



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

Kenneth Gibson MSP  
Convenor, Finance Committee  
The Scottish Parliament  
Edinburgh  
EH99 1SP

Dear Kenneth,

12<sup>th</sup> September 2015

SCOTTISH PARLIAMENT FINANCE COMMITTEE

Thank you for your letter of 11 August, regarding the Scottish Parliament's Finance Committee's invitation to discuss the Scottish Government's fiscal framework and the committee's recent report.

2. In keeping with the agreement not to offer a running commentary on the framework negotiations, I am unable to provide comment on the specific policy items that are being discussed. I understand that your committee has requested an evidence session and I would be very happy for my officials to respond in writing to any specific questions your committee provide, and I will ensure they do so promptly.

3. The report itself provides a neat summary of the Scottish Parliament's position on many aspects of the fiscal framework. In particular, the views of the external stakeholders who have provided evidence to your committee are well set out and will no doubt form part of the fiscal framework discussions.

4. In particular, I note the report's reflections on the role of the Scottish Fiscal Commission in relation to fiscal forecasting. The recommendations are very much in line with the previous administration's reform of fiscal scrutiny at a UK level and the establishment of the independent OBR, which I was and remain a keen supporter of.

5. I am also encouraged that the report notes the broad support amongst witnesses for the notion that "the current borrowing powers should be






commensurate with the additional level of risk faced by the Scottish Government following further devolution". This is a key principle of the Smith Commission Report.

6. The report makes further specific recommendations on the Scottish Government's borrowing powers, in particular in support of a prudential regime. The report also discusses the interpretations of the Smith recommendation that the Scottish Government's fiscal framework must be consistent with the overall UK fiscal framework. I am committed to delivering the Smith Commission agreement in full.

7. The committee rightly notes the increasing complexity of the funding model for Scotland. It is therefore important that the block grant adjustments are coherent and based on the Smith principles. In particular, it is important that through the funding model UKG holds UK-wide risk and the Scottish Government hold the marginal Scotland-specific risk.

8. I am committed to working very closely with the Scottish Government and the Deputy First Minister in particular in order to achieve an outcome which delivers the Smith Commission Agreement in full. This is the biggest transfer of powers to date. I am determined to deliver a fair and lasting settlement both for Scotland and for the UK as a whole. Both Governments have committed to work towards reaching an agreement by the autumn of this year, alongside the passage of the Scotland Bill.

9. As stated previously, it would not be appropriate to appear in front of the Committee at this time. I am committed to appearing once we have an agreement on the contents of the fiscal framework.

*Yours sincerely,*  


GREG HANDS