The Chartered Institute of Public Finance & Accountancy

Independent Commission for Competitive and Fair Taxation in Scotland – Call for Evidence

A Submission by:

The Chartered Institute of Public Finance and Accountancy

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the people in public finance

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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1.0 Executive Summary

1.1 The background to Commission's work is that Scotland, like the rest of the UK, is facing unprecedented spending pressures. The constraint on resources available from the UK Government is likely to continue for some time to come. With an ageing population, increased demand for services in health and social care and pressure for reforms, there will undoubtedly be pressure on public bodies to identify further savings or address service delivery.

1.2 CIPFA would therefore urge the Commission to consider the important aspect of the outcomes of policy changes resulting from the proposed new powers rather than the detail of the mechanics of how those powers will operate from a process and administrative perspective.

1.3 We have undertaken a structured review of the content of the Scotland Bill in comparison to the proposals of the Smith Commission and we have identified financial matters which have still to be resolved.

1.4 Overall, we have identified four key areas which we consider should be the focus of the Commission's work:

- rebalancing of the relationship between the citizen and the state and moving to a more affordable 'core and options' approach;
- the adjustment to block grant and the interface with the no detriment principle;
- Strengthening the financial levers available to the Scottish Government. The proposed new powers in the bill do not extend far enough to provide the full set of fiscal levers which will be required to address the significant challenges faced over the coming years; and
- Reform of the system of local taxation including widening the range of tax raising powers available to local government in Scotland.

1.5 CIPFA would welcome the opportunity to expand upon these matters with the Commission further.

2.0 Rebalancing the relationship between citizen and state

2.1 The most pressing issue faced by devolved governments is dealing with the prospect of further significant spending reductions. One of the positive steps that can be taken by the Scottish Government in the face of this challenge is to review and redefine the relationship between citizen and state.

2.2 There is a wider context to the Independent Commission's inquiry into Competitive and Fair Taxation in Scotland. It is the need to redefine priorities and address the relationship between citizen and state. This is in the longer term directly related to setting a fair, competitive and affordable tax level that supports and maintains services.

2.3 Redefining the relationship between citizen and state; implies review and reconsideration of three key variables:[1]

- The services provided by the State
- The people to whom they are provided; and
- The way in which they are funded.

2.4 Accepting that policy choices are for politicians to decide upon, an examination of the implications of policy choices made helps to understand the need to consider the relationship between citizen and state.

2.5 Research indicates that the Scottish Government has afforded a level of protection to health spending over other government priorities.[2] Overall spending between 2009/10 and planned spending for 2015/16 shows Scottish Government spending has fallen by 8.4% in real terms compared to a fall in health spending over the same period of only 1.2%.

2.6 This becomes important particularly in the situation where the Scottish Government wishes to continue to afford some protection to spending in key areas such as health and social services. This has the effect of increasing the reductions in spend to non-protected areas and that brings with it the real challenge of what levels of service can be realistically and sustainably maintained going forward.

2.7 This review and reconsideration means looking at ways that Scottish expenditure can be reduced including, some existing services being radically reduced or discontinued. Some services will be maintained but the population entitled to receive them will be significantly reduced in size.

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[1] CIPFA and SOLACE – 'After the Downturn', managing a significant and sustained adjustment in public sector funding.

[2] The Institute for Fiscal Studies – 'The Scottish NHS more financially secure outside the UK?' September 2014

Some services can continue to be offered but only on the basis that some or all citizens will be required to pay user fees or even be the subject of extended means testing.

2.8 Developing this strategy results in what CIPFA refers to as a 'core and options approach' to spending on public services.[1] Core tax-funded services being provided free at the point of delivery and a range of additional services, or service enhancements, which are subject to user charges or means testing or a combination of both.

2.9 This type of model can be illustrated by taking the simple example of waste collection services. There is the ability to set out a core service level in terms of the nature, volume and frequency of service. Additional service enhancements that can be offered potentially on a chargeable basis.

