FPAC/S7/26/11/1

Finance and Public Administration Committee
Wednesday 18 November 2026
11th Meeting, 2026 (Session 7)

The Scottish Government's bonds programme

Background

1. At today's meeting, the Committee will take evidence from two panels of witnesses in relation to the Scottish Government's bonds programme.

   Panel 1
   - Professor David McMillan, Professor in Finance, University of Stirling, with expertise in bond markets, financial markets, stock-bond correlations, and bond yields.[1]
   - Dr Ben Cormier, Chancellor's Fellow, Senior Lecturer (Politics) at the University of Strathclyde, with expertise in sovereign debt, financial markets, and capital flows.[2]

   Panel 2
   - Angus Macpherson[3], former co-chair of the Scottish Government's Investor Panel which made recommendations to the Scottish Government in support of a Scottish bonds programme in 2023. Further details on the Panel are provided later in this paper.
   - Moody's, one of the two bodies which assigned the Scottish Government the same credit rating as the UK. Moody's assigned the Scottish Government a long-term issuer rating of Aa3 with a stable outlook.[4]
   - Steven Whyte, former Finance Director at Aberdeen City Council, the only local authority in Scotland that has issued bonds to fund capital projects.
   - Auditor General for Scotland, who has a role as independent auditor in relation to Scotland's bonds programme.

2. The purpose of the evidence sessions is to inform the Committee's scrutiny of the first Scottish Government bonds which are expected to be issued as part of the Scottish Budget 2027-28 on 3 December 2026.

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[1] Professor David McMillan has published: UK bonds are in meltdown again – what does that mean for pensions?, May 2023
[2] Dr Ben Cormier has published: The Political Economy of Scotland's 'Kilt' Bond programme, October 2026.
[3] Angus Macpherson is Chair of Noble and Co., an independent Scottish corporate finance and investment business.
[4] The other was S&P Global, which assigned the Scottish Government AA long-term issuer credit rating with a stable outlook.

3. The Scottish Government aims to raise £1.5 billion in capital borrowing through its bonds programme over the next five years, as an alternative to drawing from the UK Government's national loans fund, although existing borrowing limits would still apply.

Summary of events

4. A summary of events relating to the Scottish Government's bonds programme is set out below, along with weblinks to additional information—

    - The Scotland Act 2016 included powers to issue government bonds for capital investment. (Royal Assent: 23 March 2016)

    - Scotland's Fiscal Framework 2023 reaffirmed the Scottish Government's ability to "borrow through the UK Government from the National Loans Fund, by way of a commercial loan (directly from a bank or other lender), or through the issue of bonds". (2 August 2023)

    - The then First Minister, Humza Yousaf, announced that "subject to due diligence and market testing – the Scottish Government will go directly to the bond market for the first time in our own right". (17 October 2023)

    - The Investor Panel's Report recommended that "although it will involve additional costs, Scotland's profile could be significantly raised in the international capital markets by using existing devolved powers to issue debt", adding "this will provide a motivation for regular engagement by investors and an opportunity to market Scotland's investment story". The Panel noted this "would also allow the development of relationships with providers of debt, a track record and credit rating". (29 November 2023)

    - The Scottish Government's response included in the Panel's report explained that "a process of due diligence on this proposal, involving consultation with banks, credit agencies, financial experts and the Treasury has begun". It went on to say that "if fiscal, economic and value for money conditions are satisfied, the aim is to make the bonds available to the market by the end of the current parliamentary session". (29 November 2023)

    - The Scottish Government announced that "the bond issuance programme will have three strategic aims which will drive work going forward—

        1. To ensure the Scottish Government can access diverse and cost-effective sources of capital funding and enhance Scotland's fiscal sustainability;
        2. To raise Scotland's profile to financial investors; and
        3. To develop Scotland's institutions and fiscal disciplines".

