

*In conjunction with:*



Briefing No. 3

### ***THE SCOTTISH GOVERNMENT'S BUDGET 2007: HOW IT HAS BEEN FUNDED***

Much has been written about Scotland's budget baseline for 2007-08 following the Comprehensive Spending Review (CSR) presented by the Chancellor in October. Whilst this debate has abated, the Scottish Government's 2007 Budget document uses a different figure for what it is going to spend between 2008-09 and 2010-11. The Technical Appendix offers a reconciliation of the two Departmental Expenditure Limit (DEL) figures, the discretionary funds Ministers can spend on Scotland's public services.

As this Appendix shows, the Scottish Government's budget balances. The manner in which this has been achieved is nonetheless worthy of comment:

- The 2007-08 baseline has used data from the Scottish Executive's 2007-08 Draft Budget, plus adjustments that have occurred since it was published in September 2006. Individual line items within this overall total are, however, not readily reconcilable back to the Draft Budget document. To assess how generous the 2007 Budget has been to the various recipients<sup>1</sup>, a clear understanding of the 2007-08 baseline for each budget item is essential.
- The release of the reserve from HM Treasury (line 9 in the table in the Appendix) is beneficial as it allows projects and programmes to be funded that, at best, might otherwise be delayed. Adding this funding to the DEL budget does nonetheless have the potential for creating a problem in 2010-11, when the next spending review settlement would be expected. The Scottish DEL baseline will need to be adjusted to reflect the loss of this non-recurring funding stream.
- The over-allocation of spending (line 10 in the table in the Appendix) is in-effect assuming the various budget lines will not all be spent and the final outturn position will not exceed the available budget. It is not clear which budget lines have been adjusted in this manner and whether this has been signalled to budget holders. Being adequately informed may increase the incentive by budget holders to spend. Lack of knowledge makes it very difficult to plan and effectively penalises those projects and programmes that seek funding in the latter part of the financial year.

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<sup>1</sup> See CPPR' 2007 Budget Briefing No 2, [http://www.cppr.ac.uk/media/media\\_54044\\_en.pdf](http://www.cppr.ac.uk/media/media_54044_en.pdf)

- The amount of over-allocation is relatively small (£100m/£100m/£24m) and follows a similar over-allocation in the last spending review of around £220m (nominal prices). The underspend in 2006-07 (the end-year-flexibility or EYF) was £135 million. Historically, unspent budgets have been large, but they are now reducing. A very tight budget settlement combined with the expectation that money allocated that is not spent is now more likely going to be lost (albeit to the centre), may lead to an increase in the desire and ability to spend, further reducing the overall underspend. The Scottish Government accepts managing Scotland's Budget will be a significant management challenge. Budgets can always be balanced by not undertaking activities. Only time will tell whether the overall funding approach proves to be prudent or whether projects have to be postponed.

### Advance notice:

The new Economic Strategy together with the bringing together of our detailed analysis of the Scottish Government's spending plans will be published at 1am on the 27<sup>th</sup> November (located at <http://www.cppr.ac.uk/centres/cppr/newsandevents/>) followed by a presentation of key findings at a seminar (conducted under Chatham House rules) on Tuesday 27<sup>th</sup> November (14.30 – 16.00) in Ivy Lodge, 63 Gibson Street, Glasgow (email [cppr@gla.ac.uk](mailto:cppr@gla.ac.uk) to book a place).

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## Technical Appendix

The following Table shows how the Treasury DEL figure from October (line 1)<sup>2</sup> is adjusted to produce the Scottish Budget 2007 DEL figure (line 7).

### **DEL Reconciliation: HM Treasury and Scottish Government forecasts**

<b>£ million (nominal prices)</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
1 Treasury CSR October 2007 Scottish DEL	26,059			
2 Plus Barnett consequentials from CSR October 2007	0	1,185	2,340	3,725
3 Less incremental depreciation	0	-15	-34	-54
4 Plus Scottish Government depreciation allowance	357	373	391	411
5 Plus Treasury CSR 2007 baseline adjustment	342			
6 Restated Treasury CSR 2007 Scottish DEL	26,758	27,602	28,756	30,141
7 Scottish Government 2007 Budget DEL <sup>b</sup>	26,824	28,002	29,256	30,339
8 Scottish Government 2007 Budget DEL overspend	66	400	500	198
<u>Funded by:</u>				
9 End Year Flexibility (EYF) / released reserves	-66	-300	-400	-174
10 Over-allocation allowances	0	-100	-100	-24
11 Final balance	0	0	0	0

<sup>a</sup> The HMT DEL figure is taken from the 2007 Pre-Budget Report and Comprehensive Spending Review, Table D27.

<sup>b</sup> The Scottish Government DEL figure is taken from the Scottish Budget Spending Review 2007 Table 2. The Scottish Government provided the depreciation adjustment figures.

- Line 1 is the Treasury DEL figure for Scotland announced in October 2007. Line 2 is the value of the Barnett Consequential included in the Treasury settlement and line 3 is the value included in these consequentials to cover Scotland's associated additional depreciation charge. The UK public sector operates within a resource accounting framework, so the total funding available for spending on services in Scotland must include the total depreciation charge (line 4) and not just these incremental amounts. An additional adjustment is required for 2007-08. To derive Scotland's Barnett consequentials for the period 2008-09 to 2010-11, Treasury reduced the 2007-08 baselines across Whitehall resulting in a reduction for Scotland of £342 million (line 5). This needs to be added back to derive the total spending permitted in Scotland in 2007-08.
- Summing lines 1, 2, 3, 4 and 5 produces the restated Treasury Scottish DEL (line 6) for the period 2007-08 to 2010-11.
- Line 7 is the total DEL outlined in the Scottish Government's 2007 Budget report. This might suggest there is a potential overspend in its budget of £400m/£500m/£198m (line 8). This apparent overspend is however covered by two funding streams; the utilisation of unspent balances from previous years (EYF and the release of the reserve the Cabinet Secretary negotiated with HM Treasury) of £300m/£400m/£174m (line 9); and an over-

<sup>2</sup> See also row 1 in Table 1 of CPPR's Initial Budget Briefing ([http://www.cppr.ac.uk/media/media\\_49726\\_en.pdf](http://www.cppr.ac.uk/media/media_49726_en.pdf)).

allocation of spending of £100m/£100m/£24m (line 10). Taken together the Scottish Budget balances as shown by line 11.