



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

Pete Wishart MP
Chair, Scottish Affairs Committee
House of Commons
London
SW1A 0AA

1 February 2018

Dear Pete,

SCOTTISH GOVERNMENT'S BLOCK GRANT ADJUSTMENT – 2017-18

I am writing in response to your letter of 16 January. I will address each of your points in turn below.

1. The OBR and SFC are both independent forecasters who therefore have complete discretion to determine their respective forecasting methodologies. As the OBR and the SFC both note in their reports, differences occur between the forecasts for a range of reasons including different access to data, policy information, modelling approaches and assumptions made. Both estimates start from the 2014-15 Survey of Personal Incomes, so the main source of difference is the assumptions made about growth between 2014-15 and 2016-17, which must be proxied using other sources.
2. i) The SFC's latest estimate for non-savings non-dividend income tax receipts in Scotland in 2016-17 is £11,214m. The OBR's latest estimate is £11,520.

ii) Using the SFC estimate as the baseline means a block grant adjustment for income tax of £11,749m in 2018-19 using the indexed per capita model. Using the OBR estimate would have meant a block grant adjustment for income tax of £12,070.



3. The OBR's forecasts are not subject to the Smith Commission principles. The issue here is simply that the OBR and the SFC have different estimates for 2016-17, whereas the fiscal framework relies on the same estimate being used for the block grant adjustment baseline and Scottish Government tax revenue baseline (so that they offset).
4.
 - i) The OBR estimates were indeed used to set the 2016-17 baseline for the 2017-18 block grant adjustment.
 - ii) In 2017-18, the Scottish Government produced their own forecast of income tax receipts in Scotland, certified by the SFC. However, this was based on the OBR's forecast for 16-17 income tax receipts and so did not give rise to the same issue as we have seen in 2018-19.
 - iii) There will be no need to revise the 2017-18 block grant adjustment until out-turn data is available for that year.
5.
 - i) Out-turn data for Scottish income tax in 2016-17 is expected to be available in summer this year.
 - ii) There is a reconciliation process for all years in which there is a block grant adjustment as set out in the Fiscal Framework. The first income tax reconciliation is for 2017-18 and will take place in time for Autumn Budget 2019 when 2017-18 out-turn data is available. The final 2016-17 baseline out-turn will also be used in that process.
6. The OBR and SFC have set out the shared principles under which they will operate (http://obr.uk/docs/dlm_uploads/SFC-OBR-Principles-21-Apr-2017.pdf). They intend to agree a full Memorandum of Understanding in due course.

Please let me know if you have any further questions on this.



I am copying this response to Derek Mackay, Cabinet Secretary for Finance and the Constitution, and the Secretary of State for Scotland.

Best wishes,

A handwritten signature in blue ink, appearing to read 'Elizabeth Truss'.

RT HON ELIZABETH TRUSS MP