

ANNEX B

INFORMATION FOR RELEASE

1. Extracts from Briefing for Finance Ministers Quad – 26 June 2020 :

- As noted in my recent letter, given the nature and scale of this crisis, and the economic impact it is having, I believe there is a strong case for temporary additional powers and flexibilities beyond those currently set out in the Fiscal Framework.
- Providing enabling, relatively minor, flexibilities, given the extraordinary pressures that the devolved administrations are currently under, would ensure that our fiscal powers are commensurate with the risks we face.
- [...]
- To address the exceptional economic and fiscal challenges brought about by COVID-19, I have set out the detail of the relatively minor, and temporary flexibilities that I believe are need as a minimum. In short:
- [...]
- I believe that the Scottish Government should have flexibility to borrow up to £500 million to support the COVID-19 response this year. I propose that this would effectively substitute for the existing power to borrow for cash management, which I do not expect to need.
- [...]
- In my view, the COVID-19 crisis has highlighted the need for the upcoming review of the Fiscal Framework to not only robustly consider the case for revisions to the existing framework (such as increased reserve and borrowing flexibility)
- [...]

Background

- Further to ongoing engagement at official and Ministerial level with HMT and DA counterparts in relation to fiscal flexibilities that could help address the budget challenges faced in 2020-21, you wrote to CST on 24 June to set out the specific, relatively minor, and temporary flexibilities that you believe are needed to address the economic and fiscal challenges brought about by COVID-19.
- **Flexibility over resource borrowing.** In the current circumstances, you believe that the Scottish Government should have flexibility to borrow up to £500 million to support the COVID-19 response this year. This would effectively substitute for the existing power to borrow for cash management, which

we do not expect to need.

- This would be in addition to the already planned resource borrowing of £207 million to fund the tax reconciliation impact, and so would also require a one-off extension of the total annual limit of £600 million for all resource borrowing set out in the Fiscal Framework.
- In addition, repayment periods for borrowing this year should be extended to 10 years (from the 3-5 years currently in the Fiscal Framework), to allow the repayments of this larger sum to be managed in a way that limits the annual impacts of this additional borrowing on planned spending.
- These proportionate flexibilities to the annual limits and restrictions could be accommodated within the existing overall cumulative limit of £1.75 billion.
- [..]

· The letter also:

- calls for the upcoming review of the Fiscal Framework to not only robustly consider the case for revisions to the existing framework (such as increased reserve and borrowing flexibility)
- [..]
- External commentators have also highlighted the potential limitations of the cross-UK funding arrangements to manage COVID-19 spending. The Institute for Fiscal Studies for example has noted that:
 - the Devolved Administrations have limited reserves, constrained borrowing powers, and that the funding flowing to them as a result of the Barnett formula may not reflect the challenges that they face; and
 - there is therefore a case to give Devolved Administrations access to greater resource borrowing powers at least for COVID-19 spending and to consider bypassing the Barnett formula. It stresses that any changes should be temporary, as long-term fiscal arrangements should not be developed in the midst of a crisis.
- We have received no response to date in relation to our outstanding request to increase our borrowing and reserve limits due to their inadequacy compared to the scale of potential forecast errors. (Letter from Cab Sec FEFW to CST in September 2019 requesting increase to borrowing and reserve limits).

Background - Borrowing proposal

- There is a clear case to substitute the redundant £500m cash management borrowing power for a meaningful Covid-19 borrowing power.
- Increasing the term of resource borrowing to 8-10 years for 2020-21. This is crucial to avoid placing undue pressure in subsequent financial years particularly 2021-22.

Extracts from COVID-19 Briefing Pack update 23 June 2020:

- Even leaving aside the significant impacts of Covid, I consider that the reserve and resource borrowing powers in the Fiscal Framework are insufficient to deal with the volatility inherent in its operation, and will continue to press for these to be changed in advance of review of the Fiscal Framework.
- You commissioned officials to explore whether there are fiscal flexibilities that could help address the budget challenges faced in 2020-21

· [...]

· You wrote to CST in May 2020 outlining the need for additional flexibilities and you are due to write in advance of the next Quad meeting on 26 June, where Ministers will continue discussions on managing funding uncertainty.

· [...]

Extracts from Advice to Cabinet Secretary on Fiscal Flexibilities 12 June 2020:

The COVID-19 crisis has highlighted some of these fundamental issues more clearly, most importantly the Scottish Government cannot access these powers to respond to economic need. Annex A highlights some of the issues with the current powers and outlines a proposal for £500m additional flexibility to deal with the COVID-19

[...]

However given some of the fundamental issues with the resource borrowing powers which are already inherent in its operation and the fact these do nothing to help the financial response to COVID-19 there is a case for the following temporary measures to be accessed as a minimum.

· There is a clear case to substitute the redundant £500m cash management borrowing power for a meaningful COVID-19 borrowing power.

· Increasing the term of resource borrowing to 8-10 years for 2020-21. This is crucial to avoid placing undue pressure in subsequent financial years particularly 2021-22.

