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20 August 2015

Dear Kenneth,

When I gave evidence to the Committee on 3 June about Scotland's fiscal framework, I offered to provide additional information about the Scottish Government's position on use of the Holtham block grant adjustment mechanism in the context of the Scottish rate of income tax (SRIT).

You noted that the Committee had received briefing from its advisers to the effect that the balance between tax and population share could be altered by decisions of either government leading to migration of top earners from north to south or vice versa, and that as a result indexation of the block grant adjustment in respect of SRIT to changes in the UK tax base (the Holtham method) was not suited to Scotland.

As you will recall, the history of the Holtham method for indexing the block grant adjustment in respect of SRIT goes back to 2011-12, and discussions between the Scottish and UK Governments about the mechanism proposed by the UK Government in the original Command Paper of November 2010. This advocated indexation based on maintaining a constant proportion of the block grant – in other words, the block grant adjustment would grow proportionately to the block grant as whole. The calculations we carried out at that time suggested that, if such a mechanism had been in place since the outset of devolution, the Scottish budget would have been cumulatively approximately £8 billion worse off. We could not accept an indexation method that appeared to build in such a significant bias against the Scottish budget.

We therefore counter proposed the indexed deduction method first described by Professor Gerald Holtham, under which the initial block grant adjustment would be set at the same level as income tax receipts, and then indexed annually thereafter by reference to movements in the UK tax base. The tax base means income subject to


income tax, after personal and other allowances and reliefs. The effect of this method is that if Scottish income tax receipts grow faster than the underlying UK tax base, the Scottish budget will be larger than it would have been without devolution of income tax receipts; and if growth is slower, the budget will be smaller than it otherwise would have been. In other words, the risk relates to relative growth rates. This is a risk we were willing should be allocated to Scotland, and one for which I was happy to be held to account by the Parliament. Our analysis showed that had such a method been in use from the outset of devolution, the Scottish budget would have been cumulatively better off than without income tax devolution, although not in every year.

The Holtham approach also has the advantage that, in indexing to the UK tax base, it automatically compensates for changes in UK tax policy (which would of course bear on income tax receipts in Scotland) that would otherwise have had to be addressed by a more complex arrangements designed to offset the detrimental effects of policy spillovers. To illustrate: if the Chancellor were to increase the tax free personal allowance, SRIT receipts would be lower than otherwise, as would the UK tax base since income subject to tax would be lower. A block grant indexation method that did not reflect movements in the UK tax base would not factor in an increase in the allowance, with the result that the net position of the Scottish budget would be adversely affected. This would have to be compensated for by adjustments to reflect the "spillover" effect of the Chancellor's policy, adding complexity and reducing transparency.

The UK and Scottish Governments agreed on the 'Holtham' approach in the exchange of letters of 20 and 21 March 2012 between the Secretary of State for Scotland and Bruce Crawford that opened the way for progress with the Legislative Consent Motion. Parliament then approved the LCM on the basis of the agreement reached. I am attaching a copy of the letters, the most relevant part of which is Annex A to the Secretary of State's letter of 20 March.

I hope that this helps to explain the Holtham method for indexing the adjustment to the block grant, and why the Scottish Government proposed and supported this approach. I accept that these are complex matters. If the Committee would find it helpful, officials could provide further oral briefing.

I should add that the approach to block grant adjustments and indexation in respect of the further proposals regarding income tax made by Lord Smith's Commission will be discussed and agreed between the Scottish and UK Governments as part of the programme of work to agree a fiscal framework within which the new tax and spending powers recommended by Lord Smith will be set.



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Our Ref: SO/CF

20th March 2012

Dear Bruce and John,

SCOTLAND BILL – ASSURANCE ON THE FINANCE PROVISIONS

The Scotland Bill provides for a significant transfer of financial responsibilities to the Scottish Parliament including new borrowing powers, two new devolved taxes and the means to set a Scottish Rate of Income Tax (SRIT). It also provides a framework for devolution of further taxes. In addition the Bill provides additional powers to the Scottish Parliament and Scottish Government in important areas including the regulation of air weapons; setting the national speed limit and drink drive limit.

