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Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
The Scottish Parliament

By email to: FPA.committee@parliament.scot

28 May 2024

Dear Convener,

I am writing to inform you and the Committee that I gave evidence to the Welsh Senedd Finance Committee's inquiry into fiscal intergovernmental relations on 16 May. The Committee invited me to provide evidence and I was happy to meet with them remotely and discuss my experience of working with HM Treasury and the other devolved governments, including through the Finance: Interministerial Standing Committee (F:ISC).

I am enclosing a background paper that I provided to the Senedd Finance Committee in advance of my appearance. You may also be interested in viewing the transcript of the session, which is available on the Senedd website here: [Finance Committee 16/05/2024 - Welsh Parliament \(senedd.wales\)](https://www.senedd.wales.gov.uk/finance-committee-16-05-2024-welsh-parliament).

Further information about the Committee's inquiry is available here: [Fiscal Intergovernmental Relations \(senedd.wales\)](https://www.senedd.wales.gov.uk/fiscal-intergovernmental-relations)

I would be pleased to discuss any questions you may have in relation to the issues raised here when I next meet with the Committee.

Your Sincerely,

SHONA ROBISON

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SCOTTISH GOVERNMENT ENGAGEMENT ON FINANCE INTERGOVERNMENTAL RELATIONS

Information provided to support the Senedd Finance Committee's inquiry into fiscal intergovernmental relations

Scottish Government approach to Intergovernmental Relations

The UK Government published the Review of Intergovernmental Relations in January 2022, which led to the establishment of a new structure of intergovernmental fora through which the devolved governments and the UK Government would interact.

This followed a period of negotiations, with all devolved governments agreeing to use the IGR Review as the basis for engagement, provided it was kept under review.

The Scottish Government participates in all the fora that have been established under this structure.

Finance: Interministerial Standing Committee (F:ISC)

The Finance: Interministerial Standing Committee (F:ISC) was established following the Review of Intergovernmental Relations, building on the experience of the interministerial quadrilaterals that had preceded it. The Terms of Reference for F:ISC were agreed by all governments and are published on the UK Government website: [Terms of Reference for the Finance Interministerial Standing Committee - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/114141/terms-of-reference-for-the-finance-interministerial-standing-committee.pdf)

The Cabinet Secretary for Finance and Local Government represents the Scottish Government on the F:ISC and has joined four meetings since taking up her post. F:ISC is supported by a Secretariat comprising officials from the three devolved governments and HM Treasury (HMT) and the chairing and hosting of each meeting rotates around the four members. The default position is for the meetings to take place in person, but they may take place virtually when appropriate to do so.

The Scottish Government has engaged proactively with the F:ISC, recognising it as a means of engagement at a Ministerial level with HMT and the other devolved governments. We welcome the engagement of the Chief Secretary to the Treasury and HMT officials in F:ISC and the opportunity it presents to raise and discuss issues of common concern to the devolved governments.

Joint working between the devolved governments on finance matters

While the devolution arrangements are different in Scotland, Wales and Northern Ireland, there are some areas of common interest where it has been appropriate to work jointly to address issues.

For instance, on the cost of living crisis, the three devolved governments wrote jointly to the Chancellor of the Exchequer in September 2022, seeking further action on measures to support people and business. ([Call for urgent meeting on tax proposals: joint letter to UK Chancellor - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/call-for-urgent-meeting-on-tax-proposals-joint-letter-to-uk-chancellor-2022/pages/1-10))

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Other matters that have been raised by the devolved governments at recent meetings of F:ISC include replacement EU funding, energy security and net zero, energy network and grid infrastructure, and measures to tackle poverty.

The devolved governments have also worked together to highlight common issues in the management of devolved budgets and F:ISC has provided a forum for Ministerial discussion of these issues.

Fiscal Framework Review

A revised Fiscal Framework was agreed between the Scottish Government and UK Government in August 2023, following a review. The review was underpinned by an independent report – commissioned by both governments – by Professor David Bell, David Eiser and David Phillips, which examined the different methods for indexing Block Grant Adjustments (BGAs).

The revised agreement included improvements to the Fiscal Framework that provide the Scottish Government with more effective levers to manage risk and volatility. However, the Cabinet Secretary for Finance and Local Government has been clear with the Scottish Parliament that the revised agreement did not go as far as Scottish Ministers would have wished, reflecting that the scope of the review and its outcome were, of course, subject to agreement with the UK Government.

Highlights from the revised agreement include:

- The Index Per Capita (IPC) mechanism for calculating BGAs has been adopted permanently (as opposed to on an interim basis as per the original agreement). This helps protect the Scottish Budget from the risk of slower population growth in Scotland relative to the rest of the UK.
- Scottish Government's resource borrowing capacity to deal with forecast error has been increased by £300 million (to £600 million).
- Scottish Government's capital and resource borrowing limits and the limit to the Scotland reserve will increase in line with inflation from 2024-25.
- The Scotland reserve drawdown limits have been abolished.
- The reduction applied to the Scottish Block Grant as part of the devolution of Crown Estate revenues – currently £6.6 million per annum – will increase incrementally to £40 million by 2028-29, profiled at £10 million / £10 million / £15 million / £20 million / £40 million, at which point it will remain flat and unindexed.
- The reduction to the Scottish Block Grant to account for revenue raised in Scotland for Fines, Forfeitures, and Fixed Penalties (FFFPs) will be converted to a fixed amount (£25 million), given the relative steadiness of this income stream.

Dispute resolution mechanisms

The Fiscal Framework describes the dispute resolution process for matters relating to the framework. Under the framework disputes are progressed via the Joint Exchequer Committee (JEC), which is attended by the Cabinet Secretary for Finance and Local Government and the Chief Secretary to the Treasury. Should the governments be unable to resolve a dispute via the JEC, having exhausted each step of the process, the dispute falls.

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The governments then have the opportunity to escalate the dispute via the separate IGR dispute resolution process. The Fiscal Framework dispute resolution process was not considered as part the recent review of the framework.

A resolution is also not guaranteed under the IGR process, as the outcome may be a difference of opinion. However, this process allows for the provision of third party advice and means that parties to the dispute need to lay a report before their legislatures outlining why resolution could not be reached. This would be in the public domain and provides greater transparency.

The Terms of Reference for F:ISC, agreed by all parties, provide a route for escalation of a disagreement where it “cannot be resolved through normal channels or regular F:ISC discussions”, in line with the IGR dispute resolution process. Since the establishment of F:ISC, the Scottish Government has not escalated any issue through this process.

**Directorate for Exchequer Strategy
Scottish Government
May 2024**

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