Scottish Fiscal Commission

Forecast Evaluation Report

September 2020

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Foreword

Our forecasts play a central role in the Scottish Budget. It is therefore important for us to critically evaluate our previous forecasts and consider whether any lessons can be learnt to improve our forecasts in the future. Our annual Forecast Evaluation Reports, of which this is the fourth, are the main way we do this.

The scope of this report has been limited by the absence of outturn data for 2018-19 income tax. The Coronavirus (COVID-19) pandemic has led HMRC to delay publication to 23 September. We will publish a supplementary evaluation of the 2018-19 income tax forecast on 5 October.

In this report we have evaluated our forecasts for fully devolved taxes and social security in 2019-20, and for the Scottish economy in 2019. While we still have large relative errors on some elements, particularly the newer social security payments launched during the year, in aggregate our forecast errors are relatively small. We also take some comfort from the fact that our overall tax and spending forecast errors are on a similar scale to last year but in the opposite direction, so we are not consistently over or under estimating total revenue and spending.

We believe our small overestimate of economic growth in 2019 can be attributed in part to Brexit developments over the course of the year, with delays to the Brexit process in 2019 creating additional uncertainty and suppressing growth more than expected.

We recognise that the world has changed since we produced the forecasts evaluated here. The effects of the COVID-19 pandemic are likely to outweigh any improvements we are able to make in light of results for 2019-20.

The pandemic struck too late in the financial year to have a large effect on the evaluations in this report, but today we have also published a Fiscal Update giving the latest position for the 2020-21 Scottish Budget in light of COVID-19 and the fiscal and policy responses by the UK and Scottish Governments.

To help continue improving the data available to the Commission, we have also published our third Statement of Data Needs alongside this report.

We would like to thank everyone who has contributed to this report, in particular those data providers who have worked hard at a difficult time to ensure we have the information we need. This includes the Scottish Government, Revenue Scotland, Social Security Scotland, DWP and the OBR.

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2 September 2020

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Summary

Introduction

1 The Scottish Fiscal Commission's forecasts inform the Scottish Budget, so they must be impartial, transparent and as accurate as possible. This report is intended to help others to better scrutinise our work and ensure we are achieving our objectives. We welcome constructive criticism as it helps us to learn and improve our forecasts in future.

2 This report evaluates our forecasts of fully devolved tax revenues and social security spending for 2019-20 and our economy forecast for calendar year 2019. The focus is on the performance of our December 2018 forecasts, which informed the 2019-20 Scottish Budget.

3 The COVID-19 pandemic has delayed the release of income tax outturn data, so we have not been able to evaluate our income tax forecasts for 2018-19, which would normally have been part of this report. We will publish an evaluation of our 2018-19 income tax forecast on 5 October, including a review of the final income tax reconciliations for 2018-19 and their effect on the Scottish Budget.

Figure 1: Summary of December 2018 forecast errors

Forecast [1]	Forecast (£ million)	Outturn (£ million)	Error (£ million)	Relative Error (%)
Economy				
GDP growth [2]				-0.4
Fully devolved taxes total, of which:	3,532	3,478	-54	-2
Non-Domestic Rates [3]	2,785	2,761	-24	-1
Land & Buildings Transaction Tax	643	598	-45	-7
Scottish Landfill Tax	104	119	15	15
Devolved social security total	458	466	7	2

Source: Scottish Fiscal Commission

Figures may not sum because of rounding. Sources specific to each forecast are provided in the relevant chapters

[1] All forecasts evaluated are for 2019-20, apart from the GDP growth forecast which is for the calendar year 2019.

[2] The error for the GDP growth forecast is expressed in percentage points rather than as a relative error

[3] Outturn figures are provisional based on notified returns from local authorities.

4 Our errors were relatively small, and in aggregate were in the opposite direction to last year. While the overall errors were small, there were larger relative errors in some areas, and Scottish Landfill Tax revenue has consistently raised more than forecast. We examine these in more detail in the rest of the report and draw lessons for our future forecasts.

COVID-19

5 From mid-March the COVID-19 pandemic caused many deaths, significant economic disruption and largely froze the housing market. These effects came too late in the financial year to have a large effect on the tax revenues and social security spending evaluated in this report, other than a small reduction in Land and Buildings Transaction Tax revenue.

6 Next year's Forecast Evaluation Report will look at our forecasts of revenues and spending in 2020-21.[1] Our February 2020 forecast did not include any allowance for COVID-19 effects, so we expect that there will be exceptionally large errors in some areas.

7 Today (2 September 2020) we have also published a new Fiscal Update, which looks in detail at how the pandemic and the response by the UK and Scottish Governments may affect the economy and the Scottish Budget.[2]

Economy

8 In December 2018, we forecast GDP growth in 2019 of 1.2 per cent. The latest outturn figure at 0.7 per cent was 0.4 percentage points below our forecast. This difference can be explained in part by the changing landscape around Brexit after December 2018, with delays to the negotiation process resulting in greater uncertainty and slower growth than we had previously expected.

9 Looking at individual components of GDP, the main source of our GDP forecast error is household consumption. Despite the fact that growth in employment and earnings was stronger than we forecast in December 2018, consumption did not grow as fast in 2019 as we predicted. We believe this was in part because of Brexit uncertainty, leading households to limit consumption. Thinking ahead to our next forecasts, the increasing availability of fast economic indicators should enable us to anticipate more effectively consumers' spending and saving behaviour and improve our forecast accuracy.

Tax

10 Total revenues from the fully devolved taxes, Non-Domestic Rates (NDR), Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT), in 2019-20 were 2 per cent (£54 million) lower than our December 2018 forecast. This forecast error is on a similar scale to last year, when 2018-19 revenues were 1 per cent higher than our December 2017 forecast.

11 Revenue from NDR was 1 per cent (£24 million) below our forecast. Non-Domestic Rates has a relatively large and stable tax base, and our one-year ahead forecasts have been within 2 per cent of outturn for the last three years. Our forecast error is comparable to the average absolute error in the OBR's corresponding forecasts for Business Rates, which is also 2 per cent.

12 LBTT revenue was 7 per cent (£45 million) below our forecast. This is a similar size and direction of error as last year, and smaller than the historical average absolute OBR error for property transaction taxes. This year errors for residential LBTT and the Additional Dwelling Supplement (ADS) were small, while Non-Residential LBTT was 15 per cent below our forecast. The response to

[1] Income tax revenue for 2020-21 will not be evaluated until our September 2022 Forecast Evaluation Report.
[2] Scottish Fiscal Commission (2020) Fiscal Update – September 2020 (link)

COVID-19 appears to have affected LBTT revenue towards the end of March. We estimate that this may have reduced revenue by around £10 million. The remaining difference of £35 million cannot be attributed to COVID-19 effects.

13 Revenue from Scottish Landfill Tax was 15 per cent (£15 million) higher than forecast. This error is in the same direction as previous years but smaller in scale than last year, where revenue was £35 million higher than forecast. As in previous years, the main reason was that incineration capacity did not come online as fast as we had predicted.

Social security

14 Spending on devolved social security was 2 per cent (£7 million) higher than our forecast. The biggest factors contributing to this difference were that in December 2018 we under-estimated the levels of eligibility and the take-up rate for the new Best Start Grant and Best Start Foods payments.

15 Last year we highlighted that forecast errors would tend to be larger for new benefits, and this is true of our 2019-20 evaluation. For the more established benefits where we had at least a year of relevant data, our forecast was within 1 per cent of outturn, but for the newer payments where we had little or no data in 2018, spending was 9 per cent above our forecast, and the relative errors for some individual benefit forecasts were large.

Figure 2: Comparison of errors for established and newer social security

Forecast	Forecast (£ million)	Outturn (£ million)	Error (£ million)	Relative Error (%)
Established benefits [1]	416	419	3	1
Newer benefits [2]	42	46	4	9
Total devolved social security	458	466	7	2

Source: Scottish Fiscal Commission (2018) Scotland Economic and Fiscal Forecast December 2018 (link), Scottish Government. Figures may not sum because of rounding.
[1] Carer's Allowance and Supplement, Discretionary Housing Payments and Scottish Welfare Fund.
[2] Best Start Grant, Best Start Foods, Funeral Support Payment and Employability Services.

Effect on the Scottish Budget

16 The forecast error and reconciliations for income tax are likely to be substantially larger than the ones we are able to evaluate in this report, which represent only a small part of the picture.

17 Non-Domestic Rates are distributed to local authorities so forecast errors do not directly affect the Scottish Budget. The effect of the other errors is -£37 million, consisting of £30 million in lower tax revenues and £7 million more spent on social security. Figure 3 shows how these forecast errors affected the 2019-20 Scottish Budget.

Figure 3: Effect of forecast errors on the Scottish Budget

£ million	Budget effect of forecast error
Land & Buildings Transaction Tax	-45
Scottish Landfill Tax	+15
Carer's Allowance [1]	-1
Other social security	-6
Total	-37

Source: Scottish Fiscal Commission

Figures may not sum because of rounding.

