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Kenneth Gibson
Convener
Finance and Public Administration Committee
The Scottish Parliament
Edinburgh
EH99 1 SP

23 May 2024

Dear Kenneth,

2023-24 SPRING BUDGET REVISION

At the end of the session on the Spring Budget Revision in March Mr Arthur agreed to provide some additional information by letter, specifically;

Pensions

In his letter to the committee following the Autumn Budget Revision Mr Arthur outlined the key driver for the volatility that has been evident in police pensions in recent financial years was the changes being made to the eligible retirement age.

Ms Thomson asked why this volatility was not being felt in other areas where the Scottish Government has devolved responsibility for pensions. I wanted to take the opportunity to clarify this point.

The Scottish Police Service has its own pension schemes which are distinct from other civil service pension schemes. Under the legacy final salary pensions schemes, the majority of police officers chose to retire once they had reached 30 years' service. In addition, Police Officers can choose to retire when they have reached both 25 years' service and are aged 50 or over.

In 2012, the UK Government announced that it was closing all public sector final salary pensions schemes and transferring staff over to career average pensions schemes in 2015. However, Officers who were within 10 years of retirement in 2012 were allowed to stay in final salary schemes until retirement whilst all other Officers were transferred to the career average pension scheme in 2015. The Courts ruled that this was age discrimination.

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The HM Treasury remedy to this court ruling was to allow all officers the option to remain in final salary schemes until April 2022. This additional 7 years of officers being eligible to remain in final salary schemes, along with other changes to the pension scheme (such as changes to the amount of pension which could be commuted to lump sums), has resulted in a significant increase in the number of officers who have chosen to retire

It is this specific remedy following the ruling on age discrimination that has impacted the volatility on police pensions and has not been applied to other civil service pension schemes.

Wider Capital position

Committee members asked Mr Arthur for details on how the wider economic circumstances were impacting the Scottish Government's capital position. Over recent years, the combined effects of COVID, Brexit and the war in Ukraine have resulted in extremely challenging times for the construction industry, with inflation in the construction sector peaking at around 25% in summer 2022.

When considering this alongside the real terms cuts we have seen to our capital funding, the construction supply chain issues and labour shortages, means that we cannot deliver on all our previously planned capital projects within the funding available. The impact of inflation has resulted in a steep decline in the buying power of a constrained funding envelope. As such, difficult decisions have been taken to pause or delay projects to ensure we achieve a fiscally sustainable, balanced capital budget.

Health Capital budget allocation

Specific queries were made by committee members regarding the NHS Recovery, Health and Social Care Portfolio which received £235 million of additional funding as part of the Spring Budget Revision. This largely related to additional support for research and development expenditure, which in line with HMT consolidated budgeting guidance is scored as capital. Research expenditure is classified, but not limited to, staff costs associated with research and development, data collection and surveys, scientific and technical information services, testing.

The capital programme supports major projects such as the Baird Family Hospital and ANCHOR Cancer Centre, the Parkhead Health and Social Care Centre, the National Treatment Centres in Forth Valley and the Golden Jubilee (phase 2), as well as the national replacement programmes for ambulances and radiotherapy equipment. It also supports wider capital pressures facing the Portfolio as a result of increased construction and inflationary costs.

Included below is a table summarising the components of the capital budget at the end of the financial year.

	£'m
Core Capital Budget	413.000
Transfers in from Transport Scotland for Fleet Decarbonisation	5.295
Transfers out	(2.068)
Research and Development capital	470.000
Capital Income	(20.000)

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IFRS16	55.445
Financial Transactions	5.000
Health PPP/PFI NPD (Other)	1.939
Total 'Capital' as included in Supporting document	928.611

Correction to the Supporting document

As part of the year-end accounts work officials have identified a mis-categorisation within the Spring Budget Revision - Supporting Document that was published online.

£470 million of capital budget relating to Health research and development expenditure was classified as direct capital and included within the 'Capital' column in the supporting document. This amount should have been classified as indirect capital and included within the 'Operating' column.

This mis-categorisation does not impact the HM Treasury control aggregate totals and the Scottish Government has not over or under allocated any budget as a consequence of this error. The categorisation does impact the disclosure in the annual accounts and to avoid confusion this error will be corrected, with the 'Spring Budget Revision - Supporting Document' republished online with an errata explaining the correction.

Yours sincerely,

IVAN MCKEE

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