

# **Finance Update**

**For the Finance and Public Administration  
Committee**

**March 2023**

# Finance Update – 27 February 2023

## For the Finance and Public Administration Committee

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## A. Guide to the Spring Budget Revision

1. The budget process for 2022-23 commenced with the publication of the *Scottish Budget* and annual Budget Bill which provided details of the Scottish Government's spending plans. These plans (as amended at Stages 2 and 3 of the Budget Bill) were approved by the Scottish Parliament on 10 February 2022.
2. Once the Budget Act has been approved by the Scottish Parliament, there are usually two opportunities to amend the budget as the year progresses - the Autumn Budget Revision and a Spring Budget Revision. The Spring Budget Revision provides the final budget figures, against which outturn is reported in the Scottish Government's annual accounts.
3. The Spring Budget Revision was finalised on 30 January 2023 ahead of the draft SSI being laid in parliament on 2 February 2023. This guide was provided to the Finance and Public Administration Committee on 27 February 2023 ahead of the scheduled scrutiny session on 7 March. By waiting until the end of February to provide this update we have been able to ensure the content is as up to date as possible. This includes consideration of the final UK Supplementary Estimates figures, which were agreed following the SBR being published as well as the current in-year forecast financial position.

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

4. The Spring Budget Revision is routine parliamentary business that proposes amendments to better align the Government's budget with its planned spending profile.
5. The changes proposed in the Spring Budget Revision result in an increase in the approved budget of £713.4 million from £56,985.0 million to £57,698.4 million.
6. The changes to the Budget are broken down in to four main areas:
  - A.2 - Funding changes to reflect deployment of available resources to portfolios (total net increase to the budget of £502.3 million);
  - A.4 - Technical adjustments (net increase to the budget of £130.6 million);
  - A.3 - Whitehall transfers and HM Treasury allocations to the Scottish Government (£80.6 million); and
  - A.5 - The transfer of resources between Scottish Government portfolios.
7. The main changes included under each heading are categorised in table 1.2 in the Budget Revision document and summarised below.

Scottish Government Portfolios	Resources other than Accruing Resources as shown in Budget Act	Changes Proposed				Revised Budget
		Funding Changes	Technical Changes	Net Whitehall transfers	Net Transfers within Scottish Block	
	£m	£m	£m	£m	£m	£m
Health and Social Care	18,075.2	422.4	263.3	33.6	(898.7)	17,895.8
Social Justice, Housing and Local Government	16,716.8	244.0	(96.4)	27.3	1,110.4	18,002.2
Finance and the Economy	1,550.1	(65.4)	8.2	0.0	3.0	1,496.0
Education and Skills	4,814.2	(19.3)	(582.4)	0.0	(208.3)	4,004.1
Justice and Veterans	3,147.5	159.9	5.3	16.7	(1.1)	3,328.2
Net Zero, Energy and Transport	4,367.4	(230.1)	16.3	0.3	(12.8)	4,141.1
Rural Affairs and Islands	915.5	(17.4)	1.0	0.0	(1.2)	897.9
Constitution, External Affairs and Culture	282.2	(8.0)	(3.0)	1.7	(1.8)	271.0
Deputy First Minister and Covid Recovery	45.1	0.5	0.0	0.0	(0.7)	44.8
Crown Office and Procurator Fiscal	184.8	5.8	3.0	0.0	0.9	194.5
<b>Scottish Government</b>	<b>50,098.8</b>	<b>492.5</b>	<b>(384.9)</b>	<b>79.5</b>	<b>(10.2)</b>	<b>50,275.7</b>
Scottish Housing Regulator	5.3	(0.1)	0.0	0.0	0.0	5.2
National Records of Scotland	59.4	3.7	0.0	0.0	-0.2	62.9
Office of the Scottish Charity Regulator	3.4	0.0	0.0	0.0	0.0	3.4
Scottish Courts and Tribunals Service	163.5	9.5	4.5	0.6	8.4	186.5
Scottish Fiscal Commission	2.3	0.0	0.0	0.0	0.0	2.3
Revenue Scotland	7.9	(0.2)	0.0	0.0	0.0	7.7
Registers of Scotland	9.0	0.0	2.0	0.0	2.0	13.1
Environmental Standards Scotland	2.2	(0.1)	0.0	0.0	0.0	2.1
Food Standards Scotland	23.0	(0.6)	3.5	0.3	0.0	26.2
Scottish Teachers' and NHS Pension Schemes	6,470.4	0.0	495.7	0.0	0.0	6,966.1
<b>Scottish Administration</b>	<b>56,845.3</b>	<b>504.6</b>	<b>120.8</b>	<b>80.4</b>	<b>0.0</b>	<b>57,551.2</b>
<b>Direct-Funded Bodies</b>						
Scottish Parliamentary Corporate Body	128.0	(2.2)	4.2	0.1	0.0	130.2
Audit Scotland	11.6	(0.1)	5.5	0.0	0.0	17.0
<b>Total Scottish Budget</b>	<b>56,985.0</b>	<b>502.3</b>	<b>130.6</b>	<b>80.6</b>	<b>0.0</b>	<b>57,698.4</b>

\* may not sum to zero due to roundings

## A.2 Funding Changes

8. Funding changes provide additional budget spending power to portfolios and programmes, and also reflect some reductions where funding has been returned to the centre for redeployment elsewhere. Table 1.2 provides the funding changes on a net basis by portfolio of £502.3 million, however the gross impact is shown below.

<b>Scottish Government Portfolios</b>	<b>Funding Additions</b>	<b>Funding Reductions</b>	<b>Net Funding Changes</b>
Health and Social Care	427.4	(5.0)	422.4
Social Justice, Housing and Local Government	397.5	(153.5)	244.0
Finance and the Economy	86.8	(152.2)	(65.4)
Education and Skills	85.0	(104.3)	(19.3)
Justice and Veterans	195.8	(36.0)	159.9
Net Zero, Energy and Transport	4.1	(234.3)	(230.1)
Rural Affairs and Islands	12.2	(29.6)	(17.4)
Constitution, External Affairs and Culture	3.5	(11.5)	(8.0)
Deputy First Minister and Covid Recovery	1.2	(0.7)	0.5
Crown Office and Procurator Fiscal	5.8	0.0	5.8
<b>Scottish Government</b>	<b>1,219.4</b>	<b>(727.0)</b>	<b>492.5</b>
Scottish Housing Regulator	0.0	(0.1)	(0.1)
National Records of Scotland	4.1	(0.4)	3.7
Office of the Scottish Charity Regulator	0.0	0.0	0.0
Scottish Courts and Tribunals Service	9.5	0.0	9.5
Scottish Fiscal Commission	0.0	0.0	0.0
Revenue Scotland	0.0	(0.2)	(0.2)
Registers of Scotland	0.0	0.0	0.0
Environmental Standards Scotland	0.0	(0.1)	(0.1)
Food Standards Scotland	0.0	(0.6)	(0.6)
Scottish Teachers' and NHS Pension Schemes	0.0	0.0	0.0
<b>Total Scottish Administration</b>	<b>1,233.0</b>	<b>(728.4)</b>	<b>504.6</b>
<b>Direct Funded Bodies</b>			
Scottish Parliament Corporate Body	0.3	(2.5)	(2.2)
Audit Scotland	0.0	(0.1)	(0.1)
<b>Total Scottish Budget</b>	<b>1,233.3</b>	<b>(731.0)</b>	<b>502.3</b>

### A.2.1 Gross Funding Changes

9. The largest allocation of funding deployed in the budget revision is £427 million provided to the Health and Social Care portfolio to support ongoing services. This funding is split between £135 million of resource and £292.2 million of capital. While the amount of £292.2 million is capital funding under HM Treasury budgeting rules, this is treated as indirect capital in Scottish Budgetary terms and is categorised there as an Operating budget. Further details of the distinction between Scottish Budget and HM Treasury Budget basis' are set out in Section B.

