



HOUSE OF LORDS

Lord Dunlop
Scotland Office
Parliamentary Under Secretary of State
Dover House
Whitehall
London
SW1A 2AU

28 January 2016

Dear Lord Dunlop,

The Scotland Bill is expected to reach the final day of Committee stage on 9 February 2016 and on this date the financial and tax clauses of the Bill will be considered. This letter sets out our concern that the financial aspects of the Scotland Bill will be scrutinised in Committee without the fiscal framework behind the Bill being available to Members.

The fiscal framework as envisaged by the Smith Commission will contain details of how Scotland receives funding from the UK Government, financial rules and institutional arrangements. The framework will include:

- How the funding Scotland receives through the block grant, as adjusted by the Barnett Formula, will be revised to take into account the devolution of tax powers, both at the point of devolution and in future years. The latter is known as the 'indexation' of the block grant. Whilst this is a highly technical issue, the choice of method has potentially significant financial consequences.
- The operation of the 'second no detriment principle' (that neither Government should suffer as a result of policy decisions made by the other following devolution).
- The extent of Scotland's new borrowing powers for both capital and current account borrowing.
- What will happen in the event that Scotland cannot meet its financial commitments.
- Details of intergovernmental relations on financial matters.

The fiscal framework is the subject of ongoing negotiations between the UK and Scottish Governments and no publication date has been given.

The Economic Affairs Committee conducted an inquiry into the proposals for financial devolution (*'A Fracturing Union? The Implications of Financial Devolution to Scotland'*) on 20

November 2015. The Constitution Committee reported on the Scotland Bill on 23 November 2015. Both Committees concluded that fiscal framework is essential to ensure that the Scotland Bill is effectively scrutinised.

The Report of the Economic Affairs Committee stated:

“The fiscal framework will be central to future devolution arrangements and the Scotland Bill cannot be properly understood or considered in its absence.

“The lack of an agreed fiscal framework leaves a significant gap in the information before Parliament. It is to be regretted that the Bill passed through the House of Commons without MPs having the opportunity to scrutinise the fiscal framework.

“We recommend that the Scotland Bill does not proceed to Committee stage in the House of Lords until the fiscal framework is published.”

The Constitution Committee came to the conclusion:

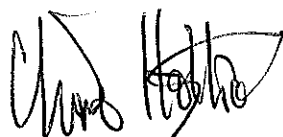
“In the absence of any information about the fiscal framework, it will be impossible for the House to assess whether or not the Bill will cause detriment to all or part of the United Kingdom.

“The absence of a fiscal framework will cause significant difficulties for the House as it looks to subject the Bill to appropriate scrutiny and debate. The House may therefore wish to consider whether the committee stage of the Bill, or of those provisions to which the framework relates, should be delayed until the fiscal framework is available for scrutiny alongside the Bill.”

The Economic Affairs and Constitution Committees continue to believe that the House should not consider in Committee the financial aspects of the Bill until the fiscal framework is published.

This letter has been copied to the Leaders and Chief Whips of the main political parties in the Lords, and the Convenor of the Crossbench Peers.

Yours sincerely,



LORD HOLLICK



LORD LANG OF MONKTON