We – and our officials – have had useful discussions about the Bill, the Scottish Government's requests for changes to the legislation and the reports of the Scotland Bill Committee in the Scottish Parliament. This letter sets out how we believe we can best move forward to ensure that we deliver this key piece of legislation in a way that is mutually acceptable.

Inter-government financial relations

The operation of the new responsibilities provided in the Bill will require changes to the financial relations between the United Kingdom and Scottish Governments in particular. We have agreed that those changes should be carried through in a way

that is consistent with the principles set out in the *Statement of Funding Policy*¹ (SFP; at Paragraph 2.6):

- accountability: each administration takes the decisions on managing the resources it plans to invest;
- autonomy: each administration has fiscal responsibilities and freedoms to match its executive and legislative powers within the terms of the devolution settlements and UK wide public spending framework;
- transparency: the system is readily understood and its operation is open to scrutiny;
- economic efficiency: the system promotes sustainable economic growth and ensures that the costs and benefits of financial decisions are aligned;
- stability and predictability: the system promotes stability and manages volatility, to allow sensible planning and good management, and is predictable in operation;
- discipline: the system of devolved finance is subject to overall UK macroeconomic and fiscal policy; and
- consent: the system commands the support of governments, parliaments and people and is equitable and predictable in operation.

The new relationship will also require the governments to work together in a spirit of mutual respect in line with the principles of inter-administration working set out in the Memorandum of Understanding and the agreements on the Joint Ministerial Committee². This letter proposes arrangements for meeting those principles as our governments work together to implement the Scotland Bill.

Joint Exchequer Committee

The principles of **stability and predictability** and **economic efficiency** require close working and co-ordination between the UK and Scottish Governments. Consistent with the principle of **autonomy**, the Bill provides important new financial powers to the Scottish Parliament and Scottish Government that will increase the financial autonomy and accountability of both the Scottish Government and Parliament. The Joint Exchequer Committee (JEC) provides an important forum for discussion and decision about issues related to the implementation and operation of the Bill, and close working within the new financial relationship between the Governments.

Borrowing

As the Scottish Parliament becomes more accountable for raising the money it spends, it will have an independent stream of revenue to support borrowing. I do not believe this link should be broken. The Bill therefore introduces a new £2.7 billion borrowing regime for capital and current expenditure alongside the tax powers from April 2015. As any additional Scottish borrowing powers will impact on the UK public finances, consistent with the principle of **discipline**, I believe the minimum limits on Scottish borrowing set out in the Bill are appropriate given the plans set out in the

¹ *Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy*, HM Treasury, October 2010. See paragraph 2.6.

² *Memorandum of Understanding and Supplementary Agreements*, June 2011



Autumn Statement for an extended period of fiscal consolidation into the start of the next Spending Review.

The new borrowing regime must be sustainable and able to adapt to different circumstances in the years ahead. We have worked together to bring forward from 2013 to 2011 an increase in the amount of pre-payments that the Scottish Government is able to make, and agreed a total of £100m of pre-payments to support early work on the Forth Replacement crossing in 2011-12 and 2012-13. There is a power within the Bill to raise the statutory borrowing limits and the annual borrowing limits can be increased administratively. I propose that our governments should agree to review the limits at Spending Reviews through the JEC. We also propose that the JEC should provide the forum in which to keep the borrowing limits under review.

We have also discussed the source of Scottish Government borrowing and the duration of loans. The issue of access to the bond market will be subject to a consultation which the Government hopes to launch very soon. The Bill has already been amended to allow for different sources of Scottish borrowing, and for these changes to be brought into effect swiftly. Subject to the Scottish Government demonstrating ability to repay and the type of asset in question, we have also confirmed that Scottish Ministers will in principle have access to loans over a much longer period than the standard ten years considered by the National Loans Fund.

