The Scottish Parliament
Pàrlamaid na h-Alba

Cabinet Secretary for Finance and Constitution

By e-mail only

Public Audit and Post-legislative Scrutiny Committee
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Dear Cabinet Secretary

Scottish Government's Non-Domestic Rating Account

We recently considered a report by the Auditor General for Scotland on the Scottish Government's Non-Domestic Rating Account[1]. The detailed operation of the account is complex but – given that the Auditor General's report and our related evidence session are in the public domain – this letter sets out our key points as simply as possible.

Issues

There are two inter-related issues that we highlight for the Scottish Government to address: transparency and future spending decisions.

We agree with the Auditor General that Scottish Ministers should be more transparent about the operation, distribution and reporting of the NDR account. This is not just for reasons of propriety but also because there can be practical consequences should the Scottish Government fail to do so.

For example, the Auditor General noted that the £300m account deficit accumulated by the end of 2016-17 will have to be recovered at some point. The means by which this will be done is a policy decision for the Scottish Government and may not necessarily mean a cut in the amount that is distributed to local authorities[2]. However, the Auditor General made clear that—

[1] http://www.audit-scotland.gov.uk/uploads/docs/report/2017/s22_171207_nondomestic_rating.pdf
[2] http://www.parliament.scot/parliamentarybusiness/report.aspx?r=11301&mode=pdf

> "The process of getting it [the account] back into balance means that that £300 million is not available for spending as it would have been if the account had remained closer to balance over the past three years."[3]

The audit is concerned with financial year 2016/17 but notes the Scottish Government's intention to reduce the deficit in the current year i.e. 2017/18. The Scottish Government originally aimed to cut the deficit balance to £8m but, during last year's budget process, decided to increase the distributable amount for 2017-18 by £60 million. This leaves a projected cumulative deficit of £68m for 2017/18.

According to the Auditor General, the Scottish Government's decision " … had the effect of delaying the point at which the account was likely to come back into balance".

Recommendations

We note and endorse the recommendations made in paragraphs 18 and 20 of the Auditor General's report, and invite your written response to them. In addition, we would welcome your response to the following points—

- We acknowledge that Scottish Ministers had the right to increase the distributable amount for 2017-18 by £60 million. However, we consider that such decisions should be accompanied by a clear statement to the Parliament on the practical and financial implications. This would aid understanding about how public money is allocated and create a more level playing field for all those taking part in budgetary negotiations;
- We note—
  - the Scottish Government's intention to bring the account into balance by the end of financial year 2018/2019";
  - that there is no legal or accounting requirement on the Scottish Government to maintain the account in balance.
- Given this, please provide a detailed plan explaining how the Scottish Government intends to achieve balance and what its policy intentions are thereafter.
- Finally, on a related topic, we would welcome a brief progress update on the preparation of whole of Government accounts.

We would be grateful if your response could be published in time to inform members' participation in the stage 3 debate on the Scottish Government's 2018-19 Draft Budget. A copy of this letter goes to the convener of the Finance and Constitution Committee.

Yours sincerely,

Jenny Marra

Jenny Marra MSP
Convener

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[3] http://www.parliament.scot/parliamentarybusiness/report.aspx?r=11301&mode=pdf