10. The Social Justice, Housing and Local Government ('SJHLG') portfolio has funding additions totalling £397.5 million in the budget revision. The largest element of this is the £185.3 million of additional budget cover being provided to Social Security Scotland for increases in demand-led benefits following revised forecasts from the Scottish Fiscal Commission.
11. This funding is the gross amount required for those benefits where forecasts have increased. For benefits where forecast expenditure has decreased the movement has been included as a funding reduction. The net movement in social security benefit expenditure in this revision is a £123.2 million increase.
12. £178.9 million of funding has been provided to SJHLG for the ongoing Ukrainian resettlement work. This takes the total funding provided by the Scottish Government to the Ukrainian resettlement since the conflict began to £200 million. A further £12.2 million has been provided from within the portfolio as grants to local authorities.
13. The final element of SJHLG's funding additions is the £32.8 million that has been added to the General Revenue Grant. This will provide budget cover for Teachers' 2021-22 Pay Award.
14. The Finance and Economy portfolio has benefitted from £86.8 million of funding additions. The largest elements of this include £23.9 million to Scottish Enterprise and £15 million being provided to European Social Fund for write offs.
15. Ferguson Marine has received £25.6 million of additional funding at the Spring Budget Revision. This includes £21 million additional capital budget to complete work on vessels 801 and 802 with £4.6 million required for additional operating costs.
16. The Education and Skills portfolio has received additional funding totalling £85 million. The largest element of this relates to £21.7 million being provided to the Scottish Qualifications Authority to support its ongoing activities.
17. There have also been allocations of £12.6 million to Raising Attainment to support the full range of activity within the Scottish Attainment Challenge and the National Improvement Framework and £12.6 million to fund NPD Unitary Charges.
18. The Justice and Veterans portfolio has received £195.8 million of funding additions. The largest element (£130.6 million) relates to Police and Fire Pensions. This is a volatile demand led budget with additional budget pressure beyond the core allocation managed in year. Additional budget was provided at Autumn Budget Revision and we expect material movements in this position between now and the end of the financial year.
19. £37 million additional resource funding is being provided to the Scottish Police Authority to meet the SPA Pay Award. £14.7 million has been provided to the Scottish Prison Service to fund its cost pressures, while £8.3 million of capital funding has been provided for the ongoing Emergency Services Mobile Communications Programme ('ESMCP') works within Police Central Government.
20. £11.5 million has been provided to the Rural Affairs and Islands portfolio to allow Marine Scotland to fund a distribution to Local Government to deliver coastal community benefits in their area.

21. £5.8 million of additional funding has been provided to the Crown Office and Procurator Fiscal Service. These amounts are made up of £2.2 million of additional funding to support its day to day operations as well as £3.7 million to fund the Covid-19 Deaths Investigation Team.
22. £9.5 million of additional funding has been provided to the Scottish Courts and Tribunals Service across several budget lines including amounts for the Recover, Renew, Transform programme (£2.4 million) and capital funding to support Phase 1 of the Edinburgh Justice Campus programme (£3.4 million).
23. Additional gross funding changes include:
- £5.4 million to Higher Education Student Support in Education and Skills to support the student bursary schemes.
  - £5.2 million to Higher Education Student Support in Education and Skills to cover the debt sale subsidy increase.
  - £5.2 million to Innovation and Industries in Finance & Economy to fund operating costs.
  - £5.1 million to the Scottish Child Abuse Inquiry in Education and Skills. The demand led nature of the SCAI requires budget transfers in-year at SBR to cover the full costs of the inquiry.
  - £4.8 million to the Growth Accelerator in Finance & Economy.
  - £4 million to the National Records of Scotland to fund work on the census.
  - £4 million to Net Zero, Energy and Transport additional resource funding to replace the capital budget surrendered.

#### A.2.2 Reductions to Portfolios

24. The Deputy First Minister presented the Emergency Budget Review to Parliament on the 2nd of November 2022. The EBR outlined a route to balancing the 2022-23 budget and the SBR incorporates the decisions taken.
25. £731 million of savings and other deductions have been included in the SBR. These have been realised through a combination of active management of demand led spending and pro-active savings, including the final measures set out in the Emergency Budget Review.
26. The largest reduction in funding within the budget revision is the £68.5 million of funding which has been returned by Energy within the NZET portfolio. These amounts are spread across 3 areas (Energy Efficiency, Heat in Buildings and Energy Industries Divisions) and reflect lower than anticipated uptake from both private sector and local authority partners. The vast majority of this funding relates to indirect capital funding. This reduction follows a similar surrender of funding as part of the Autumn Budget Revision. The ongoing workforce and supply chain issues in the construction sector is a contributory factor to these demand issues.
27. As outlined in paragraphs 10 and 11 there has been significant movement in social security benefit expenditure forecasts. The net movement of £123 million includes £62.1 million of funding reductions for those benefits which have seen forecasts decrease.
28. There has been a £58.2 million reduction in Housing in respect of Capital Grants to Private Sector. These savings have been realised in demand led areas.
29. Scottish Water have returned £50 million of capital funding following a decision to reduce loans issued in 2022-23. This reduction follows an agreed additional allocation of £50 million of capital

in 2021-22.

30. In addition, there has been a £25.7 million reduction to Aberdeen PFI funding within Scottish Water. This reflects an early repayment of external debt. As external borrowing, these amounts do not impact the Scottish Budget, and are therefore not included as part of the Scottish Water SBR adjustment, but do score against HM Treasury Budget totals. Further details on the differences between HM Treasury and Scottish Budget basis are included in section B.
31. £35 million of capital grants to Local Authorities has been returned by Cities Investments within the Finance and Economy portfolio as a result of re-profiling of projects.
32. £25.9 million of Financial Transactions budget have been returned by the Scottish National Investment Bank. This reflects revised forecasts for transactions which will conclude before the end of the financial year.
33. £24.8 million of resource budget has been returned from Employability Services within the Finance and Economy portfolio.
34. £17.5 million of savings within Social Justice projects within the SJHLG portfolio.
35. £16.9 million is released from Concessionary Fares and Bus Services within the Net Zero, Energy and Transport portfolio to reflect lower than previously anticipated demand for free Under 22 travel. This reflects the element of the saving that was outlined within the Emergency Budget Review but was not surrendered at the Autumn Budget Revision. It is important to note there is no change in the qualification criteria; this is a result of lower than forecast uptake.
36. Further funding reductions include:
  - £13.2 million of saving across Scottish Enterprise lines including £10.5 million of capital savings.
  - £11.9 million of resource savings in Justice from the ESCMP project.
  - £8 million of FT savings within the Scottish Growth Scheme.
  - £6.9 million of savings in demand led Legal Aid.
  - £6.7 million of savings in Recovery Renewals and Transformation Fund within Justice.
  - £6 million of direct capital within SJHLG for Scottish Building Standards.
  - £6 million of resource savings in demand led Self Isolation Support grants.
  - £5.9 million of capital savings in Regeneration capital grants to public sector.
  - £5.8 million of savings in South of Scotland Enterprise across capital and FT lines.
  - £5.7 million of savings within Social Security Scotland for Goods & Services.
  - £5 million of capital savings in the Low Carbon Economy capital grants to local authorities.
  - £5 million of FT savings within Health for funding required for loans to GP practices.

### A.3 Whitehall Transfers

37. There are number of Whitehall transfers and allocations from HM Treasury recognised in the Spring Budget Revision. The net positive impact on the Scottish Budget is £80.6 million.



38. For the purpose of the budget revision these are being grouped into those that support arrangements following the death of Her Majesty The Queen (known as Project Unicorn) and all other Whitehall transfers.
39. Amounts received in respect of Project Unicorn total £18.8 million. The vast majority of this has been provided to the Justice and Veterans portfolio (£15.6 million) largely to the Scottish Police Authority to reimburse for additional policing costs.
40. Royal & Ceremonial within the CEAC portfolio has also been in receipt of £1.7 million to cover its costs relating to Project Unicorn.
41. The largest elements of the other Whitehall transfers relate to the £59.6 million from the Department for Health and Social Care to fund the Scottish Infected Blood Support Scheme, £10.2 million for Anti-Viral deployment and £4.5 million in regards of the Reducing Drug Deaths Open Innovation Challenge.
42. Whitehall transfers to Health are also being reduced by the £40.9 million contribution made to the UK Health Security Agency. This amount is Scotland's contribution for areas including test site costs (in the early part of the year), ongoing access to lighthouse labs and purchases of LFD's amongst other areas.
43. The SJHLG Whitehall transfers are made up of £18.6 million Education Tariff for Ukrainian displaced people; £5.5 million for hosting Ukrainian refugees; a £1.2 million transfer from Department for Transport for Dundee to Stanstead Public Obligation and £1.1 million for the Tampon tax.
44. The remaining transfers include £6.5 million from Money Advice Service for the allocation of Scotland's share of the Debt Advice Levy and a transfer from the Cabinet Office of £1.3 million for Cyber Security. These amounts have been passed directly to Social Justice and Safe and Secure Scotland respectively.

