 2021-22 budgets	- 192		- 200	- 392
Deployed at Autumn Budget Revision	- 1,172	- 2		- 1,174
Deployed at Spring Budget Revision	- 1,363	- 108	43	- 1,429
Total Funding Deployed after SBR	- 2,728	- 110	- 157	- 2,994
Balance left for deployment per SBR	206	31	47	283
Change in HMT Supplementary Estimate	- 14		- 21	- 35
Less funding now carried forward	- 290			- 290
Balance left for deployment	- 98	31	26	- 42

47. The table shows that prior to the final set of funding adjustments there was £283 million of unallocated funding set aside for reserve carry forward to meet the commitments embedded within the 2022-23 Budget position. After adjusting for the final Supplementary Estimate position the SBR is £98 million over-allocated against the Resource budget limit, essentially a managed underspend of at least £98 million on the allocated Resource is required to balance within the HM Treasury funding limits.

48. However the 2022-23 Budget also incorporates a required carry forward of underspend through the reserve. Table C2.2 below sets out the minimum required carry forward required to support the 2022-23 funding position.

Carryforward Requirments (£m)	Resource	Capital	FTs	Total
Scotland Reserve assumptions in the Scottish Budget	-	118.0	61.0	179.0
Carryforward now required to meet £620 million Other Income Assumption	212.0	-	-	212.0
Carryforward now Required for Local Government	120.0	-	-	120.0
Total Carryforward Requirement in Scotland Reserve	332.0	118.0	61.0	511.0

49. The table shows a reserve carry forward requirement of £511 million in total. The reduction in expected funding means that previously planned spending against the Spring Budget Revision limits in some areas will be actively constrained – notably in Health where the final consequential position was far less than previously anticipated. Active management of spending in the final quarter of the year is always necessary to balance the budget within the very tight margins imposed by the fiscal framework. That active management of the financial position in 2021-22 is still expected to deliver the necessary levels of underspend required to support the 2022-23 Budget.

50. As with the Autumn Budget Revision there remains some movements in funding and expenditure which have not been reflected in the Spring Budget Revision - these will result in outturn variances and contribute to the level of underspend required to reach the target level of underspend. Examples here include positive movements on devolved taxes, late changes to borrowing plans and expected underspends in transport and other demand led programmes such as Social Security benefit expenditure. The latest monitoring position as summarised in table C.1 above (2021-22 Forecast Additions) should therefore be seen as a central estimate within a range.

D. Annexes

D1 Annex A. 2020-21 Covid Expenditure

Portfolio Level 2	Capital £m	FTs £m	Resource £m	Total £m
Health and Sport	-	25	2,730	2,755
Personal Protective Equipment	-	-	448	
Hospital scale up - Staffing and beds	-	-	341	
£500 bonus payment	-	-	198	
Social Care	-	-	196	
Test and Protect	-	-	130	
Adult social care winter plan	-	-	112	
Equipment and Maintenance	-	-	90	
Public Health Measures	-	-	70	
NHS Louisa Jordan	-	-	57	
Other direct Health Board spend	-	-	358	
Other Core Health spend	-	-	700	
Sport	-	25	30	
Communities and Local Government	30	52	3,221	3,303
Local Government				
Small Business Grant Scheme	-	-	800	
Retail, Hospitality and Leisure	-	-	220	
Business Grant Scheme	-	-	972	
Rates Relief	-	-	972	
UKG Consequentials Lost Income	-	-	204	
Scheme	-	-	200	
Local Government Barnett	-	-	200	
Consequentials	-	-	523	
Other Local Government	-	-	11	
Housing				
Housing Sector Funds	-	-	40	
Social Justice and Regeneration				
Addressing Financial Hardship	-	-	40	
Return to Work initiative	-	20	-	
Free School Meals and Community	-	-	39	
Food	-	-	126	
Other Social Justice and	30	-	86	
Regeneration				
Third Sector				
Third Sector Funds	-	32	43	90
Finance	47	-	-	
Digital Strategy	47	-	-	
Other Finance				
Communications, Ministerial	-	-	32	
Support & Workplace	-	-	11	
Registers of Scotland	-	-		
Education and Skills	132	-	330	462
Learning				
Free School Meals over holidays	-	-	17	
Additional Teachers and Support	-	-	53	
Staff	-	-	3	
Digital Inclusion	21	-		

