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John Swinney MSP
Cabinet Secretary for Finance, Employment and Sustainable Growth
The Scottish Government
St Andrew's House
Regent Road
Edinburgh
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6 May 2014

Dear John,

THE TRUE FISCAL CONSEQUENCES OF INDEPENDENCE

It is now over five months since the publication of the Scottish Government's independence White Paper. Fundamental questions about your prospectus for breaking up the UK's 300-year old partnership of four nations remain unanswered. With less than five months until the Scottish people vote in the referendum, I hope you and your colleagues will now provide the direct answers that only last week the Scottish Chambers of Commerce - and others - have been calling for.

2. A vote to leave the UK would be irreversible. No-one doubts the passion of Scottish Government ministers for independence. However, the people of Scotland want more than assertion of the purported benefits of independence; they want realism about its risks and challenges too. To highlight these risks and challenges is not scaremongering, nor is it anti-Scottish. What could be more responsible or patriotically Scottish than to want to be sure you are securing the very best future for your children, grandchildren and future generations to come? Scottish voters cannot be expected to take a leap in the dark on the basis of vague promises it will be alright on the night.

3. People want to know what breaking away from the rest of the UK would mean for both Scotland's and their family's finances. In your independence White Paper only a solitary page out of 650 covered forecasts of an independent



Scotland's tax and spending, and even this was for only the first year of independence.

4. The figures you provided are out-of-date and wrong. The analysis you have so far made public is threadbare and is the antithesis of a compelling case for breaking up a partnership that has worked effectively and to Scotland's benefit for so many years.

5. Specifically, it is high time you updated the figures in your White Paper and provided for the first time fiscal projections for an independent Scotland beyond year one and over the long term. These should be based upon updated and realistic oil and gas forecasts. I would be grateful if you could confirm that you will publish an up to date oil and gas bulletin in the next few weeks.

6. In their March 2014 Economic and fiscal outlook, the independent Office for Budget Responsibility (OBR) published revised forecasts for the UK's oil and gas revenues. These show that the UK as a whole expects £25 billion from oil and gas over 2012 to 2017. This is substantially below even your most cautious forecast for Scottish oil and gas revenues over the same period, which totals more than £41 billion.

7. The OBR's forecasts are supported by HMRC's release of the revenues we actually received in the last two years, which was more than £3 billion below your forecasts for the same period. You and your colleagues may regard these facts as inconvenient; they do however demonstrate that even the limited financial figures you offered in your White Paper are wrong.

8. You don't just have to take my word for this; your forecasts have garnered little or no support among independent experts. As the Scottish-based Centre for Public Policy and the Regions (CPPR) said in its Analysis of Scotland's past and future fiscal position in March, your oil and gas bulletin "is now over a year out of date".

9. The weight of independent evidence is mounting that your sums simply do not add up. The CPPR, Citi group, the IFS - as well as HM Treasury's own



calculations - all put an independent Scotland's deficit in 2016/17 above five per cent of GDP, as the table below shows. The more optimistic forecasts of Scotland's deficit in your White Paper are not credible.

Forecasting body	Per cent of		
	GDP	£ billions	£ per head
Scottish Government	3.2	5.5	1,020
Institute for Fiscal Studies (IFS)	5.2	8.9	1,660
HM Treasury	5.3	9.1	1,690
Citi Group	5.5	9.4	1,740
Centre for Public Policy for Regions (CPPR)	5.5	9.4	1,740

10. Only last week, the credit rating agency Moody's produced the most recent forecast of the starting deficit of an independent Scottish state. Moody's estimate that an independent Scotland would have a deficit of 7.1 per cent of GDP in 2016/17. To put this into context, the UK's deficit is forecast to be 2.4 per cent of GDP in 2016/17. Moreover, a deficit of 7.1 per cent would mean that an independent Scotland had the highest deficit of any advanced economy in the world.

11. Moody's 1st May Report also included two further highly relevant points:

- First, Moody's confirmed that Scotland will be more creditworthy and have lower borrowing costs if it remains part of the UK because an independent Scotland would have a credit rating "at least two notches below the UK's rating".
- Second, Moody's also judged that a currency union "would be credit negative for the remainder of the UK, regardless of the institutional arrangements put in place". As we have made clear, in the event of independence, a currency union would not happen. I was glad to see it reported that the First Minister is finally admitting that an independent Scotland would need an alternative plan; if that suggests a more realistic approach to the risks and challenges of independence that would be welcome.



12. In the coming weeks I am going to publish the most detailed analysis of the fiscal benefits to Scotland of remaining in the UK yet provided; we will be very transparent about the assumptions on which the modelling is based. I call upon you to publish your own analysis with the same level of detail and transparency. What assumptions have you made for oil and gas revenues; demographic trends; net migration; growth rates, etc.?

13. Your private memo to your Cabinet colleagues showed that you understand the costs, risks and uncertainties of independence and the benefits, stability and security of the UK. If detailed information of this sort is good enough to share in secret with your Cabinet colleagues, why will you not trust the people of Scotland with detailed financial information about what the future would hold for a Scotland that was no longer part of the UK?

14. I hope very much that you will agree to publish up to date, realistic oil and gas forecasts, and to provide an up to date analysis of the costs and benefits and independence. The people of Scotland deserve to have all the facts set out before we cast the most important vote we have ever cast – any attempt by you to conceal inconvenient economic truths will rightly be seen as an admission that your case does not stand up to scrutiny.

A handwritten signature in black ink, appearing to read 'Danny Alexander'.

DANNY ALEXANDER