#### A.4 Technical Adjustments

45. 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 £130.6 million and are summarised in the table below.

Scottish Government Portfolios	Changes Proposed					Total technical changes
	AME Non-Cash	AME (Student loans and Pensions)	Ringfenced	ODEL	Total IFRS16 adjustments	
	£m	£m	£m	£m	£m	£m
Health and Social Care	182.0	0.0	54.0	42.6	(15.4)	263.3
Social Justice, Housing and Local Government	(95.4)	0.0	0.1	0.0	(1.1)	(96.4)
Finance and the Economy	10.2	0.0	0.4	0.0	(2.4)	8.2
Education and Skills	0.1	45.0	(629.0)	0.0	1.5	(582.4)
Justice and Veterans	0.7	0.0	5.0	(0.3)	(0.1)	5.3
Net Zero, Energy and Transport	0.0	0.0	0.0	0.0	16.3	16.3
Rural Affairs and Islands	1.3	0.0	0.0	0.0	(0.4)	1.0
Constitution, External Affairs and Culture	(3.0)	0.0	0.0	0.0	0.0	(3.0)
Deputy First Minister and Covid Recovery	0.0	0.0	0.0	0.0	0.0	0.0
Crown Office and Procurator Fiscal	2.0	0.0	(0.1)	0.0	1.0	3.0
<b>Scottish Government</b>	<b>97.9</b>	<b>45.0</b>	<b>(569.5)</b>	<b>42.4</b>	<b>14.9</b>	<b>(384.8)</b>
Scottish Housing Regulator	0.0	0.0	0.0	0.0	0.0	0.0
National Records of Scotland	0.0	0.0	0.0	0.0	0.0	0.0
Office of the Scottish Charity Regulator	0.0	0.0	0.0	0.0	0.0	0.0
Scottish Courts and Tribunals Service	0.2	0.0	4.2	0.0	0.1	4.5
Scottish Fiscal Commission	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Scotland	0.0	0.0	0.0	0.0	0.0	0.0
Registers of Scotland	2.0	0.0	0.0	0.0	0.0	2.0
Environmental Standards Scotland	0.0	0.0	0.0	0.0	0.0	0.0
Food Standards Scotland	0.1	0.0	0.6	0.0	2.8	3.5
Scottish Teachers' and NHS Pension Schemes	0.0	495.7	0.0	0.0	0.0	495.7
<b>Scottish Administration</b>	<b>100.2</b>	<b>540.7</b>	<b>(564.7)</b>	<b>42.4</b>	<b>14.8</b>	<b>120.9</b>
<b>Direct-Funded Bodies</b>						
Scottish Parliamentary Corporate Body	4.7	0.0	(0.5)	0.0	0.0	4.2
Audit Scotland	5.2	0.0	0.1	0.0	0.2	5.5
<b>Total Scottish Budget</b>	<b>110.1</b>	<b>540.7</b>	<b>(565.1)</b>	<b>42.4</b>	<b>14.8</b>	<b>130.6</b>

\* may not sum to zero due to roundings

#### AME non-cash adjustments:

46. Adjustments relating to AME non-cash total £110.1 million within the budget revision. While these amounts do not impact the discretionary spending powers, they are revised at SBR to more accurately reflect the final position which will be reflected in the Scottish Government accounts.
47. The largest elements relates to the Health and Social Care portfolio which has a total revision of £182 million. This is made up of a £233 million increase to NHS & Special Health Board provisions, a £5 million increase for depreciation on donated assets less a reduction of £56 million for impairments.
48. This increase is offset by £95 million reduction in the Social Justice, Housing and Local Government portfolio. The vast majority of this relates to a fair value accounting adjustment of £97 million on Housing and Regeneration loans.
49. The remaining material adjustment relates to a £10.2 million increase within the Finance and Economy portfolio to reflect SNIB investment impairments.

#### AME Cash adjustments:

50. The Spring Budget Revision also includes £540.7 million of cash AME adjustments. AME budget is provided directly by HM Treasury to support specific demand led areas and, as with non-cash AME, there is no impact on the Scottish Government's discretionary spend.
51. There are two specific cash adjustments which make up this movement. The first is £495.7 million adjustment relating to Scottish Teachers and NHS Pensions. This additional budget has been provided based on the most recent forecasts.
52. The second element is the £45m increase to the Student Loan AME charges to reflect the most recent forecasts.

#### Ringfenced Non-Cash Budget adjustments:

53. In addition to the AME non-cash budget the Scottish Government is also provided with its own non-cash budget. This budget provides cover for non-cash accounting adjustments such as depreciation and impairments. These amounts do not impact discretionary spending by the Scottish Government but are important for reporting purposes in the annual accounts.
54. There has been a £565.1 million reduction as part of the budget revision with portfolios reviewing their non-cash requirements. The largest element relates to the £627.1 million movement in the Student Loan RAB charge. 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.
55. This has been offset by a £54 million increase in the depreciation budget for NHS Boards within Health and Social Care. Additional depreciation budgets have been provided for prisons (£4.6 million) and courts (£4.2 million) following revised forecasts.

## IFRS16 adjustments:

56. As was outlined in the Guide to the Autumn Budget Revision, 2022-23 is the first financial year where the Scottish Government has implemented International Financial Reporting Standard 16 ('IFRS 16') as introduced by the International Accounting Standards Board (IASB) . Under IFRS16 the accounting treatment of leases has been significantly altered.
57. While a large number of adjustments relating to IFRS16 were included within the Autumn Budget Revision, it was always our intention for further IFRS16 adjustments to be reflected in the Spring Budget Revision, as additional work was required to refine the precise impact in some areas.
58. The net total changes relating to IFRS 16 in the budget revision are £2.5 million. This includes a £1.3 million reduction in notional corporate running costs attribution, meaning the total IFRS16 impact is £3.8 million.
59. A large element of the IFRS16 adjustments relate to non-departmental public bodies. As budget provided to NDPBs takes the form of Cash GIA, and IFRS16 adjustments are non-cash, these are not reflected in the Spring Budget Revision but will be reflected as part of the Final Outturn process as well as within NDPBs annual accounts.
60. Ring-fenced budget cover is being provided by HM Treasury to support this change in accounting treatment and the Scottish Government's discretionary funding will not be impacted. Final IFRS16 budget cover requirements were provided to Treasury ahead of the UK Supplementary Estimates.

## Outside DEL Adjustments:

61. The final component of the technical adjustments which have been reflected within the Spring Budget Revision sit completely outside of HM Treasury budgets. These are technical changes which are necessary to align the Scottish Budget with the required accounting treatment.
62. ODEL changes in the budget revision total £42.4 million with the vast majority being the net £42.6 million in respect of Health PFI adjustments.