	Education Recovery Funding	-	-	90	
	Other Learning	1	-	2	
<i>Children and Families</i>					
	Winter Plan Social Protection	-	-	25	
	Other Children and Families	-	-	8	
<i>Higher Education Student Support</i>					
	Winter Covid Fund	-	-	21	
	Other HESS	-	-	3	
<i>Advanced Learning and Science</i>					
	Student Hardship funding	-	-	30	
	Further /Higher Education Funding through SFC	-	-	40	
	Additional research funding through SFC	95	-	-	
	Exam Support and other funding to SFC	-	-	26	
	Other Advanced Learning and Science	15	-	12	
<hr/>					
Justice		6	-	30	36
Including					
<i>Legal Aid</i>	Legal aid lawyers hardship fund	-	-	2	
<i>Scottish Police Authority</i>	Covid support	-	-	13	
<i>Scottish Prisons Service</i>	Covid support	3	-	9	
	Other Justice spend	3	-	6	
<hr/>					
Transport, Infrastructure and Connectivity		31	-	615	646
Including					
<i>Rail Services</i>					
	Support for Rail	-	-	421	
	Support for Light Rail	-	-	21	
<i>Concessionary Fares and Bus Services</i>	Support for Buses	-	-	123	
<i>Active Travel, Low Carbon and Other Transport</i>					
	Future Transport Fund	9	-	-	
	Scottish Canals	2	-	1	
<i>Motorways and Trunk Road</i>	Road Network	20	-	-	
<i>Ferry Services</i>	Support for Ferries	-	-	35	
<i>Air Services</i>	Support for Air	-	-	14	
<hr/>					
Environment, Climate Change and Land Reform		35	-	9	44
Including					
<i>Research, Analysis and Other Services</i>	Covid related research	23	-	-	
<i>Environmental Services</i>					
	National Parks support	1	-	1	
	Other support	1	-	7	
<i>Climate Change</i>	Green Recovery Funds	10	-	-	
<i>Scottish Water</i>	Water Testing	-	-	1	
<hr/>					
Rural Economy, Enterprise and Tourism		10	-	165	175
Including					
<i>Rural Services</i>					

	Wholesale Food and Drink Resilience Fund	-	-	6	
	Support through Highlands and Islands Enterprise	2	-	9	
	Support through South of Scotland Enterprise	-	-	2	
	Other Rural Services Funds	8	-	4	
<i>Fisheries & Aquaculture Grants</i>					
	Seafood Hardship Fund	-	-	14	
	Sea Fisheries Support	-	-	9	
<i>Forestry and Land Scotland</i>					
	Forestry Land Scotland	-	-	4	
<i>Tourism</i>					
	Support for Tourism through Visit Scotland	-	-	83	
	Self Catering Fund	-	-	7	
	Support for Tourism through Scottish Enterprise	-	-	27	
Economy, Fair Work and Culture Including <i>Enterprise, Trade and Investment</i>		73	1	1,164	1,238
	Strategic Framework Business Fund			345	
	Hospitality, Retail and Leisure Top-up Fund			234	
	Other Covid support to Local Authorities	71		169	
	Pivotal Enterprise Resilience Fund and Hardship			145	
<i>Culture and Major Events</i>					
	Self Catering Fund and Digital Support			21	
	Culture Funds through Creative Scotland			73	
	Historic Environment Scotland			29	
	Other Cultural support	2	1	19	
<i>Employability and Training</i>					
	Early Stage Funding			37	
	Young Persons Guarantee			44	
	Apprenticeship Employment Grant			21	
	National Transition Training Fund			11	
	Other employability and training spend			16	
Social Security and Older People <i>Social Security Assistance</i>		-	-	27	27
	Carers Allowance Supplement			19	
	Other Social Support			8	
Constitution, Europe and External Affairs		-	-	-	-
Crown Office and Procurator Fiscal Service		-	-	-	-
Grand Total		364	78	8,334	8,776

Finance and Public Administration Committee

Tuesday 8 March 2022

Spring Budget Revision, 2021-22

Introduction

The Spring Budget Revision (SBR) amends the Budget (Scotland) Act 2021 which authorises the Scottish Government's spending plans for the financial year 2021-22. This is the second and final Budget Revision for this financial year, against which outturn spending will be reported in the Scottish Governments annual accounts published later this calendar year.

Details of the proposed changes are set out in the [2021-22 Spring Budget Revision to the Budget \(Scotland\) Act for the year ending 31 March 2022](#) published on 3 February 2022.

The Scottish Government has also issued a Brief Guide to the 2021-22 Spring Budget, which members have received. This contains far more detail than previous Brief Guides and is a welcome development which hopefully will continue alongside future iterations of the Budget Revisions.

