

F/T: 0300 244 4000

E: scottish.ministers@gov.scot

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

26 February 2024

Dear Kenneth,

2024-25 SCOTTISH BUDGET – ADDITIONAL INFORMATION

At the Finance and Public Administration Committee session on the 2024-25 Scottish Budget on 20 February, I agreed to provide the Committee with additional information on a range of topics. This is detailed below -

1. How much do the negative health effects of alcohol and tobacco cost our public services? How much do they cost the NHS every year? – Ross Greer MSP

In September last year, the Scottish Government published its report on the effect of minimum unit pricing (MUP) in its first five years of operation. In order to inform that report, Public Health Scotland was tasked with leading an independent evaluation of minimum unit pricing, which was commended by internationally renowned public health experts including Sir Michael Marmot and Sally Casswell.

Although it is difficult to attribute a monetary value to the devastating impact that alcohol can have on families and communities, the evaluation carried out by Public Health Scotland estimated that, for the period considered, the social value of deaths averted by MUP, that are wholly attributable to alcohol, is between approximately £134 million and £469 million.

Smoking costs the UK economy and wider society billions of pounds every year, and almost every minute of every day someone is admitted to hospital because of smoking.

As ASH Scotland has highlighted in their recent report on the effect of smoking on personal finances and poverty in Scotland, smoking presents a financial impact on society that is larger than the UK Government receives through tobacco duty.

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2. How the 2024-25 Scottish Budget supports Business Gateway – Jamie Halcro Johnston MSP

Business Gateway is funded by local authorities. The 2024-25 Scottish Budget provides record funding of over £14 billion to local authorities.

The Scottish Government's policy towards local authorities spending is to allow the financial freedom to operate independently. It is the responsibility of individual local authorities to manage their own budgets and to allocate the total financial resources available to them, on the basis of local needs and priorities, having first fulfilled their statutory obligations and the jointly agreed set of national and local priorities.

3. Scottish Funding Council (SFC) – arrangements on confirming funded places for colleges and universities in 2024-25 – Michael Marra MSP

The SFC is currently undertaking its modelling for allocations for the academic year 2024-25. Based on Further Education (FE) student number trends, the SFC expect to be in a position to recalibrate the student support budget to reflect current student demand.

SFC's funding allocations are expected to align with Ministerial priorities. Ministers issue a letter of guidance every year to public bodies (including the SFC) setting out expectations and priorities for the year ahead. The letter also sets out the wider context these priorities should align with, including the Programme for Government.

Upon publication of the Scottish Government's 2024-25 Scottish Budget (December 2023), the SFC commenced its work to determine the funding available for distribution to institutions in the following academic year.

Funding principles are taken to SFC's Finance Committee in late January for consideration and are subsequently approved by the SFC Board in February. Immediately thereafter, work progresses on the indicative allocations for individual institutions. These are presented to the SFC Finance Committee for consideration and are approved by the Board in mid-March. Indicative allocations are usually published at the end of March. Throughout this process, the SFC engages closely with the sector bodies and, where appropriate, with individual institutions as well as keeping Scottish Government officials updated on progress.

Following the publication of indicative allocations there is an opportunity for further discussion with the sectors.

Final allocations are presented to the SFC Finance Committee for consideration at the end of April and are approved by the SFC Board at the beginning of May. Final allocations are then published towards the end of May.

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Financial Transactions Capital

I also wish to provide the Committee with further information on the challenges we face in managing the Financial Transactions Capital (FTC) position as a result of UK Government decisions.

The UK Government supports some capital investment programmes and other projects through Financial Transactions Capital (FTC). FTC funding is a ringfenced element of the capital block grant, which can only be used for lending or other financial instruments such as equity investment and guarantees.

FTC was introduced in 2012-13 as a way of supporting public investment that did not add to Public Sector net debt.

The limitation on what FTC can support means that Barnett consequentials are only generated on a small number of UK programmes – principally in Housing and Business and Trade. The largest consequential element has historically been derived from the UK “Help to Buy” Scheme – this scheme closed in 2023. As a result of that programme closing, the scale of FTC funding has decreased significantly across the current UK Spending Review (SR) period.

The SR profile for FTCs was -

Scottish Government FTC Budget				
£ million	Baseline	2022-23	2023-24	2024-25
<i>Financial Transactions Capital</i>	392.586	466.112	185.648	176.036

Officials identified some errors with the historic calculation of FTC consequentials across previous spending review periods. This boosted the 2023-24 FTC budget by a further £188 million, sustaining levels of FT investment this year but meaning the significant drop in funding now comes in 2024-25.

FTC supports a number of Scottish Government programmes, largely concentrated in Housing and supporting the Scottish National Investment Bank, with the capitalisation of the SNIB the largest single area receiving FTC funding.

Spending on the UK programmes that generate the FTC consequentials can be volatile with UK FTC Housing programmes in particular often surrendering capital at UK Supplementary Estimate, which then results in a negative consequentials for Scottish Government. In previous years these negative consequentials have been more manageable within the scale of the overall Budget and the progress on SG planned spending in year.

The scale of the change this year - £64 million – and the late point that the Scottish Government was notified of the scale of the change means that managing that reduction is particularly challenging, given the scale of the reduction in FTC budget that is already having to be managed.

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I hope this additional information is helpful to the Committee. I am copying this letter to the Cabinet Secretaries for –

- NHS Recovery, Health and Social Care
- Wellbeing Economy, Net Zero and Energy
- Education and Skills

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