        (19 December 2023)

- The Scottish Government was assigned a long-term issuer rating of **Aa3** with a stable outlook by Moody's, and an **AA** rating by S&P General, both mirroring the UK's Sovereign rating. The Scottish Government stated that "the strength and diversity of Scotland's economy, its strong institutional framework, as well as the Scottish Government's prudent financial management and low levels of debt are factors highlighted in the agencies' reports". (12 November 2025)

- The Scottish Government bonds programme: outline business case (OBC) summary was published "to aid transparency". The full OBC "is not published, as it contains commercially sensitive information". (13 November 2025)

- The First Minister, John Swinney, outlined next steps at Scotland House London, announcing plans to start procurement for bookrunners (banks acting as joint lead managers) and legal advisers for the programme. (26 January 2026)

- The Scottish Government announced the appointment of nine banks and legal advisers to a framework that will advise and support on the delivery of the Scottish Government's bonds programme over the next five years. (25 June 2026)

5. Further information can be found in the SPICe blog on the Scottish Government's bonds programme published on 12 November 2026.

Committee scrutiny

6. During September 2026, the Committee heard as part of its pre-budget 2027-28 scrutiny, that a number of witnesses support the Scottish Government's plans to explore the use of bonds. Some, however, highlighted a lack of certainty and transparency around potential risks, opportunities, governance arrangements, administrative costs, economic impacts, and trade-offs such as potentially higher borrowing costs versus more flexibility with repayments.[5]

7. Others noted some advantages of domestically issued bonds, including "greater maturity flexibility, development of a Scottish institutional-investor market, potentially greater visibility among international investors, and matching long-lived assets with long-term liabilities".[6]

8. The Cabinet Secretary for Finance and Local Government confirmed during evidence to the Committee on 30 September 2026 that bonds are "about borrowing better, not borrowing more" and that the programme is intended to diversify borrowing, establish Scotland in capital markets, attract investor interest and support capital spending. She said she recognised the evidence

[5] Pre-budget 2027-28 report: the affordability and sustainability of the Scottish Government's tax and spending plans
[6] Pre-budget 2027-28 report: the affordability and sustainability of the Scottish Government's tax and spending plans

heard by the Committee that borrowing through bonds could be more costly than through the national loans fund and advised that the Government will only proceed with bonds if market conditions are favourable, taking account of current volatility and the cost of borrowing.

9. The Committee wrote to the Scottish Government on 9 October 2026 seeking clarification on a number of matters relating to its issuance of bonds, to inform the evidence sessions today (Annexe A). The Cabinet Secretary responded on 27 October 2026 providing information on the benefits the Scottish Government expects to achieve through bonds, independent assurance, the implications for capital projects should bonds not materialise, and the trade-offs being considered (Annexe B).

10. Asked about the costs of administering bonds, the Cabinet Secretary responded in her letter that the total budget for the bonds programme is £2.1 million for 2026-27 and "costs are expected to remain within this budget". She went on to say that "in any subsequent year in which Scottish Bonds are issued, programme costs are not expected to exceed the 2026-27 requirement".

11. The Cabinet Secretary indicated she was unable to provide further details on the anticipated yield rate for Scottish Government bonds, how it will price and cost bonds, and the terms and conditions for issuance, due to commercial sensitivity.

Next steps

12. The Committee will scrutinise the Scottish Budget 2027-28, including the Scottish Government's decision on bonds, at its meetings in December 2026 and January 2027.

Committee Clerking Team
November 2026

Annexe A: Letter to Cabinet Secretary, 9 October 2026

The Scottish Parliament
Pàrlamaid na h-Alba

Finance and Public Administration Committee

Jenny Gilruth MSP
Deputy First Minister and Cabinet Secretary for Finance and Local Government

By email

9 October 2026

Dear Cabinet Secretary

As you are aware, the Committee has heard evidence relating to the Scottish Government's bonds programme as part of its pre-budget scrutiny 2027-28 on the affordability and sustainability of the Scottish Government's tax and spending plans. The Committee now plans to carry out further scrutiny of the bonds programme ahead of the Scottish Budget being published on 3 December 2026.

To inform evidence sessions on the topic planned for November 2026, the Committee seeks the following information in writing—

1. the matters the Scottish Government is taking into account when balancing the trade-offs between the potential costs of bonds (over and above the national loans fund) and the flexibilities they may provide,
2. benefits the Scottish Government expects to achieve through bonds,
3. the costs of administering the bonds,
4. who has responsibility for providing independent assurance regarding decisions to use specific bonds by the Scottish Government, for example, the Auditor General for Scotland,
5. the anticipated yield rate for Scottish Government bonds,
6. whether the Scottish Government is using any particular model or models for its use of bonds, drawing on any international comparators,
7. how this bonds programme links in with UK bonds, if at all,
8. implications for the Scottish Government's capital projects programme if bonds do not materialise, and
9. the terms and conditions for issuing bonds and what actions could be required of the Scottish Government if those terms and conditions were not met, including repayments.