2.10 Similarly on funding services, personal budgets for care services have the potential to remove a range of costs from the state and, carefully designed, provide greater choice and incentives for value for money secured by individuals. Further options exist in terms of the use of technology to enable service users to process transactions on line, such as self-assessment from HMRC, which avoids more costly one to one interactions and associated administrative costs.

3.0 Limitations on the Range of financial levers available

3.1 The financial powers under the Scotland Act 2012 and new powers proposed by the UK Government in the Command paper[3] and the Draft Bill will increase the financial responsibility and the accountability of the Scottish Government, and will provide some but not all of the levers that are required to fully manage the issues of tax volatility and to ensure good financial management is secured.

3.2 Strong public financial management[4] is essential for all public sector bodies in order to:

- ensure that the public finances are under control – the ability to 'balance the books'[5]
- maximise value for public money, and
- support improvements and service changes needed for the future.[6]

[3] HM Government – 'Scotland in the United Kingdom: An enduring settlement' – January 2015
[4] Public Financial Management is defined in CIPFA's publication – Public Financial Management: A Whole System Approach
[5] CIPFA, Scotland's future in the balance, June 2014
[6] As set out in CIPFA's Financial Management Model

3.3 The question is does Scotland currently have the necessary tools available to ensure good financial management, i.e. to 'balance the books' and ensure that value for money is obtained from use of public funds?

3.4 Funding sourced by a block grant from the UK provides some certainty over levels of funding for Scotland. It does come with some associated limitations in financial management terms, as discussed in the following paragraphs below.

Block grant calculated by Barnett formula

3.5 The Scottish Government has no control over the level of block grant available and must ensure public services are affordable within the overall funding provided. Although some control can be exercised over levels of local taxation and other funding sources, the block grant provides the majority of Scotland's income.

Limitations on how block grant can be spent

3.6 As the UK Government retains control over fiscal policy, HM Treasury imposes controls on the block grant. Although the Scottish Government has discretion over how to spend the majority of the block grant in relation to devolved areas,[7] some more volatile elements of expenditure are restricted.[8]

3.7 Spending in these areas is not within the discretion of the Scottish Ministers, and this funding must be used for the purpose for which it is provided, or returned to HM Treasury. Although this provides the Scottish Government's funding with an element of protection from the risks associated with such volatile, demand-led elements of spending, it also removes an element of control over the totality of their available funding.

Inability to hold reserves

3.8 Funding received in the block grant cannot be held in 'reserve' to be carried over into future financial years. Any unspent grant must be returned to the Treasury at the end of the financial year.

3.9 There is a system by which the Scottish Government can ask to carry forward any under spend, the budget exchange mechanism.[9] However, this is subject to limits, and is designed to avoid the 'use it or lose it' effect,

[7] The departmental expenditure limits (DEL).
[8] Included in the annually managed expenditure (AME).
[9] As detailed in HM Treasury's Consolidated Budgeting Guidance 2013 to 2014.

rather than to manage financial pressures across years. This does not enable the funds to be held in a 'reserve' but rather allows access to the agreed amount in the next financial year.

Inability to borrow over the long term

3.10 Local government in Scotland can borrow money, as long as this is affordable and prudent.[10] This enables authorities to spread the cost of capital investment in schools, roads and other infrastructure, over a number of years.

3.11 Under the current settlement, the Scottish Government has only limited ability to borrow money, with the power to borrow up to £500 million to cover temporary shortfalls and up to a cumulative limit of £2.2bn for Capital Expenditure.[11]

Limited information on future funding levels

3.12 In terms of financial planning for the future, the Scottish Government has only restricted information on its future level of funding. Although the block grant does provide a level of certainty, the amount of grant to be received is indicated as part of the UK Government's Spending Review process.[12] However, the timing and lengths of Spending Review periods have varied, with the Spending Round 2013 providing figures for only two years (2014-15 and 2015-16), with no forecasts for financial years beyond the recent UK general election.