Block grant adjustment

A key issue is the mechanisms for adjusting the Scottish block grant to take account of the Parliament's new fiscal powers, in particular the final mechanism for the SRIT (which will be fully introduced after a transition period, April 2018 at the earliest). We have already agreed the principles that should apply to the mechanism at the JEC in September 2011. These included an overarching objective of fairness by minimising the risk of unintended gains or losses to both the UK and Scottish Governments and avoiding advantage in particular fiscal circumstances. Other principles include sustainability (so that the system can adapt to future decisions on tax devolution), data-sharing, simplicity, transparency and a commitment to future review.

Subsequent work by our officials has identified the method of indexing the block grant adjustment proposed in the final report from the *Independent Commission on Funding and Finance for Wales* to the Welsh Assembly (the "Holtham" model) as being most closely aligned to our requirements. We have agreed that both governments will commit publicly to a shared policy aim to develop a mechanism to adjust the block grant in respect of SRIT based on the concept described in Annex A to this letter. This public commitment will also provide an important part of the assurance required by each government and Parliament before the Bill is passed.

I propose that our governments should work together, through the JEC and other means, to work through the technical implementation issues associated with this model including the data requirements and number of adjustments to the model.



Assurance to UK and Scottish Parliaments

Consistent with the principle of **consent**, our two governments should reach agreement on implementation issues, including adjustments to the block grant, to take account of the Scottish Parliament's new fiscal powers. Each government should also provide assurance to its Parliament before relevant provisions of the Bill are brought into force and before implementation arrangements are brought into effect. I understand that you propose to seek the agreement of the Scottish Parliament as part of this process.

Consistent with the principle of **transparency**, UK Ministers have appeared before the Scotland Bill Committee in the Scottish Parliament to explain the measures included in the Bill, and worked with the Scottish Government to share detailed technical information, particularly on the adjustments to the block grant. We are committed to maintaining this level of engagement and transparency with both the Scottish Government and Parliament. We propose - subject to your agreement - to the publication of a regular report from JEC to ensure that our respective Parliaments and wider third parties are able to monitor the work of both Governments during the implementation phase.

We also propose to table an amendment for consideration at Lords Report stage that would require Ministers to report to the UK Parliament about progress in implementing the financial provisions of the Bill and their subsequent operation. We would be prepared to include a parallel requirement for reporting by the Scottish Ministers to the Scottish Parliament if you consider that appropriate. This provision will allow us – and you, should you agree to create a parallel provision – to update and assure our respective Parliaments on the important implementation work that will underpin the framework set out in the Bill and Command Paper.

Treasury Ministers would be willing to attend meetings of Committees of the Scottish Parliament to answer questions about the implementation of the financial provisions in the Scotland Bill, including the block grant adjustment and its estimated and actual effects. I would also be willing to work with you to support other means of promoting Parliamentary and public scrutiny and understanding of these issues, for example, if the Scottish Parliament's Finance Committee undertake a review of these issues, I would be happy for Treasury officials to assist in providing any information sought. We will also explore the scope for independent advice for Parliaments and public on the mechanisms proposed by the governments.

Timescale for implementation

We have agreed that the new financial arrangements should come into force in a timely way to reflect the will of both Parliaments in the Bill as finally passed and to provide reassurance to employers, taxpayers and other stakeholders as they plan for introduction.

Costs of implementation

We have also discussed the question of which government should meet the costs of implementation. I believe that the principle in the *Statement of Funding Policy* is clear that the costs of devolution must be met by the Devolved Administrations



(principle 6). This was the basis on which the SVR was funded and I do not believe there should be an exception to this

I recognise that HMRC will be investing and managing Scottish Government resources in its work to implement the Bill. Consistent with the principle of **accountability** we have set up mechanisms to work together to ensure that HMRC achieves value for money in its running of the SRIT.

The set-up and running costs of the SRIT are all additional. However, any savings from ending HMRC's role in administering Stamp Duty Land Tax and Landfill Tax in Scotland as part of a UK-wide land tax regime could be used to offset some of the costs of setting up and running the SRIT.

