

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

Bruce Crawford
Convener
Finance and Constitution Committee
The Scottish Parliament
Edinburgh
EH99 1SP

15 March 2021

Dear Bruce,

Block Grant Adjustments

As the Scottish Budget 2021-22 was published prior to the UK Budget, it used provisional Block Grant Adjustment (BGA) figures, drawn from the Office for Budget Responsibility (OBR) forecasts that accompanied the UK Spending Review in November 2020. An updated set of BGA figures for 2021-22 is now available, based on revised UK Government tax revenue and social security expenditure forecasts published by the OBR alongside the UK Budget on 3 March 2021. Reflecting the late timing of the UK Budget, HM Treasury has agreed that the Scottish Government has discretion over which set of BGA figures to use in finalising the Scottish Budget 2021-22.

I am writing to advise you that I have decided to continue to use the provisional (BGA) figures to inform the Scottish Budget 2021-22. A comparison of the updated BGAs compared to the provisional BGAs is provided in Table 1 in the annex to this letter. Using the updated BGAs would reduce the overall 2021-22 funding position by £39m as the net BGA position has deteriorated relative to the provisional BGA position, largely driven by changes to the income tax BGA (-£48m), with smaller changes to the fully devolved taxes BGAs (-£7m) and social security BGAs (+£15m).

The upgrade to the OBR's income tax forecasts for the rest of the UK, and resulting increase in the BGA, reflects increases in their forecast for the whole of the UK, including Scotland. This is driven by the significant additional fiscal stimulus provided in the UK Budget, an expectation of a swifter and more sustained economic recovery as a result of a more optimistic outlook on the rollout of vaccines, and the extension of the furlough scheme until September. These developments are not reflected in the Scottish Fiscal Commission's (SFC's) January Income Tax forecasts.

Tha Ministearan na h-Alba, an luchd-comhairleachaidh sònraichte agus an Rùnaire Maireannach fo chumhachan Achd Coiteachaidh (Alba) 2016. Faicibh www.lobbying.scot

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

The decision to use the provisional BGAs protects the Scottish Budget in the short-term, meaning no immediate changes are needed to the overall funding envelope for 2021-22. While using the updated BGAs would mean a relatively modest adjustment to the Scottish Budget now, given the significant challenges we face in relation to the ongoing response to COVID-19 and economic recovery, I consider it more important to ensure that we have flexibility to mobilise funding where it is most needed.

Using the provisional BGAs does not eliminate all risks to the Scottish Budget 2021-22, as the fully devolved taxes and social security BGAs are subject to an in-year reconciliation. On the basis of the latest OBR forecasts, the net in-year BGA reconciliation is likely to be in the region of +£9m; however the position will only become clear at the next set of OBR forecasts in autumn 2021. It may also be worth noting that for some of the forecasts that underpin the BGAs, there is also a considerable degree of uncertainty. For example, the OBR has given a high risk rating to the estimated £1.35 billion policy cost of extending the nil rate threshold increase on Stamp Duty Land Tax (SDLT) in 2021-22. Additionally, the net impact will also be dependent on how corresponding Scottish tax revenues and expenditure perform relative to the BGAs in 2021-22. We understand the SFC will provide updated forecasts in their September publication.

We will continue to manage any in-year reconciliations as part of our normal in-year budget management processes. We will also closely monitor the forecasts for income tax revenues and the associated BGA as they are updated, although the position will ultimately only become clear when outturn data are available in summer 2023. Any reconciliation will then be applied to the Scottish Budget 2024-25.

While the Scottish Government can use its borrowing and reserve powers to manage budget volatility, it was clear prior to the pandemic that those limits were insufficient. It is now evident that the underlying level of volatility inherent in the Fiscal Framework, a significant driver of which is having the Scottish Budget being informed by two different forecasters, has been exacerbated by the impacts of COVID-19 and the late UK Budget. Although additional flexibilities are available from the triggering of the Scotland-specific economic shock provisions, these are limited and will lapse at the end of 2023-24. As such, these flexibilities cannot be used to manage any significant negative income tax reconciliation for 2021-22 which would be applied to the 2024-25 Budget. Given these current circumstances, I will continue to press the UK Government for additional flexibility to manage the risk of any increased negative reconciliation.

