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Bruce Crawford MSP
Convener
Finance and Constitution Committee
The Scottish Parliament
Edinburgh
EH99 1SP

17 March 2021

Dear Mr Crawford,

I am writing to provide you with additional information following my evidence session with the Committee on 8 March.

Block Grant Adjustments

Since the session, I have written separately to you regarding my decision in respect of Block Grant Adjustments (BGAs) with associated information, following the publication of updated BGAs alongside the UK Budget. I trust that letter answers the questions you raised during the evidence session.

Consequential funding

I committed to follow up on the detail of 2021-22 consequential funding generated by the UK Budget, which is as follows (noting there were no consequential changes to capital funding) .

- £1,206 million of Covid (non-recurring) resource consequentials
- £9 million of non-Covid (recurring) resource consequentials
- A £40 million downward correction in respect of a previous over-allocation of Network Rail funding by HM Treasury
- Net addition to the Scottish Budget was therefore £1.175 billion resource

For completeness, at the UK Spending Review in November the 2021-22 Scottish Budget was allocated consequential funding of £1,225 million of resource (recurring), plus a £115 million increase in non-Barnett resource funding, giving a total resource increase of £1,340 million. This was offset by a net capital reduction of £131 million, giving a total increase in

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funding of £1.209 billion. On top of this there was also £1,328 million of Covid (non-recurring) resource consequential.

Local Government Settlement

Further to the question on whether the £90 million to support a national Council Tax freeze was baselined, I subsequently confirmed during the Budget Bill Stage 3 debate that I consider it to be baselined within the local government settlement.

EU Structural Funds

Questions about the financial performance of the European Social Fund (ESF) and European Regional Development Fund (ERDF) programmes, including contingent liabilities, decommitment, financial risk to the Scottish Government and possible penalties, were raised.

Based on current estimates, for amounts paid by the Scottish Government to Lead Partners but subsequently withdrawn from declarations to the European Commission as a result of the suspension, we have provided for £15m in 2020-21 with a further £20m in 2021-22. This has not yet crystallised into a payment or liability and we continue to work to minimise the impact as far as possible.

The Scottish Government has not had to provide additional spend to make up for any shortfall as a result of decommitment or suspension, nor have the ESF and ERDF programmes had funds decommitted as a result of the suspensions.

As the ERDF programme is no longer in suspension, there is no risk of a penalty. If the suspension of the ESF programme is not lifted, the European Commission reserves the right in its regulations to impose a penalty of up to 25% of the programme value, which would equate to £82.8m based on current exchange rates. The Scottish Government is working closely with the Commission to lift the suspension of the ESF programme and is confident that no penalty will be applied. No penalties have been paid by the Scottish Government, nor has the Commission informed the Scottish Government that any penalties are payable as a consequence of the suspensions.

Finally, Alexander Burnett advised during the 8 March session that he would write to me on a specific case regarding business support, and I will of course reply to that letter directly once received.

I hope the Committee finds this information helpful.



KATE FORBES

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