The proposed changes detailed in the SBR result in an increase in the approved budget of £1,202.2 million from £56,495.2 million to £57,697.4 million, and can be summarised as follows:

- Funding changes (including COVID-19 allocations) to reflect deployment of available resources to portfolios increasing the budget by £1,428.3 million;
- Whitehall transfers and HM Treasury allocations of £131.2 million;
- Technical adjustments decreasing the budget by -£357.3 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.

COVID-19 funding and other funding changes

The brief guide provides a helpful table which sets out the additional funds which have been allocated by portfolio (+£1,954.2 million), but also the reductions “where funding has been returned to the centre for redeployment” (-£525.9 million). This is reproduced for ease in table 1 below.

Table 1: Net funding changes by portfolio

Portfolio	Gross Funding Changes	Reductions	Net Funding Changes
Health & Social Care	782.0	-100.0	682.0
Social Justice, Housing & Local Government	207.4	-110.0	97.4
Finance & Economy	555.8	-91.5	464.3
Education and Skills	57.8	-67.2	-9.3
Justice and Veterans	252.5	-28.1	224.5
Net Zero, Energy & Transport	0.6	-27.8	-27.3
Rural Affairs & Islands	13.0	-86.8	-73.8
Constitution, External Affairs & Culture	57.6	-2.6	55.0
Deputy First Minister & Covid Recovery	6.9	0.0	6.9
Crown Office and Procurator Fiscal	14.5	0.0	14.5
Scottish Government	1,948.1	-513.9	1,434.1
National Records of Scotland	0.1	-1.0	-0.9
Scottish Courts & Tribunals Service	3.8	-3.8	0.0
Registers of Scotland	1.9	-6.2	-4.3
Food Standards Scotland	0.3		0.3
Scottish Housing Regulator		-0.3	-0.3
Scottish Administration	1,954.2	-525.2	1,428.9
Direct-Funded Bodies			
Scottish Parliamentary Corporate Body		-0.7	-0.7
Total Scottish Budget	1,954.2	-525.9	1,428.2

COVID funding

This overall funding picture is then, again very helpfully, split between COVID and non-COVID funding changes – in line with previous committee recommendations around improving the transparency of COVID-related funding. The COVID funding changes by portfolio are reproduced below in table 2.

Table 2: Net COVID-19 funding changes by portfolio

Covid-19 Funding Changes (£m)	Gross Funding Changes	Reductions	Net Funding Changes
Health & Social Care	782.0	-100.0	682.0
Social Justice, Housing & Local Government	62.0	-7.8	54.2
Finance & Economy	460.1		460.1
Education and Skills	13.7	-25.2	-11.5
Justice and Veterans	6.8		6.8
Constitution, External Affairs & Culture	54.2		54.2
Deputy First Minister & Covid Recovery	6.9		6.9
Scottish Government	1,385.7	-133.0	1,252.7
Registers of Scotland		-6.2	-6.2
Scottish Administration	1,385.7	-139.2	1,246.5
Direct-Funded Bodies			
Total Scottish Budget	1,385.7	-139.2	1,246.5

The Brief Guide sets out some details around the budgets and programmes which have received additional COVID related funding in 2021-22, the largest by far being Health and Social Care (+£782 million) -- £300 million of which relates to winter pressures (so not specifically COVID-related) and the remainder relating to COVID costs. Paragraphs 11-13 of the Brief Guide provide information on some of the other projects which have received COVID-related funding.

Paragraph 14 of the Brief Guide provides details around £39 million of the reductions which were previously allocated to COVID-related programmes. £100 million has been returned from Health and Social Care relating to “the amounts which were re-prioritised for wider public health measures in December, including Self Isolation Support Grants (paragraph 10).”

Non-COVID funding

The non-COVID funding changes are reproduced below. This shows by portfolio the other discretionary funding changes which have been presented in this SBR. Paragraphs 15-17 of the Brief Guide provide further details of the additional funding being allocated offset by the reductions which are being returned to the centre to fund these new priorities.

