

Deputy First Minister and Cabinet Secretary for Finance
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airson Ionmhas

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Dear Kenneth,

The Office for Budget Responsibility (OBR) published updated UK Government tax revenue and social security benefits expenditure forecasts on 22 November. These forecasts inform the Block Grant Adjustments (BGAs) for the Scottish Budget 2024-25. Table A in the annex to this letter sets out the BGAs for Income Tax, Land and Buildings Transaction Tax (LBTT), Scottish Landfill Tax (SLfT), and the devolved social security benefits.

These BGAs only provide a partial view as the full impact on Scotland's Budget will not be known until the SFC publish its forecasts for devolved tax revenues and benefit expenditure in December.

This is the first fiscal event since the Fiscal Framework Review was agreed. It was agreed in the review that the Index per Capita method would be the permanent method for calculating BGAs, which protects Scotland from potentially slower population growth. The other BGA impact from the review is that Fines, Forfeitures and Fixed Penalties will now have a set BGA of £25m which will be applied at each Budget, rather than having a BGA based on forecast which is then reconciled to outturn.

As the 2023-24 BGAs for the Fully Devolved Taxes and Social Security benefits have been updated to reflect the latest forecasts of corresponding tax receipts and social security expenditure in the rest of the UK, we have calculated the in-year reconciliations required to the 2023-24 Scottish Budget, as outlined at Table B in the Annex. A reconciliation of **£46 million** will be **added** from the 2023-24 Block Grant. As noted above, this only provides one side of the calculation, and SFC forecasts alongside the 2024-25 Scottish Budget will allow a rounded picture of the net position.

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The final reconciliation applying to the 2024-25 Scottish Budget relating to previous years' outturn is **negative £338.0 million**, as outlined in Table C in the Annex. Please note that the DWP outturn used to calculate the England and Wales part of social security BGAs is undergoing a final quality check and will be confirmed after the Scottish Budget is set. This outturn is not expected to change.

I hope you have found this update helpful, and my officials would be happy to provide any further information on the BGAs to Committee Members, as required.

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ANNEX A

Table A: Block Grant Adjustments - OBR forecasts November 2023 (£m)

TAX	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Income Tax	-14,768	-16,530	-17,432	-18,125	-18,960	-19,877	-20,693
LBTT	-697	-533	-521	-592	-697	-800	-905
SLfT	-95	-82	-84	-76	-77	-77	-76
Total Tax	-15,560	-17,145	-18,037	-18,793	-19,734	-20,754	-21,674

SOCIAL SECURITY	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
AA	548	643	724	767	784	801	831
PIP	2,026	2,494	2,927	3,258	3,516	3,769	4,005
DLA	735	820	877	909	925	942	937
CA	308	353	389	416	434	452	459
IIDS	78	83	85	84	81	79	76
SDA	6	6	5	5	4	3	2
CWP	23	6	6	6	6	6	6
WFP	N/A	N/A	178	181	182	180	181
TOTAL SS	3,724	4,405	5,191	5,625	5,931	6,231	6,497

indicates outturn data; Figures may not sum due to rounding

Table B: In-year reconciliations to the 2023-24 Budget

	2023-24 BGAs applied to 2023-24 Scottish Budget in December 2022 (£m)	2023-24 BGAs based on OBR 22 November forecast (£m)	Change in the forecast BGA from Scottish Budget (£m)
LBTT	-517	-533	-16
SLfT	-99	-82	+17
Fines, Forfeitures and Fixed Penalties*	-26	-25	+1
Social Security Benefits with a BGA**	+4,360	+4,405	+45
TOTAL	+3,719	+3,765	+46

*Ordinarily, there are no in-year reconciliations for Fines, Forfeitures and Fixed Penalties (FFFP). An agreement has been reached with HMT to apply a one-off in-year reconciliation of +£0.6m in order to align the BGA to the fixed position of £25m, as agreed in the Fiscal Framework Review.

**AA, PIP, DLA, CA, IIDS, SDA, CWP, WFP

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Table C: Total Final Reconciliation Requirements for the 2024-25 Budget (£m)

Income Tax 2021-22		-389.9
Of which: Final Revenue reconciliation	+1,461.1	
Final BGA reconciliation	-1,851.0	
LBTT 2022-23 final BGA reconciliation		+19.5
SLfT 2022-23 final BGA reconciliation		+7.8
FFFP 2022-23 final BGA reconciliation		+3.2
PoC 2022-23 final BGA reconciliation		N/A
Social Security 2022-23 final BGA reconciliation		+21.4
Total Final Reconciliation Requirement		-338.0

*The baselines for three social security benefits (Personal Independence Payment, Severe Disablement Allowance and Industrial Injuries Disablement Scheme) have been revised due to changes to historic DWP outturn. The baselines for Scotland and England/Wales have changed by the same proportion, resulting in no substantial change to the BGAs.

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