We also request an update on when the Scottish Government's Infrastructure Strategy 2027-2037 will be published.

Contact: Finance and Public Administration Committee, The Scottish Parliament, Edinburgh, EH99 1SP.
Email FPA.committee@parliament.scot. We welcome calls through Relay UK and in BSL through Contact Scotland BSL.

The Committee would appreciate receiving the above information by **30 October 2026**.

Yours sincerely



Clare Haughey MSP
Convener

Contact: Finance and Public Administration Committee, The Scottish Parliament, Edinburgh, EH99 1SP.
Email FPA.committee@parliament.scot. We welcome calls through Relay UK and in BSL through Contact Scotland BSL.

Annexe B: Letter from Cabinet Secretary, 27 October 2026

Clare Haughey MSP
Convener
Finance and Public Administration Committee
The Scottish Parliament
Edinburgh
EH99 1SP

By email: FPA.committee@parliament.scot

27 October 2026

2027-28 SCOTTISH BUDGET – FOLLOW UP TO 30 SEPTEMBER 2026 SESSION

Dear Clare,

I welcomed the opportunity to meet with the Committee on 30 September to discuss Pre-Budget Scrutiny 2027-28: Affordability and sustainability of Scotland's tax and spending plans.

As part of the constructive discussion with the Committee, there were several matters where I committed to follow up in writing:

1. **Official statistics regarding young people reaching positive destinations**

Statistics were released on the 24th February 2026 on the initial destinations of 2024-25 leavers from Scotland's publicly funded schools. Positive destinations include higher education, further education, employment, training, personal skills development and voluntary work.

This publication showed that 95.7 per cent of 2024-25 school leavers were in a positive destination three months after the end of the school year. This is the same as the previous year (2023-24) and the second highest figure (alongside 2021-22) since 2009-10.

The gap between the proportion of school leavers in positive destinations from the most and least deprived areas is 4.7 percentage points, wider than the previous year (4.3 percentage points) but narrower than in 2018-19 (5.4 percentage points).

The percentage of school leavers in Employment three months after leaving school decreased from 23.1 per cent in 2023-24 to 21.6 per cent in 2024-25, a fall of 1.5 percentage points. This proportion is lower than the figures seen in the years immediately before the COVID-19 pandemic.

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The percentage of school leavers who were Unemployed (either Unemployed Seeking or Unemployed Not Seeking) in 2024-25 was 4.0 per cent, the same as in 2023-24. This is the third lowest proportion since consistent records began.

Moreover, we are committed to expanding modern and graduate apprenticeship opportunities, with at least 150,000 starts supported over the current Parliamentary term. We will also introduce a new Apprenticeship Accelerator Grant to support businesses, particularly SMEs. We have recently announced an increase in contribution rates by 10% from 2027/28 onwards while our annual investment of around £198 million currently supports Modern, Foundation and Graduate Apprenticeships across Scotland. These all demonstrate that Apprenticeships remain central to our approach to developing skills, supporting employers and growing the economy.

2. **Use of £30m Scotwind funds during the 2026-27 Budget Bill Stage 2**

£50 million of ScotWind/INTOG funding was included in the original 2026-27 Scottish Budget. An additional £29.63 million was profiled as part of the Stage 2 amendments. This additional funding supported the following commitments:

- £20 million was provided to Local Government to fully fund the Real Living Wage in commissioned services.
- £5.33 million was provided to the Deputy First Minister, Economy and Gaelic portfolio for the Investing in Communities Fund. Following the reshuffle after the election this is now part of the Economy, Tourism and Transport portfolio within the Regeneration programmes level 4 line.
- £4.3 million was provided to the Transport portfolio to help freeze rail fares. This is now part of the Economy, Tourism and Transport portfolio.

Final decisions on formally drawing down and utilising ScotWind/INTOG revenues will be made at the end of the financial year.

3. **The Government's policy position on how it will issue and price bonds**

At the session on the 30 September the Committee asked for more information on the Scottish Government's policy position regarding how bonds will be issued and priced.

It is the Scottish Government's intention to follow standard market practice for a syndicated bond issuance. Typically, this process begins with a formal announcement by the issuer of its intention to access the market, followed by a further announcement confirming the proposed transaction structure and expected timing of issuance. The joint bookrunners appointed to the programme will continue to act as the principal liaison with the market, providing the Scottish Government with advice on investor demand, market conditions, and pricing at issuance.

The Scottish Government intends to establish a £1.5 billion bonds programme for the five years of this parliamentary term. Further details regarding timing, structure, size, and pricing of any individual transaction will be determined at the relevant time, taking account of prevailing market conditions. Accordingly, it would not be appropriate to comment on such matters in advance of any formal market announcement, as they constitute commercially and market-sensitive information.

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Mr Marra also raised questions about Scottish Government bonds in the context of constitutional change. To be clear, the Scottish Government would continue to act responsibly and will honour its contractual obligations as the First Minister has previously set out. In addition, Mr Marra is correct to note that credit ratings will be an important consideration for investors looking to invest in Scottish Government bonds. This is why achieving the best result possible as a devolved Government was so important.

The Committee has also asked for additional, written information on the bonds programme, (letter of 9 October). Please see annex A for this supplementary material.

4. Planned MTFS publication

The Committee raised questions about how often the Scottish Government should publish its Medium Term Financial Strategy (MTFS) and when it could expect to see the next publication, including whether one was planned alongside the 2027-28 Budget.

The Committee will be aware that the standard Scottish fiscal cycle includes an MTFS published in late spring, accompanied by Scottish Fiscal Commission forecasts, providing the medium-term fiscal outlook and risks, and the Government's strategy to manage them.

This year, the Scottish Parliament election disrupted the standard cycle, as I've explained in previous correspondence to the Committee. I've also set out in detail in my letter dated 24 June the reasons why an MTFS publication before the UK Budget would not have provided a robust assessment of the funding outlook due to the timing mismatch between SFC and OBR forecasts, with OBR forecasts being produced before the conflict in Iran, which would give a misleading picture of Scotland's finances. have also emphasised that the Government's immediate priority following the UK Autumn Statement will be the delivery of the 2027-28 Scottish Budget, and that remains our position.

I do however wish to clarify the distinction between the MTFS and the fiscal statement referred to in my previous correspondence to the Committee. The statement was never intended to replicate the MTFS. It was intended to be a statement in Parliament which would supplement the SFC's Fiscal Update, published at the end of August, setting out the fiscal and economic context and challenges ahead of the Scottish Budget. I was instead able to offer this as part of my opening speech at the debate on asks of the UK Government Budget on 1 October. I have also commenced early pre-Budget engagement with opposition parties, at the roundtable event I hosted on 24 September where I shared fulsome information about the fiscal context ahead of the next Budget. I intend to follow up with another roundtable after the UK Budget. As noted at Committee, members will be invited to join that session to further promote understanding of the fiscal landscape and support parliamentary scrutiny of the Budget. I consider that these events and engagements, along with the data in the SFC's August update, provide a sound basis for the Committee's pre-Budget scrutiny.

I am still reflecting on the package of publications and information for 3 December with the Budget. Decisions will in part depend on the UK Autumn Statement, but I will consider the Committee's feedback from the evidence session as I finalise decisions on this.

Yours sincerely,

JENNY GILRUTH

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ANNEX A

FPAC information request 9 October 2026 — bond programme

The Committee has asked for specific information on the bond programme, to support evidence sessions planned for November 2026. This is provided below. The Committee also asked for an update on the Infrastructure Strategy 2027-2037 publication. Development of the Infrastructure Strategy is ongoing, and we are working towards publication early next year.

Background summary

The Scottish Government Bonds Programme was developed following a recommendation from the independent Investor Panel that Scotland should consider issuing debt in capital markets to diversify funding sources, strengthen investor engagement, raise Scotland's profile with investors and establish a market track record.

In November 2025 the Scottish Government published a summary Outline Business Case (OBC) assessing the case for the Bonds Programme. This concluded that a multi-year wholesale bond programme would best achieve the programme's objectives. The Summary OBR can be accessed from Scottish Government bonds programme: outline business case summary - gov.scot

The Scottish Government intends to establish a £1.5 billion bonds programme for the five years of this parliamentary term with a debut issuance planned later in financial year 2026-27.

FPAC Information Request and Answers

Information requested by the Committee is provided below, where it is possible to do so. It is important to state at this stage that specific details regarding precise timing, structure, size, and pricing of any individual bond ***transaction*** must be communicated to market in an orderly manner, closer to issuance date.

1. The matters the Scottish Government is taking into account when balancing the trade-offs between the potential costs of bonds (over and above the national loans fund) and the flexibilities they may provide

The Strategic objectives for the Bond Programme, (December 2023) are:

1) To ensure the Scottish Government can access diverse and cost-effective sources of capital funding and enhance Scotland's fiscal sustainability;
2) To raise Scotland's profile to financial investors; and
3) To develop Scotland's institutions and fiscal disciplines

These objectives are fundamental to weighing up decisions and trade-offs between costs and flexibilities related to bond issuance.

We have assessed the case for Scottish Government Bonds in line with Green Book best practice and the Treasury five case model to ensure appropriate spending of Government funds. The value-for-money assessment compares bond issuance with borrowing through the National Loans Fund and considers:

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- The quantifiable structural fiscal benefits of diversification of borrowing sources relative to NLF Borrowing.
- Any additional costs, whether that is an increase in interest costs or additional programme costs.
- The economic benefits of using bonds and a credit rating to increase investor engagement more broadly in Scotland.
- The wider fiscal benefits of diversification of funding sources.

The summary Outline Business Case demonstrated that issuing a bond could offer value-for-money, support the strategic objectives above and work within the fiscally sustainable capital borrowing policy. Further value-for-money assessments will take place before any issuance.

Note on capital borrowing policy:

Since the 2023 Fiscal Framework Review the Scottish Government has used the following policy framework to assess capital borrowing decisions:

- £300 million of capital borrowing per annum as the default assumption; and
- This will be amended as necessary to meet budget specific or in-year requirements;
- This is controlled by a fiscal test to ensure that at least £1.5 billion of borrowing headroom (i.e. the difference between outstanding debt and our overall debt limit) remains available for the next parliamentary term.

This ensures that the limited Capital Borrowing facility will be sustainable indefinitely as the repayment of previous borrowing frees up headroom for further borrowing if needed. The Scottish Government decisions on the use of Bonds will be taken in the context of this capital borrowing policy. Bond issuance will take place within the borrowing limits set within the Fiscal Framework between SG and HMT.

2. Benefits the Scottish Government expects to achieve through bonds

The Scottish Government bond programme is designed to maximise value for the Scottish taxpayer by diversifying our sources of borrowing and providing more opportunities to promote Scotland as a place to invest and do business.

The summary outline business case showed that a multi-year bond programme could represent value for money and deliver strategic and economic benefits. These include strengthening investor engagement, supporting investment in Scotland and establishing a market track record.

The Bond Programme creates opportunities to engage directly with a range of financial investors, to create and strengthen relevant investor relationships and provide a consistent narrative about Scotland's investment opportunities and capital investment programme, supporting Scotland's broader investment and economic ambitions.

Alongside the bond programme, the Scottish Government has maintained high investment grade credit ratings from two global rating agencies. These credit ratings provide a clear signal about Scotland’s creditworthiness and strengthen Scotland’s attractiveness to investors.

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In contrast to borrowing via bond issuance, borrowing from the NLF does not enable any direct engagement with investors, and cannot support these broader investment and economic benefits.

Issuing bonds also provides more flexibility in how we borrow and manage public finances and offers short-term savings to the government.

3. The costs of administering the bonds

The Scottish Government Bond Programme has a total budget of £2.1 million for 2026-27. Costs are expected to remain within this budget. Programme costs for 2025-26 were under £500,000 (set against a £1 million budget). In any subsequent year in which Scottish Bonds are issued, programme costs are not expected to exceed the 2026-27 requirement.

4. Who has responsibility for providing independent assurance regarding decisions to use specific bonds by the Scottish Government, for example, the Auditor General for Scotland

Assurance on borrowing decisions, including bond issuance, is provided through the Scottish Government's established governance, appraisal and decision-making processes.

The programme has been developed by Scottish Government officials, drawing on external expertise where required, and has been subject to analytical, financial and legal scrutiny under the oversight of the Lead Accountable Officer, the Director-General for Exchequer, Strategy and Performance.

Options for bond issuance have been assessed in line with the Scottish Public Finance Manual and HM Treasury's Green Book, including consideration of affordability, value for money, deliverability and strategic fit.

Borrowing powers are conferred on Scottish Ministers through the Scotland Act 1998 as amended by the Scotland Acts 2012 and 2016. These allow Ministers to borrow for capital investment, including by issuing bonds, within agreed limits and subject to HM Treasury approval.

The Scottish Fiscal Commission is the independent fiscal institution for Scotland and has a duty to assess the reasonableness of Scottish Ministers' borrowing plans and includes commentary on this in its regular Economic and Fiscal Forecast publications.

Audit Scotland serves two statutory duties in relation to Scottish Government Borrowing. First, to approve the Scottish Government accessing any funding from the Scottish Consolidated Fund and second, to audit the Scottish Government Accounts. We are working closely with Audit Scotland to consider the implications of financial reporting of borrowing and the related impact on the Scottish Government Accounts and Scottish Consolidated Fund Accounts.

Under the Scotland Act, borrowing repayments are charged directly on the Scottish Consolidated Fund i.e. these are not budget expenses and do not require the approval of the Scottish Parliament. In relation to bond programme costs, these are allocated annually through the Scottish Budget (see question 3).

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A debt management policy is in development to formalise the Scottish Government's existing approach and further strengthen the management of its borrowing requirements and debt obligations in a prudent, transparent, and sustainable manner, balancing cost and risk over the long term while operating within Scottish Ministers' statutory borrowing powers and the fiscal framework. It is our intention to publish the Debt Management Policy and updated summary business case at the time of issuance.

5. The anticipated yield rate for Scottish Government bonds

This is commercially sensitive and we cannot comment on this. Speculating on the bond's yield or interest rate would undermine the pricing achieved at issuance and impact affordability. The Scottish Government is working closely with its appointed bookrunners to assess market conditions and achieve the most favourable terms available.

6. Whether the Scottish Government is using any particular model or models for its use of bonds, drawing on any international comparators

It is the Scottish Government's intention to follow standard market practice for a syndicated bond issuance. Typically, this process begins with a formal announcement by the issuer of its intention to access the market, followed by a further announcement confirming the proposed transaction structure and expected timing of issuance. The joint bookrunners appointed to the programme will continue to act as the principal liaison with the market, providing the Scottish Government with advice on investor demand, market conditions, and pricing at issuance.

The proposed issuance approach has been informed by advice from financial advisers, legal advisers, bookrunners and engagement with HM Treasury and the UK Debt Management Office.

The approach aligns with established debt management practices, to minimise execution and market risks.

7. How this bonds programme links in with UK bonds, if at all.

Scottish Government bonds will be entirely separate instruments to UK Government Bonds. However as with any sub-sovereign debt issuance the UK Gilt curve will act as the primary pricing reference point. This is also the case with the Scottish Government's current source of borrowing – The UK National Loans Fund (NLF).

Officials are working closely with UK Debt Management Office (DMO) and HM Treasury to ensure SG bond plans are coordinated with DMO activity.

8. Implications for the Scottish Government's capital projects programme if bonds do not materialise.

We have been clear that all proceeds from a future bond issuance would be used exclusively for capital investment in line with the capital borrowing powers outlined in the Fiscal Framework agreement between the Scottish and UK Governments.

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A proposed bond issuance would act as an alternative to Scottish Government borrowing via the National Loans Fund. If bonds are not issued, borrowing via the NLF could continue where required.

Changing the source of Capital Borrowing does not impact capital spending priorities, which are set out in the government's spending plans.

9. The terms and conditions for issuing bonds and what actions could be required of the Scottish Government if those terms and conditions were not met, including repayments.

As stated in paragraph two above, I cannot set out in any more detail, the terms and conditions for issuing bonds to ensure we do not risk compromising market sensitives or commercial outcomes for a future issuance.

It is worth re-iterating that any borrowing repayments are legally defined as "Charges" on the Scottish Consolidated Fund. This ensures that borrowing repayments are deducted directly from funds available for devolved competence.

This places borrowing repayments in a similar position to judicial salaries, funding for Audit Scotland and the Scottish Parliament itself as payments and charges which do not form part of the Scottish Budget for Parliamentary approval.

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