[..]

All of these proposals could be utilised effectively and sustainably within the context of the existing £1.75bn cumulative limit on resource borrowing.

[...]

Extracts from draft paper accompanying Advice to Cabinet Secretary on Fiscal Flexibilities 12 June 2020:

· **Flexibility over resource borrowing.** Under the Fiscal Framework, borrowing is only permitted to manage up to £300m per annum for forecast error and £500m per annum for in-year cash management, subject to a total limit of £600m per annum. In the current circumstances, we believe that the Scottish Government should have flexibility to borrow up to £500m to support the COVID-19 response this year rather than a power to borrow for cash management, which we do not expect to need. This would be in addition to the already planned resource borrowing of £207m to fund the tax reconciliation impact, and so would also require a one off extension of the total annual limit of £600m for all resource borrowing (including forecast error) set out in the Fiscal Framework. In addition repayment periods for borrowing this year should be extended to 10 years (from the 3-5 years currently in the Fiscal Framework), to allow the repayments of this larger sum to be managed in a way that limits the annual impacts of this additional borrowing on planned spending. Any decision to borrow would be informed by the Scottish Government's fiscal principles and policies as set out in the 2019 MTFS, and used only after consideration of other reprioritisation of planned spending.

[...]

Further to the asks above, we believe that the COVID-19 crisis makes clear the need for the review of the Fiscal Framework to robustly consider not simply the case for revisions to the existing Framework (such as increased reserve and borrowing flexibility),

Extracts from Advice to Cabinet Secretary on Fiscal Flexibility 1 April 2020:

1. If we do not secure increased flexibility on borrowing or over the deferral of in-year reconciliations, we will have no choice but to reduce public spending in Scotland at a time when all administrations are seeking to maximise the scale of their interventions on health, the economy and supporting communities.

[...]

Increasing our borrowing and Reserve drawdown powers – your predecessor had previously written to CST to request an extension to the existing powers. Beyond management of forecast error, increasing the limits on our borrowing and reserve and having the ability to use these powers to respond to the Covid-19 crisis would also allow us to more effectively plan our response and give us flexibility to respond in areas that have not attracted consequentials. Increasing the tenor of borrowing to at least eight years would also support us to manage any borrowing over future years.

Extracts from Cabinet Paper 5 May 2020:

33. I have commissioned work to explore whether there are fiscal flexibilities that could help address the budget challenge and support our COVID-19 response.

External commentators have highlighted the potential limitations of the cross-UK funding arrangements to manage COVID-19 spending. The Institute for Fiscal Studies (IFS) has, for example, noted that:

- The Devolved Administrations have limited reserves, constrained borrowing powers, and that the funding flowing to them as a result of the Barnett formula may not reflect the challenges that they face; and
- There is therefore a case to give Devolved Administrations access to greater resource borrowing powers, at least for COVID-19 spending, and to consider bypassing the Barnett formula. The IFS stresses that any changes should be temporary, as long-term fiscal arrangements should not be developed in the midst of a crisis.

[..]

35. The main flexibilities I am exploring are:

- Flexibility over borrowing (scope, limits and tenor) – allowing the Scottish Government to borrow for day-to-day spending on Coronavirus measures, recognising we are experiencing an economic shock, whereas current powers enable us to borrow only to address forecast errors in tax and social security reconciliations or for a tightly defined Scotland-specific economic shock;

Extracts from Cabinet Paper 3 June 2020:

I pressed the case for fiscal flexibility at the Finance Ministers' Quadrilateral on 19 May, [...]. This included [...]; the case for increased Resource borrowing capacity and the scope to use this to meet COVID-19 costs rather than solely for the limited purposes set out in the Fiscal Framework;

Extracts from Ms Forbes briefing for conference call with CST and other DA Finance Ministers 27 March 2020:

4. Fiscal framework for borrowing/reserve and Scottish Government restrictions

- Greater fiscal freedoms would allow us to better plan and respond effectively.
- As you are aware the Scottish Government has written to you to request an extension to our existing borrowing and reserve powers.
- Providing increased flexibility in relation to these powers now will support us to respond to this crisis more effectively.
- We are keen to continue wider discussions in relation to the operation of the fiscal framework and additional flexibilities to support our response to this crisis and its wider impacts.'

Extract from briefing provided to Ms Forbes for Reform Scotland Event 1 May 2020:

- We also need more fiscal levers to manage the public finances, including increased borrowing limits and reserve powers.

Extracts from Advice to Ms Forbes on UK Fiscal Path 19 June 2020:

The Scottish Government does not have the powers to respond to the economic challenges we are facing, with the UK Government's overall fiscal stance is still a key factor determining the Scottish Budget. As such, either the UK Government must take steps to respond to these challenges, or provide the Scottish Government with the powers and responsibilities to deliver the response the people of Scotland need

Extracts from draft paper accompanying advice to Ms Forbes on UK Fiscal Path 19 June 2020:

Immediately extend Scotland's fiscal flexibilities to enable it to shape its own response to the pandemic