

Government will have to make hard choices in prioritising spending

Deputy First Minister and Finance Secretary John Swinney warned The Scottish Parliament on Wednesday that the government has had to find around half a billion pounds of savings to tackle the cost crisis.

Confirming that the savings have been identified, Mr Swinney updated parliament on the steps being taken to meet the increased costs of public sector pay, and to provide support to those who most need it while balancing public finances.

Yesterday the First Minister said that when the Scottish Government was advised of the block grant from Westminster it was at a time when inflation was running at two per cent. With inflation increased to more than 10% the budget is worth £1.7 billion less than it was when awarded only last December.

The government has met the public sector pay settlement and has doubled the Fuel Insecurity Fund. The Deputy First Minister has also written to the Finance and Public Administration Committee. with details of spending cuts. The letter is set out below.

Mr Swinney said: "Our budget was based on a UK Spending Review that simply did not foresee the levels of inflation that are now a reality.

“That alone would require the budget to be revisited. But in times of crisis the job of the finance secretary is not simply to balance the books. It is to find the money to help families, to back business and to fund the priority projects that improve lives for the long term. And so, the Emergency Budget Review must both identify funding to cope with inflation-driven cost increases and aim to support those who most need our help during this crisis.

“This is the harsh reality of a fixed budget and limited powers. The Scottish Government simply does not have access to many of the levers which would provide the greatest support in this crisis. We will do everything we can. We will make the hard choices. But only the UK Government can act to end this crisis. They should do so – and I encourage them to do so now.”

LETTER TO FINANCE AND PUBLIC ADMINISTRATION COMMITTEE

In Parliament today I will set out the significant financial challenges we face as a result of the current UK cost crisis.

This crisis is unprecedented. Since the advent of devolution, more than 20 years ago, Scotland has not faced a situation that has combined the significant reduction in the Scottish Government’s spending power with the massive impact of the cost crisis on households, families, businesses, public services and the third sector.

I will therefore set out to Parliament the steps the Scottish Government has taken and will take in the near term to manage the nation’s finances, while taking steps to maximise the support we make available to help those in need.

We are constrained in this task both by the limitations placed on our powers by Westminster and, in particular, by the fixed

nature of our budget.

Our budget was based on a UK Spending Review that did not anticipate the levels of inflation that have arisen, and which, according to the Bank of England, will deteriorate further. Our reserve funding is already fully allocated and we have no legal ability to borrow to fund pay costs or further cost of living support within the existing Fiscal Framework rules. We also cannot vary income tax in-year.

These constraints are in addition to the inflation-driven increases in government costs which we face and the need to meet significant commitments that are important but unbudgeted for, such as support to the Ukrainian displaced people as far as possible – all from within a largely fixed budget.

Beyond the requirement to balance the Scottish budget, we have set ourselves the overriding priority of maximising the help we provide to those most in need.

During the summer we therefore announced that we would conduct an Emergency Budget Review to tackle the challenges facing the public finances and help support those hit hardest by the cost crisis.

It is against this background that the Government has approached the current round of pay negotiations in the public sector. As the First Minister set out to Parliament yesterday, our role in these negotiations is to maximise the support to the lowest paid as a crucial part of our response to the cost crisis.

As a result of that commitment to helping households in the face of this crisis, the enhanced pay offers that have been made to date total approximately £700 million. This includes the proposed settlement of the Local Government pay dispute, brokered by the Scottish Government last week, which required us to go further than planned and find additional savings to support a deal.

We believe this is justified as the proposed settlement will see a significant uplift in the pay rise awarded to the lowest paid – with awards in excess of 10% – while capping the increases for the highest paid at £3,000. That is a demonstration of the Scottish Government's commitment to using the pay awards as a way to support those most in need.

Now, we must resolve the fiscal implications of these additional costs.

As we have publicly set out, there is no unallocated funding available to cover these pay offers. The Scottish Budget is at the absolute limits of affordability and difficult reprioritisation is now required.

While changes to budgets will be formally set out to Parliament in detail as part of the normal Budget Revision process, in the interests of transparency, I have included as Annex A to this letter a list of savings that the government has already identified to enable us to meet our increased costs, increase help for those hit by the crisis and fund enhanced pay settlements.

For avoidance of doubt, further savings will be required to balance the budget, particularly if inflation continues to rise, and to direct maximum support to those who need it most. Any further savings that are identified during the Emergency Budget Review will be over and above those detailed here. I have committed to setting out the outcome of the EBR within two weeks of the UK fiscal event planned for later this month.

Finally, the Scottish Government does not have access to many of the levers which would provide the greatest support in this crisis such as the power to adjust VAT on fuel, taxation of windfall profits or wider regulation of the energy market.

I therefore reiterate my call to the new Chancellor that action must be taken immediately. They have reserved the most significant powers over this crisis to themselves. It is time

they exercised those powers and helped families struggling to feed their children and heat their homes this winter. We will do everything we can, and we have utilised our limited powers and budgets, as set out by the First Minister within the Programme for Government to take forward a rent freeze

and moratorium on evictions to help people through the cost crisis, increase the Scottish Child Payment to £25 per week per eligible child from November, double the Fuel Insecurity Fund to £20 million and confirm rail fares will be frozen until March 2023. We will do everything we can but the UK Government must now act to end this crisis.

