Annex B – FoI/18/01509 – Information Released

Deputy First Minister Consular Corps briefing on the Scotland Bill and the Fiscal Framework (March 2016)

[redacted]

Q 7: What are economic shocks [which would be a condition for resource borrowing]?

DFM: A Scotland-specific economic shock is triggered when onshore Scottish GDP is below 1% in absolute terms on a rolling 4 quarter basis, and 1 percentage point below UK GDP growth over the same period. This has only happened once in the last 30 years. Resource borrowing would be used to stabilise public finances in the event of a shock. The SG would not borrow for current expenditure. . The calculation of Scottish GDP figures as the trigger for borrowing in these circumstances is an important new measure.

[redacted]

SCOTTISH GOVERNMENT PERFORMANCE BOARD (June 2016)

Economic competitiveness: economy reporting framework

[redacted]

13. The framework also sets out new resource borrowing powers for Scotland. The Scottish Government can borrow up to £600 million each year within a statutory overall limit of £1.75 billion for the following reasons: in-year cash management; forecast error in relation to devolved and assigned taxes and demand-led welfare expenditure; and, importantly for this paper, for any observed or forecast shortfall in devolved or assigned tax receipts or demand-led welfare expenditure incurred with an actual or forecast Scotland-specific economic shock. This is determined to occur when onshore Scottish GDP growth in real terms is forecast, or estimated, to be below 1% on a rolling 4 quarter basis and at least 1 percentage point below actual or forecast UK GDP growth over same period.

[redacted

BRIEFING NOTE

MINISTER FOR INTERNATIONAL DEVELOPMENT AND EUROPE

ORAL EVIDENCE SESSION TO THE SCOTTISH AFFAIRS COMMITTEE (September 2016)

[redacted]

- As part of the fiscal framework the Scottish Government negotiated an increase in the borrowing powers available to deal with the risk associated with the new tax powers.

- The Scottish Government can borrow up to £300m per year to manage forecast errors, which can increase to £600m in the event of a Scotland specific economic shock.

[redacted]

SCOTTISH ECONOMIC PERFORMANCE – GDP AND 'SCOTLAND-SPECIFIC ECONOMIC SHOCK' (January 2017)

ISSUE :

- Latest Scottish GDP data for Q3 2016 showed that the criteria defining a 'Scotland-specific economic shock' have been met.

- The Scottish Government Fiscal Framework sets out these criteria as:

"A Scotland-specific economic shock is triggered when onshore Scottish GDP is below 1% in absolute terms on a rolling 4 quarter basis, and 1 percentage point below UK GDP growth over the same period."

- Under the Fiscal Framework, from 1 April 2017 additional borrowing powers may be triggered for the Scottish Government if there is a Scotland-specific economic shock.

- Under these powers, the Scottish Government will have the power to borrow up to £600m each year for any observed or forecast shortfall in devolved or assigned tax receipts or demand-led social security expenditure.

- The final arrangements for how these new borrowing powers will operate still need to be agreed with the UK Government.

Top Lines

- **The borrowing powers in the Scotland Act 2016 and the Fiscal Framework will not commence until 1 April 2017.**

- **Once these powers come into effect, Ministers will evaluate all the options for borrowing and will, in due course, take responsible decisions on which method or methods to use based on the prevailing economic conditions and the outlook for Scotland's public finances and devolved tax revenues.**

- **Scotland's economy continued to grow in the 3 months following the EU Referendum.**

- **Scotland's GDP <u>per head</u> is now 2.2% above its pre-recession level, compared to the UK which is only 1.5% above its pre-recession level.**

- **Even without oil, GDP per head in Scotland is higher than the UK average excluding London.**

Contact: Fiscal Responsibility Division - Aidan Grisewood [redacted]

Briefing for Cabinet Secretary for Economy, Jobs and Fair Work (January 2017)

SCOTLAND'S GROSS DOMESTIC PRODUCT 2016 Q3

[redacted]

Scottish borrowing trigger

Under the Scotland Government Fiscal Framework, from 1 April 2017 additional borrowing powers may be triggered for the Scottish Government if there is a Scotland-specific economic shock. This is deemed to have occurred when the rolling four quarter change of onshore Scottish GDP meets two criteria:

Criteria for Scottish rolling annual growth	2016 Q3 result	Criteria met?
1. It is under 1%	0.7%	**Yes**
2. It is 1 percentage point (pp) or more below the UK	1.2 pp difference	**Yes**

When additional borrowing powers have commenced and if they are triggered, the Scottish Government will have the power to borrow up to £600m each year for any observed or forecast shortfall in devolved or assigned tax receipts or demand-led social security expenditure.