Additional devolved taxes

The Scotland Bill allows for additional taxes to be devolved in the future. The power can be used for new and for existing taxes which meet the criteria set out in the Command paper. For example, we are fully committed to devolving aggregates levy when the outstanding legal challenges have been fully resolved. We believe our officials are making very good progress on establishing the process for agreeing additional taxes, and hope to discuss this with you at the JEC in the near future.

Non-financial issues

We have also discussed the Scottish Government's proposals for non-financial matters connected with the Bill. Our conclusions are at Annex B to this letter. In summary:

- the UK Government will propose amendments to the Bill on Supreme Court appeals in criminal proceedings
- the UK Government will propose amendments to remove the reservations of insolvency and regulation of health professions, and those on partial suspension of ASPs and international obligations. Both governments will work together to address issues identified in these areas
- the governments will work together on EU representation and broadcasting
- there will be a review of the arrangements on marine conservation, and a review will be considered for elections to the Scottish Parliament

I should welcome your agreement to these proposals.

Yours sincerely,
Michael

Rt Hon MICHAEL MOORE MP
SECRETARY OF STATE FOR SCOTLAND

BLOCK GRANT ADJUSTMENT MECHANISM

The Holtham model was the method of indexing the block grant adjustment proposed in the final report from the *Independent Commission on Funding and Finance for Wales*. In the Commission's final report this method was referred to as the indexed deduction methodology. The UK Government and Scottish Government agree that this approach is most closely aligned to our requirements for partially devolved taxes (of which the Scottish Rate of Income Tax (SRIT) is currently the only example).

This approach to indexing would recalculate the block grant adjustment year by year by indexing it to movements in the Non Savings Non Dividend income tax base in the rest of the UK. This is the measure of income to which SRIT will be applied in Scotland.

The net effect on the Scottish block as a result of adding receipts from the Scottish rate and subtracting the block grant adjustment will therefore depend on the growth in the Scottish rate tax base in Scotland (reflected in the growth in receipts) relative to growth in the Non Savings Non Dividend income tax base in the rest of the UK (reflected in the indexing of the block grant adjustment). There is no dependency on movements in public spending. Movements in the tax base will be closely linked to the performance of the economy in Scotland and in the rest of the UK. Consequently, from 2018 at the earliest onwards, a proportion of funding for Scotland would depend on relative economic performance.

This model also helps to absorb the effect of wider macro-economic shocks on the Scottish budget and mitigates the impact of policy spillovers as a result of the UK Government making changes to the income tax base.

There are several technical issues to work through in relation to the block grant adjustment, including ensuring that the measure of indexation is based on transparent data; the use of forecasts and reconciliation with outturn receipts; ensuring that the adjustment is transparent; selection and preparation of estimates of tax base movements in advance of actual information being available; the thresholds and treatment of spill-over effects caused by UK income tax policy decisions; and the number of annual adjustments. The Holtham method is not appropriate to calculating the block grant adjustment method in respect of Stamp Duty Land Tax and Landfill Tax, and further work is also required on these issues

The UK Government and Scottish Government will work through the technical issues through the JEC in line with the agreed principles.



SCOTLAND BILL – NON-FINANCIAL ISSUES

The UK and Scottish Government have reached the following conclusions on non-financial issues raised in connection with the Scotland Bill.

The Supreme Court and human rights

The Governments welcome the progress that has been made on the issue of the Supreme Court's role in Scottish criminal cases, following the work of the expert groups that reported to the Advocate General and the Scottish Government. Constructive discussions on their proposals have produced a new procedure for compatibility issues that has important advantages. The provision in the Bill, following amendment would:

- Remove the Lord Advocate from the *vires* control of section 57(2) of the Scotland Act when he is exercising his functions as prosecutor or in his capacity as head of the system of criminal prosecution in Scotland
- Restrict the power of the Supreme Court to adjudicating on a compatibility issue, reserving to the High Court the application of the Supreme Court's decision. This would end the ability of the Supreme Court to substitute its decision for that of the High Court
- Create a single system for dealing with ECHR and EU compatibility issues in Scots criminal law which would apply to issues raised about the actions of any public body, and to the compatibility of Scottish Parliament legislation in the criminal justice system
- Ensure that the Lord Advocate and Advocate General continue to have a power of reference to the Supreme court
- Allow lower courts to refer compatibility issues to the High Court
- Provide time limits for compatibility appeals to the Supreme Court and for appeals on devolution issues to the Supreme Court in criminal proceedings
- Include ECHR and EU based challenges to ASPs will be included within the scope of compatibility issues.