## A.5 Internal Transfers

63. 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'.
64. The significant budget internal transfers between portfolios include:
  - Transfer from Health & Social Care to Local Government within the Social Justice, Housing & Local Government portfolio to support the investment in integration of Health Social Care (£257.2 million);
  - Transfer from Health & Social Care to Local Government within the Social Justice, Housing & Local Government portfolio including funding for the Real Living Wage for staff providing direct Adult Social Care in commissioned services in the third and independent sectors (£233.5 million);
  - Transfer from Education & Skills to Local Government within Social Justice, Housing & Local Government to fund additional Teachers and Support Staff (£144.5 million);

- Transfer from Health & Social Care to Local Government within the Social Justice, Housing & Local Government portfolio to ensure delivery of the commitments set out in the Mental Health Transition and Recovery Plan (£120 million);
- Transfer from Health & Social Care to Local Government within the Social Justice, Housing & Local Government portfolio to provide funding for the implementation of the Carers Act (£65 million);
- Transfer from Education & Skills to Local Government within the Social Justice, Housing & Local Government portfolio to provide funding for the delivery of the Whole Family Wellbeing Fund (£32 million);
- Transfer from Education & Skills to Social Justice, Housing & Local Government to provide funding for the expansion of Free School Meals (£30 million);
- Transfer from Health & Social Care to Local Government within the Social Justice, Housing & Local Government portfolio to provide Free Personal and Nursing Care to care home residents (£27.3 million);
- Transfer from Health & Social Care to Local Government within the Social Justice, Housing & Local Government portfolio to fund increased Social Work Capacity in Adult Services within Local Authorities (£22 million);
- Transfer from Health & Social Care to Local Government within the Social Justice, Housing & Local Government portfolio to fund Interim Care Funding within Local Authorities (£20 million);
- Transfer from Social Justice, Housing & Local Government to Education & Skills of the Education Tariff to 30 November for Ukrainian Displaced People (£18.6 million).

65. 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. These include:

- £44 million of capital budget being transferred from Major Public Transport Projects to Rail Infrastructure within NZET.
- £15.5 million of capital budget being transferred from Major Public Transport Projects to Rail Franchise within NZET.

## B. Budget Documents, Process and Classifications, and Accounts

66. Despite devolution and the subsequent introduction of the Fiscal Framework, the Scottish Government remains part of the wider UK Government Fiscal Framework. This means that the Scottish Government must operate within UK Budget limits based on the specific HM Treasury budget classifications and follow the UK budgeting rules as set out in Consolidated Budgeting Guidance.
67. Alongside these rules, the Public Finance and Accountability (Scotland) Act 2000 requires:
- that the use of resources by Scottish Ministers is set out in a Budget Act;
  - that Ministers must prepare accounts that set out how the resources set out in the Budget Act have been applied; and
  - that those accounts are subject to audit by the Auditor General.
68. There are differences in the way that budgets have to be presented to meet these separate requirements. Effectively there are two budgets: the Scottish Budget (which provides the budget against which performance is measured in the Consolidated Accounts) and the Scottish Budget in HM Treasury terms. The initial Scottish Budget document provides the detail of portfolio budgets in HM Treasury terms, but then discloses the adjustments to reflect each portfolio in Scottish Budget terms for the purpose of Scottish Parliamentary approval. Whilst the number of changes moving from one to the other is relatively small, these do give rise to important distinctions in considering and understanding what is included in individual publications.
69. For example, following the adjustments set out in the initial Budget document, Budget Revisions present information in Scottish Budgetary terms – that is the statutory basis which will form the final budgets for comparison in the Accounts. They do not disclose portfolio budgets in HM Treasury terms - to do so would require “adding back” the necessary adjustments before deducting them again for parliamentary approval.
70. Much of the focus is on the three major HM Treasury Budget classifications - Fiscal Resource, Capital and Financial Transactions. These classifications account for all of the discretionary spending power the Scottish Government actually has and also govern the Scotland Reserve limits. However, budget revisions also require some additional budget classifications that includes the range of technical adjustments (as noted in section A.4 above), and that support the requirements for the Accounts preparation.
71. The purpose of this section, is to explain all of the budget classifications that the Scottish Government is subject to, how they apply to various Scottish Budget documents and how the differences manifest themselves.

### B.1 Budget Classifications – HM Treasury Basis

72. The initial Scottish Budget document provides detailed analysis of the primary funding aggregates in HM Treasury terms alongside the key fiscal framework aggregates such as devolved taxes and borrowing. There are also a small number of other elements to the funding envelope which are outlined in Annex A. The Annex also shows how the total funding envelope set out reconciles to the total of portfolio expenditure plans.

73. This presentation draws a distinction between the discretionary budget, where the Scottish Government may deploy cash funding according to its own priorities within devolved competence, and the non-discretionary budget.
74. The discretionary Fiscal budget comprises four sub-categories of spending subject to their own control limits. These sub-limits are imposed by HM Treasury as part of UK fiscal rules. These limits apply to:

**Fiscal Resource budgets**, the largest element of government expenditure comprise expenditure on the day-to-day costs of delivering public services, used for example to pay public sector staff wages and purchase goods and services.

**Capital budgets** are used mainly to support the delivery of public infrastructure in Scotland. This is split between fiscal capital and a separate control for budgets that can only be used to support loan or equity investment in bodies outside the public sector, labelled as Financial Transactions. It is not possible within HM Treasury fiscal rules to use capital budgets to fund additional day-to-day expenditure; they must be used to support long-term investment.

**Non-Domestic Rates (NDR) income** are fully devolved and outside the scope of the block grant and Fiscal Framework arrangements controlled by HM Treasury. These are forecast by the Scottish Fiscal Commission (SFC) based on Scottish Government policies, and collected by Local authorities. The total distributable amount used in Scottish Budgets reflects the forecasts by the SFC taking into account outturn and other adjustments managed through the NDR pool. The arrangements for operation of the Non-Domestic Rates, and the management of the pool in Scotland are available on the Scottish Government website.

The non-discretionary budget reflects the items where use of funding is restricted and/or has no impact on cash deployment.

**The non-cash resource limit** is largely for the depreciation of assets. It is not possible to use the notional non-cash budgets to support any fiscal spending.

**UK Funded AME**, a small number of programmes that, whilst falling within the devolved responsibilities of the Scottish Government, continue to be funded annually by the UK Government on the basis of demand (shown here as UK funded Annually Managed Expenditure or UK-funded AME). These budgets are ring-fenced for specific purposes, principally NHS and teachers' pension payments and Student Loans. HM Treasury fiscal rules prohibit the use of funding provided for these areas to support other expenditure. However this is not the case for all demand led programmes, for example Social Security expenditure in Scotland is managed within the Fiscal Resource Limit rather than AME.

## B.2 Budget Classifications – Scottish Government Basis

75. A full list of budget classifications and details are included in the table below with further details provided underneath:

<b>Budget classification – Core SG</b>	<b>Scoring - HMT Basis</b>	<b>Scoring - SG Basis</b>	<b>Nature of budget</b>
Fiscal Resource	Resource	Operating	Discretionary spending
Ringfenced	Ringfenced	Operating	Accounting adjustment
Direct capital	Capital	Capital	Discretionary spending
Indirect capital	Capital	Operating	Discretionary spending
Financial Transactions	Financial Transactions	Capital	Discretionary spending
AME Resource	Resource	Operating	Demand led/accounting
AME Non-cash	Ringfenced	Operating	Demand led/accounting
AME Direct Capital	Capital	Capital	Demand led/accounting
<b>Budget classification – NDPBs</b>	<b>Scoring - HMT Basis</b>	<b>Scoring - SG Basis</b>	<b>Nature of budget</b>
HMT Fiscal Resource	Resource	N/A	Discretionary spending
HMT Ringfenced	Ringfenced	N/A	Accounting adjustment
HMT Indirect Capital	Capital	N/A	Discretionary spending
HMT Direct Capital	Capital	N/A	Discretionary spending
HMT Financial Transactions	Financial Transactions	N/A	Discretionary spending
Cash Grant in Aid	N/A	Operating	Cash
HMT AME Resource	Resource	N/A	Demand led/accounting
HMT AME Non-Cash	Ringfenced	N/A	Demand led/accounting
HMT AME Direct Capital	Capital	N/A	Demand led/accounting