3.13 Spending Reviews provide an indication of what the block grant is likely to be, but these plans are often altered by decisions in UK Government Budgets and Autumn Statements, and therefore the block grant figures are subject to change, in either direction.

3.14 These issues of timing and changes to the level of grant present difficulties in the ability of the Scottish Government to establish medium or long term financial plans.

4.0 Tax powers, block grant adjustment and the no-detriment principle

[10] SSI 2004/29 The Local Government Capital Expenditure Limits (Scotland) Regulations 2004.

[11] Scotland Act 2012, Section 32

[12] Three year plans apply to the bulk of the grant, the departmental expenditure limit (DEL). However, the more volatile annually managed expenditure (AME) is planned for on an annual basis.

4.1 CIPFA acknowledges that the proposed Income Tax Powers in the UK Governments Command Paper[3] and the Draft Bill provide the Scottish Government with increased flexibility in relation to future policy. We have undertaken a structured review[13] of the content of the Scotland Bill in comparison to the proposals of the Smith Commission. CIPFA believes that in relation to Income Tax, the Draft Bill broadly satisfies the recommendations made in the Smith Commission report.[14]

4.2 CIPFA has identified that the issue of how block grant adjustments are to be calculated and how those adjustments will be assessed, indexed or calculated in future years remains an outstanding and significant issue.

4.3 CIPFA also concludes that the processes for operation of the no-detriment principles, particularly post devolution of further powers where a policy decision affects one or other government adversely, has not been fully explored or agreed.

4.4 In summary the outstanding issues are:

- Clarification on the mechanism and measurement of block grant adjustment to reflect tax foregone by the UK Government;

- How block grant adjustments will be measured going forward, i.e. through indexation and what indexation will be used;

- How the no-detriment principles will be applied in areas such as where tax competition has generated an observable impact. This has the potential to be applicable to both Income Tax and other taxes such as Air Passenger Duty; and

- How measurement of costs incurred by the UK Government for collection and administration of taxes on behalf of Scotland will be assessed and monitored going forward.

4.5 The Committee should note that Income tax interacts with other taxes such as Capital Gains Tax (CGT) where higher rate tax payers are charged CGT at a higher rate on chargeable gains. If Scotland changes income tax rates or thresholds, the current command paper indicates that CGT will continue to be charged at the prevailing UK rate of CGT tax rather than being linked to the Scottish Rate of Income Tax.

[13] See **Appendix 1**

[14] Report of the Smith Commission for further devolution of powers to the Scottish Parliament – paragraphs 75-79, November 2014

5.0 Council Tax

5.1 CIPFA, over a number of years, has completed extensive research into local government funding and local taxation methods. More recently our expertise has been in demand as part of the Commission on Local Tax Reform and in Scotland. Our most recent research has resulted in a paper compiled in partnership with Scotland's local government directors of finance. Our work has indicated that reform to the system of local taxation is a matter for consideration and we set out our broad conclusions and recommendations as follows:

5.2 CIPFA advocates reform of the system of Council Tax in Scotland. Reform of Council Tax in Scotland should result in a modernised, progressive property based system of local tax.

- Local tax should be set and raised locally without intervention by the Scottish Government;

- The tax base should be current. This means that there should be an immediate revaluation with ongoing property revaluation being undertaken. Going forward, the tax base could be an expanded range of bands or could be based on individual property values.

- A system of transitional arrangements to accommodate post-revaluation changes to the level of tax raised in each band and in each locality will be required.

- Local accountability will be better served by more clearly differentiating Council tax bills from Scottish water bills. For administrative efficiency, local authorities can continue to bill and collect on behalf of Scottish Water but there should be more clarity for the council tax payer between local tax and a water and sewerage levy.