There is a requirement that the operation of the new scheme should be subject to a review. The review would be conducted after three years of operation, but there would be provision for a review to be triggered at some point before three years where UK Ministers think that new circumstances have arisen which justified this. The review would be chaired by the Lord President. In the course of the review, the views of the Lord Advocate, the Scottish Ministers, the Scottish Courts, the Supreme Court, and representative bodies with an interest in the criminal justice system, would require to be sought. The Bill will include a power for the scheme to be changed by secondary legislation following the conclusion of the review. The power will specifically allow for the introduction of certification. Any order would be affirmative, made following consultation with the Scottish Ministers.

ML

Insolvency


The UK Government believes that it is important to address the concerns of stakeholders that where appropriate, Scottish procedures for insolvency should be in step with the rest of the UK. The UK Government understands that the Scottish Government does not believe that the clause in the Scotland Bill is necessary to address this concern. Both Governments are committed to the modernisation programme for insolvency procedures that is already in place. The UK Government is willing to remove the clause on insolvency, on the understanding that the Scottish Government will consider the modernisation measures for winding up in Scotland introduced in the reserved procedures in 2009 and 2010 and will provide assurance that future changes made by the UK Parliament or Ministers in this area will be considered timeously by the Scottish Government in its area of competence.

Regulation of Health Professions

The UK Government believes that there is a practical and policy issue that needs to be resolved in relation to the regulation of health professions, which has resulted as a consequence of the way the Scotland Act 1998 was drafted. Certain health professions that have become regulated since that Act have fallen outside the original devolution arrangements for the health professions and in consequence have been devolved in Scotland. The clause in the Scotland Bill was intended to confirm the regulation of all health professions as a reserved matter. The UK Government recognises that the Scottish Government does not believe that this clause is necessary; withdrawing it will mean that the regulation of certain health professions in Scotland will continue to be a devolved matter. The UK Government believes the critical issue is that there are common standards across the UK, so that healthcare professionals can operate to the same standards, wherever they choose to practice across the UK. Co-operation by the Scottish Government in measures which affect the health professions in question as far as they apply to Scotland will be essential: there is a requirement in legislation to seek the approval of the Scottish Parliament in relation to certain Westminster legislation affecting the health professions. On the understanding that the Scottish Government is committed to working with the UK Government on the regulation of health professions, with the aim of regulatory systems which apply consistently across the UK, but are sensitive to each country's needs, facilitating cross border movement of staff and aiding public understanding, the UK Government is willing to remove this clause.

Partial suspension of Acts of the Scottish Parliament (ASPs)

Both Governments agree that the current provision in the Scotland Act 1998 provides clear incentive to ensure that all legislation introduced in the Scottish Parliament is prepared within competence. The UK Government had offered a partial suspension clause in order to ensure that if only a single provision in an ASP gave rise to competence issues, the remainder of the Bill could pass for Royal Assent, without delay. The Scottish Government and Scottish Parliament have both indicated a preference for the current arrangements. The UK Government is therefore willing to remove this clause, although the Scottish Government and Parliament will need to be aware that if a single provision in an ASP gave rise to competence issues, the UK Government would have to refer the whole ASP to the Courts.



International Obligations

The UK Government recognises the concerns that you have raised about this clause. Both Governments acknowledge the importance of ensuring that all of the UK's international obligations are fully implemented across the UK on a timely basis. The UK Government had offered this clause to allow international obligations to be taken forward on a cross-UK basis, where this might have allowed a single piece of legislation to implement the international obligation quickly. However, The UK Government is willing to remove this clause, on the understanding of course that Scottish Ministers will ensure that any international obligations that fall within their responsibility are implemented on time, and recognising that the UK Government has its existing powers of direction under s.58 (2) of the Scotland Act 1998.

