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Rt Hon Simon Clarke MP
Chief Secretary to the Treasury
1 Horse Guards Road
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2 November 2021

Dear Simon,

1. Thank you for the positive and constructive discussion at the meeting of the Joint Exchequer Meeting on 14 October.
2. I am pleased that we were able reach an agreement in principle to commission an independent report on the Block Grant Adjustment arrangements. This independent report will not make recommendations, but will involve a call for evidence from stakeholders.
3. While the report will focus only on the Block Grant Adjustment arrangements, I welcome our agreement that the review should have a wider scope. This should ensure that the current arrangements are thoroughly assessed and options for reform considered, and that input is obtained from a wide range of stakeholders as part of the overall process.
4. This input will be critical in helping us to develop a robust evidence base to inform the review. The Scottish Government is also undertaking a programme of analysis to inform the review, building on other key publications and evidence, including, for example, the joint report that I agreed with the Session 5 Finance and Constitution and Social Security Committees of the Scottish Parliament. I welcome further discussions on the evidence base that will inform the review, as part of our future preparations.
5. Indeed, as I have been pressing for progress on the review since last year, reaching agreement that we can commence preparations for the review in parallel to the independent report is additionally helpful. This will enable us to move forward with the review without further delay and commence the review as close to the beginning of 2022 as possible.

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6. I would welcome another meeting of the Joint Exchequer Committee to discuss the scope and arrangements for the review, in due course, as well as the outstanding matter of the Personal Allowance spillover dispute.

7. In the meantime, I am content to agree to the draft Terms of Reference (ToR), confirming that the independent report will consider the existing arrangements (for the baseline adjustments and subsequent application of the Indexed Per Capita and Comparable methods) and any alternative arrangements for calculating Block Grant Adjustments in relation to tax, welfare and non-tax revenues (FFFPs and POCA). I have also asked my officials to work with yours to consider the potential authorship for the independent report, and finalise the Terms of Reference for publication, with a view to commissioning the report as soon as possible after the UK Budget and Spending Review.

8. I look forward to future discussions on this important shared endeavour to ensure the arrangements set out in the Fiscal Framework remain fair, effective, transparent and sustainable.

9. I am copying this letter to the Deputy First Minister, the Cabinet Secretary for the Constitution, External Affairs and Culture, and the Cabinet Secretary for Social Justice, Housing and Local Government.

Yours sincerely



KATE FORBES

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