The final arrangements for how the new borrowing powers will operate still need to be agreed with the UK Government.

[redacted]

SCOTTISH ECONOMIC PERFORMANCE – GDP AND 'SCOTLAND-SPECIFIC ECONOMIC SHOCK' (March 2017)

ISSUE :

- Latest Scottish GDP data for Q4 2016 show that the criteria defining a 'Scotland-specific economic shock' have been met. The Fiscal Framework sets out the definition of a shock as:

  "A Scotland-specific economic shock is triggered when onshore Scottish GDP is below 1% in absolute terms on a rolling 4 quarter basis, and 1 percentage point below UK GDP growth over the same period."

- Under the Fiscal Framework, from 1 April 2017 additional borrowing powers under certain conditions may be triggered for the Scottish Government if there is a Scotland-specific economic shock.

- These powers allow the Scottish Government to borrow up to £600m each year for any observed or forecast shortfall in devolved or assigned tax receipts or demand-led social security expenditure. The powers cannot be used as a tool for counter-cyclical spending.

- The additional borrowing powers have not been triggered in this case, because the current four quarter period comprises of data occurring prior to the commencement of Scotland Act 2016 powers (Q4 2015 to Q4 2016). Moreover, there is no 'observed or forecast shortfall' in tax receipts or social security expenditure to borrow against.

Top Lines

- **The borrowing powers in the Scotland Act 2016 commenced on 1 April 2017.**

- **The Scottish Government negotiated and agreed additional borrowing powers in the Fiscal Framework in order to ensure budgetary stability and provide safeguards to smooth Scottish public spending in times of economic volatility.**

- **These powers have not come into effect in this case, as the data refers to economic activity preceding the commencement of borrowing powers on 1 April 2017**

- **If these additional powers are triggered in future, Ministers will as ever evaluate all the options for borrowing and will in due course take responsible decisions on which method or methods to use based on the prevailing economic conditions and the outlook for Scotland's public finances and devolved tax revenues.**

- **Any resource borrowing will have to be paid back in full within five years and with interest, so all decisions must be taken with fiscal sustainability at their core.**

Contact: [redacted]

Briefing for Cabinet Secretary for Economy, Jobs and Fair Work (April 2017)

SCOTLAND'S GROSS DOMESTIC PRODUCT 2016 Q4

[redacted]

Scottish borrowing trigger

Under the Fiscal Framework agreement, from 1 April 2017 additional borrowing powers may be triggered for the Scottish Government under certain conditions if there is a Scotland-specific economic shock (GDP growth under 1% and 1pp below RUK growth). These additional borrowing powers allow the Scottish Government to borrow up to £600m each year. Borrowing can only be undertaken to cover any observed or forecast shortfall in tax receipts or demand-led social security expenditure, and cannot be used as a tool for counter-cyclical spending.

These powers are triggered when the rolling four quarter change of onshore Scottish GDP meets three criteria:

Criteria for Scottish rolling annual growth	2016 Q4 result	Criteria met?
1. It is under 1%	0.4%	Yes
2. It is 1 percentage point (pp) or more below the UK	1.4 pp difference	Yes
3. All quarters occur after 1 April 2017		No

The additional borrowing powers have not been triggered, because the current four quarter period comprises of data occurring before the commencement of Scotland Act 2016 powers.

Given however that the definition for a Scottish-specific economic shock has been met (GDP growth under 1% and 1pp below RUK), there might be considerable focus on whether the powers have been triggered or not. As such, we will prepare lines in case this issue is raised.