European Union

The current UK Government set out at an early stage its commitment to working closely with the Devolved Administrations in developing UK policy on EU matters. We recognise the value that the Devolved Administrations can bring, both in developing policy and through involvement in delegations to EU Council meetings. The UK Government proposes to work with the Scottish Government, and the other Devolved Administrations, to find ways to improve the way UK delegations are managed, to ensure that full advantage is made of the expertise that the Devolved Administrations can bring, consistent with maintaining a single UK line.

Broadcasting

The UK Government has no objection in principle to the establishment of a Scottish digital network but would want to consider it in the context of the UK Government's commitment to the reserved status of broadcasting. If the Scottish Government established and funded such a network, the UK Government would consider the scope for UK Government endorsement and what future legislative changes might be necessary.

Crown Estate

The UK Government remains committed to ensuring that the Crown Estate works effectively across the UK to deliver its objectives whilst promoting and supporting local communities. The Scottish Affairs Committee published its report on the Crown Estate on 19 March. The UK Government proposes to review this report, alongside the report of the Scotland Bill Committee and the views of the Scottish Government.

Elections to the Scottish Parliament

The Scotland Bill devolves administrative responsibility for elections to the Scottish Parliament. However, there are elements of the powers which will remain the function of the Secretary of State - essentially, the franchise, and the power to combine Scottish Parliament elections with other reserved elections. A number of issues have been raised in the House of Lords on the Scottish Parliament electoral



system, including a review of the system. The UK Government is considering how to progress these suggestions.

Antarctica

This clause will ensure that the regulation of activities in Antarctica applies consistently across the UK. The UK Government believes that this is a sensible clarification of legislative competence in this area.

Air weapons

The clause in the Bill will allow the Scottish Parliament to pass legislation to regulate all air weapons, except for those defined as 'specially dangerous'. Specially dangerous air weapons, are not treated as air weapons and instead fall back within the scope of Firearms Acts.

Drink-driving

The Scotland Bill will give Scottish Ministers the power to set drink-drive limits. The UK Government believes that, while it is sensible to allow for drink-drive limits to be varied in Scotland, it is important to maintain a consistent legislative framework for drink driving across Great Britain.

Speed limits

The UK Government is currently planning to review speed limits for other categories of vehicles and does not plan to devolve further competence over a wider range of vehicles than cars.

Marine conservation

The Marine and Coastal Access Act 2009 set out a new legislative framework for management of the Marine environment across the UK. The UK Government believes that it is sensible to consider how the Marine Act has worked in practice, once implementation has had an opportunity to embed. The UK Government proposes to work closely with all of the Devolved Administrations in designing and delivering the review and in considering what elements flowing from the Act need to have happened before it would be appropriate to review its effectiveness.

Rail regulation

Scottish Ministers have executive responsibility for rail under the terms of the Railways Act 2005, including for setting a rail strategy for Scotland and the renewal of the ScotRail franchise. This is not matched by legislative competence for rail regulation or other aspects of rail. The UK Government believes that these powers are best exercised within a single GB structure as provided for under the Railways Acts of 1993 and 2005.



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21 March 2012

Dear Michael

Thank you for your letter of 21 March.

In its approach to the Scotland Bill, the Scottish Government has had two objectives: firstly to seek enhancement of the devolved powers of the Scottish Parliament particularly in relation to the economy, and secondly to secure changes to those elements of the proposals where we perceived that Scotland's interests would be put at risk

Financial issues

Additional devolved taxes

While the Scotland Bill provides the Scottish Parliament with some additional financial powers, notably over taxation and borrowing, the Scottish Government remains strongly of the view that there is scope for considerable further devolution of financial and other responsibilities to the Scottish Parliament. We have set out various proposals for such devolution during the debates on the Bill. We are disappointed that it has not been possible to agree devolution of further taxes, such as Air Passenger Duty, at this stage. I welcome the provisions in the Bill enabling future devolution of additional taxes and your invitation to discuss these powers in the Joint Exchequer Committee (JEC). We believe they should be used constructively to increase the Scottish Parliament's opportunities to promote sustainable economic growth and employment in Scotland.

