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Ionadail

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Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
The Scottish Parliament
Edinburgh
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By email: FPA.committee@parliament.scot

3 September 2024

Dear Kenneth

I am writing to you to provide further detail on the measures that I am taking to balance the 2024-25 Budget, outlined in my Fiscal Statement to Parliament today.

In the 2023 Medium-Term Financial Strategy, I updated Parliament on the challenges we face over the medium-term, the forecast gap between funding and spending, and our fiscal strategy for managing the public finances. This required tough and decisive action through the 2024-25 Scottish Budget to improve the underlying sustainability of our public finances.

Since then, pressures on public finances have further grown, and I have had to take difficult decisions to remain on track to balance the Scottish Government's budget.

Pay continues to be a significant driver of in-year pressures, with potential costs of up to £0.8 billion beyond our budget in this financial year alone. Whilst I welcome the UK Government's acceptance of the Pay Review Body recommendations, as the Scottish Fiscal Commission note in their Fiscal Update published on 27 August, we face significant uncertainty over funding that we will receive from the UK Government ahead of the UK Budget.

With a relatively larger public sector in Scotland, meeting the cost of pay deals above our budget assumptions place considerable strain on our finances. The UK Government have announced that the upcoming Budget will be "painful", with the Chancellor making clear that UK Government funding will be tightly constrained, placing further uncertainty over the funding we will receive. I have made it clear that austerity is not the answer; that public services must be protected, and that investment is critical for growth.

Alongside pay, other costs have emerged that are more difficult to plan for but must be funded, such as in demand-led activities like legal aid, police and fire pensions and the costs of accommodation for Ukrainian displaced people. Like the rest of the UK, we also continue

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to face a significant health and social care backlog arising from the COVID-19 pandemic and a further surge in COVID and respiratory cases.

The scale of challenge requires further action now to ensure that we balance the 2024-25 Budget. Reducing and re-prioritising spending remains our primary lever to manage in-year pressure and balance the Budget. This is particularly challenging when much of our spend is already contractually committed or supporting vital programmes. However, further savings measures have been identified across the Scottish Government and will be taken forward now, alongside the implementation of emergency spending controls. Whilst savings have been made within the Health budgets, I want to provide assurances that the Health portfolio will seek to protect key front line emergency services. In total up to £500 million savings measures have been taken, these include:

- the previously announced decisions to not make permanent the peak fares removal pilot, or progress the concessionary fares extension to asylum seekers pilot, and agreement with Local Government that they can draw on existing programmes to fund the pay deal; the total of these measures is £65 million.
- new additional measures announced today totalling £188.4 million; a full list of which is provided in **Annex A** of this letter.
- a further up to £60 million savings anticipated to be generated through the emergency spending controls (on top of the circa £40 million included in the savings listed in Annex A generated through these controls).
- These savings should also be considered in the context of the recent Scottish Government decision to mirror the UK Government decision not to retain universality in the winter fuel payment, which would have cost up to £160 million.

At present, I am also planning on the basis of utilising up to £460 million of additional Scotwind revenue funding. As a result, the measures being announced today to support the 2024-25 Budget total to up £1 billion.

Changes to underlying budgets will be formally set out to Parliament as part of the normal Autumn and Spring Budget Revision processes.

As required by law, I can assure the committee that the impact of these measures has been appropriately assessed, including in formal impact assessments where required.

I trust that the information in this statement, and the valuable information provided by the Scottish Fiscal Commission in their update last week, will support the Committee's pre-budget scrutiny. I look forward to our continued engagement over the coming months.

Yours sincerely,

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Annex A – 2024-25 Agreed Budget Savings and Additional Income

Portfolio and Budget Line	Resource £m	Description
Deputy First Minister, Economy & Gaelic	1.6	
Visit Scotland – Branding and campaign spend	0.8	Saving achieved through reducing VisitScotland’s marketing activity during 2024-25.
European Structural Funds Disallowance	0.8	This relates to a provision made to manage anticipated losses in the European Social Fund, which emerged after the programme was placed into suspension by the EC. The saving reflects a revised forecast on the scale of these losses.
Education & Skills	6.7	
HE Student Support	6.0	These savings are currently anticipated due to the demand led nature of this budget line, underlying trends such as previous COVID places, and the expectation that as a result this funding will not require to be drawn down.
Children’s Rights, Protection & Justice	0.3	No existing programmes or projects are being stopped as a result of this reduction from unallocated funding.
Early Learning Childcare (ELC)	0.2	Savings are anticipated from reprofiling of spend activity which will not impact on service provision.
Other	0.2	Savings are anticipated from reprofiling of spend activity across activities which will not impact on service provision.
Health and Social Care	115.8	
Community Eyecare	2.4	This reflects non-recurring savings realised in the Community Eyecare programme budget line.
COVID-19 funding and other services	20.3	Continuing to drive down expenditure and seek operational improvements in Covid-19 specific activity including vaccinations, PPE and test and protect.
Education and Training	8.2	Scaling back activity in various workforce lines including NHS Academy, and Leadership Talent Management. Also includes reduction in Distinction Award line, reflecting declining scheme demand.
General Medical Services	11.0	Non-recurring savings come from a number of budget lines with some planned work re-profiled or paused. Examples of this include Digital Improvement and Strategic Communication work. There is no reduction in existing spend or activity and the revised budget continues to support core activity.
Health Improvement and Protection	4.1	Updated profile of spend on innovation and immunisations alongside a reduction against a number of smaller health improvement budget lines.
Mental Health Services	18.8	Saving includes mainstreaming elements of the Distress Brief Interventions programme, student mental health measures and additional Mental Health Officer funding, and reprofiling the commencement of the Changing Places Toilet fund.

