

EMAIL FROM DIRECTOR DED HEADED "LIST OF ACTION POINTS FROM MEETING WITH MR MACKAY AND MR BROWN ON ECONOMIC STIMULUS" 24/08/16

From: McAllan M (Mary)

Sent: 24 August 2016 15:59

To: [redacted]

Subject: FW: List of Action points from meeting with Mr Mackay and Mr Brown on economic stimulus

To see

I should have a word with [redacted] once [redacted] has briefed him. Mary

From: McAllan M (Mary)

Sent: 24 August 2016 15:32

To: [redacted]

Cc: DG Economy; DG Finance Mailbox; Director of Financial Management; Director of Financial Strategy; Gillespie G (Gary); Stark C (Chris); Gil O (Oonagh); [redacted] Rankin S (Shane); Rollison R (Richard); Watt K (Karen) (Director for External Affairs); [redacted]; Cabinet Secretary for Economy, Jobs and Fair Work; Cabinet Secretary for Finance and the Constitution; Imrie C (Colin)

Subject: RE: List of Action points from meeting with Mr Mackay and Mr Brown on economic stimulus

[Redacted] thanks for this note. I can confirm that both my Financial Services Team and relevant colleagues from the Directorate of Financial Management are looking at the issues with a view to providing joint advice to ministers on the options. It is quite a complex area. You may recall some of the detail was discussed in the context of the policy development for a business bank last year.

There is a follow up ministerial meeting in diaries for 8 September on this issue . I understand both Cabinet Secretaries will be there as well as relevant policy officials including DG Economy. We are working to get an option paper in circulation in advance of this meeting .

Mary McAllan

From: [redacted]

Sent: 23 August 2016 22:36

To: McAllan M (Mary)

Cc: DG Economy; DG Finance Mailbox; Director of Financial Management; Director of Financial Strategy; Gillespie G (Gary); Stark C (Chris); Gil O (Oonagh); [redacted] Rankin S (Shane); Rollison R (Richard); Watt K (Karen) (Director for External Affairs); [redacted] Cabinet Secretary for Economy, Jobs and Fair Work; Cabinet Secretary for Finance and the Constitution; Imrie C (Colin)

Subject: RE: List of Action points from meeting with Mr Mackay and Mr Brown on economic stimulus

Mary

I discussed the economic package with FM earlier this evening.

Grateful in the course of tomorrow for an update on the credit finance guarantee idea.

Rgds

[redacted]

From: [redacted]

Sent: 23 August 2016 18:19

To: Cabinet Secretary for Economy, Jobs and Fair Work; Cabinet Secretary for Finance and the Constitution; Imrie C (Colin)

Cc: DG Economy; DG Finance Mailbox; Director of Financial Management; Director of Financial Strategy; McAllan M (Mary); Gillespie G (Gary); [redacted]; Stark C (Chris); Gil O (Oonagh); [redacted] Rankin S (Shane); Rollison R (Richard); Watt K (Karen) (Director for External Affairs); [redacted]

Subject: RE: List of Action points from meeting with Mr Mackay and Mr Brown on economic stimulus

[redacted]

Apologies for the delay – the Cabinet Secretary is content with the list of action points and would like to be kept updated as progress is made. It's probably useful to flag to the email list that Mr Mackay is delivering a speech at FT's FDI Forum on 21 September in London - <https://live.ft.com/Events/2016/fDi-Forum-2016> and some of the work should connect with that.

Thank you

[redacted]

Private Secretary to Derek Mackay MSP, Cabinet Secretary for Finance and the Constitution

The Scottish Government

[redacted]

From: Imrie C (Colin)

Sent: 19 August 2016 14:28

To: Cabinet Secretary for Economy, Jobs and Fair Work; Cabinet Secretary for Finance and the Constitution

Cc: DG Economy; DG Finance Mailbox; Director of Financial Management; Director of Financial Strategy; McAllan M (Mary); Gillespie G (Gary); [redacted] Stark C (Chris); Gil O (Oonagh); [redacted] Rankin S (Shane); Rollison R (Richard); Watt K (Karen) (Director for External Affairs); [redacted]

Subject: List of Action points from meeting with Mr Mackay and Mr Brown on economic stimulus

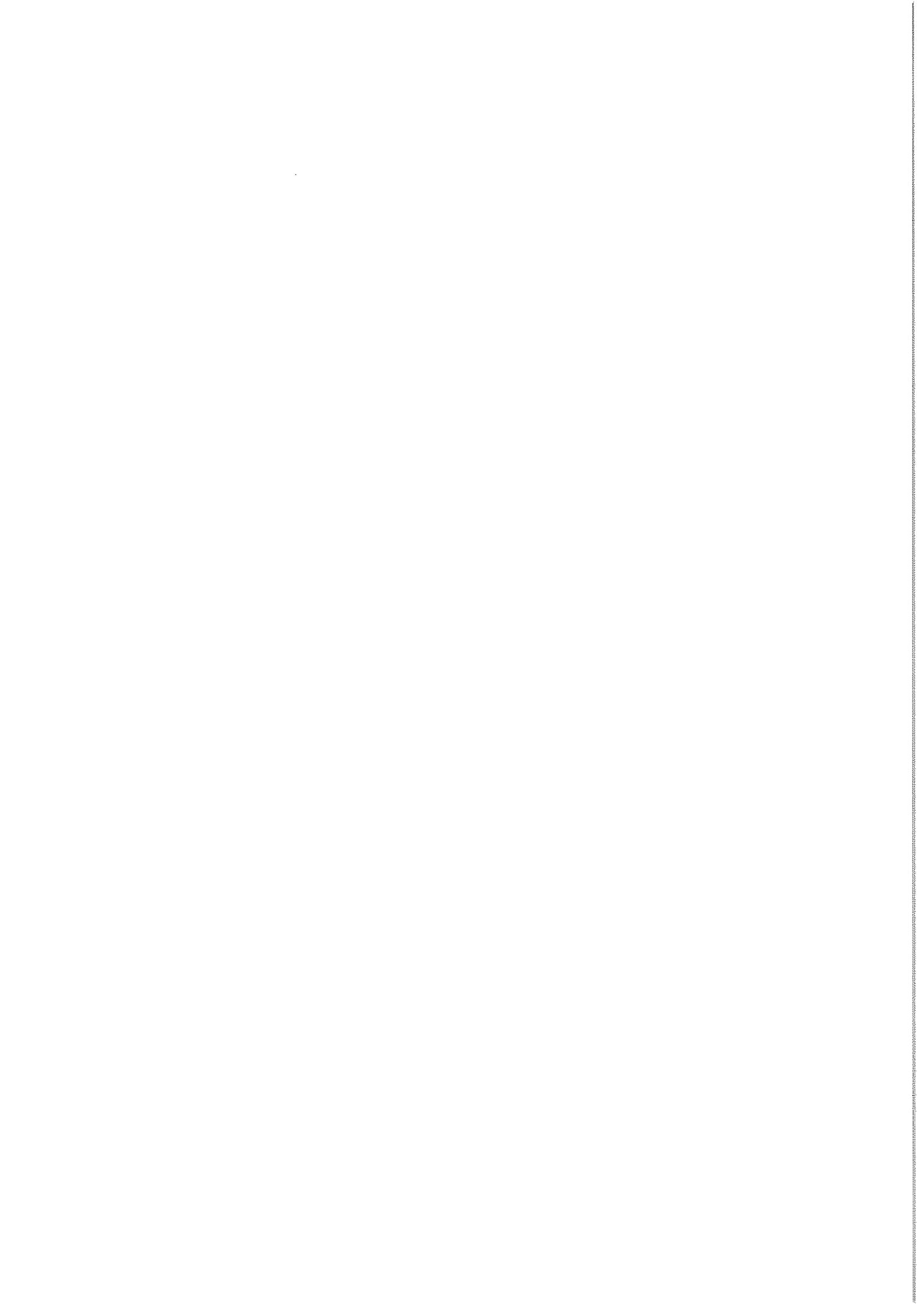
[redacted]

