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Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
The Scottish Parliament
Edinburgh
EH99 1SP

29 October 2024

Dear Kenneth

2025-26 SCOTTISH BUDGET

During my appearance at Committee on 8 October, I agreed to provide further information on the following areas:

Capital Borrowing and Scottish Government Bonds

It is my intention to publish an additional memorandum on Scottish Government Capital Borrowing alongside the 2025-26 Scottish Budget. This will be similar to the document which was published last year [Scottish Government capital borrowing and bonds: memorandum - gov.scot \(www.gov.scot\)](http://www.gov.scot) and will therefore also include an update on the work towards a future Scottish Government Bond Issuance.

The Committee asked about the guidelines we use to assess capital borrowing decisions. Before the Fiscal Framework Review our capital borrowing limits were restricted in nominal terms to £450 million per annum, and with a cumulative limit of £3 billion. Within these restrictions it was sustainable to borrow £250 million per annum at a tenor of fifteen years and remain within the £3 billion limit indefinitely. With these limits now growing with inflation there is more scope to stretch the annual borrowing assumption in the short term while still ensuring there is sufficient headroom for borrowing in later years.

As the memorandum last year made clear, the priority for this additional flexibility in the short term is to support our Capital Budget given the significant real terms cuts that the previous UK Government had made to our Capital Block Grant. We are doing this alongside accommodating at least £250-£300 million of borrowing per annum in the longer term. I will

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provide more detail on this point and broader considerations for our Capital Borrowing policy in December.

Tax Advisory Group

The Committee enquired about details of the meetings of the Tax Advisory Group since the General Election. I can confirm there has been one meeting, on 11 September.

This was the third meeting of the year, with the previous two occurring on 11 January and 7 February respectively. The next meeting is due to take place on 6 November. Minutes from the meetings are available on the Scottish Government website: [Tax Advisory Group - gov.scot \(www.gov.scot\)](http://www.gov.scot)

Air Departure Tax

The Committee requested an update on the status of Air Passenger Duty (the devolved equivalent of this tax will be Air Departure Tax (ADT) in Scotland). The Scottish Government remains committed to implementing Air Departure Tax, but as explained, this requires a solution that protects connectivity for the Highlands and Islands and complies with the UK Government's subsidy control regime. Scottish Government officials are in regular contact with UK Government colleagues to explore all avenues to resolve this matter.

As I advised the Committee, the rates and bands for ADT will be considered once a suitable solution has been reached. This will include consideration of how private jets are treated.

Visitor levy

Whether VAT applies to a visitor levy is a decision for the UK Government. The UK Government's position is that if an accommodation provider includes an amount equivalent to a visitor levy in the charge for overnight accommodation then this would form part of what is paid under a contract for the supply of accommodation. This portion would therefore have the same VAT liability as the accommodation.

The UK Government has also been clear that any amount charged by an accommodation provider relating to the visitor levy would form part of the turnover of an accommodation provider for VAT registration purposes. While we know the position on VAT is disappointing for accommodation providers, Scottish Ministers do not have the legal competence to determine how a visitor levy is treated for VAT purposes.

The Scottish Government's position is that any local authority considering the introduction of a visitor levy would need to consider the potential VAT implications for relevant businesses. As an example, a local authority could, if it chose, create an exemption from a visitor levy for those businesses that are near the VAT threshold. The Scottish Government therefore supported an opposition amendment at stage 3 of the Act which means that any local authority introducing a visitor levy scheme has to make it clear whether or not its visitor levy would apply to those accommodation providers with an annual turnover below the VAT threshold.

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Winter Fuel Payment

The Committee inquired about the costs already incurred by the Scottish Government in preparing to administer the Pension Age Winter Heating Payment prior to the decision to replicate the UK Government approach to means test the benefit. The Pension Age Winter Heating Payment (PAWHP) was due to replace the UK Government's Winter Fuel Payment in 2024 for Scottish clients. Given the UK Government's late decision to means test this benefit and the Scottish Government's subsequent decision to replicate this approach, PAWHP will be delivered by the UK Government under an Agency Agreement with Scottish Ministers for winter 2024.

Prior to the decision to means test the benefit, the Scottish Government had spent approximately £4.2 million on the preparation to roll out Pension Age Winter Heating Payment. This primarily relates to the development of systems to deliver the benefit but also covers approximately £25,000 of costs associated with the public consultation, analysis of responses and relevant publications. The digital systems will be reused when Social Security Scotland delivers PAWHP next winter 2025/26 hence this work will not be lost, although some changes will be required to reflect the new eligibility rules.

The Scottish Government brought forward legislation under section 30 of the Social Security (Scotland) Act 2018 to enable the Department for Work and Pensions to deliver a payment in Scotland this winter. A Section 93 Scotland Act Order was also laid to enable the Department for Work and Pensions to act on behalf of Scottish Ministers in this respect. Neither of these resulted in additional costs in 2024-25.

An Agency Agreement between the Department for Work and Pensions and Scottish Ministers does not currently exist for the Winter Fuel Payment so this needs to be agreed in order for them to administer payments under the legislation. It is anticipated that administrative costs under an Agency Agreement will be covered by the Department for Work and Pensions, and therefore there will not be any additional costs for the Scottish Government this winter. This will require the Department for Work and Pension's agreement and set out in the associated Agency Agreement.

I hope you find this information helpful, and I look forward to engaging with the Committee further throughout the 2025-26 Scottish Budget process.

Yours sincerely,

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