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

15 February 2021

Dear Bruce

Further to my attendance at the Committee's evidence session on 10 February, I am writing to provide more information in relation to some of the points raised by the Committee.

### **Borrowing powers**

The Scottish Government and HM Treasury have agreed that the Scottish Government can 'unlock' the resource borrowing powers for forecast error based on any negative differences between forecast and outturn budget positions.

For income tax, a single reconciliation is applied to the Scottish Government's budget three financial years after the original budget is set. For example, the reconciliation for the 2018-19 tax year applies to the 2021-22 Scottish Budget. This single reconciliation covers forecast errors in relation to both revenues and the block grant adjustment (BGA). In some instances, these may offset each other. Where an income tax reconciliation is negative, the Scottish Government can borrow to offset the impact to the Scottish Budget.

The Scottish Government can also borrow for:

- negative in-year BGA reconciliations
- negative final BGA reconciliations
- higher spend than forecast on devolved social security benefits
- lower tax revenue than forecast for fully devolved taxes

The Scottish Government can borrow for the total negative effects of forecast errors, subject to the overall limits. Forecast errors that result in increased funding for the Scottish Budget do not reduce the Government's ability to borrow.

Tha Ministearan na h-Alba, an luchd-comhairleachaidh sònraichte agus an Rùnaire Maireannach fo chumhachan Achd Coiteachaidh (Alba) 2016. Faicibh [www.lobbying.scot](http://www.lobbying.scot)

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For example, if there is a negative reconciliation in relation to Land and Buildings Transaction Tax, the Scottish Government can borrow against this reconciliation even if the net reconciliation for all taxes and social security benefits is positive.

Resource borrowing can also be drawn down at any point in the financial year. The Scottish Government can change its plans at any point and draw down more or less than planned, subject to the overall limits and the existence of reductions in funding caused by forecast error.

### **Financial transactions**

I was also asked to follow up on the Financial Transactions budget for the Scottish National Investment Bank (“the Bank”). I’d like to firstly outline the financial position of the Bank. In the 2020-21 Budget, the Bank was allocated £241.1 million funding comprising £21.1 million of resource funding and £220 million of financial transactions. As discussed at Committee, the Bank launched in November 2020 and has proceeded since then to develop a strong pipeline of mission aligned investments that will help Scotland to recover from the Covid crisis. To date, the Bank has committed to two investments with a further three investment commitments planned before the end of the financial year.

The Committee asked about the deployment of the FTs allocated to the Bank over 2020-21. As I noted, I have taken care to make sure that the Scottish Government’s budget has been deployed to support our response to and recovery from Covid-19. Across the public sector this has meant the efficient redeployment of funds to meet the needs of our citizens. In the case of the Bank, as outlined in the Autumn Budget Revision, I initially redeployed £50 million of FTs to this effect. In terms of any further redeployment I will provide details in the upcoming Spring Budget Revision, which is due to be published later this month.

It is worth highlighting that in Scottish Budget 2021-22 I proposed allocating the Bank £205 million of funding overall, comprising £5 million of resource funding and £200 million of FTs. This decrease in funding was necessary given the UK Government’s reduction of our FTs budget by around two-thirds as part of the UK Spending Review in November, a cut which I hope they will consider reversing at the UK Budget on 3 March.

I hope that you find this information useful.



**KATE FORBES**

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