I've prepared the attached action points from yesterday's meeting. Can you please confirm the Cab Secs are happy with them. We need to report next week to First Minister on progress and to factor these issues into planning for e.g. PfG so a response early next week would be very helpful.

Colin

1. [redacted]
2. [redacted]
3. [redacted]
4. [redacted]
5. [redacted]
6. Reopen issue of export credit finance guarantee
7. [redacted]
8. [redacted]

Colin Imrie
Scottish Government
[redacted]



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From: Mary McAllan
Director for Economic Development

Gordon Wales
Director of Financial Management
29 August 2016

First Minister

**POTENTIAL : PROGRAMME FOR GOVERNMENT COMMITMENT –
GUARANTEES FOR SCOTTISH BUSINESSES**Purpose

1. This note responds to your request to look at the feasibility of a scheme [remainder of paragraph redacted]

Timing

2. [redacted]

Background

3. Various UK and other Government support mechanisms for business investment are in place which encourage investment by providing access to finance and partially absorbing lenders' risk. For example:

- Provision of loans where other financial providers are unwilling to do so (such as Wales Capital Growth Fund)
- Government financial guarantee of principal and interest in favour of a lender to a UK project (such as the UK Guarantees scheme)

4. Companies face similar challenges in relation to exporting where there are further risks relating to non-payment by the buyer, credit risk and raising sufficient working capital to fulfil an export order. These challenges are already addressed by UK Export Finance (UKEF) which is part of the Department for International Trade and underwritten by HM Treasury. UKEF insures UK exporters against non-payment by overseas buyers; guarantees or funds bank loans to buyer to finance the purchase of UK goods; shares credit risks with banks to help exporters raise tender and contract bonds, in accessing pre- and post-shipment working capital finance and in securing confirmations of letters of credit; and insures UK investors in overseas markets against political risks. Two UKEF staff are located within the Scottish Investment Bank.

5. This proposal does not seek to duplicate the service or funding already provided by UKEF.

Background

6. [paragraph redacted].

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7. Although the latest Small Business Survey Scotland 2015 confirms that many SMEs do not currently use or seek external/formal sources of finance - 19 per cent of companies did indicate that they sought bank finance over the last 12 months, slightly higher than the proportion of SMEs seeking finance in the UK as a whole. Regarding the final outcome of applications for finance, in 2015, 83 per cent of SMEs in Scotland (81 per cent in the UK as a whole) that applied for finance obtained at least some of the finance sought, while six per cent did not obtain any. This is lower than the proportion in the UK as a whole (eight per cent). The most common amount of finance obtained by SMEs in 2015 was in the range less than £10,000 (16 per cent) followed by ranges £10,000- £24,999 and £25,000 to £49,999 (each 15 per cent). Eight per cent of SMEs obtained finance over £1 million.

8. [paragraph redacted].

9. [paragraph redacted].

10. [paragraph redacted].

Work already underway

11. The Programme for Government 2015 set out Scottish Ministers' approach to meeting the challenges SMEs face in accessing appropriate and affordable finance. [remainder of paragraph redacted]

The Scottish Government allocated **£21.5m of Financial Transactions** funding to SE in 2016-17, which could be used to help in developing SIB to meet its new objectives. [remainder of paragraph redacted]

12. [paragraph redacted]

13. [paragraph redacted]

[title redacted]

14. [paragraph redacted].

15. Government guarantees fall under section 8 of the industrial Development Act 1982. In terms of subsection (2) of that section, financial assistance can be given in any of the ways set out in section 7(3) and that latter provision makes express reference to guarantees.

16. [paragraph redacted]

[title redacted]

17. [paragraph redacted]

18. [paragraph redacted]

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19. [paragraph redacted]

20. [paragraph redacted]

21. [paragraph redacted]

[title redacted]

22. [paragraph redacted]

23. [paragraph redacted]

24. [paragraph redacted]

[title redacted]

25. [paragraph redacted]

Recommendation

26. You are invited to: note the terms of this submission and indicate whether you wish to include within the Programme for Government the entry proposed.

Mary McAllan Ext 41086

Gordon Wales Ext 47428

Director for Economic Development

Director of Financial Management

29 August 2016

| Copy List: | For Action | For Comments | For Information | | |
|--|------------|--------------|--------------------|------------------|-------------------|
| | | | Portfolio Interest | Constit Interest | General Awareness |
| Cabinet Secretary for Economy, Jobs and Fair Work | | | | | X |
| Cabinet Secretary for Finance and the Constitution | | | | | X |
| Minister for Business, Innovation and Energy | | | | | X |

| |
|---|
| Perm Sec DG Economy DG Finance Gordon Wales, Director of Financial Management Roddy Macdonald [redacted] |
|---|

EXAMPLES OF EXISTING GUARANTEE OR RELATED SCHEMES

- The existing **UK Government Enterprise Finance Guarantee** is sector agnostic and the UK Government cap loans at £1.2m so it meets de minimis rules, the average loan guarantee size is actually £100k. Most sectors already covered by EFG but applicants must operate in a business sector that is eligible for EFG (almost all sectors are eligible – where exclusions apply they arise from EU State Aid rules)
- The Welsh Government created a **Wales Capital Growth Fund** in 2014 in response to demand from Welsh SMEs for a range of short-term working capital and performance bond requirements. Welsh SMEs are able to apply for loans of between £50,000 and £2 million for terms up to 18 months from the five year fund. It aims to help up to 90 SMEs. The Fund will facilitate stock purchasing, project finance and also provide short-term loans to SMEs to provide cash collateral to support performance bonds issued by banks for domestic and export contracts. The evergreen fund will operate on a commercial basis and, by recycling investment, has the potential to make finance of up to £60 million available over five years. Granted it is not of the scale envisaged but could be a helpful platform in which to build, for rationale.
- In August 2015, the Minister for Economy, Science and Transport approved a virement of funds on a short term loan bases from the Wales Capital Growth Fund for use in the life sciences sector.