[1] Carer's Allowance was the only element of devolved social security in 2019-20 that was funded through a BGA.

18 Normally we would expect these effects to be partly offset by changes in the Block Grant Adjustments, known as reconciliations, because some elements of our forecast errors are likely to correlate with the errors in the OBR forecasts that determined the initial Block Grant Adjustments. This year the timing of the UK Budget meant that the in-year reconciliations were deferred to 2020-21, so the full effect of these errors has had to be met from the Scottish Budget.

Chapter 1 Introduction

Background

1.1 This report provides an evaluation of the Commission's recent forecasts. We publish our forecast evaluation report to:

- Provide transparency about our forecasts
- Help others to understand the limitations and likely degree of accuracy of our forecasts
- Learn lessons to improve our forecasts
- Aid understanding of the effect of our forecast errors on the Scottish Budget, including through reconciliations.

1.2 In this report we evaluate our forecasts of 2019-20 devolved tax revenues and social security spending, and the economy in calendar year 2019. The focus is on the performance of our December 2018 forecasts, which informed the 2019-20 Scottish Budget.

1.3 We will publish a separate evaluation of our forecasts of 2018-19 income tax revenues and the implications for reconciliations and the Scottish Budget on 5 October.

1.4 The COVID-19 pandemic struck too late to have a major effect on the 2019-20 revenues and spending covered in this report, but today (2 September 2020) we also publish a new Fiscal Update which looks in detail at the effects of COVID-19 on the Scottish Budget.[3]

1.5 Access to good data and up to date information on policy development continues to be critical to both creating our forecasts and evaluating them. Alongside this report we are publishing our third annual Statement of Data Needs, setting out the areas where we believe there could be further improvements to support our forecasts.[4]

Limitations of forecasting

1.6 The past is an imperfect guide to the future with rapid changes in the global economy, society, politics and technology. Analytical models, based on historical data and theory, can help provide some insight into how the economy and public sector finances may change over time, but have limitations. The Commission cannot perfectly predict the future but aims to present a balanced pathway through a broad range of possible outcomes.

1.7 Forecasting is an on-going process of intelligence gathering, learning from previous forecasts, reflection and refinement. Judgements will be made based on the best evidence and intelligence available at the time of publication, but may change from one forecast to the next as the economy evolves and our understanding develops along with it.

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3 Scottish Fiscal Commission (2020) Fiscal Update – September 2020 (link)

4 Scottish Fiscal Commission (2020) Statement of Data Needs – September 2020 (link)

What is forecast error?

1.8 Forecast error is the difference between our forecast and what actually happened. Forecast errors are inevitable and do not necessarily mean that the forecasting method was flawed.

1.9 A good forecasting methodology will draw on the best available data, use the best models and techniques, and have a robust methodology for applying judgement when this is needed to fill gaps in knowledge. However, the future cannot be known with certainty, and sometimes a sound forecasting method can produce a large forecast error because of unexpected changes in the world.

1.10 The likely scale of forecast error will vary between different parts of our work. For example, earnings and therefore income tax revenues tend to be more stable than house prices and property transactions. This means that, over the longer term, we might expect relatively lower forecast errors for income tax than for LBTT.

1.11 To help users understand what represents a reasonable forecast error in each section, we provide comparisons based on the OBR's forecasting record, as they produce similar forecasts.

1.12 Our aim is to reduce our average forecast error by learning lessons from previous forecasts. Forecasts can differ from outturn for many reasons, including:

- **Data errors:** Sometimes, the data on which we base our forecasts are revised, or new data are released that were not previously available, and this can change our understanding.
- **Modelling errors:** We rely on a large number of models to create our forecasts. These generally rely on identifying trends in historical data, and use a combination of the historical patterns and some theory to predict how these trends will change over time. Sometimes, we may incorrectly identify historical trends, or misjudge how a trend might change in the future.
- **Incorrect judgements:** Forecasting relies on a large number of judgements. This is often done when there is limited information or evidence on which to base a forecasting decision. There are certain events that we know will happen in the future that will affect our forecasts, with Brexit a prime example. We have to use a mixture of modelling and judgement to allow for these events, but may still incorrectly predict the effect that the event will have.
- **Unexpected events:** Some events simply cannot be predicted in advance, and we cannot control for them, the COVID-19 pandemic being the obvious example.
- **Analytical mistakes and human error:** While we see simplicity as an asset in our models, some are necessarily large and complicated, such as our income tax model which projects income tax records of thousands of individual taxpayers. With such models some relationships can be incorrectly specified (analytical error) and, in addition, there can be coding errors and incorrect cell referencing (human error).

1.13 Where possible, we have tried to understand which categories have contributed to our forecast errors. However, in many cases our forecast errors will be a result of several overlapping reasons. We may not always be able to disentangle how different factors have contributed to our overall forecast error. Nevertheless, attempting to identify the sources of forecast error is an important first step in making improvements and understanding what actions to take.

1.14 For example, if we see modelling errors, we would try to develop a better model. If the error was because of analytical mistakes, we would review our internal quality assurance processes.

1.15 In some cases, particularly where our forecast error is because of fundamentally unpredictable changes, the actions we can take to reduce our forecast error are limited. In these cases, we can help our users by communicating the extent to which we may expect forecast errors in the future.

Approach to evaluation

1.16 In this report, we are defining the forecast error as follows:

Definition of forecast error
Error = Outturn - Forecast
Definition of relative forecast error
Error = (Outturn - Forecast) / Forecast

1.17 This is the reverse of the approach in last year's report. We now align the sign of the error with how we present changes to our forecasts, and with our decompositions of the sources of error. We also think it gives a more intuitive comparison between forecast and outturn in which higher spending or revenue than expected results in a positive error and vice versa.

1.18 When we can, we compare the errors to measures of our historical performance. In some areas we don't have a long forecasting record – particularly in social security where several new benefits were launched last year, and where this year sees the devolution of other benefits to Scotland. Our use of the terms 'average error' and 'average absolute error' are best illustrated by example: a forecast with errors of +1 per cent and -1 per cent over the last two years would have an average error of 0 per cent, but average absolute error of 1 per cent.

1.19 Where possible we also compare our recent performance to the average absolute error in comparable OBR forecasts.[5]

What we are not evaluating in this report

1.20 The main gap in this report is income tax, for which the relevant outturn data are not yet available. We will report on income tax and the implications for budget reconciliations on 5 October. Note that outturn data for Scottish income tax arrive around a year later than outturn data for other taxes and benefits so this will be an evaluation of our forecasts of income tax revenue for 2018-19.

1.21 The report also excludes our illustrative forecasts for taxes and benefits that were not devolved in 2019-20. For taxes, this means we have not evaluated our illustrative forecasts for the Scottish share of Air Passenger Duty, or for assigned VAT receipts.

1.22 Similarly, we have produced a number of illustrative forecasts for social security spending on benefits that were still reserved to the UK Government in 2019-20. This report only evaluates the benefits which were part of the Scottish Budget for 2019-20. Next year's report will evaluate a wider range of benefits and much greater spending, following the devolution of responsibility for disability assistance from April 2020.

[5] There are directly comparable OBR forecasts for all the fully devolved taxes, but for social security most of the benefits either do not have a direct UK equivalent, or have an equivalent which is funded through DWP's Departmental Expenditure Limit, so is not forecast by the OBR.

Chapter 2
Economy

Introduction

2.1 In our economy evaluation we would normally discuss the effect of our economy forecast errors on our income tax forecasts. Given the publication of income tax outturn data is delayed, we will provide this analysis when we publish our income tax forecast evaluation.

Headline forecast error

2.2 In this chapter we focus on our forecasts of the Scottish economy for the calendar year 2019. In particular we consider our December 2018 forecast of the year ahead, shown in Figure 2.1.

Figure 2.1: Headline evaluation - one-year ahead forecast of GDP growth in 2019

Per cent	Forecast	Outturn	Error [1]
	1.2	0.7	-0.4
Historical average absolute error from HM Treasury and OBR			
Average absolute error			1.0

Source: Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link), Scottish Government (2020) Quarterly National Accounts Scotland 2020 Quarter 1 (link), OBR (2020) Historical official forecasts database (link).
Figures may not sum because of rounding.
Average absolute error since the creation of the OBR in 2010 is 0.4 percentage points.
[1] Error is expressed in percentage points.

2.3 In December 2018 we forecast growth in GDP in Scotland of 1.2 per cent in 2019. The latest outturn estimates show growth of 0.7 per cent in 2019, a forecast error of -0.4 percentage points.

2.4 The average one-year ahead absolute forecast error of UK GDP forecasts by HM Treasury and the OBR is 1.0 per cent. Our forecast error for 2019 is lower than this UK average, and within expected ranges.

