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Richard Leonard MSP
Convener
Public Audit Committee

24 October 2025

Dear Mr Leonard,

Thank you for your letter dated 6 October 2025. Below I provide further information on the issues you raised.

Engagement with HM Treasury and the Public Financial Institution (PuFin) framework

It remains the Scottish Government's ambition for the Scottish National Investment Bank to operate like a perpetual investment fund.

The extent and pace at which we can move towards that model depends on a range of Scottish and UK Government considerations. We expect the forthcoming Scottish Government Spending Review and Budget to allow decisions on multi-year budget allocations and fiscal plans in the context of the range expenditure priorities across government. In addition, as Audit Scotland recognised, UK Government decisions around Financial Transactions and the budget treatment of Public Finance Institutions are also a key factor.

In response to these developments and building on Audit Scotland's recommendations, Ministers have agreed a plan to:

- Identify decisions within devolved powers that could provide greater budget certainty beyond 2026-27 and enable the Bank to operate more like a perpetual fund;
- Engage the UK Government on how the new FT Control Framework applies to devolved administrations and assess its implications for future FT allocations; and
- Explore how the Bank might operate as a PUFIN (or equivalent) in a way consistent with the devolved funding settlement and accountability structures.

The Scottish Government recognises the importance of providing the Bank with budget certainty and appropriate budget flexibility within the relatively constrained borrowing and budget reserve powers. The Scottish Government is providing the Bank with up to £25 million End of Year flexibility.

Due to investments not completing before year end, the Bank underspent their investment budget in 2024/25. Ministers agreed to transfer £25 million of additional FT budget to the Bank this year and to provide a similar flexibility mechanism for the Bank in future years, subject to exceptional circumstances. Therefore, if the Bank underspends by £25 million, that can be transferred as additional FT budget to the following financial year. The scale of this End of Year flexibility is limited by the current size of the Scotland Reserve.

While the ambition for the Bank to act as a perpetual fund has been a long-standing consideration, developments over the past year have added new context. In October 2024, the UK Government adopted new fiscal rules that allow greater headroom for investment. The 'investment rule' requires the UK Government to reduce public sector net financial liabilities or 'net financial debt', as a share of the economy. Financial investments which generate financial assets such as equity holdings or loans are netted off debt as part of the fiscal rule calculation, therefore allowing increased capacity for investment by UK public finance institutions.

Ahead of the UK Spending Review in June, the Cabinet Secretary for Finance and Local Government wrote to the Chief Secretary to the Treasury emphasising that devolved governments must receive a fair share of this increased investment capacity to deliver shared economic priorities. The letter also sought parity of treatment for relevant Scottish bodies, including the Bank, under the new FT Control Framework.

[UK Autumn Budget: Letter to UK Government - gov.scot](#) (September 2024)

The UK Spending Review set departmental budgets for resource expenditure limits (RDEL) until 2028-29 and until 2029-30 for capital expenditure limits (CDEL) and FTs. This provides a level of forward planning certainty not seen for some time, with a known FT allocation for the Scottish Government through the Barnett formula. However, it did not include any additional fiscal flexibilities for Scottish Government, or the Bank. The share of FTs flowing to the Scottish Government through Barnett is proportionally small – around £500 million, only around 3.4% of the total of £14.4 billion of increased capacity for investment by UK public finance institutions.

The forthcoming Scottish Spending Review and Budget due to conclude in January 2026 will present an opportunity for Scottish Ministers to consider how these budgets will be deployed to meet priorities. We expect Ministers to take decisions on multi-year budgets and the approach to embedding end-year flexibility over the longer term. The Shareholder team is already engaging with the Bank's finance team to support this process.

In parallel, the UK Government announced changes to the way it oversees debt and equity investments, through the designation of certain bodies as Public Finance Institutions (PUFIs). The Scottish Government and other devolved Governments were not consulted in advance of the new arrangements.

As noted during the evidence session, the UK Government has not undertaken a standalone formal review but has introduced this new FT Control Framework, alongside other changes to the financial arrangements for UK-sponsored Public Finance Institutions.

Although the framework explicitly does not apply to devolved administrations, the UK Government has indicated support for their continued use of FT capital and will engage on any implications arising from its implementation. The framework's intent appears to be to tighten oversight of FT deployment, while allowing some PUFINs greater flexibility where they can demonstrate strong governance and robust institutional controls.

We are engaging actively with UK officials to understand the framework's operation and assess its relevance to the Bank. This process has yet to reach a conclusion. To inform those discussions, we have submitted the Bank's own assessment of its alignment with PUFIN criteria to HMT. However, it is important to note that PUFIN designation does not automatically grant new flexibilities. For UK Government bodies, these are at the discretion of the Chief Secretary to the Treasury and depend on a strong business case and institutional assurance.

We are engaging with HMT to determine whether, and how, such discretion could apply to the Bank, given that it is a Scottish NDPB outside the remit of UK Ministers. Scottish Ministers are also considering if and how any HMT oversight of devolved PUFINs would be appropriate and proportionate within the devolved context.

The implications of the changes at UK level have been a priority area of discussion between Scottish Government and UK Government Ministers and officials since last October. Most recently, the Finance: Interministerial Standing Committee (F:ISC) met on 17 October where the Chief Secretary to the Treasury reconfirmed the commitment to work through this with us and explore the options available.

Following our evidence session I have written to the Bank to organise a strategy and planning meeting to discuss these matters further and continue to refine our collective position. I hope this provides the clarity you sought on the planned next steps.

Five-year review

As per the Bank Act 2020, a person will be appointed to carry out the first performance review of the Bank by its 5th year, 23 Nov 2025. Upon completion the review report will be sent to Scottish Ministers, who will then lay a copy of the report before Parliament.

In line with the legislation, for the purposes of this review, the performance of the Bank is in relation to:

- The Bank's objects as set out in its articles of association;
- The Bank's strategic missions;
- Any national performance indicators specified by Scottish Ministers when appointing the reviewer.

As per the legislation underpinning the establishment of the Bank, the Ministerial Advisory Group is distinct and separate from the five-year review. Its role is to provide ongoing advice to Ministers. In line with that, during the Group's fourth quarterly meeting on the 23 October they discussed the legislative requirements of the five-year review and the proposed scope, duration, timeline and overall approach. Further information on the work of the Group can be found here [Scottish National Investment Bank: Ministerial Advisory Group - gov.scot](https://www.gov.scot/Topics/Scottish-National-Investment-Bank/Ministerial-Advisory-Group)

Ministers will confirm the specific detail of the scope of the review as well as the associated timescales with the appointed person. When the terms of reference, including these details, has been agreed, Parliament will be notified.

Financial transaction repayments

Barnett arrangements for Financial Transactions capital are set out in the Statement of Funding Policy (available here - [Statement of Funding Policy.pdf](#)). Chapter 6 includes the following;

"Funding for Financial Transactions

6.2 As set out in Chapter 3, FTC funding is a ringfenced element of the capital block grant. The Barnett formula is therefore applied to changes in FTC DEL investment by UK Government departments in much the same manner as for regular capital DEL spending.

6.3 However, while all departmental capital DEL budgets are set on a net (of sales) basis, some FTC budgets are set net of loan repayments and some are set on a gross basis (with loan repayments being returned direct to the Consolidated Fund). The devolved governments are therefore provided with FTC funding through the Barnett formula in a consistent manner to UK Government departments."

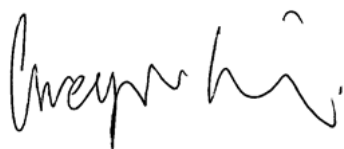
Specifically:

- Funding for FTC is provided on a net basis, unless specifically stated otherwise. This means that repayments of loans the devolved governments receive can be recycled indefinitely into new loans by the devolved governments.
- Where funding is provided to the devolved governments on a gross basis, HM Treasury will set the total amount to be returned over a specified period. This will be on comparable terms to the UK Government programme generating the Barnett consequential. For example, HM Treasury has typically required the devolved governments to return 80% of gross FTC funding within 20 to 25 years. Within the specified period, HM Treasury and devolved governments will agree a provisional long-term schedule for funding to be returned. Amounts to be returned over the period covered by each spending review will be agreed at, or shortly after, each spending review. Repayments of loans received by the devolved governments can therefore be recycled into new loans within the agreed profile for returning funding to HM Treasury.

As at 1 May 2025 the amount of gross FT Capital repayable to HM Treasury is £1.414 billion. Annex A sets out the latest repayment profile. Lower repayments agreed to 2029-30 relate to the SNIB capitalisation period. The repayment profile is updated on an annual basis following the end of the financial year.

I hope you find this response helpful.

Your sincerely,



Gregor Irwin
Director-General Economy

Annex A – Repayment Profile of Gross FT Capital

Year	£m	%	
2025-26	25	2	SNIB Capitalisation decade
2026-27	25	2	
2027-28	25	2	
2028-29	25	2	
2029-30	25	2	
2030-31	50	4	Maximum repayment profile
2031-32	50	4	
2032-33	50	4	
2033-34	50	4	
2034-35	50	4	
2035-36	51	4	
2036-37	52	4	
2037-38	52	4	
2038-39	52	4	
2039-40	52	4	
2040-41	52	4	
2041-42	52	4	
2042-43	52	4	
2043-44	52	4	
2044-45	52	4	
2045-46	52	4	
2046-47	52	4	
2047-48	52	4	
2048-49	52	4	
2049-50	52	4	
2050-51	52	4	
2051-52	52	4	
2052-53	52	4	
2053-54	52	4	
2054-55	52	4	
Total	1414	100%	