Another example – Finnvera is the **National Promotional Bank of Finland**, and finances its activities primarily by issuing notes under the Euro Medium Term Note programme which is guaranteed by the State of Finland and which have the same AA+ credit rating as the State. In terms of contextualising Finnvera's SME financing activities: Finnvera received over 12,800 financing applications from SMEs during 2015 of which 80% were successful; Finnvera granted a total of €1.1bn in financing to SMEs and larger companies of which €906m was accounted for by loans and domestic guarantees; the average financing or guarantee for a bank loan granted by Finnvera during 2015 to a start-up was €60,000; the average financing or guarantee offered by Finnvera for international growth was €500,000.

Guarantee products offered include:-

- Finnvera Guarantee is intended for SMEs as security for domestic financing in such areas as investments and/or working capital and business and company acquisitions. In addition to SMEs, it can also be used by large companies that meet specific requirements. Finnvera Guarantee can be used as security for loans and bank guarantees provided by banks, financing companies or insurance companies in such instruments as promissory notes, accounts with overdraft facility, credit limits, bank guarantees (delivery security and other contingent liabilities), bank guarantee limits (delivery security) and factoring

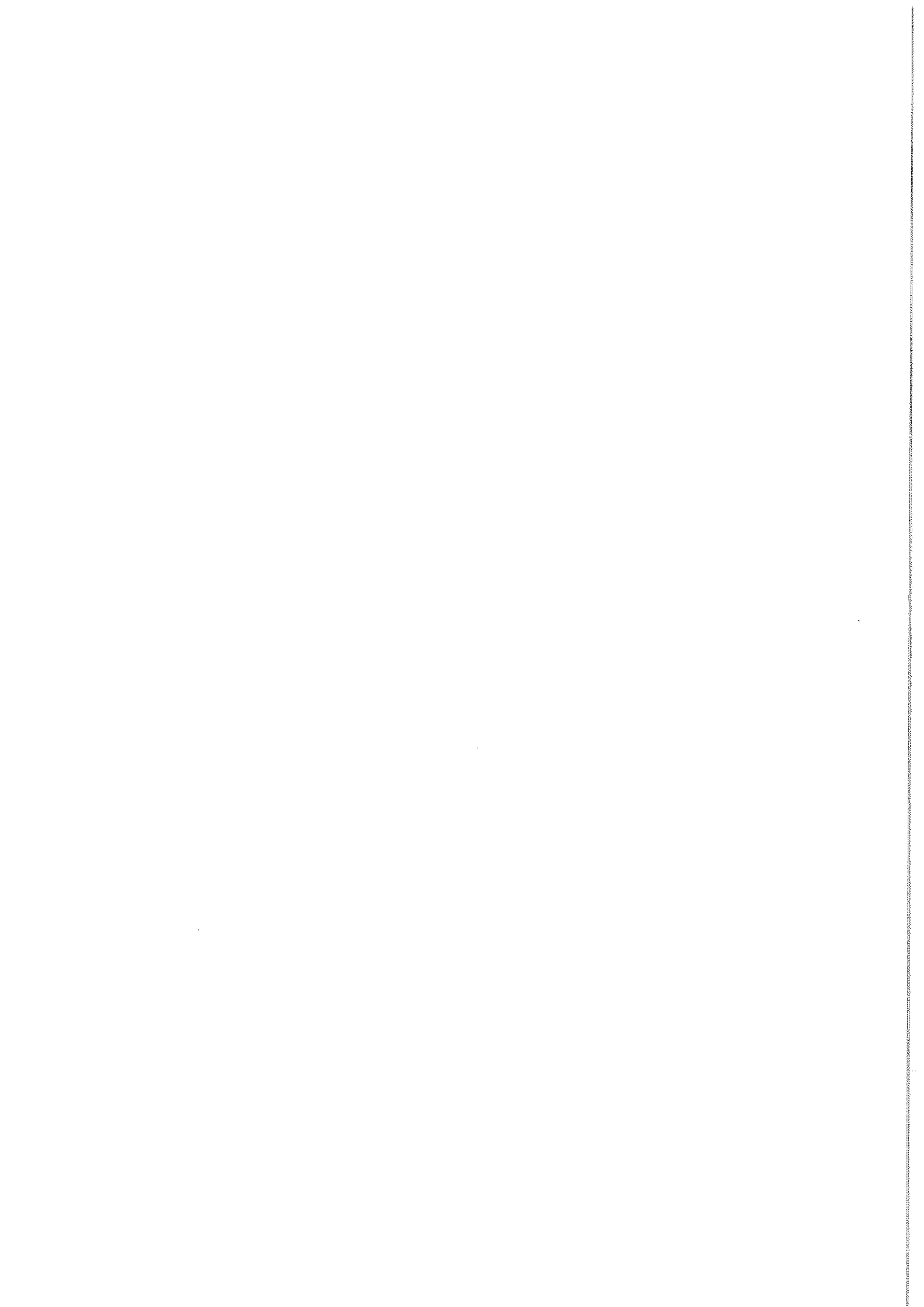
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financing. The financing risk is shared by Finnvera and the provider of financing. Finnvera Guarantee is usually 50 per cent of the credit or other financing commitment.

- Finnvera Guarantees are provided for all sectors, except for farming, forestry and building developer's business. In its financing services, Finnvera observes the restrictions on the sectoral targeting of state aid imposed by the European Union.

The CCS Guarantee Fund is a new initiative managed by European Investment Fund (EIF) on behalf of the European Commission and launched in June 2016 in the context of the Creative Europe Programme (2014-2020). The Guarantee Facility benefits SMEs) in the **cultural and creative sectors**, often facing difficulties in accessing loans, based in EU Member States, Iceland and Norway. The initiative is expected to create more than €600 million in loans and other financial products through a catalyst effect.

