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

BRUCE CRAWFORD