5.3 CIPFA considers that the conditions now exist to enable local accountability to be further enhanced by broadening the range of local discretionary tax powers available to local authorities. One example (although there are several) could be the introduction of a tourist tax which would generate additional revenue from users of public services who do not otherwise make any direct contribution

5.4 Council Tax in Scotland was introduced in 1993[15] and is based upon the 1991 value of residential property, raising approximately £2bn annually towards funding local government services.[16]

5.5 The Council Tax element of local government funding is approximately 17% of the total funding required by local government to cover its net expenditure. The remaining 83% balance of funding is from the Scottish Government through General Revenue Funding and assigned Non-Domestic Rates Income.[17]

5.6 The balance of funding between local tax and government grant raises the question of the level of local accountability for taxes raised and spending incurred. A key strength of local authority accountability is that the council tax is set for each council by locally elected representatives. Therefore clear accountability exists through the democratic process for tax raised and for expenditure on services. This accountability is directly affected by the level of taxation that the local authority is responsible for and the ability of elected members to make decisions on local spending.

5.7 A further issue is that Council Tax levels have remained unchanged since 2007/08 through the Concordat between the Scottish Government and COSLA.[18] Increases for tax payers have been mitigated with £70m each year (£560m cumulative) of Scottish Government resources being directed towards suppression of council tax increases. The cumulative cost of this through to the end of the 2015/16 year will be in the region of £2.5bn to the Scottish Government. Our conclusion is that accountability, which is otherwise present in the current system, has been impaired by this national arrangement.

5.8 A further impact on local tax is the policy approach to non-domestic taxation which, while collected locally, has effectively been a national tax since 2001. The policy on non-domestic taxation has been national intervention to control what was previously a local tax, although recent initiatives (BRIS,[19] TIF)[20] recognise the role of councils in relation to non-domestic rates.

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[15] Local Government Finance Act 1992, Section 1, Paragraph 1

[16] Scottish Government Council Tax Collections Statistics 2014/15

[17] CIPFA Analysis of Scottish Local Government Funding and the impact of the Council Tax Freeze

[18] Scottish Budget Spending Review 2007, Concordat between the Scottish Government and local government, November 2007

[19] Business Rates Incentivisation Scheme (BRIS) http://www.gov.scot/Publications/2013/07/7250/4

[20] Tax Incremental Financing (TIF) http://www.gov.scot/Topics/Government/Finance/18232/TIF

Appendix 1 – A comparison of the Smith Commission recommendations to the provisions in the Scotland Bill

Smith Commission **(Recommendation No.)**	**Command Paper and Scotland Bill** **(Page ref – command paper)** **(Sections refer to the DRAFT Bill)**	**Notes on Differences**
Heads of Agreement (Smith Commission) - Pillar 3 - Strengthening the financial responsibility of the Scottish Parliament		
(75) Income Tax will remain a shared tax; both the UK and Scottish Parliaments will share control of Income Tax. MP's representing the whole of the UK will continue to decide the UK Budget, including Income Tax	Covered in section 10 on approval of Scottish Rate resolutions by UK Parliament and HM Treasury retaining control of tax years etc. *(page 40)*	None, appears to be Smith in full
(76) Scottish Parliament (within above framework) will have power to set the rates of Income Tax and thresholds at which these are paid for in non-savings and non-dividend income of Scottish Taxpayers (as defined by the Scotland Acts)	Sections 10, 11 and 12 cover this area and make provision for changes over and above the 2012 Act to introduce new rates and bands above the UK personal allowance levels. *(page 40 and 41)*	None
(77) As part of this, there will be no restrictions on the thresholds or rates the Scottish Parliament can set. All other aspects of Income Tax will remain reserved to the UK Parliament, including the imposition of the annual charge to Income Tax, the personal allowance, the taxation of savings and dividend income, the ability to introduce and amend tax reliefs and the definition of income	As noted above, covered in sections 10, 11 and 12. Personal allowance levels etc. remain reserved items for the UK Parliament. Note: draft legislation also deals with interaction of Capital Gains Tax (CGT) with tax bands. *(Page 40 and 41)*	None