EIF's AGRI is a new initiative managed by EIF on behalf of the European Commission that aims to facilitate greater access to finance to **Farmers, Agricultural holdings, Cooperative, Rural micro- or small enterprise, Forestry business**) in the EU member states who are often considered to be riskier final recipients. By offering reduced overall interest rate and/or collateral requirements **via selected financial intermediaries**, the initiative's objective is to increase the amount of finance made available to agriculture, agro-food, forestry and rural businesses. It also support the creation and development of non-agricultural activities in rural areas and forestry technologies.



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First Minister

From: Mary McAllan Gordon Wales
 Director Economic Director
 Development Financial
 Management

1 September 2016

POTENTIAL : PROGRAMME FOR GOVERNMENT COMMITMENT – [redacted]**Purpose**

1. Further to our submission, on Monday 29 August 2016, to provide further details as requested on this potential initiative, [remainder of paragraph redacted].

Timing

2. Immediate.

[title redacted]

3. [paragraph redacted]

4. [paragraph redacted]

5. [paragraph redacted]

Scottish Government support available within 2016/17

6. The Programme for Government 2015 announced two key initiatives:

- Scottish Enterprise (SE) (through the Scottish Investment Bank) will offer an enhanced range of business investment approaches [remainder of sentence redacted]. Financial Transactions to the value of £21.5 million has been allocated to SE in 2016-17, which could be used to help in developing SIB to meet its new objectives.
- Secondly, a £40 million SME Holding Fund to provide additional investment to SMEs (microcredit finance up to £25,000, loans up to £100,000, equity investment up to £2 million), dispersing the European resources (ERDF) through appointed delivery partners in the public and private sector. The Fund will support public and private sector partners to deliver this finance thereby **generating over £250 million into the SME finance market over the next two years.** [remainder of bullet/paragraph redacted]

[title redacted]

7. [paragraph redacted]

8. [paragraph redacted]

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9. [paragraph redacted]

10. [paragraph redacted]

11. [paragraph redacted]

[title redacted]

12. [paragraph redacted]

13. [paragraph redacted]

14. [paragraph redacted]

15. [paragraph redacted]

16. [paragraph redacted]

17. [paragraph redacted]

Recommendation

18. You are invited to consider the terms of this submission and indicate whether you wish to include an outline of the scheme in the forthcoming Programme for Government publication, [remainder of paragraph redacted].

Mary McAllan Ext 41086
Director for Economic Development

Gordon Wales Ext 47428
Director of Financial Management

| Copy List: | For Action | For Comments | For Information | | |
|--|------------|--------------|--------------------|------------------|-------------------|
| | | | Portfolio Interest | Constit Interest | General Awareness |
| Cabinet Secretary for Economy, Jobs and Fair Work | | | X | | |
| Cabinet Secretary for Finance and the Constitution | | | X | | |
| Minister for Business, Innovation and Energy | | | X | | |

| |
|---|
| Permanent Secretary DG Economy DG Finance Director of Financial Strategy Gary Gillespie [redacted] Andrew Watson Roddy Macdonald [redacted] |
|---|

PROGRAMME FOR GOVERNMENT 2016:
SCOTTISH GROWTH SCHEME

[paragraph redacted]

The Scheme will be focused on new and early- stage high growth potential companies, with clear export growth plans, particularly in technology-intensive firms and businesses in emerging markets, such as Fintech.

[paragraph redacted]

[title redacted]

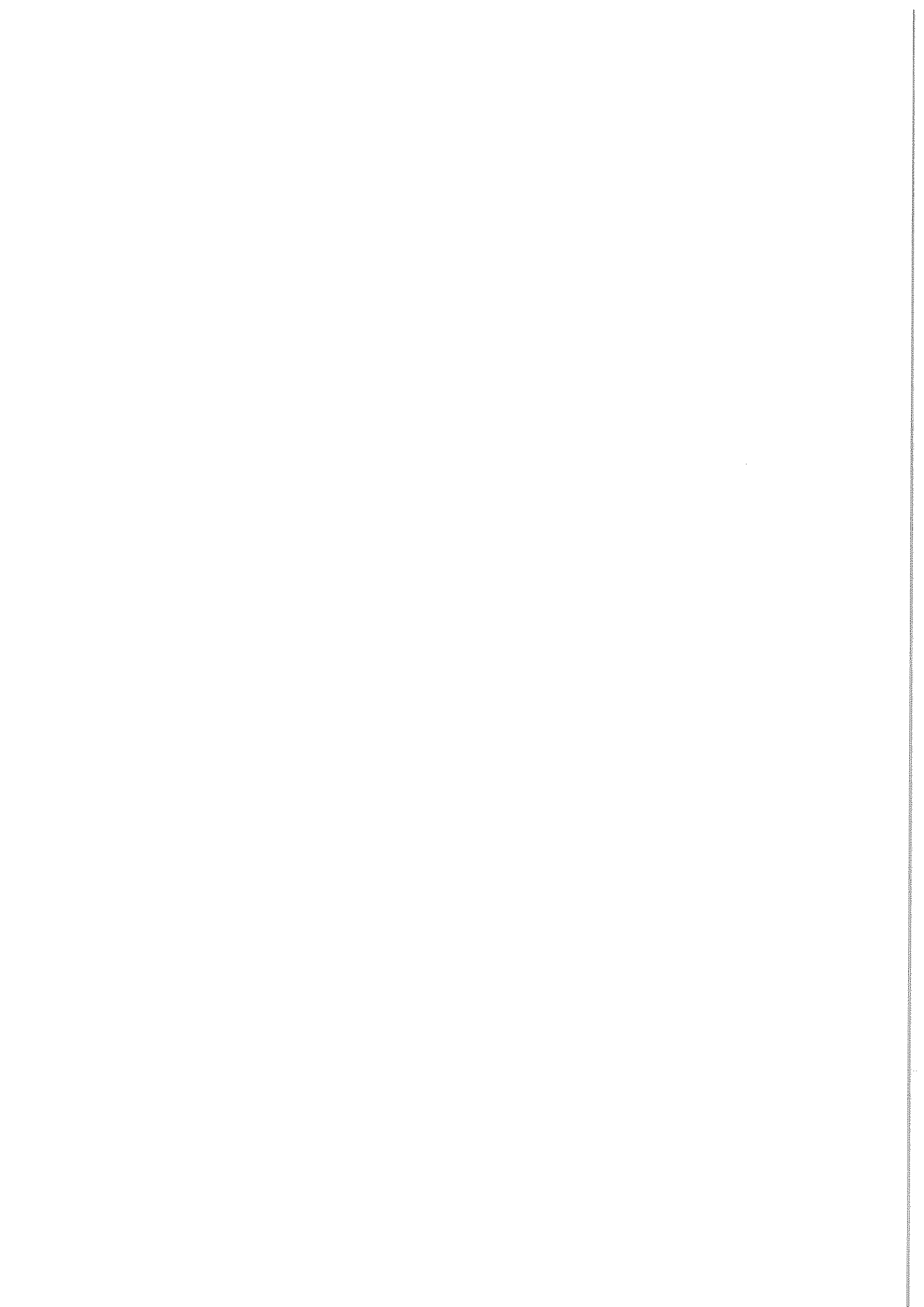
- Scotland's future economic success lies in the strength of our SMEs.
- Current uncertainty is putting investment at risk especially the type of innovative and ambitious investment that is needed to deliver jobs, growth and revenues.
- The Scottish Government will work with business organisations, the UK Government and Scottish Parliament to establish a new Scottish Growth Scheme that will compliment exiting funding landscape for SMEs, rather than duplicate.
- This will provide up to **£500 million over three years** of investment guarantees, and some loans, up to a maximum of **£5 million per eligible business**
- Focus on companies in tech-intensive fields such as Fintech, new early-stage companies seeking to grow, and in firms ambitious to expand internationally, opening new markets, creating new jobs and boosting Scotland's economy.
- This scheme is a new departure for Scottish Government. It is an **exceptional response to an exceptional economic challenge**.
- The Scottish Government intends to use the strength of its balance sheet to create a new 3 year facility of financial guarantees and, if appropriate, loans. The government will share some of the risk faced by small companies, when they make big investment decisions. The guarantees will appear on the Scottish Government's balance sheet as contingent liabilities – and so will not come from existing spending [remainder of paragraph redacted]

