

Terry Shevlin
Clerk to the Public Audit & Post Legislative Scrutiny
Committee
Room T3.60
The Scottish Parliament
EDINBURGH EH99 1SP

2 December 2016

By e-mail

Dear Terry

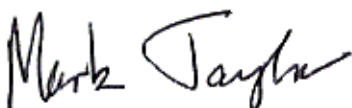
During the Committee meeting of 10 November 2016 Alex Neil asked about operation of the Scotland Reserve during the item on "The 2015/16 audit of the Scottish Government Consolidated Accounts". We undertook to provide further detail about this, which is set out below.

The new Scotland Reserve will apply from 2017-18 onwards. Provisions for its operation are set out in paragraphs 71 to 78 of the Fiscal Framework agreement. The Scotland Reserve:

- will replace the existing cash reserve referred to in paragraph 24 of the Auditor General's report *The 2015/16 audit of the Scottish Government Consolidated Accounts*. The Budget Exchange Mechanism will no longer apply to the Scottish Government's resource or capital budget.
- is intended to enable the Scottish Government to smooth all types of spending, manage tax volatility and determine the timing of expenditure.
- will be separated between resource and capital. Payments may be made into the resource reserve from the resource budget including tax receipts. Funds in the resource reserve may be drawn down to fund resource or capital spending. Payments may be made into the capital reserve from the capital budget. Funds in the capital reserve may be drawn down to fund capital spending only.
- will be capped in aggregate at £700m. Annual drawdowns from the reserve will be limited to £250m for resource and £100m for capital. These will be temporarily waived in the face of a Scotland-specific economic shock as defined in paragraph 66 of the Fiscal Framework agreement. There are no annual limits for payments into the Scotland Reserve.
- will be held within the UK Government's Exchequer.

Detailed arrangements for the operation of the Scotland Reserve and access arrangements will be agreed between the UK and Scottish Governments.

Yours sincerely



Mark Taylor
Assistant Director