Smith Commission **(Recommendation No.)**	**Command Paper and Scotland Bill** **(Page ref – command paper)** **(Sections refer to the DRAFT Bill)**	**Notes on Differences**
(78) The Scottish Government will receive all Income Tax paid by Scottish taxpayers on their non-savings and non-dividend income with a corresponding adjustment in the block grant received from the UK Government	Covered in sections 10, 11 and 12. However mechanisms for block grant adjustment are not clear. It is also not clear as to how tax competition and the no-detriment principles will be assessed and applied	Clarity on block grant adjustments will need to be agreed.
(79) Given that Income Tax will still apply on a UK-wide basis, albeit with different rates and thresholds in Scotland, it will continue to be collected and administered by HMRC. In line with the approach taken for the Scottish rate of Income Tax, the Scottish Government will reimburse the UK Government for additional costs arising as a result of the implementation and administration of the Income Tax powers above	Remains under HMRC in the proposed legislation. Revenue Scotland is only responsible for collection of other devolved taxes, i.e. LBTT and SLfT. Scottish Government will need to compensate HMRC for additional costs arising from implementation of Income Tax powers.	Additional costs to be agreed.
(80) All aspects of National Insurance Contributions will remain reserved	Reserved item for UK Government	None
(81) All aspects of Inheritance Tax and Capital Gains Tax will remain reserved	Reserved item for UK Government	None
(82) All aspects of Corporation Tax will remain reserved	Reserved item for UK Government	None, although note that Northern Ireland has been given corporation tax

Smith Commission **(Recommendation No.)**	**Command Paper and Scotland Bill** **(Page ref – command paper)** **(Sections refer to the DRAFT Bill)**	**Notes on Differences**
		powers subject to implementation of the Stormont House Agreement.
(83) All aspects of the taxation of oil and gas receipts will remain reserved	Reserved item for UK Government	None – worth noting here SNP position on further powers for Scotland beyond Smith.
(84) The receipts raised in Scotland by the first 10 percentage points of the standard rate of Value Added Tax (VAT) will be assigned to the Scottish Government's budget. These receipts should be calculated on a verified basis, to be agreed between the UK and Scottish Governments, with a corresponding adjustment to the block grant	Section 13 of the proposed bill (section 15 of bill at committee) covers the assignment of VAT and first 10 percentage points. *(Page 41)* Note different percentage applies to Reduced Rate VAT (2.5).	None
(85) All other aspects of VAT will remain reserved	Reserved for the UK Government	None
(86) The power to charge tax on air passengers leaving Scottish airports will be devolved to the Scottish Parliament. The Scottish Government will be free to make its own arrangements with regard to the design and collection of any replacement tax, including consideration of the environmental impact	Clause 14 (revised clause 16 of the Bill at committee) covers devolution of Air Passenger Duty (APD) and its cut over date to Scotland. *(Page 42)*	

Smith Commission **(Recommendation No.)**	**Command Paper and Scotland Bill** **(Page ref – command paper)** **(Sections refer to the DRAFT Bill)**	**Notes on Differences**
(87) In line with the approach taken in relation to the Scotland Act 2012, if such a tax is introduced by the Scottish Parliament to replace Air Passenger Duty (APD), the Scottish Government will reimburse the UK Government for any costs incurred in 'switching off' APD in Scotland	Not clear in the Draft Bill how this will work.	Not clearly outlined in the Bill
(88) A fair and equitable share of associated administrative costs will be transferred to the Scottish Government. The Scottish Government's block grant will be adjusted to accommodate the devolution of APD	Not clear in the draft Bill how this will work. Mechanism for block grant adjustment will need to be decided. This also needs to consider any non-detriment and tax competition affect.	Not clearly outlined in the Bill
(89) The power to charge tax on the commercial exploitation of aggregate in Scotland will be devolved to the Scottish Parliament. The Scottish Government will be free to make its own arrangements with regard to the design and collection of any replacement tax	Clause 15 (revised clause 17 of the Bill at committee) covers devolution of Aggregates Levy. Power is dependent on resolution by HM Treasury. Revised Bill at Committee specifically excludes any aggregates resulting from fracking as this for the 'purpose of extracting or producing anything capable of being used as fuel'.	Unclear what the position would be for aggregates extracted as a result of fracking.
(90) In line with the approach taken in relation to the Scotland Act 2012, if such a tax is introduced by the Scottish Parliament to replace Aggregates Levy,	Not clear in the Draft Bill how this will work. Block Grant adjustments will need to be agreed. *(Page 43)*	Not clearly outlined in the Bill

Smith Commission **(Recommendation No.)**	**Command Paper and Scotland Bill** **(Page ref – command paper)** **(Sections refer to the DRAFT Bill)**	**Notes on Differences**
the Scottish Government will reimburse the UK Government for any costs incurred in 'switching off' Aggregates Levy in Scotland		
(91) A fair and equitable share of associated administrative costs will be transferred *to* the Scottish Government. The Scottish Government's block grant will be adjusted to accommodate the devolution of Aggregates Levy	Not clear in the Draft Bill how this will work. Command paper raised the issue of double taxation and the way the aggregates levy operates in the rest of the UK. *(Page 43)*	Not clearly outlined in the Bill
(92) All aspects of Fuel Duty and Excise Duties will remain reserved	Reserved for the UK Government	None
(93) The UK and Scottish Governments will work together to avoid double taxation and make administration as simple as possible for taxpayers	No details are contained within the Bill to outline how such arrangements will work.	Not clearly outlined in the Bill
(94) The devolution of further responsibility for taxation and public spending, including elements of the welfare system, should be accompanied by an updated fiscal framework for Scotland, consistent with the overall UK fiscal framework	No details in the Bill. The command paper is seen as a starting point for the process to develop a suitably robust and coherent framework. *(Page 21 to 24)*	Proposals on Scotland's Fiscal Framework have some differences to the UK understanding and need to be agreed.

Smith Commission (Recommendation No.)	Command Paper and Scotland Bill (Page ref – command paper) (Sections refer to the DRAFT Bill)	Notes on Differences
	Scotland's Finance Committee have produce their report into the Fiscal Framework (link below) http://www.scottish.parliament.uk/S4_FinanceCommittee/Reports/fir15-12w.pdf	
(95) The parties agree that the Scottish and UK Governments should incorporate the following aspects into Scotland's fiscal and funding framework (95.1) Barnett Formula: the block grant from the UK Government to Scotland will continue to be determined via the operation of the Barnett Formula (95.2) Economic Responsibility: the revised funding framework should result in the devolved Scottish budget benefiting in full from policy decisions by the Scottish Government that increase revenues or reduce expenditure, and the devolved Scottish budget bearing the full costs of policy decisions that reduce revenues or increase expenditure	Barnett Funding remains, subject to adjustments (to be agreed) for taxes foregone by the UK Exchequer and spending no longer undertaken by the UK Government. *(Page 27)* However, the Scottish Government are pressing for greater transparency and openness in the operation of the formula and HM Treasury's statement of funding policy. No-detriment principle is included in command paper. *(Page 27 and 28)*	Formula remains, however some operational aspects of funding settlements are still to be agreed. Mechanisms for adjustment also need to be agreed. Tax adjustments will require indexation in subsequent years and the method of indexation is also yet to be determined and agreed.

Smith Commission **(Recommendation No.)**	**Command Paper and Scotland Bill** **(Page ref – command paper)** **(Sections refer to the DRAFT Bill)**	**Notes on Differences**
(95.3) No detriment as a result of the decision to devolve further power: the Scottish and UK Governments' budgets should be no larger or smaller simply as a result of the initial transfer of tax and/or spending powers, before considering how these are used.	As above	As above
(95.4) No detriment as a result of UK Government or Scottish Government policy decisions post-devolution	No-detriment post devolution of powers has difficulties in measurement and application at a detailed level.	Scottish Government see this as high level principle, although this is not clear in the command paper.
(a) Borrowing Powers: Scotland's fiscal framework should provide sufficient, additional borrowing powers to ensure budgetary stability and provide safeguards to smooth Scottish public spending in the event of economic shocks, consistent with a sustainable overall UK fiscal framework.	Borrowing powers in the Bill are limited and based on set limits imposed by HM Treasury. *(Page 30 and 31)*	The Scottish Government would prefer a move towards a prudential based regime, in legislation. Powers here do not extend far enough according to the Finance Committee report and Scottish Government response.
(b) The Scottish Government should also have sufficient borrowing powers to support capital investment, consistent with a sustainable overall UK fiscal framework.	See above	See above

Smith Commission (Recommendation No.)	**Command Paper and Scotland Bill** (Page ref – command paper) (Sections refer to the DRAFT Bill)	**Notes on Differences**
(95.5) The Scottish and UK Governments should consider the merits of undertaking such capital borrowing via a prudential borrowing regime consistent with a sustainable overall UK framework	See above	See above
(95.6) Implementable and Sustainable: once a revised funding framework has been agreed, its effective operation should not require frequent ongoing negotiation. However, the arrangements should be reviewed periodically to ensure that they continue to be seen as fair, transparent and effective	Not in the Bill, but command paper refers to the fiscal framework – consistent with the block grant adjustments, being reviewed periodically. This is frequent enough to avoid systemic issues building, but not frequent enough that the incentives are removed. *(Page 34)*	Scottish Government are proposing new structures around the scrutiny and strengthening Intergovernmental relations. New structures include the role of the JEC and the FMQ become a Joint Ministerial Council to agree policy and macro-economic issues.
(95.7) Independent Fiscal Scrutiny: the Scottish Parliament should seek to expand and strengthen the independent scrutiny of Scotland's public finances in recognition of the additional variability and uncertainty that further tax and spending devolution will introduce into the budgeting process	Command paper askes that Scottish Government bring forward proposals fully consistent with OECD principles and reflective of UK experience with the OBR. *(Page 35)*	Scottish Government are reviewing the functions and remit of the Scottish Fiscal Commission.
(95.8) UK Economic Shocks: the UK Government should continue to manage risks and economic shocks that affect	Command paper agrees, but notes importance of setting out the level of support the Scottish Government could	Scottish Government is in process of developing macro-economic forecasting

Smith Commission **(Recommendation No.)**	**Command Paper and Scotland Bill** **(Page ref – command paper)** **(Sections refer to the DRAFT Bill)**	**Notes on Differences**
the whole of the UK. The Fiscal Framework should therefore ensure that the UK Government retains the levers to do that, and that the automatic stabilisers continue to work across the UK	expect through the funding model during an economic downturn and where it would need to take advantage of its own powers to maintain is fiscal objectives. *(Page 35)*	models and also looking to strengthen its national accounts position.
(95.9) Implementation: the Scottish and UK Governments should jointly work via the Joint Exchequer Committee to agree a revised fiscal and funding framework for Scotland. The two governments should provide updates to the Scottish and UK Parliaments, including through the laying of annual update reports, setting out the changes agreed to Scotland's fiscal framework.	Command paper is clear that suitable engagement is required and the Fiscal Framework should be agreed alongside implementation of legislation on devolution to Scotland so as the overall settlement is clear from the outset. *(Page 36)*	The Scottish Finance Committee note that there needs to be much greater openness and honesty in the relationship and the manner in which the Fiscal Framework is agreed will be a significant indicator as to how devolution will work in practice.