Table 3: Net non-COVID funding changes by portfolio

Non Covid Funding Changes (£m)	Gross Funding Changes	Reductions	Net Funding Changes
Health & Social Care	0.0	0.0	0.0
Social Justice, Housing & Local Government	145.4	-102.2	43.2
Finance & Economy	95.7	-91.5	4.2
Education and Skills	44.1	-42.0	2.2
Justice and Veterans	245.7	-28.1	217.7
Net Zero, Energy & Transport	0.6	-27.8	-27.3
Rural Affairs & Islands	13.0	-86.8	-73.8
Constitution, External Affairs & Culture	3.4	-2.6	0.8
Deputy First Minister & Covid Recovery	0.0	0.0	0.0
Crown Office and Procurator Fiscal	14.5	0.0	14.5
Scottish Government	562.4	-380.9	181.5
National Records of Scotland	0.1	-1.0	-0.9
Office of the Scottish Charity Regulator	0.0	0.0	0.0
Scottish Courts & Tribunals Service	3.8	-3.8	0.0
Scottish Fiscal Commission	0.0	0.0	0.0
Revenue Scotland	0.0	0.0	0.0
Registers of Scotland	1.9	0.0	1.9
Food Standards Scotland	0.3	0.0	0.3
Scottish Housing Regulator	0.0	-0.3	-0.3
NHS and Teachers' Pensions	0.0	0.0	0.0
Scottish Administration	568.5	-386.0	182.4
Direct-Funded Bodies			
Scottish Parliamentary Corporate Body	0.0	-0.7	-0.7
Audit Scotland	0.0	0.0	0.0
Total Scottish Budget	568.5	-386.7	181.7

In the funding changes section of the Brief Guide, as touched on above, perhaps one point that might be debatable is why the £300 million relating to “winter pressures” is classed as COVID funding and not non-COVID funding.

However, the way this information has been presented in the Brief Guide is a very welcome improvement in the transparency and detail around budget information, in line with previous Committee recommendations.

Whitehall transfers

There are eight Whitehall transfers covered in this SBR, resulting in a net increase to the budget of £131.2 million.

The largest relates to a “further instalment of the migrant health surcharge of £62.4 million”, which is pooled centrally by the UK Government and distributed on the basis of the Barnett formula (albeit it is not based on additional departmental allocations by Treasury so not formally classed as a Barnett consequential).

Another eye-catching Whitehall transfer is of £65 million of COP26 transfers across a number of budget lines. This includes £51.5 million for increased policing and staff costs.

The remaining transfers are set out in paragraph 19 of the Brief Guide.

Technical adjustments

Technical adjustments, “which are essentially budget neutral and do not provide additional spending power for, or detriment to, the Scottish Government” total - £357.3 million. These are summarised in paragraphs 20-26 of the Brief Guide.

The largest technical change (-£298.7 million) relates to a reduction in the Student loans non cash RAB charge requirement. This is to cover the latest estimates from economists on the impact of the current macro-economic climate on impairment of the student loan book.

Internal transfers

There are a number of internal transfers between Budget lines which do not affect the Scottish Government’s budget as a whole. Significant internal transfers between portfolios are presented in the supporting documentation and the Brief Guide, and reproduced below for convenience.

- transfer from Health & Social Care to Social Justice, Housing & Local Government to support the Adult Social Care Winter Plan (£142.3 million);
- transfer from Health & Social Care to Social Justice, Housing & Local Government for the Best Start Foods Scheme (£12.0 million);
- transfer from Health & Social Care to Social Justice, Housing & Local Government for the Self Isolation Assistance service (£9.1 million);
- transfer from Health & Social Care to Marketing for public awareness campaigns about Covid-19 (£15.0 million);
- transfer from Health & Social Care to Marketing for various Health marketing campaigns (£6.8 million);
- transfer from Health & Social Care to Education & Skills in respect of nursing and midwifery education (£13.3 million);
- transfer from Health & Social Care to Education & Skills in respect of Clinical Academies and SAGP funding (£7.3 million);
- transfer from Social Justice, Housing & Local Government to Finance & Economy for the Community Recovery Fund (£9.0 million);

- transfer from Net Zero, Energy & Transport to Finance & Economy to fund Offshore Wind projects (£6.5 million);
- transfer from Finance & Economy to Education & Skills for additional college courses and grad internships (£9.5 million); and
- transfer from Finance & Economy to Education & Skills for the National Transition Training Fund (£7.5 million).

Scotland Reserve position

The main implications of the late funding recently announced by the Treasury in relation to the new Omicron COVID variant are seen in the Scotland Reserve position which has changed the picture presented at the time of the publication of the SBR in early February.

As members know, the Scotland Reserve allows for Fiscal Framework subscribed carry over of funding across financial years. There is a cap of £700 million with annual drawdowns normally set at £250 million for Resource and £100 million for Capital and Financial Transactions combined. As Scotland is currently within a defined period of “Scotland Specific Economic Shock” (as set out in the Fiscal Framework) the annual drawdown limits are waived but the cap of £700 million remains.

