

OFFICIAL



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

John Swinney MSP  
Cabinet Secretary for Finance, Employment and Sustainable Growth  
St Andrew's House  
Regent Road  
Edinburgh  
EH1 3DG

28 November 2014

Dear John

#### **BLOCK GRANT ADJUSTMENT FOR SDLT AND LANDFILL TAX**

Thank you for your letter of 6 November on the block grant adjustment for SDLT and landfill tax. I am conscious that you are giving evidence to the Scottish Parliament Finance Committee on Monday in relation to this matter, and so wanted to set out the UK Government's position in advance.

2. Following the joint analysis undertaken by our officials during the summer, and further reflection during the course of the Smith process, I would like to propose that we initially seek to agree an adjustment just for 2015-16 rather than a permanent solution.

3. There are three reasons for this:

- a) As you have previously identified, 2015-16 is transitional in nature as there will be a short lag between the new Scottish taxes being implemented on 1 April 2015 and the Scottish Government receiving steady-state cash receipts (and similarly a period during which the UK Government will continue to receive cash relating to activities prior to April 1). We would therefore need to treat 2015-16 differently from

OFFICIAL

OFFICIAL



other years in a permanent solution and so we now believe it is more sensible to begin the permanent solution in 16-17. This would also be consistent with the approach to SRIT where we are including a suitable transitional period;

- b) This would also enable us to consider the permanent solution alongside the rest of the package agreed by the Smith Commission. The resulting changes to the Scottish Government's funding arrangements are likely to be substantial and we do not think it would necessarily be helpful to set a precedent for fully devolved taxes at this time; and
- c) It would align with our decision to set budgets (including the Scottish Government's budget) up to 2015-16. This is therefore the only year for which we need to include an adjustment in the Autumn Statement, and which you need for your own Budget.

4. As we are only focussing one year ahead, a forecast of what SDLT and landfill tax would have generated in Scotland should also be relatively robust. Alongside an agreed forecast, the only other element we will need to agree is the reduction in relation to the short lag. I suggest that we discuss this proposal further following the Autumn Statement.

*Bert wishes*  
A handwritten signature in black ink, appearing to read 'Danny Alexander'.

DANNY ALEXANDER

OFFICIAL