Inter-governmental financial relations

The Scottish Government agrees that the implementation of the Bill should be based on principles of inter-administration financial relations set out in the *Statement on Funding Policy* and the Memorandum of Understanding. The new responsibilities the Bill provides for the Scottish Government and Parliament will require this financial relationship to develop, through close working and co-ordination, in line with these principles and the principle of mutual respect. I am encouraged that we are developing the necessary structures and relationships, including the JEC.

Borrowing

The Scottish Government agrees that there should be periodic reviews of the borrowing regime, including the statutory and administrative borrowing limits. Although I am disappointed that you were not able to offer access to earlier capital borrowing, I welcome the increase in pre-payments that we have agreed and your agreement that Scottish Ministers will in principle have access to loans over a much longer period than the standard ten years considered by the National Loans Fund. I look forward to your consultation on access to the bond market.

Block grant adjustment and assurance to Parliaments

The Scottish Government also agrees to the arrangements you set out in your letter for implementing the Bill in a way consistent with the principles set out in the *Statement on Funding Policy*, including the proposed arrangements to develop and agree the block grant adjustment mechanism based on the proposals of the Holtham Commission. We will seek the Scottish Parliament's agreement to changes to Scotland's funding arrangements, now and in the future, in order to provide democratic oversight and assurance that Scotland's interests are being properly considered. We therefore accept your proposal to amend the Bill to include a statutory requirement for UK and Scottish Governments to report to our respective Parliaments about the progress of implementation. I also welcome your undertaking that the UK Government will give evidence to the Scottish Parliament when necessary.

Costs of implementation

As regards the costs of implementing the financial provisions, we are disappointed that you have not accepted our proposal for cost-sharing arrangements in respect of the Scottish Rate of Income Tax. As you know, our chief concern now is that HMRC should be given a real incentive to deliver the necessary changes at minimum cost consistent with effective and efficient operation and a quality service to Scottish taxpayers. I propose that officials continue to work together towards an agreement on cost-offsetting and that we jointly consider reports on progress at the JEC.

Non-financial issues

We have also discussed the Scottish Government's proposals for non-financial matters connected with the Bill. I note the proposals in Annex B to your letter. On the basis of these proposals, the Scottish Government is prepared to support the Bill.

However, I am disappointed that greater progress has not been made on the Scottish Government's proposals. That is particularly the case in relation to the Crown Estate, where both the Scotland Bill Committee and the Scottish Affairs Committee report have made the case for devolution and our proposals for greater responsibilities for Scottish Ministers for broadcasting and a statutory basis for representation in the EU. I am also disappointed that the Bill does not provide legislative devolution for elections, drink-driving, marine conservation and railways that would bring the Scottish Parliament's responsibilities into line with the powers already exercised by the Scottish Ministers under executive devolution. The Scottish Government will continue to argue for further devolution in these areas.

On welfare, I note that neither the Scotland Bill nor the Welfare Reform Bill have reflected the conclusions of the Calman Commission and the Scotland Bill Committee on the need for a formal, statutory role for the Scottish Government and Parliament in developing welfare policy, given its impact on many devolved responsibilities.

Legislative Consent

Although the Scottish Government believes that the Bill could have been improved considerably, we accept that it provides some additional responsibilities for the Scottish Parliament and Government. We believe that the agreements between us, and the amendments you propose, remove the risks to Scottish interests about which we had concerns.

I can therefore confirm that the Scottish Government is now prepared to recommend to the Scottish Parliament that it consents to the Bill, amended in line with your proposals, and supported by the undertakings in your letter.

I am copying this letter to John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth.

Yours sincerely,



BRUCE CRAWFORD