[title redacted]

- Demand for guarantees will depend on the detail of the scheme's design.
- There are various challenges. We will work with business organisations to design a high quality scheme that will deliver as much additional investment as possible.
- We will develop the scheme in **consultation with business organisations, banks, insurance companies** and the wider financial markets to ensure that we get the balance right between stimulating investment and risk.
- We will also discuss in detail our plans with the **Scottish Parliament's Finance Committee** and the UK Government.
- [redacted]

Contact: [redacted]

5 September 2016



Subject: FW: Scottish Growth Scheme

From: [Redacted]
Sent: 06 September 2016 16:04
To: [Redacted]
Subject: FW: Scottish Growth Scheme

From: Director of Financial Management
Sent: 06 September 2016 16:00
To: Cabinet Secretary for Finance and the Constitution
Cc: Cabinet Secretary for Economy, Jobs and Fair Work; Minister for Business, Innovation and Energy; [Redacted]
Subject: Scottish Growth Scheme



FMQ - Scottish Written_Agreem... Scottish Growth
Growth Scheme... Scheme Rationa...

Alistair,

Some background briefing on the Scottish Growth Scheme for Mr Mackay to add to material for the Committee tomorrow. There is a two-page summary, copy of the FMQ brief and a copy of the written agreement between the SG and SP [Redacted]

Gordon

Gordon Wales
Director of Financial Management
[Redacted]



The Scottish Parliament
Pàrlamaid na h-Alba

WRITTEN AGREEMENT BETWEEN THE FINANCE COMMITTEE AND THE SCOTTISH GOVERNMENT ON THE BUDGET PROCESS IN SESSION 4 OF THE SCOTTISH PARLIAMENT

Introduction

1. The Finance Committee recommended in its legacy paper at the end of Session 3 that the Written Agreement be reviewed and redrafted to incorporate a number of changes to the budget process which have been implemented since the document was last reviewed in 2005.

2. This revised document sets out an understanding between the Finance Committee and the Scottish Government (SG) on the administrative arrangements for the scrutiny of the annual draft budget during Session 4 and other related budgetary matters.

3. There are three phases in the budget process. The Draft Budget Scrutiny Phase and the Budget Bill Phase take place on an annual basis, and the Budget Strategy Phase (BSP) takes place once during the parliamentary session.

Scotland Bill

4. It is recognised that any additional financial powers arising from the Scotland Bill may result in changes to the budget process and possible revisions to this Agreement. The SG agrees that it will consult the Committee on the operation of any new powers and the impact on the budget process. It is, therefore, intended that this Agreement will be updated prior to the additional powers coming into force.

5. It is also intended that it will be reviewed again at the end of the session.

Budget Strategy Phase

6. Following a review of the budget process¹ in Session 3 the Committee agreed to introduce a strategic phase to the process which replaces the previous Stage 1 which had not been carried out since 2004. The SG supports this approach and this section of the Written Agreement sets out the procedure and supporting documentation for the BSP in Session 4.

7. The Committee and the SG have agreed that the BSP will take place in the spring prior to the next UK Spending Review and is intended to allow the Parliament

¹ Scottish Parliament Finance Committee, 5th Report, 2009 (session 3), *Report on the Review of the Budget Process* (SP 315)

to scrutinise the progress which the SG is making in delivering its own targets through its spending priorities and to take a strategic overview of the public finances around the mid-point of the current Parliament.

8. To assist with this process the SG has agreed to consider in consultation with the Finance Committee the options for provision to the Parliament of an assessment of its performance and its updated indicative spending priorities for the rest of the parliamentary session.

9. The parliamentary committees will then have the opportunity to both scrutinise the SG's performance and its spending priorities and will report to the Finance Committee in sufficient time to allow a report on the BSP to be published prior to Summer recess and for that report to be debated by the Parliament. It is expected that the outcome of this process will then inform the scrutiny of the next SG spending review.

Draft Budget Scrutiny Phase

10. The SG will continue to publish a draft budget by 20 September at the latest but will endeavour to publish as early as possible in September in non-spending review years on the basis that the amount of money that is available to the Scottish Government is primarily fixed and known.

11. In spending review years, the Scottish spending review and the draft budget should be published as one document by 20 September.

12. Where the SG believes that it may not be able to meet the 20 September deadline, the Scottish Ministers will consult the Finance Committee on a revised timescale for that year's budgeting process.

13. The 2012-13 draft budget scrutiny phase will also involve a spending review and committees will have an opportunity to scrutinise the SG's spending priorities for the period ending 2014-15. The budget process in the following two years will provide committees with the opportunity to focus on the extent to which these spending priorities are being met and on any changes that have been made to the detailed spending plans since publication of the spending review.

