

T: 0845 774 1741
E: scottish.ministers@scotland.gsi.gov.uk

Christina McKelvie
Convener
European and External Relations Committee
The Scottish Parliament
Edinburgh
EH991SP

europe@scottish.parliament.uk

8 December 2015

Dear Christina,

I am writing in response to your letter of 20 November 2015 to the Cabinet Secretary for Culture, Europe and External Affairs on the Scottish Government's draft Budget 2016-17 and your questions regarding any potential implications resulting from the European Commission's decision to suspend payments under the 2007-13 European Structural and Investment Funds programming period.

I last wrote to the European and External Relations Committee on 8 October to provide an update on the substantial work carried out by my officials to implement the Action Plan addressing the suspensions. Progress has continued since then and I look forward to updating the Committee in more detail at a later date.

In response to your letter of 20 November, a number of factors will determine whether the suspensions will have any effect on Scottish Government's 2015-16 Budget or 2016-17 draft Budget and, if so, what the extent of this will be.

The decision to suspend the repayments for the 2007-13 programmes will, in itself, have no direct impact on either the 2015/16 Budget or the 2016/17 draft Budget. Accounting arrangements are such that European Structural and Investment Funds are deemed additional to the Scottish Government's budget. This assumes that all funds Scottish Government pays out to projects are recoverable from the European Commission.

The money paid back from the Commission is subject to exchange rate fluctuations during the course of the six-year programmes and this will have an impact on the Scottish Government Budget. However, the impact of any fluctuations will not be known until the programmes are formally closed. This is scheduled to happen in 2017/18.

There are two potential financial consequences that the suspensions could have on the Scottish Government Budgets. Firstly, the suspensions prevent the European Commission from reimbursing funds that Scottish Government has paid to funding applicants. This has an impact on cash flow.

Secondly, if Scottish Government does not satisfy on the issues behind the suspensions, the European Commission may impose a financial penalty. A penalty would be a charge on the budget. At this time it is not possible to determine if and for what amount any penalty would be levied. Should a penalty be levied, the resulting charge would affect the budget for 2015/16.

Kind regards



KEITH BROWN