Dear Des,

When I appeared before the Finance Committee on 7 November, I undertook to write back to you with further detail on a variety of issues, including the funding of the business rates reduction.

John Swinney asked how the Executive would fund the commitment to reduce business rates in Scotland. As you know, we announced on 6 October 2005 that we would be reducing the existing gap in poundage rates in Scotland by half in 2006-07 and in full in 2007-08.

I would like to reassure the Committee that the decision to proceed with this commitment was made on the basis that it had been carefully costed, it is affordable and that it will be financed from within existing resources, without the need for cuts elsewhere in the budget. These additional resources do not appear in the Draft Budget 2006-07 document because the document was published on 1 September, before the final decisions on the business rates reduction had been made and announced.

The Committee will be aware that the funding mechanism for the Scottish Executive requires that we only draw down any additions to our budgets from HM Treasury when we require them. The Executive then presents its revised budget proposals to the Scottish Parliament and the Finance Committee for scrutiny, through the Budget Bill and Autumn & Spring Budget Revision processes. It is only at this stage in the process that additional resources, such as “End Year Flexibility” draw down and withdrawals from the “Central Unallocated Provision,” are added to our total Scottish budget. This reflects the principles that both the Scottish Parliament and Westminster lay down, that any budgets should be voted by Parliament only when they are required and that budgets should be “taut and realistic.”

At present we have a variety of funding streams at HM Treasury, which the Executive will be drawing down over the remainder of the current Spending Review period. For example, all of the “End Year Flexibility” from 2004-05 is with the Treasury (£273m – as announced on 23 June 2005), and it will only be drawn down into portfolio’s budgets as and when they intend to use it.
Furthermore, the "Central Unallocated Provision" for each portfolio is with HM Treasury until we actually need to add it into our Scottish budgets to be spent (£262m – as in my letter to the Committee on 3 May 2005).

In addition to these two elements, our spending plans announced at the outcome of the 2004 Spending Review included some £500m, held at Treasury (arising, for example, when Treasury decided to meet more of the costs of the Glasgow Housing Stock Transfer, and from higher than forecast receipts from non-domestic rates), in addition to those resources secured from the UK Spending Review. This element of the funding is included in the plans that we have published in the Draft Budget, as part of our Spending Review outcome. We will, however, require to draw this into our budgets at a UK level in 2006-07 and in 2007-08, to ensure that the total Scottish budgets voted by Westminster match those voted by the Scottish Parliament.

After accounting for all of the items above, this leaves a balance of some £500m which is also at HM Treasury. The reduction in Scottish business rates (£280m in the current Spending Review period) is only one purpose for which this money will be utilised. The remaining money will be used along side any resources identified through the external budget review process and with future EYF monies to cover a list of known and potential pressures that the Executive may face over the course of the next two years and beyond. Other pressures include, elements of the Prisons Estate Strategy and funding for the forthcoming Scottish and European Elections. These financial tools will allow us to ensure the effective and timely direction of resources to meet any pressures that we might face.

Finally, as Mr Swinney correctly indicated at the Committee meeting, the business rates reduction is a recurring commitment that will extend beyond 2007-08. The Committee can be assured that the future funding of this commitment will be considered and will be included as part of the planning process for our next Spending Review.

I hope that the Committee find this response helpful and I will endeavour to respond on the other outstanding issues from the Elgin Committee meeting as soon as possible.

Best wishes

Tom McCabe

TOM MCCABE