14. The Finance Committee's report on the draft budget may include an alternative set of spending proposals, in which case the total spend being proposed may not exceed the total proposed by Scottish Ministers. The report will be debated by the Parliament on a motion from the Finance Committee prior to Christmas recess.

15. Committees and individual Members may seek to propose amendments to the SG's expenditure proposals by tabling amendments to the Finance Committee motion. No amendment may seek to increase the total spend proposed. Therefore, amendments proposing any increase in one area must recommend how this increase will be financed. It should be noted that even if such amendments are agreed to, this does not automatically guarantee that expenditure proposals will be amended in the subsequent Budget Bill.

Preventative Spending

16. Both the SG and the Finance Committee recognise the need to move towards a greater emphasis on a preventative approach to public spending. The Committee aims to ensure that the scrutiny of preventative spending is integral to the annual budget process and the SG agrees to include an overall assessment in the draft budget of the progress that is being made towards a more preventative approach.

Level 4 information

17. The SG agrees that while there is no formal definition of “level 4” information there is nevertheless a presumption for information below “level 3” to be released. Subject committees are encouraged to request information from relevant portfolio areas who will endeavour to provide the following information where possible:

- In presenting ‘level 4 figures’ the SG will provide figures separately for all spending programmes that are distinctive, novel, or likely to be of parliamentary interest. Whilst there is no maximum value for level 4 figures, wherever possible the SG will aim to break down figures to the smallest reasonable level;
- The SG will provide figures for the funding being provided to each of Scotland’s public bodies as listed on the SG website;
- As with level 3 figures the SG will include an explanation of ‘what the money buys’;
- The SG will identify and explain changes to budget headings from the previous draft budget;
- If the SG cannot provide the information to a Committee within the requested period, the SG will write to the Committee explaining why and provide a timetable for receipt.

Budget Bill Phase

18. The SG will introduce a Budget Bill by 20 January each year or the first day thereafter on which the Parliament sits. The procedures for Budget Bills are set out in standing orders.

19. The SG has agreed that it will respond to the recommendations of the Finance Committee report on the draft budget during the Stage 1 debate and that a written response will be published prior to the Stage 3 debate.

20. The SG will also comment on any changes that have been necessitated by financial decisions taken by the UK Government since the publication of the draft budget during the Stage 1 debate.

The Parliament's budget

21. The SG draft budget includes working assumptions on the parliamentary budget prepared by the SPCB. Should the SG wish to challenge the budget proposal by the SPCB, they will do so by means of an amendment to the Budget Bill. Provision for the Parliament to scrutinise its own budget is made in a separate understanding with the SPCB.

Revisions to this agreement

22. The Scottish Ministers or the Finance Committee may propose amendments to this agreement. If the Committee and the Scottish Ministers are unable to agree the changes that are proposed, they may ask the Parliamentary Bureau to arrange a plenary debate on a proposal(s).

AGREEMENT ON IN YEAR CHANGES TO EXPENDITURE ALLOCATIONS

Purpose

1. This document sets out an understanding between the SG and the SP on the administrative arrangements for:

- the reallocation of expenditure within portfolios of the SG;
- procedures for making contingency payments during the year;
- controls on contingent liabilities.

It is not intended to create any legal rights or obligations on either the SG or the SP.

In year transfers between portfolio budgets

2. The previous agreement said that Budget Acts were to set out absolute resource expenditure (net of receipts) limits for individual entities. These entities were the individual departments of the Scottish Executive, Scottish Executive Administration, the General Register Office for Scotland, National Archives of Scotland, the Forestry Commission, the Food Standards Agency, the Scottish Parliamentary Corporate Body and Audit Scotland. The Scottish Ministers and the Finance Committee are agreed that in future Budget Acts a single Scottish Government budget figure will be provided for net expenditure and total income limit. Separate budget approvals will still be required for the Forestry Commission, the Food Standards Agency, the Scottish Parliamentary Corporate Body and Audit Scotland.

3. The Scottish Government will continue to set, manage and report budgets against individual totals at Portfolio level, which will be agreed by the Parliament through the Budget Bill, as well as through the Budget Revisions. In accordance with the previous agreement, Scottish Ministers will still not be able to transfer funds between these limits, including between individual portfolios of the Scottish Executive, without the approval of the Parliament.

Reallocation of expenditure within departments of the Scottish Government

4. FIAG recommended that the Executive should be allowed to move funds within portfolio budgets to respond to changes in need. The Group recommended that transfers should be subject to internal controls. It also recommended that the Parliament should be informed of transfers on a regular basis.

5. FIAG also recommended that the total amount of funds that may be transferred in this way should be limited. The Group recommended that transfers between "budget sections" should be no more than £50 million, (at 1999 values) or 15% of the receiving section, whichever is the lesser. (A "budget section" refers to the level below the portfolio as a whole.) FIAG recommended that transfers within budget sections should be unlimited. This recommendation will be given effect by the Scottish Parliament and the Scottish Ministers in accordance with this understanding.

6. The SG undertake:

- Not to move provision from one budget section to another in such a way as to increase the total budget for that section by more than 15%, or £70 million at 2011 values, whichever is the lesser, without seeking the specific approval of the Parliament through the Budget revision procedure.
- To inform the Parliament of movements between budget sections that are within these limits at the time Budget revisions are made.
- To inform the Parliament of movements within budget sections in as much as they affect the detail set out in the documents accompanying the Budget Bill (the Budget documents), when seeking Budget revisions.

7. It remains open to the SG to continue to make use of the flexibilities provided by this agreement and outlined above (the process is technically known as “virement” or “viring between budgets”) after the last budget revision of the year. There is however no vehicle by which changes made at this point can be reported to the Parliament. The SG will therefore prepare its accounts on the basis that budgets at the end of the year were those contained in the last budget revision, that is, as if no further virement had taken place. The accounts will then show moves between budget heads as offsetting over- and under-spends.

Contingency payments

8. Under the terms of the Public Finance and Accountability (Scotland) Act 2000, the SG have powers, in certain circumstances, to authorise the use of resources up to 0.5% of the total budget in any financial year without the prior authority of the Parliament. A separate limit of £50 million is currently placed on this power as part of the annual Budget Acts.

9. The SG can only use this facility if it is necessary to do so in the public interest and if it is not reasonably practicable, for reasons of urgency, to seek prior Parliamentary approval by means of Budget legislation. Unless the circumstances are such that extreme urgency makes it impossible, the SG will lay a report before the Parliament at least 14 calendar days before undertaking any expenditure. Should the requirement to use the power arise during a recess, a report will be presented to the Parliament as soon as Parliament returns from recess.

