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Kenneth Gibson  
Convener  
Finance and Public Administration Committee  
The Scottish Parliament  
EDINBURGH  
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8 February 2024

Dear Kenny,

At the session on the Autumn Budget Revision on 7 November I agreed to provide some additional information by letter, specifically;

Police Retirement figures:

Ms Thomson asked for details on whether the continued volatility in police pension costs had been a legacy of Covid-19 impacting retirements and whether we expected this trend to continue. Covid has not had a significant impact on retirements, with the major change a result of the HM Treasury remedy for the outcome of age discrimination legal case that arose following UK government pension reforms.

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. Once an officer becomes eligible to retire, they can provide a minimum of one month's notice of their intention to do so, although in practice the majority provide a longer notice period.

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. 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.

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The Scottish Government is directly responsible for funding all elements of police pensions. This means that in the month an officer retires, the Pension Account directly meets the full cost of lump sum payments. This can result in significant volatility in the annual cost of police pensions if the numbers retiring in any month are higher (or lower) than anticipated.

Police Scotland provides the Scottish Government with estimates of costs of lump sums and pension payments but the volatility on when officers choose to retire, and the amounts commuted to lump sum payments makes these estimates very challenging. The additional funding cover provided in the Autumn Budget Revision is part of managing the funding requirements arising from this volatility.

### Utilisation of Reserves:

A number of members of the committee asked for further details around the utilisation of reserves following our discussions on how reserve balances from Forestry and Land Scotland and Creative Scotland are being used to support the Autumn Budget Revision position. It should be noted that the Scottish Government considers the overall financial position of bodies prior to in-year utilisation of reserve funding.

As a general rule central government public bodies fall within the Scottish Government budgeting boundary and therefore separate reserves are not held, rather they are factored into the overall Scottish Government budget position that ultimately feeds through to the Scotland Reserve. This applies to the vast majority of government bodies covering core Scottish Government, non-departmental public bodies and agencies. Underspends reported by these bodies form part of the overall Scottish Government outturn position with the net underspend deposited into the Scotland Reserve

As you know the Scotland Reserve is the mechanism available for underspends to be carried forward for utilisation in future financial years and this is managed on a Scotland Government wide basis. The rules governing the use of Scotland Reserve are set out as part of the Fiscal Framework agreement. My officials outlined the latest position for the Scotland Reserve as part of the 'Guide to the Autumn Budget Revision' and a further update will be provided as part of the Spring Budget Revision.

### Reserves – Public Corporations:

Public Corporations (PCs) are an exception to this rule. PCs are bodies that are controlled by government (or another public corporation) and that are market bodies, meaning their income comes mainly from trading activities. Budgeting rules for PCs are different and they are able to hold their own reserve balances. The Office for National Statistics publishes a full list of PCs and the following relate specifically to the Scottish Government:

- Forestry and Land Scotland
- Crown Estates Scotland
- David MacBrayne Limited
- Glasgow Prestwick Airport Limited
- Prestwick Airport Limited
- Scottish Water

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## Forestry and Land Scotland

Forestry and Land Scotland ('FLS') is classified as a public corporation, for the purposes of national accounts, by the Office of National Statistics. This classification is based on the nature of activity undertaken and the high proportion of commercial trading. FLS is essentially funded by receipts from commercial trading activities such as; the sale of timber, renewables, recreation, venison, estates, and other income. FLS also receives some additional funding from the Scottish Government through the setting of an annual subsidy limit (ASL). All of FLS's commercial activity is subject to cyclical fluctuations both within single years and across multiple years, reflecting both the seasonal nature of its business and the international commodity status of its core trading activities. These activities can lead to the generation of significant cash balances, some of which will be classified as reserves.

FLS's classification as a public corporation enables it to build and maintain those essential reserves across financial years to sustain their financial position over fluctuations in the commercial environment they operate in and to support the delivery of Ministerial priorities. They allow the organisation to manage uncertainty, which is essential in dealing with those fluctuations in the forestry sector, and to service long-term commercial investment needs. However not all financial reserves held are readily available for spending.

FLS holds reserves to manage the risks that it faces and to embrace opportunities that will benefit the long-term sustainability of the assets under its stewardship. FLS is responsible for the management of assets valued at £5.9 billion, with similarly large risks for example from, fire, floods and landslips.

FLS has two areas of reserves, restricted, and unrestricted. The exact amounts of the reserves fluctuate on a daily basis. Details of the reserves and the current levels are included below:

### **Restricted reserves**

Restricted reserves currently held are **£27.8 million**. These relate to funding from external providers or where there is a known project/liability that needs to be funded. This includes the Capital associated with the re-development of Newton Nursery. It is anticipated that restricted reserves will reduce significantly in 2024-25 as a number of specific projects conclude.

### **Unrestricted (Earmarked) reserves**

Earmarked reserves currently held are **£25.3 million**. These are expenditure savings or additional income generated in previous financial years, that FLS has retained for re-investment in transformation projects/activities to improve the organisation's long-term financial sustainability. For example, the replacement of FLS's Financial Systems is being funded in this way, without the requirement for the drawdown of additional Scottish Government funding. It is anticipated that most of the earmarked reserves will be spent in 2024-25. It is earmarked reserves that have been used to cover the withdrawal of Scottish Government resource funding in 2023-24.

### **Unrestricted (Liquidity) reserves**

The liquidity reserve of **£14.1 million** (three times the monthly pay bill) is held to cover fluctuations in trading. The price of timber can fall sharply and unexpectedly, with potential for significant trading deficits. To remain solvent, liquidity reserves are held to ensure

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operational activity can be maintained. Given the level of potential volatility, FLS manages its budget to maintain this liquidity cushion.

### Crown Estate Scotland

Crown Estate Scotland are responsible for the management of land and property in Scotland which is owned by the monarch. Crown Estates Scotland passes income in excess of expenses to the Scottish Government on an annual basis and these amounts are included as part of the Scottish Government's overall funding position. While there is occasionally a time lag in funding being provided to the Scottish Government, these surpluses are always passed on and no significant reserves are built up.

The exception to this is ScotWind funding which is held by Crown Estate and drawn down as required by the Scottish Government. There is currently £660 million of ScotWind funding held by Crown Estate which is already profiled to be utilised over the course of 2023-24 and 2024-25.

### Other public corporations

The remaining public corporations detailed above are trading companies in which the Scottish Government owns a material interest. Details of the reserves that these entities hold are published each year in their annual accounts. Ministers consider the level of available reserves in assessing the charges levelled by these bodies (and the level of any increases) in their commercial activities, and in the amounts of any annual subsidies to be provided. Should surpluses accumulate then arrangements will be made for these organisations to pay a dividend to the SG as owner.

### Creative Scotland

Creative Scotland are not a public corporation and would ordinarily not be able to hold reserves. However, Creative Scotland have a bespoke agreement due to their management of National Lottery funding on a multi-year basis, which has allowed them to hold specific National Lottery reserves. It is the flexibility around the management of the National Lottery funding that is being utilised in the current year with a commitment to return this funding in 2024-25.

Scottish Ministers consider all the reserve balances held across public sector bodies regularly as part of managing the overall financial position. Although on the face of it the level of reserves held by certain public corporations may appear high in proportion to their Scottish Budget allocation, reserves must be considered in the context of the individual organisation and any associated multi-year investments programmes.

Yours sincerely,

**TOM ARTHUR**

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