2.5 Figure 2.2 shows how our GDP forecast of 2019 developed over time.

Figure 2.2: Summary of SFC GDP forecasts for 2019

Per cent	Forecast classification	Forecast	Error [1]
December 2018	One-year ahead	1.2	-0.4
May 2019	In-year	0.8	-0.1
February 2020	In-year	0.9	-0.2

Source: Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link), Scottish Fiscal Commission (2019) Scotland's Economic and Fiscal Forecasts – May 2019 (link), Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link), Scottish Government (2020) Quarterly National Accounts Scotland 2020 Quarter 1 (link).
[1] Error is expressed in percentage points.

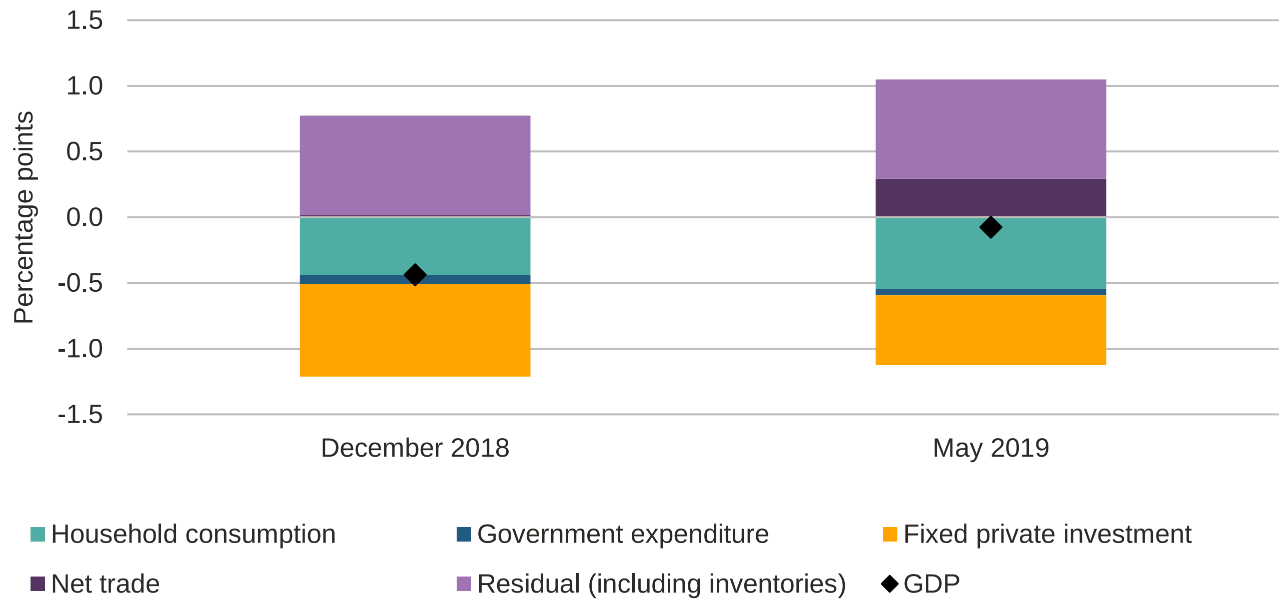
2.6 In May 2019 we revised down our forecast of GDP growth for 2019 from 1.2 per cent to 0.8 per cent. Rising trade tensions between the US and China had weakened demand globally and the landscape around Brexit was also markedly different, with a delay to the vote on the Brexit Withdrawal Agreement followed by three unsuccessful votes in parliament. We updated our May 2019 forecasts to take these developments into account. The OBR and other forecasters such as the Bank of England made similar downward revisions to their forecasts of 2019 GDP growth for the UK.[6]

Understanding our forecast error

2.7 Figure 2.3 shows our 2019 GDP forecast error from our December 2018 and May 2019 forecasts by components of expenditure. We overestimated household consumption and fixed private investment, which was partially offset by underestimates of the residual component, which includes changes in inventories.

2.8 Changes in inventories are a small component of GDP but a volatile one, so large movements can significantly add to or detract from GDP growth. The increase between 2018 and 2019 can in part be associated with the expansion in inventories we saw last year, especially in the earlier months, as firms were concerned about a 'hard Brexit' outcome in March 2019 and stockpiled goods to try and protect themselves from short-run difficulties. The largest increase in the first quarter was partly reversed in subsequent quarters as firms started to run down their accumulated inventories. There was then another increase in stock levels in the final months of the year as the Brexit deadline was further postponed to March 2020. As Figures 2.3 shows, our underestimate of inventories broadly offset our overestimate of fixed capital investment.

Figure 2.3: Decomposition of December 2018 and May 2019 GDP forecast errors for 2019



Source: Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link), Scottish Fiscal Commission (2019) Scotland's Economic and Fiscal Forecasts – May 2019 (link), Scottish Government (2020) Quarterly National Accounts Scotland 2020 Quarter 1 (link).

[6] OBR (2019) Economic and fiscal outlook — March 2019 (link), Bank of England (2019) Inflation Report – February 2019 (link).

2.9 Our December 2018 GDP forecast error for 2019 can mostly be attributed to our household consumption forecast, given the broadly neutral net error from fixed investment and stock building combined. The forecast error of 0.4 percentage points in absolute terms is still small and below the OBR average absolute forecast error for household consumption of 0.9 percentage points.

2.10 Figure 2.3 shows that, in May 2019, we lowered our 2019 GDP forecast mainly by revising down our forecast for net trade, to reflect slower global economic growth and increased Brexit uncertainty, while the other sources of errors were similar to December 2018. Decreasing our net trade forecast in May 2019 created a positive error which reduced the overall GDP error.

2.11 The latest outturn data show that our December 2018 forecast for net trade was close to outturn, while our forecast of household consumption and fixed private investment remained too high and we continued to underestimate the positive contribution of stockpiling.

2.12 Figures 2.4 and 2.5 show the errors in the most important determinants from our economy forecast – employment and earnings. The relationship between growth in GDP, employment and average earnings is complicated, and these economic factors may at times move in different directions.

Figure 2.4: December 2018 forecast error in main economic determinants for 2019

Per cent	Forecast	Outturn	Error [1]
Employment	0.2	0.4	0.2
Average earnings	2.3	2.8	0.6
Total earnings	2.5	3.2	0.8

Source: Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link), Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link).
Figures may not sum because of rounding.
[1] Error is expressed in percentage points.

Figure 2.5: May 2019 forecast error in main economic determinants for 2019

Per cent	Forecast	Outturn	Error [1]
Employment	0.3	0.4	0.1
Average earnings	2.6	2.8	0.3
Total earnings	2.8	3.2	0.4

Source: Scottish Fiscal Commission (2019) Scotland's Economic and Fiscal Forecasts – May 2019 (link), Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link).
Figures may not sum because of rounding.
[1] Error is expressed in percentage points.

2.13 In December 2018, we expected the trend of low total earnings growth, observed over several years, to continue. This did not persist in 2019 and, as we can see from Figure 2.4, our December 2018 forecasts of employment and average earnings growth for 2019 were below outturn, by 0.2 and 0.6 percentage points respectively. These forecast errors are below the OBR absolute average forecast errors for employment and average earnings of 0.7 and 0.9 percentage points respectively.

2.14 In May 2019, we revised up our employment and earnings forecasts as outturn data showed higher-than-expected growth. As shown in Figure 2.5, these upward revisions reduced some of our forecast error. Despite growth in employment and earnings exceeding our forecast, consumption did not grow as fast in 2019 as we expected in our December 2018 and May 2019 forecasts. This may have been because consumer confidence was lower than we anticipated amidst continued Brexit negotiations.

Conclusions

2.15 Our forecast of GDP growth in 2019 in our December 2018 publication was higher than the outturn. The main source of our GDP forecast error is household consumption, which is also the largest component of GDP, accounting for around two thirds of real-terms GDP. The latest data show we should have been more pessimistic about the effects of ongoing Brexit uncertainty on consumer spending and it was our household consumption forecast that should have been lowered to reduce the overall GDP error. Thinking ahead to our next forecasts, the increasing availability of faster economic indicators should enable us to better anticipate consumers' spending and saving behaviour and improve our accuracy.

2.16 In addition to household consumption, other sources of error in our December 2018 forecast were: fixed capital investment, which we overestimated as we forecast a smaller decline from the global economic slowdown and ongoing Brexit uncertainty than indicated by the latest data (a negative error); and stock building which we underestimated (a positive error). Taken together, the error in our aggregate private investment forecast – both fixed capital and inventories – was small.

Chapter 3
Tax

Introduction

3.1 In this chapter we evaluate our December 2018 forecasts of Non-Domestic Rates (NDR), Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT) for 2019-20. HMRC has delayed publication of 2018-19 income tax outturn data until 23 September. We will publish an evaluation of the 2018-19 data on 5 October.

3.2 Figure 3.1 compares our December 2018 forecasts of 2019-20 revenue to the provisional outturn. Total revenue was £3,478 million, which is £54 million or 2 per cent lower than our £3,532 million forecast.