Agreed savings and additional income

| Portfolio by Budget Line | £m | Description |
|--|-----|--|
| Constitution External Affairs and Culture | 3.6 | |
| Historic Environment Scotland | 1.2 | Forecast increase in commercial income. |
| Various | 2.4 | Savings from enhanced recruitment controls, reduction in touring fund and National Performing Companies and Scottish Lord-lieutenant activities. Forecast changes across programmes. |
| Corporate Recharge Costs | 1.6 | Savings from enhanced recruitment controls and workplace/systems development. |
| Deputy First Minister and Covid Recovery | 0.8 | Savings from enhanced recruitment controls and forecast changes across programmes. |

| Portfolio by Budget Line | £m | Description |
|---|------|---|
| Education and Skills | 42.7 | |
| Educational Maintenance Allowance (EMA) | 3.0 | EMA is a demand-led programme and fluctuates from year to year – saving is predicated on lower forecast demand. No change to qualification criteria. |
| Gaelic Support | 1.0 | Gaelic Resource being replaced with capital. |
| Scottish Funding Council savings across programmes | 20.0 | Lower forecast requirement in Further Education student support, other ring fenced budgets such as National Transition Training Fund and additional European Structural Funds income. |
| Teacher Training | 2.0 | Lower cap on STEM Bursary awards. Forecast reduction in applicants. £800k through the consolidation of programmes within the Initial Teacher Education budget. £200k resource reduction for SPPA teachers' pension scheme costs |
| Various | 16.7 | Further resource/capital switches, forecast changes across programmes and savings targets within public bodies. |
| Education and Skills and Finance and Economy | 3.0 | |

| Portfolio by Budget Line | £m | Description |
|--|------|---|
| Flexible Workforce Development Fund (FWDF) | 3.0 | Delivery of Year 5 of FWDF is underway with applications closed in August. Latest estimates of spend are below the full allocation. |
| Finance and Economy | 87.4 | |
| City and Regional Deals | 1.3 | Forecast changes based on review of spend and project timelines. |
| Employability | 53.0 | Reduction in Employability spend. Work to be undertaken with Local Authorities and delivery partners now to learn the lessons from Phase 2 of No One Left Behind and to further strengthen our approach to the design and delivery of employability services. |
| Income – various streams | 10.0 | Increased income projections including Accountant in Bankruptcy Consignations, Scottish National Investment Bank and Registrars of Scotland. |
| Staff costs | 4.4 | Saving through organisational redesign and resource to capital switching within digital. Savings from enhanced recruitment controls across portfolio. |
| Various | 18.7 | 2% efficiency savings across public bodies, forecast changes and savings across a number of programmes. |
| Justice and Veterans | 9.1 | |

| Portfolio by Budget Line | £m | Description |
|---|------|--|
| Recovery, Renewal and Transformation Fund (RRT) | 5.5 | Forecast reduction in demand for RRT funding to replace lost income. |
| Various | 3.6 | Forecast changes across programmes based on demand. |
| Net Zero Energy and Transport | 59.8 | |
| Concessionary Travel | 37.6 | Forecast reduction in patronage numbers and fare levels. Risk based forecasting approach. No impact on eligibility. |
| EC Receipts – Woodland Grants | 5.0 | Forecast additional EU funding. |
| Forestry and Land Scotland | 1.0 | Increased timber income projections. |
| Forestry Land Scotland | 4.0 | Reduced resource investment offset by higher capital investment |
| Various | 12.2 | Resource to capital switching, higher interest income within Scottish Water, reduced staff spend and forecast changes. |
| Rural Affairs and Islands | 61.3 | |
| Agriculture and Rural Economy operations | 8.4 | Savings from enhanced recruitment controls. |
| EU Income | 3.5 | Legacy EU Scottish Rural Development Programme one-off modification forecast change. |

| Portfolio by Budget Line | £m | Description |
|--|-------|---|
| Marine Scotland | 2.2 | Savings from enhanced recruitment controls and forecast changes within research programmes. |
| Ring fenced rural funding | 33.0 | Deferral of UKG ring-fenced funds, to be returned to RAI in future years. |
| Various | 14.2 | Forecast changes across programmes based on demand. |
| Social Justice Housing and Local Government | 108.1 | |
| Consequential | 82.0 | Utilisation of funding provided by the UKG as part of cost of living announcements in spring 2022 on child poverty action plan. |
| Employee Costs | 20.0 | Savings from enhanced recruitment controls. |
| Various | 6.1 | Forecast changes across programmes based on demand and re-phasing as well as reductions in staff training, overtime and travel. |
| Miscellaneous | 63.0 | Income into Scottish Consolidated Fund for further Scotwind revenues of up to £56m in 2022-23 from the Scotwind Clearing Process. £7m interest income from short term investment of Scotwind funds. To be returned to NZET in future years. |
| Total Resource Savings | 440.4 | |

| Portfolio by Budget Line | £m | Description |
|---|-------|---|
| Capital support for Local Government (from multiple portfolios) | 120.0 | Capital reprioritisation to be identified in multiple portfolios- capital spend so far funded via natural re-profiling. |
| Total Resource and Capital Savings | 560.4 | |