



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Kenneth Gibson MSP (Convener)
Finance Committee
The Scottish Parliament
Edinburgh
EH99 1SP

4th March 2016

Dear Kenneth,

FISCAL FRAMEWORK

Thank you for inviting me to participate in your meeting of 3 March 2016. I found it a very useful session and I hope I was able to provide helpful evidence to you and your members.

2. I committed to write to you on three specific issues: transparency of block grant adjustments, the role of the OBR in publishing Scottish tax forecasts, and on resource borrowing

Transparency of Block Grant Adjustments

3. I believe that it is very important that we set out transparently how the devolved administrations' block grants are calculated. We therefore publish a range of information about how the calculations are made and what the outcomes are. In particular, the Statement of Funding Policy sets out detailed information on the operation of the Barnett Formula and was updated most recently at the 2015 Spending Review. This includes the comparability factors for all UK government departmental spending programmes and the latest population shares. The outcome of operating the Barnett Formula is then set out in the Spending Review, with updates at each Budget and Autumn Statement. As tax devolution introduces some further calculations into the system, I have committed to explore what more we can do to ensure that all changes in the Scottish Government's block grant are transparent.



OBR publishing Scottish tax forecasts

4. As set out in the Fiscal Framework Agreement, the Office for Budget Responsibility (OBR) will continue to be responsible for producing UK-wide economic and fiscal forecasts for the UK government, and the Scottish Fiscal Commission (SFC) will be producing forecasts for the Scottish Government. It will be for the OBR to decide how to incorporate taxes devolved to the Scottish Parliament in its UK-wide forecasts.

Resource Borrowing

5. I was asked whether the term "absolute" in paragraph 66 of the agreement refers to real or nominal GDP growth.

6. The two triggers for cyclical borrowing ensure that a Scotland-specific shock can be correctly identified. Scottish onshore GDP growth needs to be below 1% in *real* terms on a rolling 4 quarter basis, and more than 1 percentage point below the equivalent UK *real* GDP growth rate.

7. If triggered, the Scottish Government would be able to access up to £600m of resource borrowing powers to respond to a shortfall in devolved or assigned tax receipts.

8. I hope this answers the questions you raised and that you continue in your important role of scrutinising the Scottish Government's new Fiscal Framework.

9. I am copying this letter to the Secretary of State for Scotland.

Your ever,

A handwritten signature in blue ink, appearing to read "Greg Hands", written over a horizontal line.

GREG HANDS