Figure 3.1: Summary of devolved tax forecast errors

	Forecast (£ million)	Provisional Outturn (£ million)	Error (£ million)	Relative Error (%)
Non-Domestic Rates [1]	2,785	2,761	-24	-1
Land and Buildings Transaction Tax	643	598	-45	-7
Scottish Landfill Tax	104	119	15	15
Total devolved taxes	3,532	3,478	-54	-2
OBR average absolute error [2]				
Business Rates				2
Property Transaction Taxes				8
Landfill Taxes				8

Source: Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link), Scottish Government (2020) 2019-20 Notified NDRI returns (link), Revenue Scotland (2020) Provisional Outturn Data 2019/20 (link), OBR (2020) Historical official forecasts database (link).
Figures may not sum because of rounding.
[1] The outturn figure may change once the final audited figures are available. The average annual difference between provisional outturn and final audited figures between 2010-11 and 2018-19 was £1.2 million.
[2] The OBR average is based on the average one-year ahead forecast error over the period 2010-11 to 2018-19.

3.3 In percentage terms, our LBTT and NDR forecast errors are smaller than the typical OBR errors for the equivalent UK taxes and are comparable in scale to the average one-year ahead errors reported in our 2018 Forecast Evaluation Report. Our SLfT error is larger than the average OBR error, but smaller than the one-year ahead error in our previous year's forecast evaluation. The small size of the tax means it accounts for relatively little of the total forecast error for devolved taxes, with the LBTT error making up the majority.

3.4 The COVID-19 pandemic came late in the 2019-20 financial year. Data suggest LBTT revenue may have been affected at the end of March, but there is little evidence of an effect on NDR or SLfT.

Non-Domestic Rates

3.5 Non-Domestic Rates (NDR) is a tax paid by the owner, tenant or occupier of non-domestic properties. The amount paid is dependent on the rateable value of the property, the tax rate (also known as poundage) and any reliefs or exemptions for which the property is eligible.

3.6 Figure 3.2 compares the 2019-20 provisional outturn data with our December 2018 forecast.

Figure 3.2: Headline evaluation – NDR December 2018 forecast of 2019-20

	Forecast (£ million)	Provisional Outturn [1] (£ million)	Error (£ million)	Relative Error (%)
	2,785	2,761	-24	-1
OBR average absolute error [2]				
				2

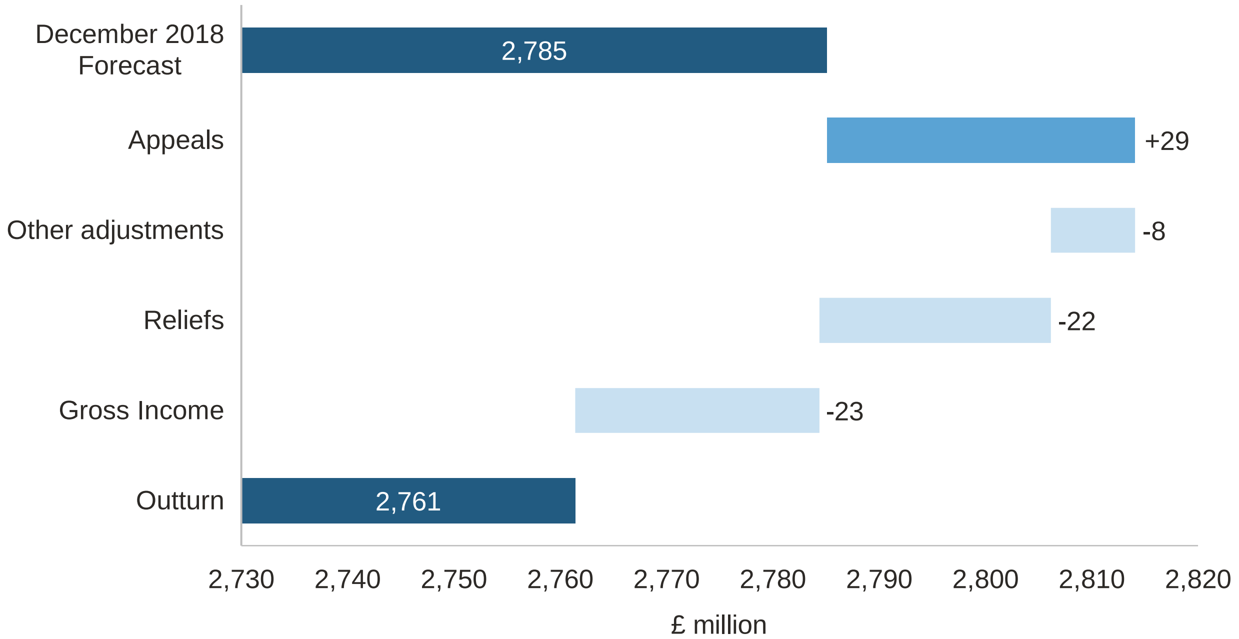
Source: Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link), Scottish Government (2020) 2019-20 Notified NDRI returns (link), OBR (2020) Historical official forecasts database (link).
Figures may not sum because of rounding.
[1] The outturn figure may change once the final audited figures are available. The average annual difference between provisional outturn and final audited figures between 2010-11 and 2018-19 was £1.2 million.
[2] The OBR average is based on the average one-year ahead forecast error over the period 2010-11 to 2018-19.

3.7 Our forecast of NDR revenues for 2019-20 was £2,785 million, £24 million or 1 per cent higher than the outturn figure of £2,761 million. Our forecast error for NDR is slightly smaller than the OBR's average one-year-ahead absolute forecast error of 2 per cent for UK-wide NDR.

Understanding our forecast error

3.8 Figure 3.3 shows which areas of our forecast contributed most to the overall error.

Figure 3.3: Decomposition of December 2018 NDR forecast error for 2019-20



Source: Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link), Scottish Government (2020) 2019-20 Notified NDRI returns (link).
Figures may not sum because of rounding.

3.9 The largest source of error was overestimating revaluation appeals. The difference in appeals loss lowered our forecast while our overestimation of gross NDR income and our underestimation of reliefs and other adjustments increased the forecast. As a result the overestimation of appeals loss partially offset the errors in the other parts of the forecast.

3.10 In our two previous Forecast Evaluation Reports, we highlighted that appeals are one of the most consistent sources of uncertainty for our forecasts because a large proportion of the tax base remains under appeal following the 2017 revaluation. In addition to uncertainty from appeals for the latest revaluation cycle, we also noted that some of our forecast error would come from the resolution of appeals on telecommunications entries on the roll, from the 2005 and 2010 revaluation cycles.[7] In our December 2018 forecast we estimated that there would be losses of £20 million from telecoms appeals. While we don't have a final figure for the actual amount lost, based on the latest estimates, over £8 million of this loss is now expected to fall in 2020-21 instead. It is likely that telecoms appeals account for a significant proportion of the £29 million difference in losses from revaluation appeals.

3.11 Reliefs were also a source of error in our forecast. The Business Growth Accelerator (BGAc) relief and the Unoccupied New Build relief, which were introduced in 2018-19, accounted for £13 million of the £22 million overall error in reliefs. We had reduced our BGAc costing for 2018-19 because initial estimates from local authorities suggested lower than expected take-up of the relief, reflecting a combination of lower awareness of the relief by ratepayers and IT infrastructure challenges in certain local authorities. We assumed that the rollout of the BGAc would be completed by 2019-20, which was largely correct. However, we underestimated the extent of the increased take-up of the relief in 2019-20 and did not correctly account for the amount of backdated BGAc from 2018-19 that would be paid in 2019-20.

3.12 The remaining error was a result of overestimating gross income (income before reliefs and other adjustments) and underestimating other adjustments. Although the size of the gross income error appears fairly large, it represents only 0.6 per cent of the outturn gross income figure.

[7] See Scottish Fiscal Commission (2019) Forecast Evaluation Report – September 2019 (link)

Box 3.1: Non-Domestic Rating Account

The Commission forecasts the contributable amount of NDR, which can be thought of as being the amount collected by local authorities that subsequently flows to the Scottish Government. The contributable amount is pooled at a national level, before being redistributed by the Scottish Government as part of the local government finance settlement. The amount of NDR income redistributed to local authorities is known as the distributable amount.

In December 2018 we provided an illustrative projection of the balance of the Non-Domestic Rating Account in 2019-20 based on our forecast of the contributable amount, and the distributable amount that had been set by the Scottish Government in the Budget. Figure 3.4 shows the difference between our projection and the final balance of the rating account, also known as the pool.[8]

Figure 3.4: Provisional balance of the Non-Domestic Rating Account in 2019-20

£ million	SFC illustrative projection	Provisional outturn	Difference
Provisional contributable amount (A)	2,785	2,890	105
Net effect of prior year adjustments (B)	-56	-36	20
Distributable amount (C)	2,853	2,853	
Annual balance (D) (A + B - C)	-124	1	125
Cumulative balance (E) (E from year before + D)	-100	25	125

Source: Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link), Scottish Government (2018) Scottish Budget 2019-20 (link).
Figures may not sum because of rounding.