76. **Fiscal Resource** – Resource budget is provided to the core Scottish Government to support day to day spending. This classification is directly comparable to the HM Treasury Resource control aggregate and comprise expenditure on the day-to-day costs of delivering public services, used for example to pay public sector staff wages and purchase goods and services. Amounts score as operating expenditure for the Scottish Government budget scoring purposes.
77. **Ringfenced** – ringfenced funding provided to the core Scottish Government relates to non-cash accounting adjustments. This classification is directly comparable to the HM Treasury non-cash resource control aggregate. This budget is predominantly for depreciation but will include other accounting adjustments (e.g. impairments). Amounts will score as operating costs for the Scottish Government budget scoring basis.
78. **Direct Capital** – Direct capital budget is provided to the core Scottish Government and is used for the purchase, improvement, or maintenance of long-term assets. Expenditure here is capitalised within the Scottish Government's accounts and is included within the capital categorisation in the budget revisions.
79. **Indirect Capital** – Indirect capital funding is provided for onward distribution. This generally takes the form of capital grants provided to local authorities and the private sector. Unlike direct capital (as this funding is provided to non-Scottish Government bodies) it does not result in assets being capitalised on the Scottish Governments balance sheet. As a consequence these amounts are categorised as operating for the Scottish Government budget scoring basis.
80. **AME Resource/Non-cash/Direct capital** – As detailed in section B.2 a small number of programmes that, whilst falling within the devolved responsibilities of the Scottish Government, continue to be funded annually by the UK Government on the basis of demand. While this funding will not impact discretionary spend it is included within the Scottish Budget and the budget classifications are consistent with the equivalent discretionary budget outlined above.
81. **HMT Resource/Ring-fenced/Direct Capital/Indirect Capital/Financial Transactions for NDPBs** - These classifications have the same descriptions as their respective categories outlined above but they only score for HM Treasury purposes. This relates to budget being provided to support the activity of non-departmental public bodies ('NDPBs'). The full HM Treasury budgetary impact for all arms-length bodies scores in HM Treasury aggregates. The Scottish Government provides funding to NDPBs via cash grant in aid which is considered separately in Scottish budgetary terms.
82. **Grant in Aid** - Grant in aid refers to all funding provided to Scottish Government sponsored bodies to finance their ongoing operating expenditure in accordance with their respective Framework agreements set by Scottish Ministers. These amounts are categorised as operating expenses.
83. As grant in aid takes the form of a cash transfer any amounts which are non-cash are not included in this figure (such as depreciation, but also movements in working capital). This will lead to a mismatch between the figures included for the HM Treasury and Scottish Government basis'. While this will largely impact depreciation and similar UK non-cash resource balances there are some elements which score as fiscal resource which will not have a cash impact. Details of some of the exceptions, which are included in the SBR, are included in section B.3.

84. **HMT AME Resource/ Non-cash/Direct capital** – the NDPB equivalent of the core Scottish Government AME classification that has been detailed above.
85. **IFRS16 adjustment** – from 2022-23 there is a change to the way leases are treated in accounts – related to the introduction of International Financial Reporting Standard 16. These are technical adjustments that impact across the fiscal resource, ring-fenced and capital budgets and budget cover has been provided by HM Treasury to ensure these changes are budget neutral.

### B.3 Differences between treatment within the Budget Revision

86. When it comes to Budget Revisions the Scottish Government has (for simplicity) grouped the transfers into four broad categories as disclosed in section A above. “Funding Changes” can include discretionary spend categories or Grant in Aid.
87. Whitehall Transfers impact cash expenditure but are (almost exclusively) transfers for a specific purpose and are therefore non-discretionary, so are excluded from the funding changes that at Ministerial discretion.
88. Technical transfers tend to include all other classifications which have no cash or discretionary impact.
89. Internal transfers can be any classification as they have no impact on the overall Scottish Budget aggregate.
90. As set out in the previous section there are instances where certain items score differently in Scottish and HM Treasury Budgetary terms. In many instances these differences only relate to the non-cash and accounting presentation, and have no impact on discretionary funding.
91. However, there are some instances where other budget categories are impacted. As the entire budget revision document must be prepared on a Scottish Budget basis these particular areas make it problematic when reconciling to discretionary funding deployed to an HM Treasury basis. Table 1.7 in the budget revision document therefore tends to include a number of (usually small) adjustments, which act as a reconciliation, to try and provide an accurate picture of discretionary funding which remains unallocated. Table 1.7 of the Spring Budget Revision notes £9.8 million of funding required to reconcile to the HM Treasury discretionary spending totals. This is made up of four components.
92. Firstly, £200k is required by South of Scotland Enterprise, an NDPB, for expected credit losses. Under the consolidated budgeting guidance the expected credit losses are deemed to score as fiscal resource under the HM Treasury basis and will therefore impact discretionary spend. However, as expected credit losses do not require cash to be transferred these are not included on a Scottish Government basis. These amounts are therefore not included within the Spring Budget Revision document but have been added to the SOSE HM Treasury budget limit.
93. Secondly, as part of the savings against HM Treasury budgets detailed in section A, it was highlighted that there has been a £25.7 million reduction in budget provided for Scottish Water in respect of their Aberdeen PFI project. As this relates to external borrowing by a public corporation it scores only against HM Treasury budgets and has not been included in the SBR. It has therefore been adjusted to show the impact on HM Treasury control totals only.

94. The amounts required for Judicial Salaries has decreased by £1.1 million. These sit outside the Scottish Budget as Scottish Ministers have no discretion over setting the levels but are funded from within HM Treasury aggregates.
95. Finally, we have a resource budget allocation of £16.8 million being provided to the Crown Office and Procurator Fiscal Service that is not included within the SBR but does score for HM Treasury purposes. A provision was previously included in the COPFS accounts for this so there is no net impact from a Scottish Budget perspective.

## C. Scotland Reserve and Funding Position Details

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

£m	Resource	Capital	FTs	Total
Balance of funding left for deployment after ABR	57.6	28.4	8.3	94.2
Changes to Scotland Reserve following Final Outturn	184.0	(101.9)	(32.5)	49.6
Other movements in Funding	426.8	45.2	-	472.0
<b>Total funding available for deployment at SBR</b>	<b>668.4</b>	<b>(28.3)</b>	<b>(24.3)</b>	<b>615.8</b>
Deployed at SBR (SG basis)	(645.4)	3.4	59.2	(582.9)
<b>Total Funding not deployed after SBR</b>	<b>23.0</b>	<b>(25.0)</b>	<b>34.9</b>	<b>33.0</b>
Deployed in Spring Budget Revision (HMT only)	(15.9)	25.7	-	9.8
<b>Balance left for deployment at SBR</b>	<b>7.1</b>	<b>0.7</b>	<b>34.9</b>	<b>42.8</b>

97. This presentation begins with the position following the Autumn Budget Revision process. The available funding position has moved as a result of the conclusion of the Final Outturn exercise for 2021-22 and revisions to in-year funding.

98. The Spring Budget Revision was laid in parliament on the 2 February 2023. At that point in time, the revision was laid the 2022-23 Supplementary Estimates process was ongoing. As such for the purposes of the Budget Revision, estimated figures were used by necessity. These have subsequently been revised and the full movements are analysed in Annex A.

99. The table above also includes details of the small number of adjustments within the budget revision which score from a HM Treasury basis. Differences are as set out in paras 92-95.

### C.1 Funding Envelope Breakdown

100. Annexes A and B detail the funding envelopes for each of the three key budget classifications at the Budget Bill, along with the changes allocated within both the Autumn Budget Revision and the Spring Budget Revision. The latest updates since the budget revision was laid are also included although some of the lines such as devolved taxes remain subject to further changes through the remainder of the financial year and through the outturn processes.

101. The totals reconcile to the breakdown set out above, which in turn reconciles to table 1.7 in the supporting document. It should be noted that these totals detail discretionary funding only and not the technical or AME related changes.

