



The Scottish Parliament
Pàrlamaid na h-Alba

Finance and Public Administration Committee

Shona Robison MSP
Cabinet Secretary for Finance and Local Government
Scottish Government

19 December 2025

Dear Shona

Thank you for your letter of 25 November 2025 in which you seek the Finance and Public Administration Committee's views prior to Christmas recess in relation to the scope of the next review of the fiscal framework between the Scottish and UK governments.

As you are aware, the Committee was disappointed that the previous review in August 2023 was so narrowly focused, lacked transparency and provided no opportunity to feed in views. We have since therefore continued to call for a more comprehensive review. Indeed, the Committee restated our view that there would be merit in carrying out a wider review of how the fiscal framework is operating in our latest [report on the Scottish Budget process in practice](#) published in June 2025. The Committee further heard from Professor Graeme Roy, Chair of the Scottish Fiscal Commission (SFC) on [2 September 2025](#) that the “constant reviewing of the fiscal framework to see how it is operating and working entirely makes sense”.

The Committee therefore welcomes the recent agreement between the two Governments that preliminary work should “begin to establish the scope for the next review” and we share the Scottish Government’s position that the scope of that review “should be broader than the last”.

The Committee is keen to understand the UK’s appetite for a more comprehensive and open review given the limitations around the previous exercise. We also urge both Governments to learn the lessons of the 2023 review to ensure that discussions on the scope/terms of reference are not unnecessarily protracted and that the time available can therefore be spent on negotiations regarding key improvements that can be made.

As you are aware, the Committee has taken a keen interest in how the fiscal framework has operated during this session, including during times of uncertainty and volatility in the UK economy, as well as extraordinary global events such as the Covid pandemic. We have therefore made recommendations in various Committee reports over the course of the session on the issues we consider should be included as part of a future fiscal framework review

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Email FPA.committee@parliament.scot. We welcome calls through Relay UK and in BSL through Contact Scotland BSL.

Given the tight timescale for submitting views, the Committee has drawn on our previous recommendations (see the Annex to this letter), to request that the issues set out below should be prioritised when developing the scope of the next review.

Borrowing and the Scotland Reserve

- The adequacy of resource borrowing limits for forecast error and in-year cash management. In this context, the Committee notes recent evidence from the SFC¹ suggesting that larger negative reconciliations can be expected in future years which could, as with indicative figures for 2027-28, exceed borrowing limits. This is likely to have a corresponding impact on the level of funding available for other areas of the Scottish Budget.
- The merits of a prudential borrowing scheme for capital borrowing.
- The effectiveness of the Scotland Reserve in enabling the Scottish Government “to smooth all types of spending and manage tax volatility and determine the timing of expenditure”, as envisaged in the fiscal framework, and whether annual inflationary uprating of the Reserve limits is adequate.

Block grant adjustments and forecasting

- The impact of block grant adjustments (BGAs) for income tax being based on relative growth with the rest of the UK on income tax revenues in Scotland, and the merits of alternative approaches, including that of the Welsh model. In this regard, the Committee notes that the independent report on BGA arrangements commissioned by Scottish Government and HM Treasury in June 2022 did not appear to be considered as part of the previous review and we therefore seek assurances that the report will inform the upcoming review.
- Ensuring that data being used to forecast block grant adjustments is sufficiently robust and comprehensive. In this context, the Committee notes that the OBR currently uses the Office for National Statistics Labour Force Survey (LFS) to inform its forecasts, while the SFC uses real-time information given concerns regarding the reduced sample size and reliability of the LFS.² The review should seek to implement any improvements identified as quickly as possible to ensure this data does not create unnecessary forecast error or impacts on the Scottish Budget.
- Whether mechanisms relating to comparative median wage are appropriately sensitive to exogenous shocks and trends in the shape of the Scottish economy.

¹ [Official Report, 2 September 2025](#)

² [Official Report, 2 September 2025](#)

Devolution of taxes

- The issues that have held back the implementation of Air Departure Duty in Scotland.
- A formal decision not to progress the policy of VAT assignment included in the Smith Commission, given serious concerns around how this would work in practice. The Committee notes a recent conclusion of the House of Commons Scottish Affairs Committee that it is “highly unlikely...that the assignment of VAT revenues will ever come into force” and has asked the UK government “to explain why it thinks the policy is still possible, despite robust views to the contrary”.³

Timing of fiscal events and forecasts

- The need for greater co-ordination between the two Governments regarding the timing of UK and Scottish fiscal events, which have tended to follow a different timeline than envisioned in the original fiscal framework, creating additional volatility and uncertainty for the Scottish budget process.
- The extent to which the risks arising from differences in forecast timings are reasonable and appropriate given the size of the Scottish Budget and whether the OBR and SFC forecasts could be better timed to minimise this risk.
- How the fiscal framework can be strengthened to withstand the risk from any future health or economic shocks that could disproportionately affect one part of the UK.