[redacted]

Briefing for Cabinet Secretary for Economy, Jobs and Fair Work (July 2017)

[redacted]

Scottish borrowing trigger

Under the Fiscal Framework agreement, from 1 April 2017 additional borrowing powers may be triggered for the Scottish Government under certain conditions if there is a Scotland-specific economic shock (GDP growth under 1% and 1pp below RUK growth). These additional borrowing powers allow the Scottish Government to borrow up to £600m each year. Borrowing can only be undertaken to cover any observed or forecast shortfall in tax receipts or demand-led social security expenditure, and cannot be used as a tool for counter-cyclical spending.

These powers are triggered when the rolling four quarter change of onshore Scottish GDP meets three criteria:

Criteria for Scottish rolling annual growth	2017 Q1 result	Criteria met?
1. It is under 1%	+0.5	Yes
2. It is 1 percentage point (pp) or more below the UK	1.4 pp difference	Yes
3. All quarters occur after 1 April 2017		No

The additional borrowing powers have not been triggered, because the current four quarter period comprises of data occurring before the commencement of Scotland Act 2016 powers.

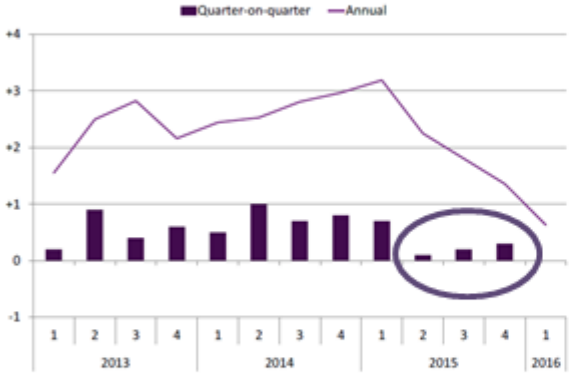
[redacted]

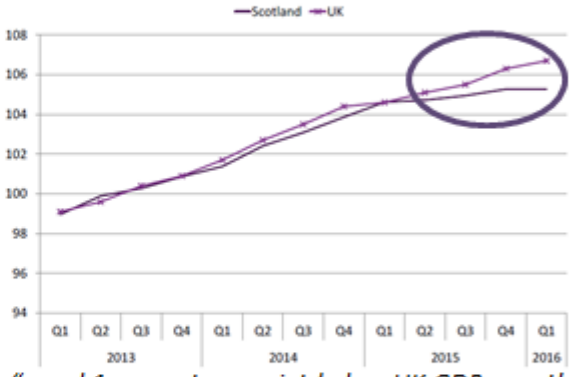
Strategic Board Presentation (September 2017)

[redacted]

ASYMMETRIC ECONOMIC SHOCK

"A Scotland-specific economic shock is triggered when onshore Scottish GDP is below 1% in absolute terms on a rolling 4 quarter basis..."





"...and 1 percentage point below UK GDP growth over the same period." (Fiscal Framework)

In the four quarters ending Q1 2016 Scottish GDP grew by 1.5% and UK GDP grew by 2.0%. If trends continue in Q2 2016, the criteria for a Scotland-specific economic shock would be met (although the compensating borrowing powers don't come into effect until April 2017).

[redacted]

BRIEFING FOR CABINET SECRETARY FOR FINANCE (JANUARY 2018)

DRAFT BUDGET 2018/19 - TAXATION SESSION BRIEFING

[redacted]

Revenue Borrowing – Scotland Act 2016

- The annual limit for borrowing for forecast errors will increase to £300m (from £200m under Scotland Act 2012).
- The annual limit for borrowing for forecast and economic shocks will increase to £600m during the financial years of a Scotland-specific economic shock.
- An overall debt limit of £1.75bn will apply (increase from £500m under Scotland Act 2012).
- A Scotland-specific economic shock is triggered when onshore Scottish GDP growth is below 1% in absolute terms on a rolling 4 quarter on 4 quarter basis, and 1% below UK GDP growth over the same period.
- Flexible repayment period of between 3 and 5 years, decided by Scottish Ministers (previously 4 years under Scotland Act 2012).

[redacted]

UK Spring Statement Distilled Brief (March 2018)

[redacted]

Impact on Borrowing Powers: The revisions to the OBR's forecasts do not change the SFC's assessment that a "Scotland-specific" economic shock is not forecast to occur over the coming financial year. Hence, despite the difference in the SFC's and OBR's forecasts, Scotland will not have access to any additional borrowing powers. The criteria required for a Scottish Specific Shock to occur are:

- 4Q-on-4Q GDP growth in Scotland is below 1.0%
- 4Q-on-4Q GDP growth in Scotland is 1.0 percentage points below that of the UK.

