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Dear Kenneth and Collette,

The Office for Budget Responsibility (OBR) published updated UK Government tax revenue and social security benefits expenditure forecasts on 30 October. These forecasts inform the Block Grant Adjustments (BGAs) for the Scottish Budget 2025-26. 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.

As the 2024-25 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 2024-25 Scottish Budget, as outlined at Table B in the Annex. A reconciliation of **£54 million** will be **deducted** from the 2024-25 Block Grant. As noted above, this only provides one side of the impact on the Scottish Budget, and SFC forecasts alongside the 2025-26 Scottish Budget will allow a rounded picture of the net position.

The in-year reconciliation includes a **negative £146 million** in-year reconciliation for Winter Fuel Payment, which is driven by the UK Government's policy of means-testing the benefit. As part of the Fiscal Framework, the Scottish Government has the option to defer in-year reconciliations when the impact is due to a UK Government policy change introduced after the Scottish Government's Budget (see Annex C, paragraph 46 of the Fiscal Framework).

I can confirm that we have not elected to defer the impact of the in-year reconciliation and the reduction to funding will be reflected in the funding position for the Scottish Budget 2024-25. Deferring the BGA impact would not have improved the overall funding position, as it would have pushed considerable additional pressure onto 2026-27, where the funding outlook remains challenging.

The reconciliation to be applied to the 2025-26 Scottish Budget relating to previous years' outturn was calculated as **positive £499.9 million** at the time of the Autumn Budget on 30 October, as outlined in Table C in the Annex. This reconciliation was provisional due to final outturn for 2023-24 UKG social security expenditure being unavailable at the time of the Autumn Budget 2024. The Department for Work and Pensions (DWP) published final 2023-24 social security outturn on 21 November. Updating the 2023-24 social security outturn BGAs for final outturn, moves the £499.9 million reconciliation to £492.7 million – a reduction of £7.2 million.

However, under the terms of the Fiscal Framework, the Scottish Government has the option to defer the impact of outturn, which is not published at least two months in advance of the publication of the Scottish Budget (see Annex C, paragraph 32 of the Fiscal Framework), by one budget year. Due to this change to the outturn BGAs being less than two weeks from publication of the Scottish Budget 2025-26, I have chosen to defer the £7 million negative impact of the updated outturn to the Scottish Budget 2026-27.

Some changes to historic DWP outturn have also been identified. DWP is currently investigating changes in historic social security outturn to ensure published expenditure figures are in line with final accounts. As a result, we have agreed to not update the figures until this investigation has concluded.

The BGAs calculated at Autumn Budget 2024 use the most up to date mid-year 2023 population estimates from the Office for National Statistics (ONS). However, the OBR's forecasting process locked before these population estimates were published and therefore their tax and welfare forecasts were informed by the ONS mid-year 2022 population estimates. The updated population figures will be incorporated into underlying OBR tax and spend forecasts as part of future forecasting rounds, and will feed through to BGAs via the reconciliation process in the usual way.

Furthermore, the National Records of Scotland revised their mid-2022 population estimates for Scottish population, reducing it by 700 people. This has a minor impact on all BGAs, including those used to calculate the 2022-23 income tax reconciliation. The revised reconciliation is reflected in Table C of Annex A.

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.

SHONA ROBISON

ANNEX A

Table A: Block Grant Adjustments - OBR forecasts October 2024 (£m)

| TAX | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 |
|------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Income Tax | -16,527 | -18,389 | -19,639 | -20,468 | -21,207 | -21,862 | -22,675 |
| LBTT | -526 | -574 | -660 | -761 | -862 | -961 | -1,047 |
| SLfT | -74 | -75 | -57 | -54 | -37 | -40 | -41 |
| Total Tax | -17,127 | -19,038 | -20,356 | -21,283 | -22,106 | -22,863 | -23,762 |

| SOCIAL SECURITY | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 |
|-----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| AA | 650 | 740 | 783 | 820 | 851 | 878 | 910 |
| PIP | 2,493 | 2,984 | 3,290 | 3,603 | 3,932 | 4,261 | 4,650 |
| DLA | 846 | 932 | 976 | 1,025 | 1,069 | 1,090 | 1,089 |
| CA | 355 | 397 | 420 | 447 | 475 | 500 | 529 |
| IIDS | 84 | 86 | 84 | 83 | 81 | 79 | 76 |
| SDA | 6 | 6 | 5 | 4 | 4 | 3 | 2 |
| CWP | 5 | 6 | 6 | 6 | 6 | 6 | 6 |
| WFP | N/A | 32 | 31 | 30 | 29 | 29 | 29 |
| TOTAL SS | 4,439 | 5,182 | 5,596 | 6,018 | 6,447 | 6,846 | 7,291 |

indicates outturn data; Figures may not sum due to rounding

Table B: In-year reconciliations to the 2024-25 Budget

| | 2024-25 BGAs applied to 2024-25 Scottish Budget in December 2023 (£m) | 2024-25 BGAs based on OBR 30 October 2024 forecast (£m) | Change in the forecast BGA from Scottish Budget (£m) |
|---|---|---|--|
| LBTT | -521 | -574 | -53 |
| SLfT | -84 | -75 | 9 |
| Social Security Benefits with a BGA* | +5,191 | +5,180 | -9 |
| TOTAL | +4,562 | +4,513 | -54 |

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

Table C: Total Provisional Reconciliation Requirements for the 2025-26 Budget (£m)

| | | |
|--|----------|---------------|
| Income Tax 2022-23 | | +450.6 |
| Of which: | +1,498.4 | |
| Final Revenue reconciliation | | |
| Final BGA reconciliation | -1,047.8 | |
| LBTT 2023-24 final BGA reconciliation | | +7.7 |
| SLfT 2023-24 final BGA reconciliation | | +7.5 |
| Social Security 2023-24 provisional BGA reconciliation | | +34.1 |
| Total Provisional Reconciliation Requirement | | +499.9 |