

CHAPTER 5

BORROWING POWERS

The Scotland Act 2016 provides the Scottish Government with additional borrowing powers, building on those delivered in the Scotland Act 2012. In addition to the circumstances set out in the Scotland Act 2012, the provisions in the Scotland Act 2016 enable Scottish Ministers to borrow for the following two purposes:

- *to meet current expenditure because of an excess of welfare payments over forecast welfare payments, and;*
- *to meet current expenditure because of a Scotland-specific negative economic shock;*

The Scotland Act 2016 provisions also:

- *increased the Scottish Government's current borrowing limit from £500m to £1.75bn, and;*
- *increased the Scottish Government's capital borrowing limit from £2.2bn to 3bn.*

The Scottish Government's fiscal framework sets out more detail in relation to these borrowing powers.

Steps taken towards implementation since previous report

27. The Scottish Government's borrowing powers and Scotland Reserve came into effect in April 2017. As set out in their draft Budget on 28 January 2021 the Scottish Government plans to borrow £207m for resource expenditure and £300m for capital expenditure in 2020-21⁷.
28. The Scottish Fiscal Commission's latest forecast confirmed that a Scotland-specific economic shock has been triggered in 2021-22. They also confirmed this is likely caused by the different timings of published forecasts, rather than a genuine disproportionate shock to the Scottish economy.
29. As a result of this Scotland-specific economic shock, and in line with the agreed fiscal framework, the UK Government will double the Scottish Government's borrowing limit from £300 million to £600 million for 2021-22 and the two subsequent financial years. This extra borrowing can be used for any forecast or observed tax shortfall or increase in welfare spending. In addition, the total annual drawdown limits for the Scotland Reserve (£250m for resource; £100m for capital) will be waived for the same three-year period.

⁷<https://www.fiscalcommission.scot/wp-content/uploads/2021/01/Scotlands-Economic-and-Fiscal-Forecasts-January-2021.pdf>