Transparency and public understanding

- How the workings of the fiscal framework can be simplified and clarified where possible, to improve public understanding and accountability.
- How best to ensure that the next review is as open and transparent as possible, including publishing expected timelines for decisions and providing opportunities for the Scottish Parliament at key stages of the process to submit views to inform decision-making and to enable robust scrutiny.

Improved engagement between the two Governments

- Where improvements to communication and transparency around decision-making between the UK and Scottish governments can be made, to support more effective management of public finances in Scotland.

³ [Report on the financing of the Scottish Government](#), Scottish Affairs Committee, 16 July 2025.

Presentation of data

- How transparency and stakeholder understanding can be improved, including through routinely providing details of Barnett consequentials at the time of UK fiscal events.
- Ensuring publication of comprehensive budget data showing in-year changes and final outturn on a consistent basis (as per the “[Additional Disclosure](#)” data that was published before).

Structural challenges

- How the current fiscal framework could be strengthened to reflect structural challenges such as climate change, which requires a co-ordinated response across the two governments, and demographic trends which are more pronounced in Scotland.

The Committee trusts that our views set out above, which are based on the experience and knowledge of how the fiscal framework has operated throughout this parliamentary session, will be useful in informing the scope of the next review.

We look forward to receiving regular updates on how this work is progressing in the weeks and months ahead.

Yours sincerely,

Kenneth Gibson MSP
Convener

Annexe

Report	Relevant recommendations relating to the fiscal framework
<u>Report on pre-budget scrutiny 2026-27 on Responding to Long-Term Fiscal Pressures</u> <i>Published on 30 October 2025</i>	<p>The Committee supports the Cabinet Secretary's request to HM Treasury to carry out an early review of the fiscal framework, before the formal review period in 2028. This early review should consider how adjustments based on relative growth with the rest of the UK impact on income tax revenues in Scotland and whether it provides sufficient flexibility to manage forecast error. (paragraph 193)</p> <p>We ask that lessons are learned from the August 2023 fiscal framework update, to enable the process for the next review to be as open and transparent as possible to support robust parliamentary scrutiny. (paragraph 194)</p>
<u>Report on the Scottish Budget process in practice</u> <i>Published on 19 June 2025</i>	<p>The Committee restates our view that there would be merit in carrying out a wider review of how the Fiscal Framework is operating, including how adjustments based on relative growth with the rest of the UK impact on income tax revenues in Scotland. (paragraph 61)</p>
<u>Report on the Scottish Budget 2025-26</u> <i>Published 29 January 2025</i>	<p>The Committee shares the Scottish Government's view that there would be merit in carrying out a wider review of how the fiscal framework is operating, including how adjustments based on relative growth with the rest of the UK impact on income tax revenues in Scotland. (paragraph 79)</p>
<u>Report on pre-budget scrutiny 2024-25: The Sustainability of Scotland's Finances</u> <i>Published 6 November 2023</i>	<p>The Committee is surprised that the Fiscal Framework Review was concluded without the opportunity for the Committee and others to consider the independent report and submit responses to inform the Review. The Committee welcomes the modest but permanent gains in fiscal flexibility achieved through the Review.</p> <p>Nevertheless, the lack of transparency in the process was disappointing, particularly given our calls for a more open approach than that taken with the original Fiscal Framework agreement in 2016. (paragraph 53)</p>

	<p>The Committee looks forward to exploring in greater detail the updated fiscal framework with the Deputy First Minister in November, informed by evidence from experts. <i>(paragraph 54)</i></p>
<p><u>Pre-budget scrutiny 2022-23 on Scotland's public finances in 2022-23 and the impact of COVID-19</u></p> <p><i>Published 6 November 2023</i></p>	<p>The Committee concludes that the fiscal framework broadly worked as intended during the pandemic, though this was more by accident than design. Whether this remains the case in relation to Scotland's recovery from the pandemic is something that the Committee will want to return to in future budget scrutiny. <i>(paragraph 48)</i></p> <p>We recommend that the review of the fiscal framework should look at how it can be strengthened to withstand the risk from any future health or economic shocks that could disproportionately affect one part of the UK. <i>(paragraph 49)</i></p> <p>The Committee believes that the fiscal framework review presents an opportunity to consider how communication and transparency between the UK and Scottish governments can be improved, to allow more effective management of public finances in Scotland. <i>(paragraph 53)</i></p> <p>The Committee believes that the fiscal framework review should look at ways to simplify, and clarify the workings of, the fiscal framework where possible, to improve public understanding and public accountability. We believe that, as a starting point, both governments should commit to providing transparency and enabling Parliamentary scrutiny of their decision-making at key stages during the review process. <i>(paragraph 57)</i></p> <p>The Committee considers that the Scottish Government should have more flexibility to carry forward and manage its budget across years in normal times. We look forward to exploring this matter further. We believe that the limits on the Scottish Government's resource borrowing powers to cover forecast error and cash management, and the Scotland Reserve, are not currently sufficient. We consider that these should, as a minimum, be linked to inflation. <i>(paragraph 71)</i></p> <p>The Committee agrees with our predecessor that the two governments should consider the extent of the risk arising from potential divergence in forecast error between the SFC and the OBR, learning any lessons from the experience of an economic shock being triggered due to a quirk in timings. <i>(paragraph 72)</i></p>

