



The Scottish Parliament  
Pàrlamaid na h-Alba

## Finance and Constitution Committee

Cabinet Secretary for Finance and  
the Constitution

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Dear Cabinet Secretary,

### Capital Borrowing: ESA 10

The Finance and Constitution Committee heard from the Scottish Futures Trust at our meeting this morning as part of our scrutiny of Draft Budget 2017/18. One of the issues which was raised at the meeting was the impact of ESA 10 on the DEL capital budget and the Scottish Government's capital borrowing powers.

The Deputy First Minister (DFM) wrote to the previous Finance Committee on 4 March 2016 regarding the reclassification by the ONS of the Aberdeen Western Peripheral Route (AWPR) and other NPD projects to the public sector. He explained that whilst there is continuing engagement with the ONS regarding reclassification "I have taken a prudent approach and managed the budgetary impact of public sector classification in setting the Draft Budget 2016-17."

In relation to Draft Budget 2015-16 the DFM stated that HM Treasury allowed the estimated £280m on the projects which were subject to reclassification to be recorded against the Scotland Act 2012 borrowing limit for the year although for budgeting purposes only. Table 1.01 in Draft Budget 2017-18 includes capital borrowing of £306m for 2015-16 and £316m for 2016-17.

The SPICe briefing on Draft Budget 2017-18 notes that the following NPD projects have now been reclassified as public sector projects:

- Aberdeen Western Peripheral Route;
- Dumfries and Galloway Royal Infirmary;
- Royal Hospital for Sick Children/Department for Clinical Neurosciences ; and
- Balfour Hospital, Orkney.

The SPICe briefing further notes that £92m has been allocated from the Capital DEL budget for two of these health projects and the Balfour Hospital will no longer be procured using NPD financing.

In advance of your appearance before the Finance and Constitution Committee on 11 January it would be helpful if you could respond to the following questions:

- Given that the £280m in 2015-16 was recorded against the Scotland Act 2012 borrowing limit does this mean that this money cannot be borrowed for other capital projects and does it count towards the cumulative borrowing limit of £3 billion?
- Can you provide a breakdown of the costs for each capital project included in the £280m?
- What is the cost of each of the reclassified projects to the DEL Capital Budget for 2016-17?
- Will the reclassification have an impact on the Scottish Government's flexibility to use the Scotland Act 2016 borrowing powers in 2016/17, 2017/18 and beyond?
- Has this reclassification required the Scottish Government to re-prioritise spending across its budgets, including funding provided to any public bodies, in 2016/17 or 2017/18?
- Overall, to what extent has the ESA 10 reclassification process reduce the Scottish Government's capital spending, either by imposing a commitment on the DEL Capital budget or by constraining the use of borrowing powers?

Yours sincerely,

**Bruce Crawford MSP**  
**Convener**