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I am taking the opportunity to write and provide you with an update on progress made in agreeing a block grant adjustment for the devolved taxes. I had previously discussed this with you at my appearance before your Committee on 1 December, and progress has been made since then which I thought should be brought to the attention of the Committee.

As noted on 1 December the Chief Secretary to the Treasury had written to me suggesting that a one year agreement for the block grant adjustment in 2015/16 should be reached. As I had previously set out to your Committee I would have preferred to agree a permanent solution. However, I assessed that this would not be achievable within the pressing timeframe to communicate an agreement for the Budget Bill scrutiny process. To this end I sought to negotiate the best deal possible for the Scottish budget, and to provide clarity around the process.

Recent discussions with the CST set out those important elements which would have an effect on the Scottish budget as a result of the introduction of the devolved taxes.

It was agreed that a one year only mechanism should be based on the best estimate of what Stamp Duty Land Tax as reformed at the time of the Autumn Statement would have raised in Scotland in 2015/16 in the absence of devolution. There are significant differences between my forecasts and the UK Government's forecasts for this amount. Given that my forecasts are endorsed by the Scottish Fiscal Commission and the UK Government's are endorsed by the OBR we agreed that we would use an average of these forecasts, which resulted in a value of £494m.

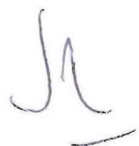
It was accepted that any agreement made for this one year mechanism would be without prejudice or precedent for the permanent block grant adjustment mechanism for the devolved taxes, and for any further future block grant adjustments required as part of further devolution.

Two further important issues pertinent to the financial impact of the introduction of the devolved taxes were also discussed, but have at this point not yet been agreed. The first of these is the issue of the lag between the devolved taxes being implemented in April 2015 and the Scottish Government receiving the corresponding taxes. The second issue is that of the forestalling impact associated with the introduction of the Land and Buildings Transaction Tax. A suitable solution for treatment of the lag and for the size of the transfer with regards to the forestalling effect has not yet been agreed. The forestalling issue is material and significant in this process.

In addition I also noted with the CST that access to the cash reserve and the budget scoring of the block grant reduction and devolved tax receipts both still remained important elements impacting on the operation of the devolved taxes, and that I would be seeking further discussions with him.

I will continue to seek progress on these matters and will provide updates on any agreements reached.

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JOHN SWINNEY