Beyond this, it is clear that the review of the Fiscal Framework must consider all of these issues in detail and ensure that the Scottish Government has much greater fiscal flexibility to manage the risks inherent in the operation of the Fiscal Framework.

Finally, you may also wish to note that, on the basis of the OBR's latest forecasts, the criteria for a Scotland-specific economic shock in 2021-22 continue to be met. This continues to result from timing differences between the SFC and OBR forecasts, and both forecasters have been clear that they do not anticipate a significant divergence in economic performance between Scotland and the rest of the UK.

Tha Ministearan na h-Alba, an luchd-comhairleachaidh sònraichte agus an Rùnaire Maireannach fo chumhachan Achd Coiteachaidh (Alba) 2016. Faicibh www.lobbying.scot

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

I will keep the Committee informed of progress on these matters, and my officials would be happy to provide any further information on the BGAs to the Committee, as required.



KATE FORBES

Tha Ministearan na h-Alba, an luchd-comhairleachaidh sònraichte agus an Rùnaire Maireannach fo chumhachan Achd Coiteachaidh (Alba) 2016. Faicibh www.lobbying.scot

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

Taigh Naomh Anndrais, Rathad Regent, Dùn Èideann EH1 3DG
St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot



Accredited
Until 2020



Table 1: Provisional BGAs v Updated BGAs

Tax

		2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Income Tax	Provisional	-11,582	-11,677	-11,788	-12,294	-12,840	-13,475	-14,105
	Updated	-11,593	-11,762	-11,836	-12,616	-13,082	-14,027	-14,834
	Difference	-12	-86	-48	-322	-242	-551	-729
LBTT	Provisional	-533	-391	-515	-544	-601	-666	-723
	Updated	-533	-407	-522	-618	-645	-692	-738
	Difference	0	-17	-7	-74	-43	-26	-15
SLfT	Provisional	-99	-87	-95	-91	-79	-74	-80
	Updated	-99	-91	-95	-91	-80	-77	-81
	Difference	0	-4	0	1	-1	-4	-1
TOTAL TAX	Provisional	-12,213	-12,154	-12,398	-12,930	-13,520	-14,215	-14,908
	Updated	-12,225	-12,261	-12,452	-13,325	-13,807	-14,795	-15,653
	Difference	-12	-107	-54	-395	-286	-581	-745

Social Security

		2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Attendance Allowance	Provisional	N/A	531	546	564	586	608	638
	Updated	N/A	525	526	544	569	594	625
	Difference	N/A	-5	-20	-20	-17	-14	-13
PIP	Provisional	N/A	1555	1682	1856	2009	2158	2309
	Updated	N/A	1575	1717	1900	2062	2219	2427
	Difference	N/A	20	36	44	53	61	118
DLA	Provisional	N/A	719	685	665	642	610	557
	Updated	N/A	723	688	678	667	633	592
	Difference	N/A	4	3	13	24	22	35
Carer's Allowance	Provisional	283	289	309	333	355	379	404
	Updated	283	289	307	331	353	375	409
	Difference	0	-1	-2	-1	-2	-4	5
IIDA	Provisional	N/A	84	81	79	77	76	74
	Updated	N/A	83	80	78	77	76	74
	Difference	N/A	0	-1	-1	0	0	0
SDA	Provisional	N/A	8	7	7	7	6	6
	Updated	N/A	8	7	6	5	5	4
	Difference	N/A	0	-1	-1	-1	-2	-2
TOTAL SS	Provisional	283	3,185	3,310	3,503	3,676	3,837	3,988
	Updated	283	3,204	3,325	3,537	3,733	3,901	4,130
	Difference	0	+18	+15	+33	+57	+64	+142

Indicates outturn

Figures may not sum due to rounding

BGAs are calculated using the IPC method

Tha Ministearan na h-Alba, an luchd-comhairleachaidh sònraichte agus an Rùnaire Maireannach fo chumhachan Achd Coiteachaidh (Alba) 2016. Faicibh www.lobbying.scot

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot