Scotland's fiscal framework

Management of taxes **Technical**

01 June 2015

The CIOT and LITRG have submitted a joint response to the call for evidence issued by the Finance Committee of the Scottish parliament. This is in respect of their inquiry into Scotland’s fiscal framework.

This is not an area on which CIOT or LITRG would normally comment. We therefore made a submission with the aim of pointing out potential issues, possible solutions for consideration and sources of further ideas, rather than providing solutions to all the questions raised.

The submission sets out some general principles to which we believe due regard should be given when developing a revised fiscal framework. In particular, we highlight Adam Smith’s four principles and the need to keep the new fiscal framework consistent with that of the UK. Although we also note that the UK fiscal framework itself is not unalterable, referring especially to changes in fiscal rules during the past 15 to 20 years.

The UK government highlights two key elements for a fiscal framework in the command paper, Scotland in the United Kingdom: An enduring settlement, published in January 2015 – fiscal rules and fiscal institutions. We think that these could be usefully added to, and draw on various sources for our additional suggestions of sound fiscal statistics, medium-term budgetary frameworks and budgetary procedures.

In terms of a revised funding framework, we noted that the use of formulae should assist in ensuring the model is more mechanical; however, such formulae will undoubtedly require the use of data, analysis and statistics. These could increase the complexity of the funding framework and reduce its transparency as a result. There will be a need for balance to resolve the tension between these objectives. To ensure fairness, transparency and effectiveness, we recommend the publication of reports on the operation of the funding framework and the scrutiny of such reports

at parliamentary level.

When considering mechanisms to ensure transparent and effective scrutiny of adjustments to the block grant, we point out the need for full agreement from the UK and Scottish governments that the data required is available or can be calculated and for an agreed method of determining the tax revenues foregone.

The ‘no detriment’ principle will probably be extremely difficult to implement in practice. We note the lack of consensus as to what might be considered detrimental and need to be taken into account when trying to reflect the principle. We note that the various practical difficulties are likely to mean that it will be difficult to establish mechanisms and systems capable of dealing with and implementing the ‘no detriment’ principle. A lack of systems and mechanisms means that it is less likely to be transparent, and it is likely to be difficult to determine whether the principle is operating effectively.

We suggest that the statement of funding policy be reviewed at parliamentary level, by both UK and Scottish parliaments.

We place special emphasis on the importance of strong intergovernmental relations, including all parts of the UK, encompassing tax, tax credits and welfare benefits – with the aim of better coherency in these systems and of ensuring devolution is effective for all citizens of the UK. We recognise that there are already good working relationships between Revenue Scotland and HMRC, for example, but recommend a more systematic approach be taken. By way of example, we offer the possible establishment of a pan-UK body or a separate devolved administrations liaison group.

As a follow-up point, we note the wide variety of inquiries and consultations by different committees and government departments. While acknowledging that there are questions that are of interest to more than one body, we recommend greater co-ordination to reduce the demand on resources of stakeholders and to ensure more effective consultation.

The response is available on the CIOT website and the LITRG website.