#### C1.1 Fiscal Resource

102. The Fiscal Resource funding position has increased by £610.8 million since the Autumn Budget Revision. These changes arise from:

103. Following the conclusion of the final outturn exercise the amounts carried forward within the Scotland Reserve for fiscal resource increased by £184 million. £100 million of this relates to a reclassification of health research and development expenditure as capital, while the balance largely relates to a late adjustment to accrued social security benefit expenditure. The Final Outturn is the final reported position to HM Treasury and reflects all late adjustments as well as any accounting changes which have come to light following the end of the financial year.
104. Revised Block Grant Adjustments were published on the 17th November alongside the OBR forecast. The changes to the block grant adjustment were:
- A £116 million increase to the Social Security block grant adjustment.
  - A £74 million decrease to the Taxes and Non-Tax income block grant adjustment.
105. The Scottish Government receives a positive social security block grant adjustment to fund those social security benefits which are devolved to the Scottish Government. These amounts are updated at UK Fiscal events including any inflationary uplifts.
106. As outlined in section A the net increase in social security benefit expenditure as part of the budget revision is £123.2 million. The increased costs exceed the extra BGA funding provided by around £7 million.
107. The Scottish Government receives an in-year change to the negative block grant adjustment for taxes and non-tax income. This reduction in funding reflects the fully devolved tax raising powers that are available to the Scottish Government, most notably through the Land and Building Transaction Tax ('LBTT') and Scottish Landfill Tax (SLfT).
108. The SFC provided updated economic and fiscal forecasts on 15 December 2022. As part of this, revised LBTT and SLfT forecasts were provided and this Budget Revision reflects these forecasts.
109. LBTT receipts for 2022-23 were forecast to rise to £849 million. This would be a £100 million increase in total receipts. SLfT receipts were forecast to increase by a nominal £0.1 million. The net position has improved by circa £26 million as a result of the combined movement.
110. There will be no further revisions to the block grant adjustments for tax and social security between now and the end of the financial year. Outturn reconciliation adjustments for these will be applied to the 2024-25 Scottish Budget. However changes to the gross tax receipts and demand led benefit expenditure between now and 31 March must be managed by the Scottish Government as part of its year-end processes and ultimately reflected in 2022-23 outturn.
111. Following discussions with HM Treasury officials on improving the UK Supplementary Estimates process some initial estimates of Barnett consequentialia were provided to the Scottish Government on the understanding that these remained subject to change. The SBR included a that estimate of £125 million of resource. This figure was subsequently revised down by £19.5 million.
112. The following additional changes were included within the Spring Budget Revision position:

- £75.4 million of Machinery of Government (Whitehall) transfers from HM Treasury were included pending final confirmation at UK Supplementary Estimates. This included receipt of transfer for Project Unicorn.
  - £71 million of additional Immigration Health Surcharge income was included pending final confirmation at Supplementary Estimates. This is in addition to the £92 million that was initially included as part of the 2022-23 Scottish Budget.
  - The £15 million resource borrowing assumption has been removed reflecting the improvement to the net tax and social security positions in the Scottish Budget. However the Resource borrowing capacity remains available for 2022-23. Annex D sets out detail on how Resource borrowing limits are calculated.
  - £17.3 million additional funding included from HM Treasury to correct an historic comparability factor error in their calculations.
  - £11.5 million of Crown Estate income has been recognised. This amount has been passed directly to Marine for onward distribution to Local Government to reflect the Coastal Communities commitments.
113. Amounts detailed above are in addition to the £57.6 million of funding that remained unallocated at the Autumn Budget Revision, leaving £668.4 million available to be allocated.
114. £610.8 million of resource funding has been allocated as part of the Spring Budget Revision. An amount of circa £7 million was retained as unallocated funding to allow some degree of cover for any changes to the final UK Supplementary Estimate figures.
115. Following the publication of the Spring Budget Revision the UK Supplementary Estimates were concluded on 21 February 2023. The final resource consequentials figure was £105.5 million. This was a £19.5 million reduction from the estimated resource figure.
116. In addition to the changes to the consequentials figure there were movements in the final Immigration Health Surcharge and machinery of government amounts. Combined these totalled a £2 million increase in funding.
117. These movements following the Spring Budget Revision leave the overall resource position as slightly over-allocated by an amount of £10.2 million. This small funding shortfall will be managed through the remainder of the financial year.

## C1.2 Capital and Financial Transactions

118. Changes to the Capital and Financial Transactions position since the Autumn Budget Revision have also been reflected in the budget revision.
119. Following the conclusion of the 2021-22 Final Outturn exercise the capital carry forward was reduced from £183 million as indicated in the Autumn Budget Revision to £81 million, a £102 million reduction.
120. An initial estimate from HM Treasury on the UK Supplementary Estimates position indicated that there would be a Barnett reduction in our capital block grant of £45 million. This funding reduction was reflected in the Spring Budget Revision.
121. Further changes to Capital include an additional £75 million of ring-fenced Rail funding and £15 million of Whitehall transfers received at the UK Supplementary Estimates.

122. At the point the Spring Budget Revision was published almost all the anticipated capital funding was allocated, including the impact of the estimated reductions at the UK Supplementary Estimates.
123. The final UK Supplementary Estimates position showed a total decrease to the capital block grant of £73 million. This is £28 million higher than the initial estimate.
124. This funding reduction exceeded the amounts retained and is the reason that the capital funding position is over-allocated by approximately £27 million. Based on expenditure forecasts following the budget revision, any shortfall is expected to be offset by emerging capital underspends to ensure that the capital budget in 2022-23 will balance.
125. Any further reductions in forecast capital expenditure will be considered as part of year-end financial management. It is likely that any further late underspends will be used in the first instance to reduce the current £450 million borrowing assumption in line with the Scottish Government's Capital Borrowing policy (as set out in the medium term financial strategy).
126. Reductions to capital borrowing will reduce the total HM Treasury budget aggregate. This will give rise to a difference in HM Treasury budget as reflected in the Spring Budget Revision (and therefore in consolidated accounts). Underspends shown in the accounts will be against a higher capital budget limit (and therefore larger) than the final HM Treasury capital underspend should borrowing be reduced.
127. There was one change to the Financial Transactions position included in the Spring Budget Revision. Following the conclusion of the 2021-22 Final Outturn exercise, the financial transaction carry forward was reduced from the £46 million indicated in the Autumn Budget Revision to £14 million.
128. As noted in the sections above, at the time the Spring Budget Revision was published discussions around the UK Supplementary Estimates figures were ongoing. It was indicated that a significant consequential reduction in the Scottish Government's FT budget was likely to follow.
129. HM Treasury provided an estimated figure of £120 million for the potential reduction. This figure was not included in the Spring Budget Revision forecast as there remains some discretion as to whether funds currently earmarked for future years can be deployed to offset this shortfall.
130. Following the conclusion of the UK Supplementary Estimates the final reduction was confirmed to be £117 million which has led to the current over-allocated position of £82.3 million. Following a review of latest forecasts it is expected that at least some of this reduction can be managed through savings between now and the end of the financial year.

## C.2 Scotland Reserve

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

	<b>Resource £million</b>	<b>Capital £million</b>	<b>FT £million</b>	<b>Fiscal £million</b>
2019-20 Opening balance	(381.1)	(65.3)	(158.6)	<b>(605.0)</b>
2019-20 Drawdowns	248.8	60.0	120.0	<b>428.8</b>
2019-20 Additions	(85.1)	(74.3)	(96.9)	<b>(256.3)</b>
2019-20 Closing balance	<b>(217.4)</b>	<b>(79.6)</b>	<b>(135.5)</b>	<b>(432.5)</b>
2020-21 Opening balance	(217.4)	(79.6)	(135.5)	<b>(432.5)</b>
2020-21 Drawdowns	170.6	79.6		<b>250.2</b>
2020-21 Additions	(357.9)	(6.8)	(61.4)	<b>(426.1)</b>
2020-21 Closing balance	<b>(404.7)</b>	<b>(6.8)</b>	<b>(196.9)</b>	<b>(608.4)</b>
2021-22 Opening balance	(404.7)	(6.8)	(196.9)	<b>(608.4)</b>
2021-22 Drawdowns	404.7	6.8	196.9	<b>608.4</b>
2021-22 Additions	(605.0)	(81.0)	(14.0)	<b>(700.0)</b>
2021-22 Closing balance	<b>(605.0)</b>	<b>(81.0)</b>	<b>(14.0)</b>	<b>(700.0)</b>
2022-23 Opening balance	(605.0)	(81.0)	(14.0)	<b>(700.0)</b>
2022-23 Planned Drawdowns	605.0	81.0	14.0	<b>700.0</b>
2022-23 Additions				-
2022-23 Closing balance	-	-	-	-

132. As is illustrated above, all Reserve availability is being utilised to support the 2022-23 financial position. Some of this was anticipated and therefore embedded in the original budget with the remaining funding set against the range of pressures which the Scottish Government continues to manage over the remainder of the financial year.

133. The challenges of the 2022-23 position also have a knock-on impact on the 2023-24 Scottish Budget. Given the pressures on both the capital and resource position, no anticipated Scotland Reserve carry forward was included for either budget classification. However as the year has progressed, and notwithstanding the residual challenges, it is now expected that the Scottish Government will be able to balance the 2022-23 Budget and therefore a modest underspend is likely to emerge that will be redeployed to support the 2023-24 Position.