10. Details of any such contingency payments will appear in the SG's annual accounts.

Contingent liabilities

11. FIAG recommended that the authority of the Parliament is required before the Scottish Government can grant a guarantee or indemnity which would, in effect, bind the Parliament into providing the expenditure in the event of the guarantee or indemnity maturing. This does not apply to a guarantee or indemnity which is granted under a statutory requirement to do so or is of a standard type and arises as an unavoidable feature of an activity authorised by statute.

12. In accordance with FIAG's recommendation, the SG undertake, before granting any guarantees or indemnities in excess of £1 million (including those without limit), to submit their proposals to the Finance Committee. The SG agrees to

provide the Committee with as early notice of the contingent liability as practically possible so as to allow sufficient time for effective scrutiny.

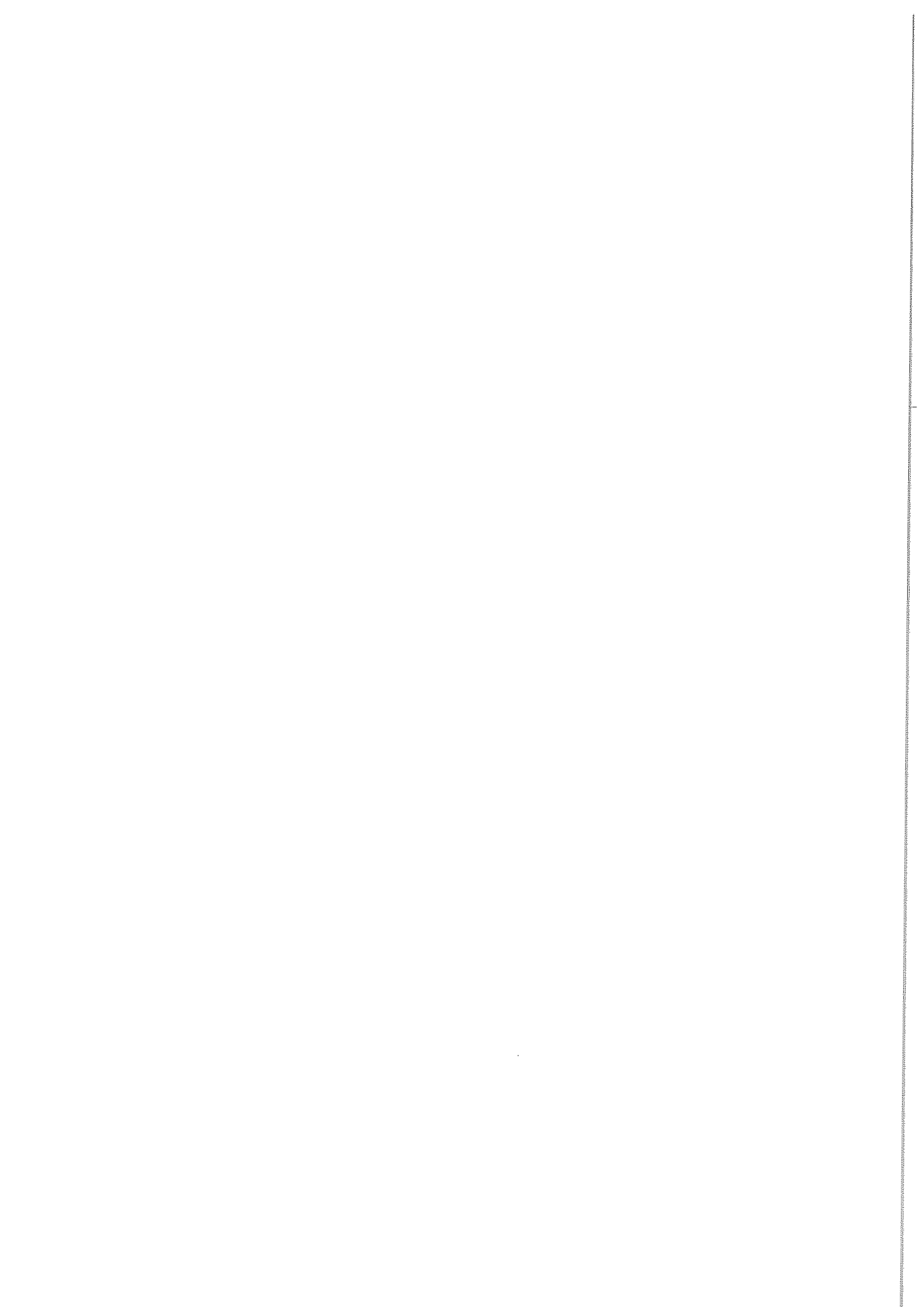
13. The Committee agrees to consider each contingent liability at the earliest opportunity and will take evidence from the appropriate Minister before deciding whether to approve the proposal or to propose an amendment or recommend that the proposal is rejected. If the SG does not agree with the Committee's recommendation then the Committee following further information from the SG may either allow the SG to proceed or refer the matter to the Parliamentary Bureau for debate. It will then be for the Parliament to agree whether or not to allow the SG to proceed.

14. Where the SG requests that a contingent liability should be considered by the Committee in private session it will provide a full explanation for the reasons for this request when submitting its proposal. In doing so the SG recognises that the Committee will only agree to take evidence in private in exceptional circumstances.

15. Where there is agreement to consider a contingent liability in private both the Finance Committee and the SG agree not to make public any of the details discussed during the private session. The SG will also agree with the Finance Committee what information can be made public in relation to the contingent liability itself.

Revisions to this agreement

12. The Scottish Ministers or the Finance Committee may propose amendments to this agreement. If the Committee and the Scottish Ministers are unable to agree the changes that are proposed, they may ask the Parliamentary Bureau to arrange a plenary debate on a proposal(s).



Scottish Growth Scheme

Background and Rationale

Some companies struggle to access working capital and finance from lenders. Many are capable of growing and securing new contracts but represent higher risk to lenders. This can include new and early-stage, high growth potential companies, with clear export growth plans, particularly in technology-intensive firms and businesses in emerging markets, such as Fintech

A government loan or guarantee shares a portion of the risk with the lender, who may otherwise be unwilling or unable to support a viable company in the current climate, where uncertainty is high. [Redacted].

[Redacted]

The scheme will see supported investment of up to £500 million across the next three years, with the mix of loans and guarantees to be determined by demand. There will be a limit of £5 million support for any one company.

