

## **1. Purpose and Status**

- 1.1. This Financial Memorandum has been drawn up by the Scottish Government (SG) in consultation with the Scottish National Investment Bank plc ('the Bank'). References to the Bank include all subsidiaries and joint ventures owned or controlled by the Bank. References to the SG include the Shareholder team and the Finance Business Partner who is allocated to the Bank.
- 1.2. Alongside the Bank's Shareholder Relationship Framework Document, this Financial Memorandum sets out the financial framework and obligations which apply to the Bank and the SG and defines key roles and responsibilities which underpin the relationship between the Bank and the SG. While this document does not confer any legal powers or responsibilities, it forms a key part of the accountability and governance framework and provides the basis for the Bank's internal financial policies and procedures. It should be reviewed and updated as necessary.
- 1.3. Any proposals to amend this Financial Memorandum either by the SG or the Bank will be taken forward in consultation and in the light of the SG and Bank's priorities and policy aims. Interpretation of the document shall be determined by the Scottish Public Finance Manual (SPFM) and after consultation between the SG and Bank. Legislative provisions shall take precedence over any part of the document.
- 1.4. Copies of the document shall be placed in the Scottish Parliament Reference Centre. It shall also be published on the Bank's website.

## **2. Financial Management**

### *General principles*

- 2.1. The Bank's activities shall be conducted in compliance with the Scottish Public Finance Manual ('the SPFM') and relevant legislation and regulations; any clarifications or exemptions to the SPFM will be agreed in writing with the Scottish Government, including within this document.
- 2.2. The Bank shall manage taxpayer resources efficiently and seek to deliver value for money for the Scottish Government. The Bank will follow SPFM policy regarding any proposals that might be considered novel, contentious or repercussive.

### *Investment activities*

- 2.3. The Bank shall record and maintain financial records, including income, costs, impairments, provisions and write-offs of investments, in line with International Financial Reporting Standards ('IFRS'), the Government's Financial Reporting Manual ('the FReM') and Consolidated Budgeting Guidance ('CBG'), and within its delegated authorities. Any adjustments required outside of the Bank's delegated authorities will require Scottish Government approval and communication with the SG at the earliest opportunity to determine implications for the Bank's and potentially wider SG's budget. Write-off of bad debt and expected credit losses score against the Bank's budget in line with the Consolidated Budgeting Guidance and within the delegated authority limit.
- 2.4. The Bank shall seek to optimise returns, including income, fees and investment gains, in line with its investment strategy and its business plan.

- 2.5. The Bank shall make investments in line with its investment strategy, business plan and within its delegated authorities. In the ordinary course of business the Bank may offer guarantees or indemnities within the limits of the delegated authorities. Otherwise, prior agreement with SG is required.

*Funding and treasury management*

- 2.6. The Scottish Government will receive shares in return for capital provided to the Bank for onward investment, and will provide a comfort letter to the Bank each year confirming that the Bank remains a going concern.
- 2.7. Each year, in the light of decisions by the Scottish Ministers on the allocation of budgets for the forthcoming financial year, the SG will send to the Bank a formal statement of its budgetary provision, and a note of any related matters and details of the budget monitoring information required by the SG. The terms of that letter, referred to as the Budget Allocation and Monitoring letter, should be viewed as complementing the content of this document. The monthly monitoring is the primary means of in-year budgetary control across the SG. As such, bodies must comply with the format and timing of the monitoring together with any requests for further information. The statement of budgetary provision will set out the budget within the classifications of resource Departmental Expenditure Limits (RDEL), capital DEL (CDEL) and Ring-fenced (non-cash) (RfDEL). The Bank will inform the Shareholder Unit at the earliest opportunity if a requirement for Annually Managed Expenditure (AME) budget is identified, including any creation or movement in provisions. The SG should also be advised in the event that estimated net expenditure is forecast to be lower than budget provision. Transfers of budgetary provision between the different classifications require the prior approval of the SG Finance Directorate. Any proposals for such transfers should therefore be submitted to the Shareholder Unit. Transfers of provision within the classifications may be undertaken without reference to the SG, subject to any constraints on specific areas of expenditure e.g. the approved pay remit. The Bank's budget allocation will be managed with the Shareholder Unit and SG Finance in such a way that income and capital repayments will be reinvested to deliver the Bank's missions while taking into account the wider SG budgetary context.
- 2.8. The Bank will receive funding as cash from the Scottish Government, and this must be authorised each year by the Scottish Parliament in the annual Budget Act. Cash will normally be claimed and paid in monthly instalments on the basis of the Bank's monthly cash forecasts and budget monitoring returns. Payment will not be made in advance of need, as determined by the level of cash reserves and planned expenditure. Cash reserves (a.k.a. working capital) can be held during the course of the year at a level agreed with the Scottish Government.

*Finance operations*

- 2.9. The Bank will put in place, resource and comply with, a procurement policy for itself and its group that reflects best practice and is in compliance with applicable procurement law.
- 2.10. The Bank shall seek wherever possible and appropriate to meet the Scottish Government's target for the payment of invoices within 10 working days of their receipt.

- 2.11. The Bank will put in place, and comply with, a tax policy that is compliant with HMRC rules and has been agreed with the Shareholder. All individuals who would qualify as employees for tax purposes should be paid through the payroll system with tax deducted at source. It is the responsibility of the Bank to observe VAT legislation and recover input tax where it is entitled to do so.
- 2.12. The Bank will maintain an asset register in line with the SPFM.
- 2.13. The Bank will consult with the Scottish Government's Property Division on property acquisitions and disposals for operational purposes, and where the Bank proposes to acquire, continue or end a lease. Unless covered by the delegated authorities in Annex A, the Bank will require the Scottish Government's prior approval to enter into any finance, property or accommodation related lease arrangement.
- 2.14. Gifts, bequests or donations received by the Bank score as income and should be provided for in the agreed Resource and Capital budgets, updated as necessary in consultation with the SG. However, the Bank should be able to demonstrate that expenditure funded by gifts etc. is additional to expenditure normally supported by grant in aid (i.e. SG core funding) or by trading and other income. Before accepting such gifts etc. the Bank shall consider if there are any associated costs in doing so or any conflicts of interests arising. The Bank shall keep a written record of any such gifts etc. and what happened to them.

### **3. Delegated Authorities**

- 3.1. The Bank's specific delegated financial authorities, including investment decisions, are set out in Annex A. The Bank will obtain the Scottish Government's prior written approval before entering into any undertaking to incur any expenditure that falls outside these delegations.

### **4. Financial Reporting: Internal and External**

- 4.1. The Bank must publish an annual report of its activities together with its audited accounts after the end of each financial year, in line with any accounts timetable put forward by the SG and applicable law and regulation. This will include any subsidiary or joint ventures owned or controlled by the Bank. The format and contents of the annual report will be discussed with the Scottish Government, prepared in accordance with the specific accounts direction issued by Scottish Ministers, and shall incorporate relevant legislative and regulatory requirements. The Bank's annual report and accounts will be prepared under IFRS, the FReM and financial services best practice. Any financial objectives or targets set by the Scottish Ministers should be reported on in the accounts and will therefore be within the scope of the audit.
- 4.2. The Bank shall ensure that its accounting structure allows for accounting and budgeting transparency and reporting in compliance with relevant legislative and regulatory requirements. The Bank shall provide the Scottish Government with such information as is necessary for the production of Whole of Government Accounts and any other further consolidated accounts.
- 4.3. The Bank shall submit the draft annual report to the Scottish Government for comment, and the draft annual accounts for information. The accounts will be sent by the Auditor General for Scotland (AGS) to the Scottish Ministers before they are laid in Parliament, and they must be laid before they are published by the Bank. The annual report and accounts shall be laid in Parliament no later than 6 months following the end of the financial year.

## **5. Financial assurance**

- 5.1. The Bank will establish an internal audit function, reflecting industry and public sector best practice, which will report to the Bank's Audit Committee and the Board. The Board will receive reporting on internal audit activities (including on fraud and theft). The SG's Internal Audit Directorate has a right of access to all documents held by the Bank's internal Auditor, including where the service is contracted out, and may share these as necessary for Internal Audit purposes within the Scottish Government. The Bank will adopt and implement policies and practices to safeguard itself against fraud and theft.
- 5.2. The Auditor General for Scotland (AGS) will audit, or appoint auditors to audit, the Bank's annual accounts and pass them to the Scottish Ministers who shall lay them before the Scottish Parliament, together with the auditor's report and any report prepared by the AGS. For the purpose of audit, the auditors have a statutory right of access to documents and information held by relevant persons. The Bank shall instruct its auditors to send copies of audit management reports (and correspondence relating to those reports) and responses to the Scottish Government.
- 5.3. The AGS, or examiners appointed by the AGS, may carry out examinations into the economy, efficiency and effectiveness with which the Bank has used its resources in discharging its functions, and the Bank's arrangements to secure Best Value. For the purpose of these examinations, the examiners have a statutory right of access to relevant documents and information. In addition, the Bank will use its best endeavours to secure access for the AGS to any other documents required by the AGS which are held by other bodies.
- 5.4. The Bank is subject to the SG policy of self-insurance. Commercial insurance must be taken out where there is a legal requirement to do so and may also be taken out where the Bank has determined there is a value-for-money case to do so, specific risks would be appropriately mitigated through commercial insurance and SG Finance has approved the case (such approval not to be unreasonably withheld, delayed or conditioned). In the event of uninsured losses being incurred, the SG shall consider, on a case-by-case basis, whether or not it should make any additional resources available to the Bank. The SG will provide the Bank with a Certificate of Exemption for Employer's Liability Insurance.

## **6. Financial reporting to the Scottish Government**

- 6.1. The Bank shall operate management information and accounting systems that enable it to review, in a timely and effective manner, its financial and non-financial performance against its business plan. The results of such reviews will be reported on a regular basis to the Bank's Board, who will share this information with the Scottish Government.

## **7. Other**

- 7.1. The provisions of the Shareholder Relationship Framework Document between the Bank and Scottish Ministers with respect to *Confidentiality* shall apply, mutatis mutandis, with respect to this Financial Memorandum.

**Annex A: Delegated Authorities**

A long term delegated authority for individual investments of £50 million per investment is incorporated into the Shareholder Relationship Framework Document. This amount will not be reviewed annually alongside other delegated authorities, as it is critical for the Bank and its group that this number is consistent for the long term.

The following are corporate delegated authorities, which will be reviewed annually and apply to the Bank and its group:

	<b>Delegated Limits for 2020-21</b>
Creation of an investment vehicle, joint venture vehicle or special purpose vehicle that is classified to the public sector:	No delegated limit, on the basis that this is included within the agreed business plan and provided for in the current year's budget settlement.
Special payments: extra-contractual and ex-gratia payments to contractors:	Up to £2,000 per case.
Rewards for staff (including non-salary) that are not part of the agreed Long Term Incentive Plan, Mission Reward Scheme, gifts, and presentations:	Up to £500 per case.
Severance agreements, voluntary redundancy and early retirement packages for staff or compensation for loss of office to the extent not approved by the Remuneration Committee of the Board of the Bank:	No delegated limit.
Investment written off due to the investee being dissolved, gone into liquidation or otherwise entered into formal insolvency process:	Ministers to be notified of each case.
Property and accommodation:	No delegated limit.
Investment write downs and Expected Credit Losses, <i>other than</i> when an investee has been dissolved, gone into administration or entered into a formal insolvency process:	Reporting on impairments in line with statutory reporting requirements and general portfolio management. A quarterly report to be provided to the Shareholder outlining current position for the portfolio.
Guarantees:	Up to £2.5 million in terms of assessed exposure provided this can be met from the Bank's own resources.
Indemnities, letters of comfort and charges on assets:	No limit, provided these can be met from the Bank's own resources and are not deemed to be guarantees.
Contingent liabilities arising from the provision of guarantees, indemnities, letters of comfort or charges on assets:	Ministers to be advised annually.
Fruitless payments, loss of cash, assets, equipment or stores:	Up to £10,000 per case.