[redacted]

Briefing to Cabinet Secretary for Finance and the Constitution (March 2018)

SCOTTISH FISCAL COMMISSION: FINAL REPORT

[redacted]

4. As well as covering forecasts of devolved Scottish tax revenues, social security expenditure as well as assessment of borrowing projections. They also provide updated economic forecasts for the next 5 years, including onshore GDP, employment and earnings. Alongside OBR forecasts of UK growth, SFC also forecast whether a Scottish-specific economic shock is likely, which would enable access to enhanced resource borrowing powers under the Fiscal Framework.

[redacted]

- [redacted]On resource borrowing, the SFC have confirmed on the basis of theirs and OBR forecasts that a Scotland-specific economic shock triggering access to extra resource borrowing is not forecast.

[redacted]

Briefing to Cabinet Secretary for Finance and the Constitution (May 2018)

FINANCE AND CONSTITUTION COMMITTEE: THE SECOND ANNUAL REPORT ON THE IMPLEMENTATION OF THE SCOTLAND ACT 2016

[redacted]

The fiscal framework secures additional resource borrowing powers to ensure budgetary stability and manage the volatility associated with greater powers

- The annual limit for borrowing for forecast errors has increased to £300m (from £200m)
- The annual limit for borrowing for forecast and economic shocks will increase to £600m during the financial years of a Scotland-specific economic shock
- An overall debt limit of £1.75bn will apply (increase from £500m)
- A Scotland-specific economic shock is triggered when onshore Scottish GDP growth is below 1% in absolute terms on a rolling 4 quarter on 4 quarter basis, and 1% below UK GDP growth over the same period.
- Repayment period of between 3 and 5 years, Scottish Ministers to determine (previously 4 years)
- These borrowing limits are fixed in cash terms, but should be reviewed as part of the wider review of the Fiscal Framework.

[redacted]

Email Chain – Correspondence on Economic Shock (May 2018)

[redacted]

From: [redacted]
Sent: 23 May 2018 15:10
To: [redacted]; McAllister C (Colin); Fuller S (Simon); McCaig C (Callum); [redacted]; First Minister FMQs; Ingebrigtsen R (Ross); Khan U (Uzma); McFarlane J (John); Nicolson S (Stuart) Nicolson S (Stuart) Special Adviser;); Grisewood A (Aidan)
Cc: [redacted] ; Communications Economy
Subject: RE: URGENT - Economic schock??

Thanks, [redacted] – the below is where we are with a final line. Is this good to go for clearance?

SG spokesperson: "It is simply incorrect to claim that all the criteria for Scotland-specific economic shock borrowing have been met, and in their most recent report the Scottish Fiscal Commission have stated they do not expect them to be met.

"We continue to use all of the powers at our disposal to protect and grow our economy. As a result of those actions, Scotland has seen the fastest productivity growth in the UK since 2007 and the economy has strengthened over the past year. GDP growth is up over 1%, international goods exports - including oil and gas - grew by 19% last year, and the number of people in employment is up 10,000 over the last year.

"Undoubtedly, the single biggest threat to the economy is the risk of a hard Brexit and it is vital that the UK Government commits to remaining in the single market and customs union to protect jobs and investment in Scotland. Our latest analysis, confirmed by UK Government figures, shows Brexit could cost Scotland's economy £12.7 billion a year by 2030."

Background

The 'Scotland specific shock' relates to the Scottish Government's ability to borrow to offset forecast errors in devolved taxes. The criteria to access this borrowing have not been met, and in their December 2017 report, the Scottish Fiscal Commission are not forecasting that they will be triggered.