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National Care Service / Adult Social Care	13.6	Savings mainly come from a refinement of some assumed non staff spend associated with the delivery of the NCS, maintaining MDT funding at prior year levels, and uptake of the reopened Independent Living Fund being slower than anticipated in the first half of the year, leading to a reduction in the funding requirements.
Quality and Improvement	7.8	Includes a review of Alliance funding to align with self-management fund grant awards, and various smaller savings including the transformational change fund.
Revenue consequences of NPD Schemes	2.0	Saving following in year review of contractual costs.
Other	27.7	Savings made across a number of budget lines, including anticipated changes on demand-led lines, and reprofiling activities. This includes re-phasing of optometry costs and pausing investment in digital trial developments within Health Research and smaller savings across several programmes including empowering communities and National contact centre funding.
Justice and Home Affairs	0.1	
Safer Communities	0.1	Savings and uncommitted spend against various grant programme lines in the safer communities budget.
Net Zero & Energy	23.4	
Scottish Water Interest on Voted Loans	16.0	Additional income - the updated value reflects the actual amount of interest that will be paid on voted loans held by Scottish Water and is accounted for in Scottish Water's finances. There is no impact on service delivery.
Zero Waste	2.5	Reduced forecast following review of all planned activities for delivery feasibility and taking account of timing of completion of Circular Economy Bill and deferred 4 nations activity due to UK GE.
Nature Restoration	1.0	Reduced scope and forecast for programme of activities based on feasibility to deliver this financial year, specifically reduced comms costs and deferral of support to Local Authorities capital expenditure.
Energy Efficiency and Decarbonisation	0.9	Not running a round of pre-capital support for public sector buildings in 24-25.
Energy Efficiency and Decarbonisation	0.8	Not running a paid for marketing campaign to promote heat in buildings. No cost activity will still be undertaken where appropriate to raise awareness as needed.
Scottish Industrial Energy Transformation Fund	0.5	Reduction in external consultancy support for in year projects and additional savings due to not opening another call for funding.
Carbon capture, utilisation and storage (CCUS)	0.5	Industry decision to reduce scope of a related project.
Energy Industries	0.4	Updated forecast due to re-profiling of timing of project spend on Hydrogen Emerging Energies Technology Fund.
Energy Industries	0.3	Resource underspends identified as savings.
Hydrogen	0.3	In-year savings derived from revisions to the scope of hydrogen commercial investment support services provided by Scottish Futures Trust to the delivery of the hydrogen Programme.

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Air quality public engagement strategy	0.1	Reduction to air quality budget supporting delivery of CAFS2 actions, including delivery of an air quality public engagement strategy in 2024.
Environmental Standards Scotland operating costs	0.1	Reduced forecast of operating expenditure.
Rural Affairs, Land Reform and Islands	1.4	
Community Led Local Development (CLLD)	0.8	This £800k budget was intended to fund continuation of the CLLD collaboration fund - a challenge fund to which Local Action Groups (LAGs) would directly apply to support better partnership working, on the proviso that they would work with at least one other LAG or other relevant CLLD partner.
Land Reform	0.5	Savings are anticipated through reprofiling of spend activity.
Animal Licences	0.1	Underspend on activity.
Social Justice	15.7	
Cladding Remediation	0.7	Reprofile of existing resource budget expenditure forecast, no reduction in forecast programme activity.
Ukrainian Resettlement Programme	0.5	Concessionary dinner provision in Ukraine Resettlement welcome accommodation to be replaced with a £3 flat charge.
Other	0.6	Savings anticipated from reprofiling of spend activity and reduction of non-essential spend including in preparatory Bill work and administration costs.
Social Security Scotland – workforce savings	7.0	Review and reprofile of recruitment.
Social Security Scotland	5.0	Change in delivery of Pension Age Winter Heating Payment.
Social security	1.0	Rephasing the Compensation Recovery Unit activity into 2025-26.
Social Security - Other	0.9	Reduction in expenditure over a number of activities based on updating spending plans including Scottish Household Survey, reducing non-essential travel and marketing.
Transport	23.7	
Active & Sustainable Travel	23.7	In part taken to fund the extension to the peak fares removal pilot to the end of September 2024. We have continued to invest in interventions to support more people to walk, wheel or cycle for everyday journeys through our new infrastructure and behaviour change delivery models.
Total Budget Savings	188.4	

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