

IN CONFIDENCE

ANNEX B

PROPOSED FINANCIAL ARRANGEMENTS FOR THE SCOTTISH  
PARLIAMENT AND THE WELSH ASSEMBLY

1. The present arrangements for funding most of Scotland and Wales' public expenditure programmes rely on the Block and formula system of funding. Like Northern Ireland, changes in the size of the Scottish and Welsh Blocks are determined annually by reference to planned changes in comparable GB programmes using the "Barnett" formula. The Scottish and Welsh Blocks, as in Northern Ireland, do not include the agriculture, fisheries and (AFF) food programme, which is determined separately.
2. Broadly speaking, the future financial arrangements envisaged in the Government's proposals for Scottish and Welsh devolution will be governed by the same Block system of funding, adjusted to take account of the new institutions and responsibilities.
3. Thus, the budgets for the Scottish Parliament and the Welsh Assembly will be determined each year largely through the Block arrangements. Once the amount of the assigned budget for any forthcoming year is determined, the Scottish Executive, subject to the consent of the Scottish Parliament, and the Welsh Assembly will have freedom to allocate resources across the programmes relating to functions within their control.
4. Agriculture, fisheries and food (AFF) expenditure will continue to be treated separately, in both Scotland and Wales. In Scotland a significant proportion of agricultural expenditure will continue to be devoted to payments under the Common Agricultural Policy (CAP) schemes funded wholly by the EU, with the Scottish Parliament having no discretion. This, together with expenditure on Hill Livestock Compensatory Allowances, which are also set in line with EU requirements, will be settled separately each year, based on the actual requirements of the programmes. However, the balance of present AFF spending will be taken

IN CONFIDENCE

into the new Block and annual changes will be determined according to the existing formula.

5. In Wales, the Assembly will receive, in addition to the agricultural element in the Welsh Block, an agriculture allocation to cover spending determined by the CAP together with Hill Livestock Compensatory Allowances. The Assembly will have no discretion to vary spending on these schemes.

Revenue Raising Powers

6. The Government proposes that the Scottish Parliament should be given a limited power to vary tax. It is proposed that the tax varying power should operate on income tax, because it is broadly based and easy to administer. The Scottish Parliament will have the power to increase or decrease the basic rate of income tax set by the UK Parliament by a maximum of 3p. This is consistent with the recommendations of Scottish Constitutional Convention and would allow the Scottish Parliament to increase or reduce its revenue by around £400 million each year. If future changes to the UK income tax structure reduced the value of the product of the Scottish Parliament's tax varying power, the Parliament's ability to raise or forego a similar sum, index-linked, through the tax system would be preserved. The Inland Revenue's consequential administrative costs will be met by the Scottish Parliament.

Local Government expenditure

7. The control of local authority expenditure, non-domestic rates and other local taxation will be devolved to the Scottish Parliament and the Welsh Assembly. In Scotland, the Parliament will be responsible for determining the form of local taxation, both domestic and non-domestic, which local authorities will be permitted to levy. It would therefore be able to alter the form of the Council Tax, or replace it if it so decides. Non-domestic rates will also be a devolved matter. In Wales, where the national Assembly will continue to operate within the framework of primary legislation passed by the Westminster Parliament, the role of the



IN CONFIDENCE

Assembly in respect of Council Tax and non-domestic rates will depend on the outcome of a current review by the Government on the operation of these systems.

Accountability

8. Scrutiny of expenditure to ensure value for money and propriety will continue to be essential. The detailed arrangements which the Scottish Parliament makes to control and scrutinise the spending of the Scottish Executive will be a matter for the Scottish Parliament and its Committees. However, the Scotland Bill sets out a framework for the Scottish Parliament to establish effective scrutiny and audit arrangements. The Parliament will have put suitable machinery in place before it becomes fully operational in order to ensure that the actions of the Scottish Executive can be called to account as soon as it assumes its responsibilities. In common with other central government expenditure, the grants to the Scottish Parliament will fall to be audited by the UK Comptroller and Auditor General. In Wales, the Assembly will be required to have an audit committee, which will operate in similar way to the Public Accounts Committee of the House of Commons. It will have a key role in ensuring that money spent by the Assembly is properly accounted for and properly used. An Auditor General for Wales will audit the Assembly's accounts and those of its sponsored bodies; will be independent of the Assembly and may be supported by the National Audit Office.