[redacted]

Briefing on Scotland-specific Economic Shock (May 2018)

- The Fiscal Framework sets out the definition of a shock as:
- "A Scotland-specific economic shock is triggered when onshore Scottish GDP is below 1% in absolute terms on a rolling 4 quarter basis, and 1 percentage point below UK GDP growth over the same period."
- In Q4 Scottish growth was 0.8% and the gap with the UK (calculated before rounding) was 1.03 percentage points, showing that a shock had been triggered.
- This is not a new development. These criteria have been met in each of the last 8 quarters.
- Under the Fiscal Framework, from 1 April 2017 additional borrowing powers under certain conditions may be triggered for the Scottish Government if there is a Scotland-specific economic shock.
- These powers allow the Scottish Government to borrow up to £600 million each year for any observed or forecast shortfall in devolved or assigned tax receipts or demand-led social security expenditure. The powers cannot be used as a tool for counter-cyclical spending.
- However, the revenue borrowing powers permitted in the event of a Scotland specific economic shock only commenced from April 2017. To access these powers, the 4 consecutive quarters of growth against which the criteria are assessed must be after this date. This has not yet occurred.

Top Lines

- The 'Scotland specific shock' relates to the Scottish Government's ability to borrow to offset forecast errors in devolved taxes.
- The criteria to access this borrowing have not been met, and the Scottish Fiscal Commission are not forecasting that they will be triggered.
- The single biggest threat to the economy is the risk of a hard Brexit which could cost Scotland's economy £12.7 billion a year

by 2030. It is vital that the UK Government commits to remaining in the single market and customs union to protect jobs and investment in Scotland.

The criteria to access the revenue borrowing permitted under the fiscal framework have not been fully met

- The revenue borrowing powers permitted in the event of a Scotland specific economic shock only commenced from April 2017.

- To access these powers, the 4 consecutive quarters of growth against which the criteria are assessed must be after this date.

- As we currently only have three quarters of data since April 2017 (2017Q2-Q4) we cannot access the additional borrowing flexibility at this time.

- And looking forward, the Scottish Fiscal Commission state "we do not forecast that a Scotland-specific economic shock, as defined by the Fiscal Framework, will be triggered"

- In any case, the Scottish Government would only be able to resource borrow due to a specific forecast error or in-year cash management issue, which we don't have.

Scotland's economy has experienced an economy shock – caused by the fall in oil prices

- There has been a Scotland specific economic shock. This has been caused by the global fall in oil prices which has had a significant impact on the North East economy and the wider Scottish economy.

- Despite this shock, Scotland's economy has grown over 1% over the past 12 months, international goods exports - including oil and gas - grew by 19% last year, and the number of people in employment is up 10,000 over the last year.

The Scottish Government is also taking a range of measures to support the North East economy in the face of this shock.

- As part of the Aberdeen City Region Deal, we have committed £90 million over the next decade to support the Oil & Gas Technology Centre (OGTC).

- In 2016, we also launched a 3-year, £12 million Transition Training Fund (TTF) to support individuals and help the sector retain talent.

- The latest figures show almost 3,251 people have had applications approved– surpassing TTF's initial aim of supporting over 1,000 participants each year.

- The PACE programme has focused significant efforts in the North East – 5 PACE job events aimed at the oil & gas industry were attended by over 4,200 people.

Briefing to Cabinet Secretary for Finance and the Constitution (May 2018)

Medium Term Financial Strategy 2018

[redacted]

Additional borrowing powers under certain conditions may be triggered for the Scottish Government if there is a Scotland-specific economic shock

- A Scotland-specific economic shock is triggered when onshore Scottish GDP growth is below 1% in absolute terms on a rolling 4 quarter on 4 quarter basis, and 1% below UK GDP growth over the same period.
- In Q4 Scottish growth was 0.8% and the gap with the UK (calculated before rounding) was 1.03 percentage points, showing that certain shock criteria had been met.
- However, the revenue borrowing powers permitted in the event of a Scotland specific economic shock only commenced from April 2017. To access these powers, the 4 consecutive quarters of growth against which the criteria are assessed must be after this date. This has not yet occurred, and the Scottish Fiscal Commission is not forecasting that this will occur.
- The 'Scotland specific shock' relates to the Scottish Government's ability to borrow to offset forecast errors in devolved taxes. This is a technical term and does not mean that Scotland is in a recession or an economic crisis.
- It is not possible for the Scottish Government to apply resource borrowing to provide an economic stimulus – only to meet a shortfall in tax receipts or demand-led social security spending.

[redacted]