

F/T: 0300 244 4000
E: scottish.ministers@gov.scot

Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
The Scottish Parliament
Edinburgh
EH99 1SP

By email: fpa.committee@parliament.scot

28 June 2023

Dear Kenneth,

1. My predecessor wrote to the Committee on 29 November 2022 to update on the Block Grant Adjustments and reconciliations for tax revenue and social security expenditure following the Office for Budget Responsibility (OBR) forecasts on 17 November.
2. The letter noted that the final reconciliation applying to the 2023-24 Scottish Budget relating to previous years' outturn would be finalised once delayed mid-year population data for 2021 had been published by the ONS, and that the Committee would be updated the when the data is available.
3. On 21 December 2022 the ONS published their mid-2021 population estimates. However, differences in the timing of the Scottish and UK censuses mean that were we to use this latest ONS estimate we would be comparing estimates of rUK population growth for 2021 that incorporated census date, with estimates of Scottish population growth for 2021 that had not been updated to reflect comparable Scottish census data. As a consequence, the estimate of relative population growth in 2021 could not be calculated on a consistent like-for-like basis, which would distort any BGAs or reconciliations that were based on this estimate.
4. In subsequent discussions with HMT, it was agreed that the following approach would address the short-term issues around use of ONS' population data:
 - I. The provisional reconciliation of £45.8 million using the ONS' mid-2020 population estimates will continue to be applied to the 2023-24 Budget. This means no change to what was applied at the 2023-24 Scottish Budget. A breakdown of this is provided in Table A of Annex A.
 - II. Once the Scottish census is published, and both the Scottish and rUK ONS population estimates from 2012 to 2021 are fully revised to the census data, HMT and

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SG will agree a future reconciliation process to address any changes in the historic population estimates. This might not be until after the Scottish Budget 2024-25 process concludes.

- III. Applying a single reconciliation in the future once the Scottish and rUK census is fully published and incorporated will avoid unnecessary funding volatility arising from inconsistent measures of relative population growth.
- IV. Any BGA or reconciliation estimate which takes place before the census data is fully published and revised, will also provisionally use mid-2020 population data (as used in the 23-24 Scottish Budget), including the upcoming Income Tax outturn data for 2021-22.

5. Please also note that, the 2021-22 social security reconciliations are not based on the most recent outturn provided by DWP. This is because DWP provided revised outturn between the Autumn Statement – when final reconciliations would usually be applied – and the above agreement, which if applied would leave the Scottish Budget £10.4 million worse off. SG officials argued that it was unfair to apply this change when the final reconciliations would already have been set if not for the ONS issue. As a result, HMT have agreed to use the social security outturn from the Autumn Statement. Thank you for your patience. My officials will be happy to provide any further information to Committee Members if that is required.

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ANNEX A

Table A: BGA reconciliations applying to 2023-24 Scottish Budget (£m)

Income Tax 2020-21 net revenue and BGA reconciliation	50.4
LBTT 2021-22 BGA reconciliation	-22.9
SLfT 2021-22 BGA reconciliation	-12.3
FFFP 2021-22 BGA reconciliation	0.5
PoC 2021-22 BGA reconciliation	N/A
Social Security Benefits with a BGA 2021-22 BGA reconciliation	30.2
Total BGA Reconciliations	45.8

Figures do not sum due to rounding

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