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

7 August 2025

Scottish Aggregates Tax – Block Grant Adjustment baseline

Dear Kenneth,

As you will be aware, on 12 November 2024, the Aggregates Tax and Devolved Taxes Administration (Scotland) Act received Royal Assent. Drawing on the relevant Scotland Act 2016 provisions, the Act legislates for the key elements of a Scottish Aggregates Tax (SAT), a tax on the commercial exploitation of primary aggregates in Scotland.

This new devolved tax to be introduced from 1 April 2026. Prior to SAT being introduced, a Block Grant Adjustment (BGA) has to be agreed between the Scottish and UK Government. UK legislation will also be required to “switch-off” the UK Aggregates Levy in Scotland from that date.

During the scrutiny of the SAT primary legislation, the Finance and Public Administration Committee noted an interest in the BGA arrangements for SAT and I am therefore writing to provide an update on an agreement between Scottish and UK Ministers on an approach to set the baseline for the SAT BGA.

The proposal, developed by the Scottish and UK governments, requires a different approach to that applied to most of the other BGAs, wherein the baseline for a BGA is normally based on outturn in the year prior to devolution. As outturn data disaggregated at a country level will not and cannot be available for the year prior to the devolution of the UK Aggregates Levy (2025-26), Scottish and UK governments have agreed that the most accurate option available for setting a baseline is to use the revenue outturn data from the year of introduction. Further details of the proposal can be found in Annex A.

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There is a precedent this from when the baseline for the Scottish Income Tax BGA was set, where a similar approach was adopted for setting the baseline in the absence of outturn in the year prior to devolution broken down by country.

This approach will require policy alignment in 2026–27 to ensure comparability between SAT and UK Aggregates Levy and avoid distortions in Year 1 revenues. Therefore, to ensure that an accurate BGA baseline can be set for SAT, the Scottish Government announced in the Medium-Term Financial Strategy that the SAT rate for 2026-27 will align with the UK Aggregates Levy rate.

My officials will implement this approach ahead of SAT devolution and agree a forecast BGA for the 2026–27 Scottish Budget. Arrangements will then be made to incorporate this methodology into the regular BGA cycle.

I hope this additional information is helpful to the Committee.

Yours sincerely,

SHONA ROBISON

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Annex A: Methodology for setting the baseline for Aggregates Levy Block Grant Adjustment

Proposal overview

The proposal is that the BGA baseline for Scottish Aggregates Tax (SAT) be set using forecasts and outturn from the first year of devolution (2026–27), rather than the standard methodology of using forecasts and outturn from the year prior to devolution (2025–26). This change is necessary as Scotland-specific outturn data for UK Aggregates Levy (AGL) will not be available for 2025–26.

Context

HMT and SG officials have worked together to develop the alternative BGA baseline model over several months, having jointly identified issues in using the standard baseline model. Subject to formal agreement between the UK and Scottish Governments, SAT is scheduled for implementation on 1 April 2026. Under the Fiscal Framework, BGA baselines are typically based on forecasts for the year before devolution (“Year 0”), later updated with outturn data. However, due to the absence of disaggregated AGL data, this standard approach is not viable for SAT.

Rationale

Paragraph A.8 of the Fiscal Framework outlines a methodology using an average of GERS and HMRC apportionment methods applied to UK-wide forecasts for the year prior to devolution. However, without reliable outturn data for 2025–26, this method would not yield an accurate baseline. Officials from both governments agree that using forecasts, and ultimately outturn, of Year 1 revenues is the most robust alternative.

This bespoke approach will align with the Fiscal Framework’s first no detriment principle – no detriment as a result of the decision to devolve further power – removing uncertainty for both the Scottish and UK governments. It would also ensure that the established baseline takes into account that the Scottish Government will not receive revenue from aggregates that are exported internationally or moved to the rest of the UK. This recognises that the relevant SAT exemption and tax credit provisions, which are consistent with the Scotland Act 2016 and existing AGL provisions.

The proposed approach will ensure that, although using a different baseline approach, we are still working within the overall Fiscal Framework principles agreed by the UK and Scottish governments.

Proposed methodology

It is proposed that the Scottish Government and UK Government agree a forecast deduction to be applied in 2026–27, based on the methodology of agreeing a BGA baseline outlined in the Fiscal Framework agreement (Paragraph A.8). This forecast would then be reconciled to outturn based on actual Scottish and rest of UK receipts for the year of implementation (2026–27).

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More specifically, the following steps are proposed:

1. **Autumn 2025:** Agree a forecast BGA for 2026–27 using the methodology in Paragraph A.8.
2. **Late 2027:** Reconcile the 2026–27 forecast with actual SAT revenues. This reconciliation will apply to the 2028–29 Scottish Budget.
3. **Baseline Agreement:** Confirm 2026–27 outturn as the baseline year.
4. **Autumn 2026:** Use 2026–27 rUK OBR forecasts to calculate the 2027–28 BGA using the Indexed Per Capita (IPC) method.
5. **Autumn 2027 Onwards:** Calculate BGAs using the 2026–27 outturn as the baseline, in line with standard procedures.

No in-year reconciliation will be applied for the 2026-27 baseline year.

This approach will require policy alignment in 2026–27, including tax rates, to ensure comparability between SAT and AGL and avoid distortions in Year 1 revenues.

Next steps

Subject to agreement, officials will implement this approach ahead of SAT devolution and agree a forecast BGA for the 2026–27 Scottish Budget. Arrangements will then be made to incorporate this methodology into the regular BGA cycle.

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