134. The 2023-24 FT funding position had assumed £50 million of carry forward. This may be challenging to achieve given the latest Supplementary Estimate position. Any shortfall on reserve availability will therefore be managed as part of 2023-24 budget management.

### C.3 2023-24 Position

135. Following the Stage 3 debate on the 2023-24 Scottish Budget, the Deputy First Minister announced new commitments, including £100 million for Local Government, to be added to the 2023-24 Scottish Budget. Due to the late confirmation of the Supplementary Estimates figures these were not tabled as stage 3 amendments and will therefore be formally added to the Scottish Budget as part of the Autumn Budget Revision later this calendar year.

136. The funding for these additions comes from a range of sources. Firstly the comparability factor correction to the Scottish Government Barnett settlement is baselined and the value of this in 2023-24 is £21 million. This is the 2023-24 effect of the same correction which added £17.3 million in 2022-23 as discussed in paragraph 112.

137. Secondly the overall improvement in the forecasts for 2022-23 have a number of direct and indirect implications for 2023-24. At the time of setting the 2023-24 Scottish Budget assumptions on borrowing costs were made on the basis that 2022-23 Resource borrowing may need to be maximised to help balance the position. As Resource Borrowing for 2022-23 is now unlikely to be required (let alone maximised) this automatically frees up some funding.

138. Similarly, interest income on the proceeds of Scotwind is now expected to be higher in 2023-24. For the majority of the financial year the Scotwind funds allocated to future years in the resource spending review were also considered a contingency option for balancing the 2022-23 budget. As the likelihood of this has receded, it automatically frees up this funding to be placed on annual deposit for use at the end of 2023-24. This in turns generates some interest which will also be available in 2023-24 and beyond.

139. It is also now highly probable that the full Capital borrowing annual allowance will not be utilised in 2022-23 as discussed in paragraph 125. Any reductions to this requirement will automatically reduce the capital borrowing costs in 2023-24.

140. Taken together it is now expected that the improvement in interest earned on Scotwind proceeds and reductions to borrowing costs could free up £40-£60 million in 2023-24. However this remains subject to further change when borrowing drawdown decisions are finalised in mid March 2023.

141. The overall improvement in the 2022-23 position also increases the likelihood of some modest underspends being available in the Scotland Reserve to be available for spending in 2023-24. It is therefore expected that in combination, the Scotland Reserve, borrowing costs, Scotwind interest and the correction to the comparability factor will provide sufficient funding to cover these additional commitments in 2023-24.

## Annex A - Fiscal Resource Funding Envelope Breakdown

<b>Fiscal Resource (£m)</b>	<b>Scottish Budget Bill</b>	<b>Confirmed additions (ABR)</b>	<b>Confirmed Changes (SBR)</b>	<b>Assumed Supps position</b>	<b>SBR Funding Position</b>	<b>Changes following SBR</b>	<b>Projected Funding</b>
Barnett Funding	34,322.1	447.1		125.0	34,894.2	(19.5)	34,874.1
Rail Resource Grant	80.0				80.0		80.0
Ringfenced Funding (HMT)	623.8				623.8		623.8
<b>Total UK Settlement (A)</b>	<b>35,025.9</b>	<b>447.1</b>	<b>-</b>	<b>125.0</b>	<b>35,598.0</b>	<b>(19.5)</b>	<b>35,578.5</b>
Social Security Block Grant Adjustment	3,587.0		115.8		3,702.8		3,702.8
Block Grant Adjustment for Taxes and Non-Tax Income	(14,639.0)		(73.9)		(14,712.9)		(14,712.9)
Scottish Income Tax	13,671.0				13,671.0		13,671.0
Land and Buildings Transaction Tax	749.0		100.8		849.8		849.8
Scottish Landfill Tax	101.0		(0.4)		100.6		100.6
Non-Tax Income	25.0				25.0		25.0
<b>Net Tax/BGA/SS BGA Position (B)</b>	<b>3,494.0</b>	<b>-</b>	<b>142.3</b>	<b>-</b>	<b>3,636.3</b>	<b>-</b>	<b>3,636.3</b>
Reconciliation	(15.0)				(15.0)		(15.0)
Resource Borrowing	15.0		(15.0)		-		-
Borrowing Costs transferred from spending and revised		(160.0)			(160.0)		(160.0)
Scotwind	40.0	56.0			96.0		96.0
Scotland Reserve	120.0	301.0	184.0		605.0		605.0
Migrant Surcharge	92.0		70.6		162.6	(3.0)	159.6
QLTR	5.0				5.0		5.0
Other	180.0	(24.1)	28.5		184.4	5.0	189.4
Spillover	400.0	(25.0)			375.0		375.0
Machinery of Government		7.9	75.4		83.3		83.3
<b>Total Other Income (C)</b>	<b>837.0</b>	<b>155.8</b>	<b>343.5</b>	<b>-</b>	<b>1,336.3</b>	<b>2.0</b>	<b>1,336.3</b>
<b>Total Fiscal Resource Funding</b>	<b>39,356.9</b>	<b>602.9</b>	<b>485.8</b>	<b>125.0</b>	<b>40,570.5</b>	<b>(17.5)</b>	<b>40,553.0</b>
<b>Total Fiscal Resource Budgeted Spend</b>	<b>39,356.9</b>	<b>713.0</b>	<b>536.3</b>	<b>125.0</b>	<b>40,731.2</b>	<b>-</b>	<b>40,731.2</b>
Borrowing Costs transferred to funding		(168.0)			(168.0)	-	(168.0)
<b>Fiscal Resource Spend (adjusted)</b>	<b>39,356.9</b>	<b>545.0</b>	<b>485.8</b>	<b>175.5</b>	<b>40,563.2</b>	<b>-</b>	<b>40,563.2</b>
Unallocated/(Over allocated) Funding	-	57.9	(50.5)		7.3	(17.5)	(10.2)

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

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

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

## Annex B - Capital Funding Envelope Breakdown

<b>Capital (£m)</b>	<b>Scottish Budget Bill</b>	<b>Confirmed additions (ABR)</b>	<b>Confirmed Changes (SBR)</b>	<b>Assumed Supps position</b>	<b>SBR Funding Position</b>	<b>Changes following SBR</b>	<b>Projected Funding</b>
Barnett Funding	4,468.9	12.9		(45.0)	<b>4,436.8</b>	(27.9)	<b>4,408.9</b>
Ringfenced Funding (HMT)	643.0		75.0		<b>718.0</b>		<b>718.0</b>
Capital borrowing & Other per policy	450.0				<b>450.0</b>		<b>450.0</b>
Scotland Reserve	118.0	65.0	(101.9)		<b>81.1</b>		<b>81.1</b>
Fossil Fuel Levy	44.0				<b>44.0</b>		<b>44.0</b>
City Deals	100.0	25.0			<b>125.0</b>		<b>125.0</b>
Deductions to funding for Arms to Ukraine		(65.0)			<b>(65.0)</b>		<b>(65.0)</b>
Other			15.2		<b>15.2</b>		<b>15.2</b>
<b>Total Capital Funding</b>	<b>5,823.9</b>	<b>37.9</b>	<b>(11.7)</b>	<b>(45.0)</b>	<b>5,805.1</b>	<b>(27.9)</b>	<b>5,777.2</b>
<b>Total Capital Budget Allocations</b>	<b>5,823.9</b>	<b>9.5</b>	<b>(29.0)</b>	<b>-</b>	<b>5,804.4</b>	<b>-</b>	<b>5,804.4</b>
Unallocated Funding	-	28.4	17.3	(45.0)	<b>0.7</b>	(27.9)	<b>(27.2)</b>