The balance of the pool is affected by several factors, not just our forecast accuracy. Contributions to the pool are determined by local authorities' own estimates of collections for the year ahead, which are submitted to the Scottish Government shortly after the start of the financial year. The final audited NDR figure only becomes available after the end of the financial year. In 2019-20 the balance of the pool was positive, in contrast to our projection of a negative balance, because local authorities reported a higher level of expected collections on their start-of-year estimates than in our December 2018 forecast. The difference between the provisional contributable amount submitted by local authorities and the final audited NDR figure will affect the following year's pool balance through the prior year adjustments.

Conclusions

3.13 Revaluation appeals will continue to be a source of uncertainty in our forecast of NDR. In our February 2020 forecast we made some changes to the way we forecast revenue lost to appeals. Previously, we forecast the rateable value (RV) lost to appeal over the cycle based on the historical proportion of RV of appeals resolved relative to the RV of appeals lodged. We now base our forecast on the historical pattern of RV actually lost to appeal, relative to the RV that has ultimately been lost to appeal over a whole revaluation cycle. We will assess this new methodology in next

[8] The provisional balance is based on the most recent figures. The audited pool balance is usually published in late September.

year's FER and continue to review our methodology and assumptions around appeal losses as more data become available.

3.14 Our September 2019 FER highlighted the difficulties associated with forecasting policy changes where there are no prior data on which to base our forecasts. Even where we are able to identify the properties on the valuation roll that would be affected by a new policy, estimating factors such as take-up rates and behavioural effects remains difficult. The experience of re-costing the BGAc and unoccupied property reliefs in 2019-20 confirms this. We expect that estimating the effect of changes to Government policy will continue to be a source of error in our forecasts.

Land & Buildings Transaction Tax

3.15 Land and Buildings Transaction Tax (LBTT) is payable upon the purchase of residential land or property, and the purchase or lease of non-residential land or property. The Additional Dwelling Supplement (ADS) is payable upon the purchase of an additional residential property.

3.16 Figure 3.5 sets out the headline forecast error for our December 2018 forecasts of LBTT revenues in 2019-20.

Figure 3.5: Headline evaluation – LBTT December 2018 forecast of 2019-20

	Forecast (£ million)	Outturn (£ million)	Error (£ million)	Relative Error (%)
Residential LBTT	296	287	-9	-3
Additional Dwelling Supplement	122	120	-1	-1
Non-Residential LBTT	226	191	-35	-15
Total LBTT	643	598	-45	-7
OBR average absolute error [1]				
				8

Source: Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link), Revenue Scotland (2020) Provisional Outturn Data 2019/20 (link), OBR (2020) Historical official forecasts database (link).
Figures may not sum because of rounding.
[1] The OBR average is based on the average one-year ahead forecast error for property transaction taxes over the period 2010-11 to 2018-19.

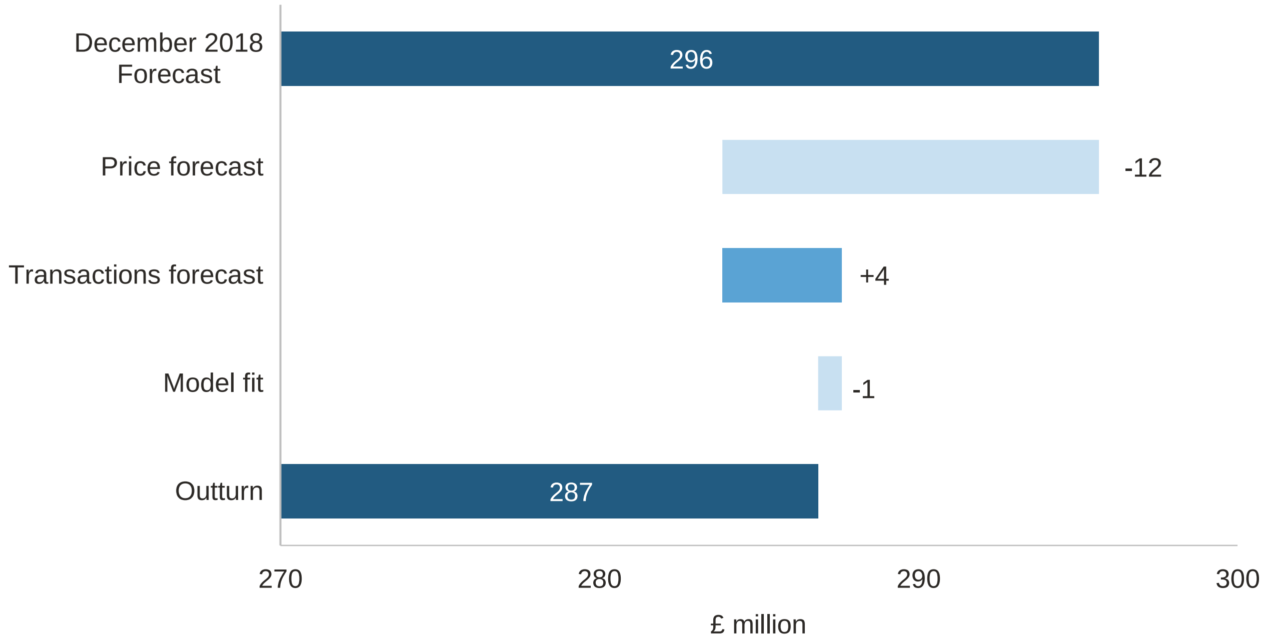
3.17 For total LBTT revenues, our December 2018 forecast of 2019-20 was £643 million, and the outturn figure was £598 million. This equates to a forecast error of £45 million, or 7 per cent. Our forecast error is lower than the 8 per cent average absolute error in the OBR's one-year ahead forecast for property transaction taxes.

3.18 We estimate that roughly £10 million of the LBTT error could be attributed to the effect of COVID-19 restrictions on the housing market in the second half of March. We estimate that residential transactions, including those liable for ADS, amounting to between £3 million and £5 million of LBTT revenue that would have been raised in 2019-20 were affected. We also estimate that non-residential transactions equivalent to at least £7 million of LBTT revenue were affected.

Residential LBTT

3.19 Our forecast error for residential LBTT was £9 million, or 3 per cent of outturn. The error on our forecast of residential LBTT was determined by our forecasts of house price and total transactions growth, and how well our modelled distribution of transactions described the distribution we observed in the data. Figure 3.6 sets out the components of our residential LBTT error.

Figure 3.6: Decomposition of December 2018 residential LBTT forecast error for 2019-20



Source: Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link), Revenue Scotland (2020) Provisional Outturn Data 2019/20 (link).
Figures may not sum because of rounding.

3.20 Our house price forecast is the largest cause of error. In our December 2018 publication, we explained that the LBTT forecast is particularly sensitive to our forecast of prices.[9] The error in our price forecast meant that we had too many transactions falling into the two higher LBTT bands, and hence overestimated the LBTT revenue in these bands. In 2019-20 the top two tax bands accounted for 10 per cent of transactions and 76 per cent of residential LBTT, making our forecast very sensitive to even small variations in the numbers of transactions in these two tax bands. The overestimation in our forecast accounts for £12 million of our forecast error.

3.21 Our overestimate of house price growth is partly offset by our underestimate of the number of transactions. We had forecast 101,000 residential LBTT transactions in 2019-20, whereas the outturn shows 103,740. Had this matched the outturn, our forecast would have been £4 million higher.

3.22 The rest of our error is because we use a statistical approximation to model the distribution of Residential LBTT transactions, and because of errors in our forecast of residential LBTT reliefs. Together, these effects account for -£1 million. The residential LBTT model we used in December 2018 does not separate out these two effects, so we are not able to estimate their individual contribution. Since December 2018 we have updated our model to capture these two effects separately, and in future Forecast Evaluation Reports we will evaluate each of these.

[9] Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link)

ADS

3.23 Our forecast of ADS has two components: the gross level of ADS charged and the amount of ADS repaid because of taxpayers selling their previous main residence. Figure 3.7 sets out our error in each component of ADS.

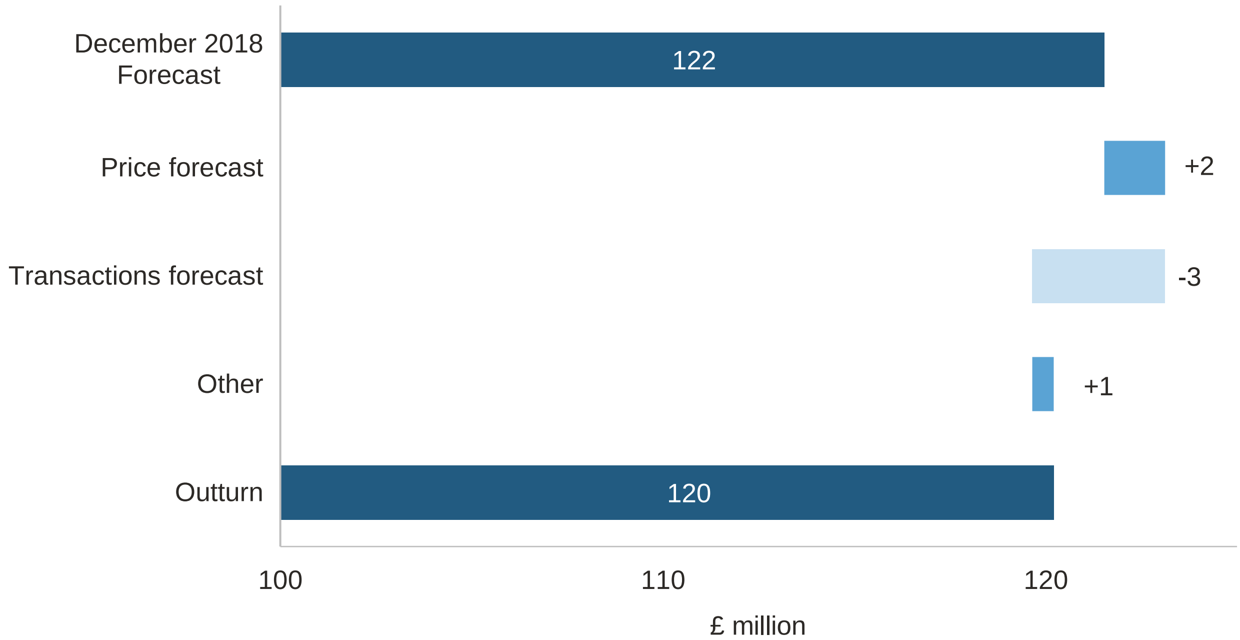
Figure 3.7: Components of December 2018 ADS forecast error

	Forecast (£ million)	Outturn (£ million)	Error (£ million)	Relative Error (%)
Gross ADS	160	159	-1	-1
ADS repayments	39	39	0	0
Net ADS	122	120	-1	-1

Source: Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link), Revenue Scotland (2020) Provisional Outturn Data 2019/20 (link).
Figures may not sum because of rounding.

3.24 The ADS forecast error is because of errors in our forecast of Gross ADS. Our Gross ADS forecast is influenced by our forecasts of the mean price and number of transactions liable for ADS. Figure 3.8 sets out the size of each error.

Figure 3.8: Decomposition of December 2018 ADS forecast error for 2019-20



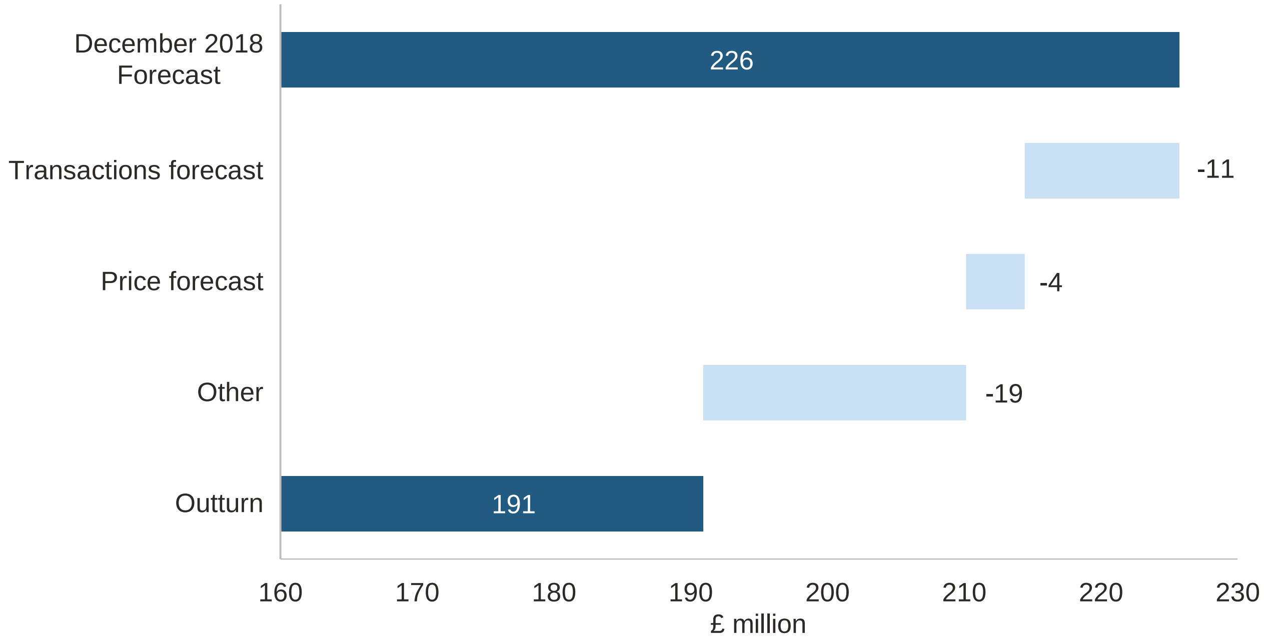
Source: Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link), Revenue Scotland (2020) Provisional Outturn Data 2019/20 (link).
Figures may not sum because of rounding.

3.25 Our overestimate of the number of transactions that pay ADS is slightly offset by our underestimate of the average price of transactions liable for ADS. These two effects explain the vast majority of our forecast error, with a small remainder because of a slight underestimate of repayments and small differences in our forecast of the distribution and outturn.

Non-Residential LBTT

3.26 Our non-residential forecast accounted for £35 million of the £45 million forecast error for total LBTT. Figure 3.9 shows the breakdown of our non-residential LBTT forecast error for 2019-20.

Figure 3.9: Decomposition of December 2018 non-residential LBTT forecast error for 2019-20



Source: Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link), Revenue Scotland (2020) Provisional Outturn Data 2019/20 (link).
Figures may not sum because of rounding.

3.27 The largest single source of error was our forecast of the distribution of non-residential transactions. Non-residential LBTT is very concentrated, with transactions worth £2 million or more accounting for 76 per cent of revenues. We had forecast that there would be 550 transactions worth £2 million or more, whereas the outturn data show that 503 transactions fell into this band. This accounts for £11 million of our forecast error.

3.28 The rest of our error is split between errors in our house price forecast, accounting for £4 million, and a £19 million error which can be attributed a number of sources. These include our in-year estimates of 2018-19, our estimate of reliefs and our estimate of the share of leases in non-residential transactions.

3.29 Between December 2017 and December 2018 we updated our non-residential model to make better use of data from Revenue Scotland. Because of the changes to the model, we are able to analyse our forecast errors in much more detail than we have in the past. However, these changes mean we cannot directly compare the conclusions in this report to previous Forecast Evaluation Reports. In our next Forecast Evaluation Report, we will be able to compare forecast errors from different forecasts (December 2018 and February 2020) that use the same model.

Conclusions

3.30 As we noted in last year's evaluation, compared to taxes such as income tax or NDR, LBTT is relatively volatile, with narrow sections of the tax base accounting for most of the revenue raised. This is also only the second year for which we have carried out an evaluation of our one-year ahead forecasts. There is also a limited effect on our forecast error from the response to COVID-19. This volatility and limited forecast history means we must continue to be cautious in our conclusions.

3.31 We assess our approach to forecasting and our forecast models as reasonable, taking into account the results of the most recent evaluation. We updated the residential model as part of our February 2020 forecast and will make an initial assessment of its forecasting performance in next year's report. We are not planning any further major developments to our forecast models between now and the 2021-22 Scottish Budget. Our next forecast will be our first since the start of the COVID-19 pandemic and we continue to monitor developments in preparation.

Scottish Landfill Tax

3.32 Scottish Landfill Tax (SLfT) was devolved as part of the Scotland Act 2012 and replaced UK Landfill Tax in April 2015. It taxes the disposal of waste to a landfill in Scotland, whether or not this waste is being disposed to an authorised landfill site. Figure 3.10 compares the 2019-20 provisional outturn data for SLfT with our December 2018 forecast.

Figure 3.10: Headline evaluation – SLfT December 2018 forecast of 2019-20

	Forecast (£ million)	Outturn (£ million)	Error (£ million)	Relative Error (%)
	104	119	15	15
OBR average absolute error [1]				
				8

Source: Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link), Revenue Scotland (2020) Provisional Outturn Data 2019/20 (link), OBR (2020) Historical official forecasts database (link).
Figures may not sum because of rounding.
[1] The OBR average is based on the average one-year ahead forecast error over the period 2010-11 to 2018-19.

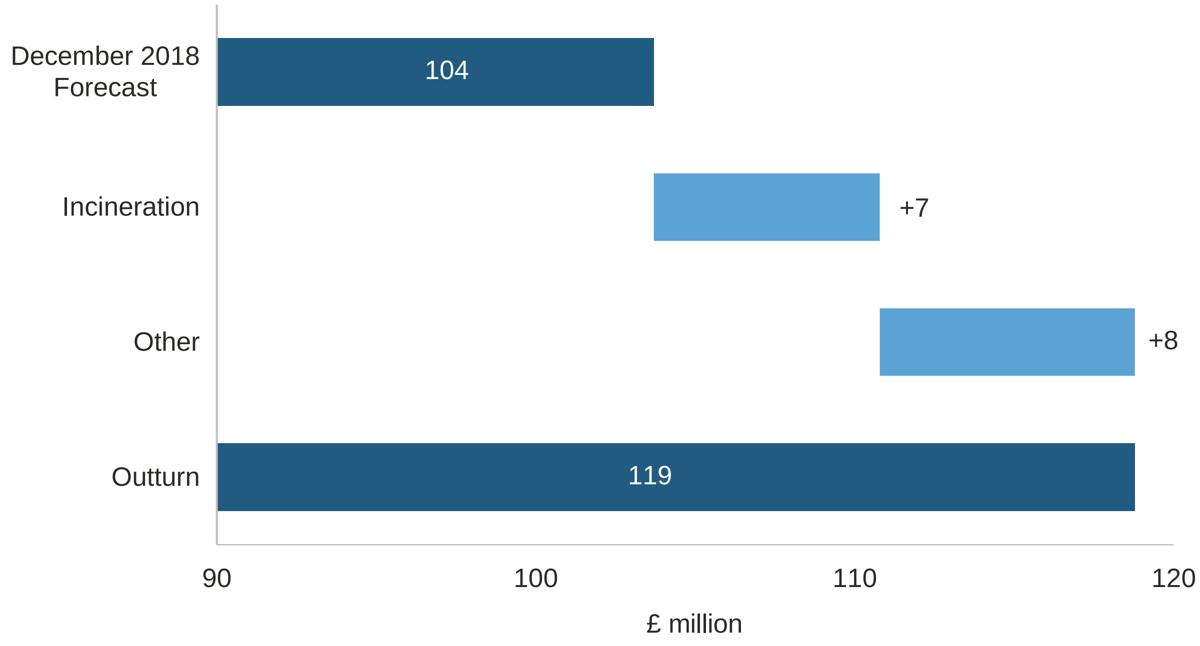
3.33 SLfT revenue for 2019-20 was £119 million, 15 per cent higher than our forecast figure of £104 million. Our forecast error for SLfT is larger than the OBR's average absolute one-year-ahead forecast error of 8 per cent for UK landfill taxes. The main reasons for this are the greater uncertainty about the quantities of waste that will be landfilled in Scotland as a result of legislative change and the increasing range of waste management options.[10] This year's error is smaller than the error in our December 2017 forecast for 2018-19 and the small size of the tax means our forecast error for SLfT is not significant in relation to overall devolved tax revenues.

[10] Scottish Government (2020) Scottish Landfill Tax (link)

Understanding our forecast error

3.34 Figure 3.11 shows the main sources of error in our December 2018 forecasts of SLfT revenue for 2019-20.

Figure 3.11: Decomposition of December 2018 SLfT forecast error for 2019-20



Source: Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link), Revenue Scotland (2020) Provisional Outturn Data 2019/20 (link).
Figures may not sum because of rounding.

3.35 The largest single source of error was our forecast of available additional incineration capacity. In December 2018, we estimated that an additional 680,850 tonnes would be incinerated in 2019-20 as a result of new capacity coming on-line. The most recent data from the Scottish Environment Protection Agency (SEPA) indicate that the additional amount incinerated was 594,813 tonnes. Delays in the timing of incineration facilities coming online led to more waste than forecast being landfilled and higher SLfT revenue. The lower than expected incineration accounts for £7 million of the forecast error in 2019-20.

3.36 The remaining £8 million forecast error comes from a combination of factors, each of which contributed only a small amount to the total error. These include our forecast error for the amount of waste sent to landfill in 2018-19, our assumptions about the amounts of waste recycled and our forecast for the change in household and business waste generated.

Conclusions

3.37 As identified in our September 2019 FER, the timing of future incineration capacity is a key risk in our forecast. Our forecasts include an assumption that there will be delays to the start date of future additional incineration capacity, with the precise assumption depending on information available at the time of the forecast. While we have consistently overestimated incineration capacity in our forecasts, our December 2018 forecast was more accurate than our December 2017 forecast. We will continue monitoring the progress of incineration sites with SEPA's support and consider whether our delay assumption is still too optimistic.

3.38 The introduction of the ban on biodegradable municipal waste (BMW) was also recognised as a risk to our forecast in our September 2019 FER.[11] The BMW ban was originally intended to be introduced in January 2021. However, the Scottish Government has announced that full enforcement of the ban will be delayed until 2025.[12] We will discuss the effect of this delay on our forecast accuracy in next year's FER, once we have outturn data for SLfT revenue in 2020-21.

[11] See Scottish Fiscal Commission (2019) Forecast Evaluation Report – September 2019 (link)

[12] Scottish Parliament (2019) Parliamentary Question S5W-25409: Economy (link)

Chapter 4
Social security

Introduction

4.1 This is the second time we have evaluated our social security forecasts. The primary comparison is of 2019-20 outturn against the December 2018 forecast which informed the 2019-20 Scottish Budget. We also look at the evolution of some of our forecasts where there are lessons to be drawn from how they changed in our May 2019 and February 2020 publications.

4.2 Spending within our social security forecast remit rose by over 50 per cent, from £308 million in 2018-19 to £466 million in 2019-20, mainly because Carer's Allowance was only devolved for part of 2018-19, but also because Social Security Scotland launched several new payments during summer 2019.

4.3 In last year's report the social security chapter included a separate section for every benefit. This year there are more benefits, and some do not contribute materially to the forecast error. We have moved to a shorter format which tries to explain the forecast error and draw the appropriate lessons in the context of the social security forecast as a whole. More detailed decompositions of the error for each individual benefit and a record of all our forecasts are included in the supplementary tables.

4.4 We also discuss the scope of our devolved social security forecast and how it differs from figures quoted elsewhere for social security spending.

Summary

4.5 Across our full remit, which includes some elements that are not part of the Scottish Government's social security portfolio, spending was £466 million, 2 per cent higher than our £458 million forecast.

4.6 Our forecast performed well for the larger and more established benefits, with errors of 0 per cent for both carer's benefits and 3 per cent for Discretionary Housing Payments. For the newer benefits we saw large relative errors for a variety of reasons, but spending on these benefits is a small part of total social security spending and the errors were in both directions, so the overall forecast error remained small. Figure 4.1 summarises the errors in our December 2018 forecast of 2019-20 social security spending.

Figure 4.1: Summary of social security forecast errors

	Forecast (£ million)	Outturn (£ million)	Error (£ million)	Relative Error (%)
Carer's Allowance	283	284	1	0
Carer's Allowance Supplement	37	37	0	0
Discretionary Housing Payments	63	65	2	3
Best Start Grant	12	21	8	68
Funeral Support Payment	6	4	-2	-34
Scottish Welfare Fund	33	33	0	0
Scottish Government Social Security portfolio	435	444	10	2
Best Start Foods	4	6	1	27
Employability Services	19	16	-4	-19
Total SFC Social Security remit	458	466	7	2

Source: Scottish Fiscal Commission (2018) Scotland Economic and Fiscal Forecast December 2018 (link), Scottish Government (2020), Discretionary Housing Payments in Scotland: 1 April 2019 to 31 March 2020 (link), Social Security Scotland, Scottish Government.
Figures may not sum because of rounding.

Understanding our forecast error

4.7 In the next section we look at the context in which the December 2018 forecasts were produced and explore the sources of error.

Context for the December 2018 forecasts

Demography

4.8 We based our forecasts on the '50 per cent EU migration' scenario from the 2016-based population projections produced by the Office for National Statistics. The total population of Scotland in mid-2019 was within 0.1 per cent of this projection, with higher net migration between 2016 and 2019 offset by lower fertility and higher mortality. These differences contributed to forecast errors on Best Start Grant, Best Start Foods and Funeral Support Payments, but did not make a material contribution to our overall error.

Payment rates

4.9 We knew the Scottish Government's intended rates for the new payments being launched in 2019 and that uprating in April 2019 would be informed by the September 2018 CPI inflation figure of 2.4 per cent, so there was no error associated with benefit rates or inflation forecasts.

The economy

4.10 Our forecast models did not have explicit inputs from our economy model, but our assumptions on eligibility for low income benefits were consistent with unemployment remaining low throughout 2019-20 in line with the December 2018 economy forecast. We do not view the state of the economy as having led to material errors in our social security forecast.

Launch of new payments

4.11 At the time of the 2019-20 Scottish Budget we knew several new payments were due to start in summer 2019, but the planned launch dates were not available at that time. We based our forecasts on the assumption that they would all launch in early June. The actual launch dates ranged from late April for the Early Learning Payment, through to mid-September for Funeral Support Payment. The net effect was to reduce spending by around £2 million, with only Funeral Support Payments showing a material effect.

