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Dealbhachadh agus BeartasCòimhearsnachd  
Minister for Public Finance, Planning and  
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19 April 2022

Dear Kenny

At the meeting of the Finance and Public Administration Committee on 22 March 2022, I committed to write to the Committee to provide further detail on: how and when we use SFC forecasts; our approach to internal modelling; and our current evidence on how the green transition from oil and gas could impact the Scottish tax base.

### **SFC forecasts and Scottish Government internal modelling**

The Scottish Government uses the SFC forecasts at fiscal events. The SFC forecasts, combined with the Block Grant Adjustments based on OBR forecasts, determine the funding envelope for the Scottish Budget, in line with the Fiscal Framework. The SFC forecasts also inform the Medium Term Financial Strategy and in May will also inform the Resource Spending Review. The SFC shares its modelling and datasets with the Scottish Government before and during fiscal events.

The Scottish Government undertakes its own internal modelling in relation to a range of issues, used in conjunction with SFC forecasts, in order to inform policy development and to monitor the performance of tax receipts. This modelling utilises various data sources, including: Department of Work and Pension (DWP) Labour Market Data, Pay As You Earn data from HMRC's Real Time Information system,

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population and migration statistics from the National Records of Scotland, DWP data on social security payments. The SFC also use these data sources in producing its five year economic forecasts.

While the Scottish Government's internal modelling does not directly impact the SFC forecasts, there are opportunities for the SFC to consider the Scottish Government's analysis. This is most notable through the forecast meetings that take place between Scottish Government officials and SFC Commissioners and officials in the lead up to fiscal events.

## **Income Tax and Just Transition**

Judgements on the economic impacts of the North Sea oil and gas sector, as well as other sectors, are included in the forecasts produced by the SFC. The Scottish Government also uses the data sets outlined above on employment, earnings and GDP to consider the economic impacts of sectoral change.

The Bute House Agreement shared policy programme included a commitment by the Scottish Government to undertake a programme of work and analysis to better understand Scotland's energy requirements as we transition to net zero. As part of this we have commissioned EY to help us understand the implications of the transition to net zero on the energy system, including oil and gas, and to help us plan for a just transition across the sector.

I hope you will find this letter informative.

**TOM ARTHUR**

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