

Deputy First Minister
and Cabinet Secretary for Finance, Constitution and Economy
John Swinney MSP



T: 0300 244 4000
E: dfm@gov.scot



Bruce Crawford MSP
Convener
Devolution (Further Powers) Committee
Scottish Parliament
Edinburgh
EH99 1SP

26 November 2015

Dear Bruce

Scotland's fiscal framework

Thank you for the joint letter from you and Kenneth Gibson MSP, Convener of the Finance Committee, dated 3 November.

I am grateful to you for setting out the additional information which the Committees would find useful to receive to facilitate their scrutiny of the fiscal framework. You requested chapter headings/sections of the framework and broad headings of its more detailed content.

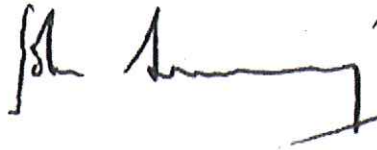
At this point, the Chief Secretary to the Treasury and I have not agreed a final structure for the framework. However, I have provided, at Annex A, a list of the topics to be included within the framework along with brief, additional factual information on what we are considering in relation to each.

The Scottish Government is continuing to work on the negotiations for Scotland's new fiscal framework. These negotiations are likely to conclude following the Scottish Government's draft Budget and the UK Government's Spending Review. Whilst the nature of these negotiations means that it is not appropriate to offer a running commentary, I hope the Committees find the outline of the areas to be covered by the fiscal framework helpful.

We have made it clear that we will support a legislative consent motion on the Scotland Bill only if a satisfactory and fair fiscal framework is agreed between the Scottish and United Kingdom Governments. Once an agreement has been reached, the Scottish Parliament and your respective committees will have the opportunity to scrutinise the agreement.



I have copied this response to Greg Hands MP, Chief Secretary to the Treasury and to David Mundell MP, Secretary of State for Scotland.

A handwritten signature in black ink, appearing to read 'John Swinney', with a stylized flourish at the end.

JOHN SWINNEY

Annex A - Topics to be covered by the Fiscal Framework

Work on the fiscal framework is continuing and both Governments aim to complete this work as soon as possible in order to give the respective Parliaments time for due consideration of both the Fiscal Framework and the Scotland Bill.

The main topic areas to be included in Scotland's new fiscal framework are set out below.

Baseline Adjustments

The devolution of new tax and spend powers requires a baseline adjustment to the Scottish Government's block grant. The fiscal framework will set out the basis for the baseline adjustment for the areas being devolved. The baseline adjustments can be based on a single year or a multi-year average and on outturn or forecast expenditure/revenues.

Indexation

The fiscal framework will cover the annual adjustments to the Block Grant to account for the new spending powers and new revenue raising powers. Three categories of indexation mechanisms have been considered:

- Linked to the block grant;
- Linked to the corresponding UKG tax receipts or tax base or UKG expenditure; and,
- Linked to the economy.

The indexation mechanism adopted for each power being devolved will be outlined along with the appropriate methodology for calculating the adjustment.

No Detriment

The fiscal framework will outline the interpretation of the principles of no detriment outlined in the Smith Commission report, which states that neither government should be disadvantaged financially from decisions made by either Government post devolution. The framework will detail the effects covered by the framework, for example direct effects and behavioural effects, and how these are measured.

VAT Assignment

The fiscal framework will cover the arrangements for VAT assignment, including the methodology for estimating Scottish VAT receipts and adjusting the block grant and the arrangements for any transition period.

Administration Costs

The framework will cover the administration costs for devolved taxes and spending powers. This will set out the arrangements for one-off implementation costs and on-going costs and how on-going costs will be indexed in the future.

Crown Estate

The financial arrangements for the Crown Estate will be set out in the framework; this will cover the arrangements for the transfer of Crown Estate assets to Scotland.

Employability

The fiscal framework will set out the arrangements for the transfer of resources to the Scottish Government to fund these programmes.

Capital Borrowing

Any extension to the Scottish Government's capital borrowing powers will be set out in the fiscal framework, including overall quantum and any annual limits. It will also set out how

Scottish Government borrowing would sit within the context of the overall UK fiscal framework.

Resource Borrowing and Other Flexibilities

The extended resource borrowing limits for the Scottish Government will be set out in the fiscal framework. Resource borrowing will ensure budget stability and enable the Scottish Government to have the flexibility to manage forecast error and smooth public spending in the event of economic shocks. Any non-borrowing flexibilities will also be outlined.

Fiscal Scrutiny – Institutions

The fiscal framework will set out the roles and responsibilities of the Scottish Fiscal Commission and the Office for Budget Responsibility in relation to devolved public finances.

Governance Arrangements

The future governance arrangements of the fiscal framework will be covered. This will clarify the reporting requirements for each government, the process and arrangements for reviewing the fiscal framework, agreements on information sharing and any processes for dispute resolution. The Terms of Reference for the on-going operation of the Joint Exchequer Committee will also be covered.