## Annex C - Financial Transactions Funding Envelope Breakdown

<b>Financial Transactions (£m)</b>	<b>Scottish Budget Bill</b>	<b>Confirmed changes (ABR)</b>	<b>Confirmed changes (SBR)</b>	<b>Assumed Supps position</b>	<b>SBR Funding Position</b>	<b>Changes following SBR</b>	<b>Projected Funding</b>
Barnett Funding	466.1				466.1	(117.4)	348.7
Scotland Reserve	61.0	(15.0)	(32.5)		13.5		13.5
Other	-				-		-
<b>Total FT Funding</b>	<b>527.1</b>	<b>(15.0)</b>	<b>(32.5)</b>	-	<b>479.6</b>	<b>(117.4)</b>	<b>362.2</b>
<b>Total FT Budget Allocations</b>	<b>527.0</b>	<b>(23.3)</b>	<b>(59.2)</b>	-	<b>444.6</b>	-	<b>5,804.4</b>
Unallocated Funding	0.1	8.3	26.7	-	35.1	(117.4)	(82.3)

## Annex D – Resource Borrowing Limits

### A. Technical Agreement on Resource Borrowing Limits

#### A.1 – Resource Borrowing Agreement

1. Following discussions with HM Treasury colleagues, a formal agreement was reached between both parties on 11th July 2022 on what scores as ‘forecast error’ for resource borrowing.
2. Under the Fiscal Framework agreement, the Scottish Government can borrow up to £300 million annually to manage “forecast error in relation to devolved and assigned taxes and demand-led welfare expenditure arising from forecasts of Scottish receipts/expenditure and corresponding UK forecasts for the Block Grant Adjustments”. Both the Scottish and UK Government expect that this arrangement will be reviewed in the upcoming Fiscal Framework Review.
3. The Fiscal Framework does not specify what counts as a ‘forecast error’. Talks between the Scottish Government and HM Treasury last year highlighted a different interpretation of what counts as forecast error for borrowing. This led to an agreement to set out a shared approach for forecast error.
4. Following discussions, the Scottish Government and HM Treasury agreed that “borrowing should only be permitted for the net impact across individual tax/BGA comparisons, social security expenditure/BGA comparisons and forecast error in relation to social security expenditure without a BGA”. This means that borrowing would not be permitted where there is a net neutral impact on each tax/BGA or social security/BGA comparison, even where a negative forecast error occurs against an element of a tax or social security BGA, or corresponding revenue or expenditure.
5. It was agreed that the Scottish Government will be able to borrow against the net impact of individual tax/BGA (or social security/BGA) reconciliations, even where a net negative impact of one reconciliation is potentially offset by the net positive impact of another. This acknowledges the fact that the timing of reconciliations differs across the tax and welfare areas.
6. It was also agreed that during the process of calculating the net impact of a tax or social security benefit, the Scottish Government have the option to use internal forecasts for tax revenue and social security expenditure to compare against the SFC forecasts which informed the Scottish Government’s spending plans. In short, it isn’t mandatory to use the most recent SFC forecasts, which may be outdated at the time of a borrowing drawdown request.
7. Consequently, the resource borrowing limit can fluctuate until the day a borrowing drawdown request is submitted to HM Treasury by the Scottish Government. After the request is submitted at the limit is locked in for the budget year.
8. An example of the calculation of borrowing limits is displayed in the table below. It illustrates what the Resource Borrowing limit would be (and how its changed) between setting the 2022-23 Scottish Budget in December 2021 and the 2022 MTFS in May 2022:

<b>Final Reconciliations applied to 2022-23 Budget</b>	
2019-20 Income Tax Revenue Reconciliation	149.0
2019-20 Income Tax BGA Reconciliation	-183.5
Net Income Tax Reconciliation Applied to 2022-23 Scottish Budget	-34.5
LBTT Final 2020-21 BGA Reconciliation	-6.1
SLFT Final 2020-21 BGA Reconciliation	0.1
FFFP Final 2020-21 BGA Reconciliation	4.1
POC Final 2020-21 BGA Reconciliation	N/A
Carer's Allowance Final 2020-21 BGA Reconciliation	1.4
Attendance Allowance Final 2020-21 BGA Reconciliation	-9.2
Personal Independence Payment Final 2020-21 BGA Reconciliation	29.9
Disability Living Allowance Final 2020-21 BGA Reconciliation	2.2
Industrial Injuries Disablement Scheme Final 2020-21 Reconciliation	-2.3
Severe Disablement Allowance Final 2020-21 BGA Reconciliation	0.1
<b>Net Reconciliation applied to 2022-23 Scottish Budget</b>	<b>-14.7</b>
<b>Borrowing Limit when 2022-23 Scottish Budget set (A)</b>	<b>-52.3</b>

<b>Borrowing in the 2022-23 Scottish Budget</b>					
<b>Taxes/Benefits with a BGA</b>	<b>Net Position at Budget</b>	<b>Net Position at Latest Forecast</b>	<b>Movement</b>	<b>Movement scoring as limit increase</b>	
LBTT	85.8	139.6	53.8	0.0	0.0
SLFT	18.3	-2.5	-20.8	-20.8	-20.8
Attendance Allowance	-0.1	5.5	5.6	0.0	0.0
Personal Independent Payment	-15.3	-23.6	-8.3	-8.3	-8.3
Disability Living Allowance	-22.6	23.8	46.4	0.0	0.0
Carer's Allowance	8.1	2.9	-5.2	-5.2	-5.2
Industrial Injuries Disablement Scheme	-1.3	-1.3	0.1	0.0	0.0
Severe Disablement Allowance	-0.2	0.1	0.4	0.0	0.0
Cold Weather Payment	-6.9	-18.6	-11.7	-11.7	-11.7
<b>Sum of in-year Net Position movements (B)</b>			60.1	-46	
<b>Taxes/Benefits without a BGA</b>	<b>Net Position at Budget</b>	<b>Net Position at Latest Forecast</b>	<b>Movement</b>	<b>Movement scoring as limit increase</b>	
Scottish Child Payment	197.4	226.3	-28.9	-28.9	-28.9
Best Start Foods	13.1	13.0	0.1	0.0	0.0
Best Start Grant	17.8	20.5	-2.7	-2.7	-2.7
Caarer's Allowance Supplement	41.8	44.0	-2.2	-2.2	-2.2
Child Winter Heating Assistance	4.0	4.9	-0.9	-0.9	-0.9
Funeral Support Payment	11.9	11.2	0.7	0.0	0.0
Self-Isolation Payment	15.0	8.6	6.4	0.0	0.0
Fair Start Scotland	23.6	23.6	0.0	0.0	0.0
<b>Sum of in-year Benefits without a BGA movements (C)</b>			-27.5	-34.7	
<b>Latest Forecast Borrowing Limit (A+B+C)</b>					<b>-133.0</b>

## A.2 – Income tax correction and borrowing impact

9. Previous discussions between Scottish Government officials and HM Treasury found that income Tax outturn data from HMRC from the years 2017-2018 to 2019-20 was inaccurate. This resulted in approximately a £7 million a year larger negative reconciliation from 2020-21 to 2022-23, totalling £20.6 million.
10. HM Treasury proposed to correct this by increasing the 2022-23 Scottish Budget by £20.6 million, but with a one-off reduction to Scottish Government's available borrowing for income tax forecast error in 2022-23 by the same amount, reducing that limit from £34 million to £14 million.
11. The Scottish Government accepted HM Treasury's proposal of a £20.6 million transfer and arrangements were made for this figure to be transferred during the supplementary estimates process, while also agreeing to reduce the available borrowing limit for income tax error by the same amount in 2022-23.
12. Both parties agreed that this agreement would be reached on the condition that the borrowing capacity adjustment was a one-off, and that the £20.6 million transfer does not set a precedent for future recalculations on available income tax forecast error borrowing.

## A.3 – Additional reduction to the 2023-24 borrowing limit

13. The agreement on borrowing between the Scottish Government and HM Treasury specifies that any changes in tax or social security forecasts which are as result of policy changes after a Budget is set should not score against the borrowing limit in that financial year.
14. The Scottish Government has therefore applied a £15 million reduction to its borrowing limit for 2022-23. This is in relation to the Scottish Child Payment increasing to £25 and extended to include eligible children up to the age of 16.
15. The combined effect of both the £15 million haircut in respect of Scottish Child Payment policy changes and the £20.6 million one-off haircut therefore reduces the 2022-23 Resource Borrowing Limit from the £133 million illustrated above to circa £98 million on the basis of the most recent Scottish Fiscal Commission forecasts.





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