Targeting

[Redacted]

Financial Issues

[Redacted]

Support needs to be State Aid compliant. This means that commercial arrangement fees will need to be charged for providing guarantees and the scale of support will likely need to be limited to 80% of the required investment. Where a loan is preferable to a guarantee, an appropriate commercial interest rate will need to be charged.

There will need to be a robust due diligence process undertaken on applications that are appropriate for either a loan or guarantee. [Redacted]

[Redacted]

[Redacted]

[Redacted]

The ability of Ministers to provide guarantees is restricted in order to ensure that financial risk is managed. At present, guarantees can only be provided where there is a statutory power to do so, where it is undertaken in the normal course of business or where the guarantee is less than £1 million. All other guarantees require the

approval of the Scottish Parliament's Finance Committee. This arrangement operates under a Written Agreement between the Scottish Government and Scottish Parliament. A copy of the Agreement is attached.

The scheme therefore requires the Committee to agree to revise the existing agreement to provide greater flexibility for Ministers to act. [Redacted]

Directorate for Economic Development and Finance Directorate

6 September

Cabinet Secretary for Finance and the Constitution
Derek Mackay MSP



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Rt Hon David Gauke MP
Chief Secretary to the Treasury
HM Treasury
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6 September 2016

Dear David

Scottish Government *Programme for Government* – Scottish Growth Scheme

Today the First Minister has announced a significant new initiative to stimulate economic growth in Scotland as part of the publication of the 2016 *Programme for Government*. The *Scottish Growth Scheme* will target SMEs that have significant growth potential, both here and abroad, in particular those that are technology intensive and which struggle to obtain finance through conventional means.

The scheme will, through a combination of loans and guarantees, support investment of up to £500 million over the next three years, linked to the needs and prospects of individual companies. We are engaging with business leaders on how best this initiative can be targeted to achieve maximum impact.

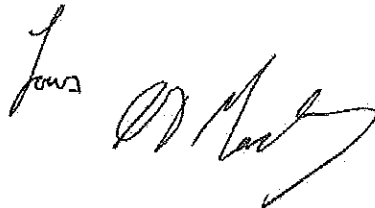
Loans are of course conventional activity and so flow through existing expenditure arrangements and will be funded from within the Scottish Government's budget limits. New guarantees, by their very nature, do not require any immediate cash impact, rather requiring a risk-based assessment of possible future impact, which scores as non-cash Annually Managed Expenditure (AME). I am therefore writing to you today to seek your in-principle support to provide the necessary AME budget cover for the scheme.

At this stage, the balance of loans and guarantees is difficult to estimate, although my expectation is that the arrangements will be more heavily weighted towards guarantees. All applications will follow a rigorous due diligence process, will be state aid compliant and take into account the prevailing risk and opportunity each presents.

The level of AME cover required will be spread across the next three financial years and will be assessed in line with the Consolidated Budgeting Guidance arrangements. Our approach will ensure that calls on guarantees are minimised but investing in SMEs will carry risk and so some can be expected. I would therefore wish to make clear that I am not seeking any additional CDEL budget for this scheme – the impact of any calls will be for the Scottish Government to absorb within its existing budget and cash arrangements.

Both governments are aware of the need to do all within our means to support the economy following the uncertainty caused by the EU referendum and the continuing challenging conditions SMEs face in accessing finance. I would therefore welcome your in-principle support for the AME budget required for the scheme and that your officials will engage with mine to put the necessary arrangements in place.

I am, of course, happy to discuss in further detail if you would find that beneficial and would appreciate, in the circumstances, a swift and positive response in line with considering matters constructively.

A handwritten signature in black ink, appearing to read 'Derek Mackay', written in a cursive style.

DEREK MACKAY

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Convener, Finance Committee
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6 September 2016

Dear Convener

Programme for Government – Scottish Growth Scheme

Today the First Minister has announced a significant new initiative to stimulate economic growth in Scotland as part of the publication of the *Programme for Government*. The *Scottish Growth Scheme* will target SMEs that have significant growth potential, both here and abroad, in particular those that are technology intensive and which struggle to obtain finance through conventional means.

The scheme will, through a combination of loans and guarantees, support investment of up to £500 million over the next three years, linked to the needs and prospects of individual companies. We are engaging with business leaders on how best this initiative can be targeted to achieve maximum impact.

Loans are conventional expenditure and flow through the Scottish Government's Draft Budget process. Guarantees, by their very nature, do not have any immediate impact on discretionary spending. There is instead a risk-based assessment of the possible future costs of any commitment, which impacts against non-cash Annually Managed Expenditure (AME). I am therefore today writing to the Chief Secretary to seek his support for additional AME budget cover for the scheme.

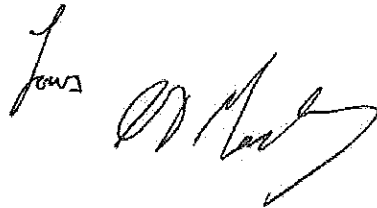
Statutory powers to issue guarantees already exist but there is an additional arrangement, set out in the *Written Agreement Between the Finance Committee and the Scottish Government on the Budget Process*. The arrangement provides that Scottish Ministers will bring proposals for new guarantees that are not issued in the course of normal business and that exceed £1 million to the Finance Committee for consideration and approval. This is an arrangement that has worked well in the past and the Committee has been helpful in providing guarantees to support other significant economic opportunities, for example, bids for major sporting events.

The arrangement has existed since the Parliament was established and the limit has remained unchanged during that time. The economic risks that we are now facing following the EU referendum and already well known challenges that SMEs have in accessing finance from conventional sources now requires a new and bold approach from Government.

I am therefore writing to you today to seek the Committee's engagement in reviewing those existing approval arrangements to support delivery of this new scheme. I recognise there will be challenges in doing so and we must find a way of balancing the management of financial risk with delivering results for Scotland's SMEs and respecting commercial confidentiality, whilst at the same time not adding significant additional administrative burdens to the Committee's business.

The Agreement is already subject to review as a consequence of Fiscal Framework implementation and that will need to be allowed to run its course on the wider Draft Budget process. Consideration of the guarantee arrangements needs a different approach to ensure that results can be delivered quickly and with the Committee's support. I therefore propose that my officials engage immediately with the Committee Clerk on how best this can be achieved.

I hope both you and the wider Committee will see this scheme as a real opportunity to improve the prospects for our SMEs and look forward to discussing it with you in more detail, as soon as that can be arranged.

A handwritten signature in black ink, appearing to read 'Derek Mackay', written in a cursive style.

DEREK MACKAY