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8 March 2022

Dear Kenneth and Elena,

## **Fiscal Framework Review**

I am writing to update you on the most recent developments in relation to the forthcoming review of the Fiscal Framework, given the ongoing interest and scrutiny of both committees in this matter.

I chaired a meeting of the Joint Exchequer Committee on 3 February in London, where I had constructive discussions with the Chief Secretary to the Treasury (CST) on both the review and the outstanding dispute in relation to the personal allowance spillover.

We both agreed that we are close to finalising arrangements for the independent report on the Scottish Government's Block Grant Adjustment arrangements which will inform the review. I hope to be able to provide a further update on this in the coming weeks.

Turning to the review, we agreed that it should be guided by the principles set out in the Smith Commission agreement.

On the scope of the review, my clear view is that it should look not only at the operation of the framework to date, but also the balance of risks and levers, and whether further powers are required to better manage key risks, achieve policy coherence and grow our economy.

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I believe this scope is necessary given the significant changes in the economic and constitutional landscape since the Fiscal Framework was agreed. As you will know, the Scottish Government's Programme for Government sets out our ambition to strengthen our existing suite of powers through the devolution of VAT and National Insurance contributions, full powers over Income Tax, and the introduction of a prudential borrowing regime for capital borrowing.

I continue to push for consideration of these issues as part of the review process.

We are both agreed that it is incumbent upon us to work together to avoid unnecessary delays to starting the Fiscal Framework review, and have agreed to continue a dialogue and joint preparations for the review, while the independent report is underway.

### **Personal Allowance Spillover Dispute**

We also discussed the next steps in relation to the Personal Allowance Spillover Dispute. We have agreed that officials will work together with a view to publishing a paper on the jointly-agreed analytical framework that sets out how the dispute is assessed under both the Scottish Government and HM Treasury position. Officials will also undertake further work on options to resolve the dispute for consideration at the next JEC meeting.

### **Scotland Act Implementation Report 2022**

I also wanted to inform you that the Scottish Government's Tenth Annual Report on the Implementation and Operation of Part 3 (Financial Provisions) of the Scotland Act 2012, and Sixth Report on the Implementation of the Scotland Act 2016 will be laid in the Scottish and UK Parliaments on the 28<sup>th</sup> April 2022. This report will detail the implementation work that has been carried out on fiscal powers in the Scotland Acts 2012 and 2016 in the financial year 2021-22. The UK Government will lay its version of the report concurrently in the Scottish and UK Parliaments.

Yours sincerely,

**KATE FORBES**

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