Movements of money in and out of the Scotland Reserve can arise for a variety of reasons. For example, carry overs between years:

- may be planned for a specific purpose (for example the £120 million being carried over from this year for Local Government funding in 2022-23);
- may emerge during the financial year for a variety of reasons (for example, weather related delays in infrastructure projects);
- may arise from changes to funding via devolved taxes or expenditure formalised in the provisional and final outturn process after the end of the financial year.

The Brief Guide states that

“The Scotland Reserve position evolves continually across the financial year with the emerging outturn position for a particular year influencing the funding available to support future year funding. There is an extended period of overlap with the closing balance for one financial year impacting the drawdown plans for the next two financial years - so for example the final outturn position for 2020-21 happened concurrently with the finalisation of the 2022-23 Scottish Budget document.”

The Brief Guide sets out the movements in and out of the Scotland Reserve in 2019-20 and 2020-21 and the planned movements in and out of the Scotland Reserve in 2021-22 and next year (2022-23) (See p15 of the Brief Guide). It also summarises

the issues that arose in the Reserve positions over the years 2020-21 (C.1) and 2021-22 (C.2).

In terms of the SBR under consideration in this session, there have been a number of developments in the Reserve position since it was published on 3 February, which are summarised in section C.3 of the Brief Guide.

To summarise:

- The SG states that at the time the SBR was published on 3 February, the UK Treasury had provided an updated funding position on 26 January which included a clear indication that the position was close to final, with “any subsequent movement likely to be in the region of plus or minus £20 million. This is the position that is reflected in the SBR document and that underpins the decision taken to use the Scotland Reserve to carry forward the £120 million of additional funding allocated to Local Government as part of the 2022-23 Budget process.” **The implied balance in the Scotland Reserve contained within the SBR is £283 million (see table on p19).**
- On 3 February, the same day as publication of the SBR, the UK Government announced the package of Cost of Living measures with an associated consequential impact for Scottish Government of around £290 million.
- However, it subsequently became clear that the Supplementary Estimates funding position as whole was being revised and the £290 million of anticipated consequentials were effectively being fully offset with reductions in the levels of funding previously indicated (funding that was fully incorporated in the Spring Budget Revision).
- On 10 February the Cabinet Secretary for Finance and the Economy set out the Scottish Government Cost of Living measures which fully utilise the £290 million of consequentials allocated as a result of the UK equivalent announcements on 3 Feb. These consequentials will be deferred into 2022-23 to fund these measures, so will not form part of the 2021-22 funding envelope.

All of this means that the net position in the Scotland Reserve is -£42 million, not the +£283 million as presented in the SBR Supporting document (see table in p19). This means that to meet commitments made for 2022-23, the Scottish Government will require to find another £42 million to place in the Scotland Reserve between now and the end of this financial year. On the Resource (day-to-day spending) side the Scottish Government must find £98 million by 31 March to meet commitments for the next year budget year starting on 1 April.

In terms of how the Scottish Government plans to manage this, the Brief Guide states on p 20 that:

“The reduction in expected funding means that previously planned spending against the Spring Budget Revision limits in some areas will be actively constrained – notably in Health where the final consequential position was far

less than previously anticipated. Active management of spending in the final quarter of the year is always necessary to balance the budget within the very tight margins imposed by the fiscal framework. That active management of the financial position in 2021-22 is still expected to deliver the necessary levels of underspend required to support the 2022-23 Budget.

As with the Autumn Budget Revision there remains some movements in funding and expenditure which have not been reflected in the Spring Budget Revision - these will result in outturn variances and contribute to the level of underspend required to reach the target level of underspend. Examples here include positive movements on devolved taxes, late changes to borrowing plans and expected underspends in transport and other demand led programmes such as Social Security benefit expenditure.”

Overall COVID spending

The Brief Guide provides probably the most comprehensive overview of COVID-19 budget allocations and expenditure provided by the Scottish Government since the pandemic emerged in early 2020.

Page 10 of the Brief Guide sets out the funding received by the UK Government over the course of the pandemic. This sits at £14,231 million Resource and £333 million Capital and Financial Transactions (a total of £14,564 million).

The same page also provides a table containing details on how much the Scottish Government has allocated to COVID related expenditure. This is presented as £14,855 million in total, which is £291 million more than has been received via UK Government transfers.

The Brief Guide also provides helpful analysis of what has been spent on COVID-related interventions in 2020-21 and 2021-22 (see pp11-13, and annex A for 2020-21 spend). These show that COVID expenditure in 2020-21 was £8,776 million, and over the period 1 April to 31 December 2021 has been £3,052 million, a figure the Scottish Government describe as an “interim (and conservative) estimate to date.”

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