	<p>Recent publication of the UK and Scottish government budgets has followed a different timeline than was envisioned when the fiscal framework was agreed, which has created additional volatility and uncertainty for the budget process. We believe that greater co-ordination regarding the two governments' budget timings is needed. (paragraph 73)</p> <p>Noting recommendations from both the Smith Commission and our predecessor committee, as well as evidence gathered during our inquiry, we consider that it is now time to revisit the merits of a prudential borrowing scheme for capital borrowing. The Committee recommends that these issues are considered as part of the upcoming fiscal framework review. (paragraph 74)</p>
<p><u>Response to the consultation to inform the independent report on block grant adjustments</u></p> <p><i>Published 20 September 2022</i></p>	<p>We recommend that the final agreed Framework should, to the extent possible, set out the factors and evidence considered, as well as any trade-offs made, in reaching the decision on which BGA mechanism should be used. Adopting this approach would support more effective scrutiny, and address some of the concerns about transparency around the current Framework, by supporting greater and wider understanding of the Framework and how it is intended to work. (paragraph 9)</p> <p>We consider that the Independent Report should explore how the Fiscal Framework and any BGA mechanisms respond to the impact of different timings of the Scottish and UK Budgets and what might be considered to be reasonable risk in such circumstances. We consider that, more generally, there should be greater certainty in the timings of UK Budget and Scottish Budget each year particularly given changes in those timings impacts on budget certainty for others such as local government. (paragraph 14)</p> <p>Given the potential impact of data quality on forecast error, we recommend that, in considering the various approaches to calculating BGAs, the relevant data used to forecast the BGAs and to determine tax and welfare receipts should also be reviewed to ensure it is sufficiently robust and comprehensive for those purposes. (paragraph 19)</p> <p>It would be beneficial if the independent report could assess whether the baseline adjustment taken to date for each operational tax or welfare power represented a 'normal' year (as compared with a multiyear approach).</p>

	<p>This is particularly given the economic impact of the pandemic, inflation and Brexit over a number of years and in view of the devolved taxes and benefits which have yet to be implemented. <i>(paragraph 24)</i></p> <p>We recommend that the Independent Report sets out the risks of fully implementing the compensation principle and what, if any, approaches to interpreting the counterfactual 'no change' scenario could be applied. <i>(paragraph 35)</i></p> <p>Given the magnitude of the UK Budget and the levers at the disposal of the UK Government compared with the Scottish Budget and the levers of the Scottish Government, the implications of any financial risks associated with the BGA mechanism, should they come to pass, will have a potentially greater impact on the Scottish Government than for the UK Government. <i>(paragraph 40)</i></p> <p>In January 2021, the provision in the fiscal framework which triggers a Scotland-specific economic shock was met, due to the quirk in timing of the two sets of forecasts. The shock allows the Scottish Government more scope to borrow to cover forecast error over the next few years. At that time Professor Roy warned the Committee that "it surely cannot be the case that funding flexibilities are either available or not available based on the date of publication of a report". He called for the fiscal framework review to consider the timing of forecasts, as well as the budget and parliamentary scrutiny, that underpins an effective budget process. <i>(paragraph 45)</i></p> <p>In times of significant volatility, the risks of forecast error are exacerbated. As such, the Scottish Government could have to manage either a significant 'shortfall' in funding or substantial 'additional' funding through the BGA as well as also managing the converse in the year of the reconciliation, arising simply from differences in forecast timings, rather than the effects of UK Government or Scottish Government policy decisions. <i>(paragraph 46)</i></p> <p>Should this come to pass, then managing this volatility in BGA forecasts or reconciliations would have potentially much more significant implications for the policy choices of the Scottish Government compared to the UK Government given the sizes of their respective budgets. <i>(paragraph 47)</i></p> <p>Given this, we recommend that the Independent Report explores the extent to which the risks arising from differences in forecast timings are reasonable and</p>
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appropriate given the size of the Scottish Budget and whether the OBR and SFC forecasts could be better timed to minimise this risk. *(paragraph 48)*

We also consider that there is merit in the Independent Report exploring whether there are circumstances in which the BGA baseline years should be reset and if so, what might trigger that to happen. *(paragraph 54)*

There is also merit in the Independent Report exploring more fully how asymmetric shocks might be identified and the risks they could pose to the Scottish Government and UK Government. *(paragraph 55)*

Given these views, we contend that there should be:

- a. More detailed information made available on the reasons for changes in the BGAs year to year;
- b. An agreed procedure as to how any changes to BGA methods are communicated to this Committee and the Scottish Parliament;
- c. A clear communication plan alongside the fiscal framework, agreed following the review, setting out in plain English to the extent possible what the framework is, what the changes are and why they have been made.

(paragraph 66)