Availability of data

4.12 We said in our report last year that we would expect errors to be relatively larger for the newer benefits where we have little or no data on which to base our forecasts. This is borne out by the comparison in Figure 4.2 which shows that spending was only 1 per cent above our forecast for the areas where we had data, but 9 per cent higher for the newer payments and services.

Figure 4.2: Comparison of errors for established and newer social security

Forecast	Forecast (£ million)	Outturn (£ million)	Error (£ million)	Relative Error (%)
Established benefits [1]	416	419	3	1
Newer benefits [2]	42	46	4	9
Total devolved social security	458	466	7	2

Source: Scottish Fiscal Commission (2018) Scotland Economic and Fiscal Forecast – December 2018 (link), Social Security Scotland, Scottish Government.
Figures may not sum because of rounding.
[1] Carer's Allowance and Supplement, Discretionary Housing Payments and Scottish Welfare Fund.
[2] Best Start Grant, Best Start Foods, Funeral Support Payment and Employability Services.

4.13 We had a lengthy back series of pre-devolution outturn data for Carer's Allowance, covering quarterly caseloads by age and sex up to May 2018 and annual spending up to 2017-18.

4.14 We had financial outturn data for Discretionary Housing Payments in 2016-17 and 2017-18, though this only gave one year of spending under the policy of fully mitigating the Bedroom Tax.

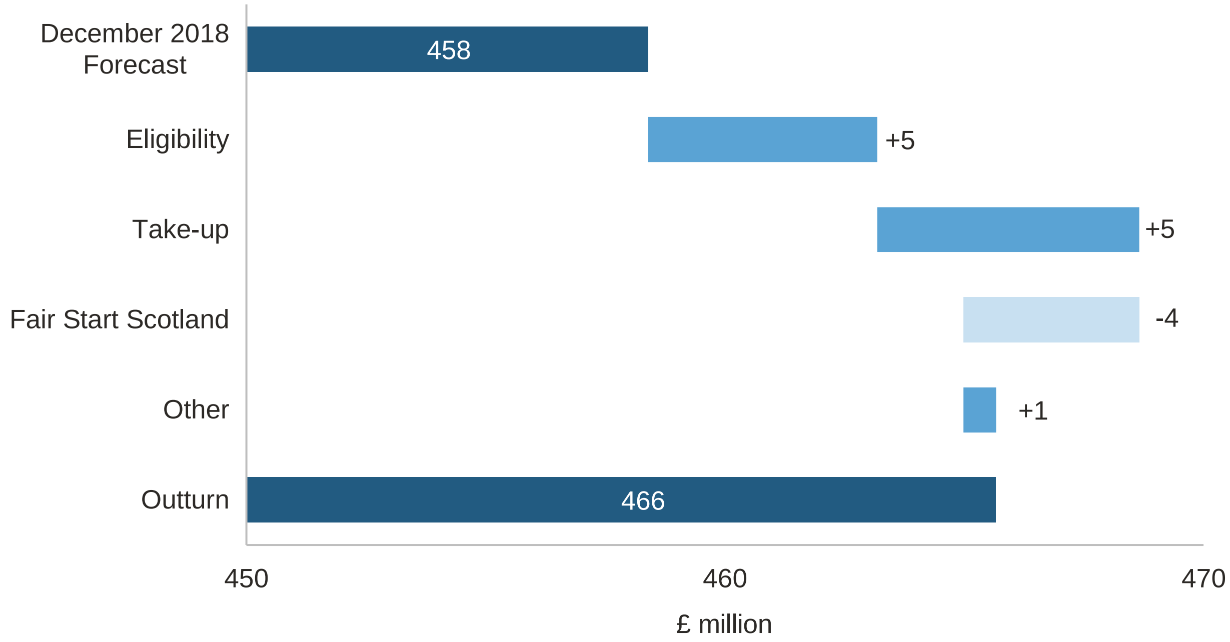
4.15 For Funeral Support Payments, Best Start Grant and Best Start Foods, we relied on data for the predecessor benefits run by DWP and the Department for Health and Social Care (DHSC), augmented by survey-based modelling of eligibility under the proposed new Scottish payments.

4.16 The Fair Start Scotland employability service had launched in April 2018, but data were limited. At the time we were finalising our forecasts, only the earliest cohorts had been participating long enough to achieve a 13 week or 26 week job outcome, and there had not yet been any chance for people to achieve 52 week spell of employment.

Decomposition of the major sources of forecast error

4.17 Figures 4.3 illustrates the major sources of error in our December 2018 forecast of 2019-20 spending.

Figure 4.3: Decomposition of December 2018 forecast error for 2019-20



Source: Scottish Fiscal Commission, Scottish Government.

Higher eligibility for Best Start Grant and Best Start Foods

4.18 A major source of error was eligibility for the new Best Start Grant and Best Start Foods payments launched in 2019, adding around £5 million. As discussed in our May 2019 forecast publication, our forecast model for the Best Start Grant Early Learning Payment did not fully account for the larger cohort of young children who were eligible during the first year.

4.19 For Best Start Foods, we had assumed that the combination of a frozen income limit and rising earnings would push eligibility down over time. Management information for the Healthy Start Voucher scheme suggests that eligibility in fact remained steady through 2018 and 2019, with most potential recipients being out of work rather than on a low income and so unaffected by the income threshold.

Higher take-up for Best Start Grant and Best Start Foods

4.20 We now estimate that take-up rates were higher than forecast for both Best Start Grant and Best Start Foods, adding around a further £5 million. For both benefits, our assumptions were informed by the take-up rates estimated to have been achieved for the predecessor Sure Start Maternity Grants and Healthy Start Vouchers run by DWP and DHSC respectively.

Fewer job outcomes for Fair Start Scotland

4.21 Spending on the Fair Start Scotland employability service was around £4 million below our December 2018 forecast, mainly because a lower proportion of participants achieved sustained employment than we had assumed.

Effect of COVID-19

4.22 The effect of COVID-19 on devolved Social Security spending in 2019-20 was small and we judge that it is likely to have been below our materiality threshold of £2 million.

4.23 The COVID-19 pandemic did lead to a huge increase in applications for Universal Credit and several hundred deaths in the second half of March, but these occurred too late in the financial year to have a material effect on total devolved Social Security spending.[13]

4.24 There are two other areas where COVID-19 has had a small and less direct effect. Firstly, DWP has suspended recovery of overpaid benefits for three months starting in April.[14] Although this happened in April, the slower expected pace of debt recovery added nearly £0.5 million to the 2019-20 year-end impairment charge for Carer's Allowance.

4.25 Secondly, lockdown meant that it was difficult for participants in the Fair Start Scotland scheme to find or retain work. This would have reduced spending, but the Scottish Government has temporarily changed the funding arrangements in order to support service providers. The net effect was to increase spending for March 2020 by around £0.3 million above the amount expected in our February 2020 forecast.

Performance of our May 2019 and February 2020 forecasts

4.26 Our May 2019 forecast was informed by a better understanding of eligibility and take-up following the launch of the Pregnancy and Baby element of Best Start Grant in December 2018, and proved to be within 1 per cent of the final outturn.

4.27 During 2019 we started to receive monthly financial data for some benefits, and our February 2020 forecasts were informed by data up to November 2019. This led us to reduce our forecasts for Carer's Allowance, Best Start Grant and Funeral Support Payments to align them to the level of monthly spending. This forecast proved to be too low as the annual outturn figures included larger year-end accounting adjustments than we had anticipated.

Figure 4.4: Evolution of forecasts of 2019-20 social security spending

£ million	2019-20
December 2018	458
May 2019	467
February 2020	458
Outturn	466

Source: Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecast – December 2018 (link), Scottish Fiscal Commission (2019) Scotland's Economic and Fiscal Forecasts – May 2019 (link), Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link).

4.28 The supplementary tables published along with this report include a full history of all of our forecasts for each benefit.

[13] It takes several weeks from the initial claim for a Universal Credit award to be determined, so people claiming in late March would not have been able to demonstrate their eligibility for payments from Social Security Scotland until April or May.
[14] Department for Work and Pensions (2020) Press Release (link)

Comparison against OBR forecasts

4.29 The only benefit for which OBR make a comparable forecast is Carer's Allowance. The average absolute error in their one-year ahead forecast of Carer's Allowance in Great Britain is 3 per cent. Their October 2018 forecast of Scottish Carer's Allowance in 2019-20 was £290 million, which was 2 per cent above the outturn of £284 million.

Lessons for our next forecast

Discretionary Housing Payments

4.30 We noted in last year's evaluation report that during 2018-19 councils did not spend their full allocations for Discretionary Housing Payments (DHP).[15] This had also happened in 2017-18, and has repeated in 2019-20, meaning that the Scottish Government spent only £9.1 million out of the £10.9 million allocated last year. We may reduce the 'other DHPs' element in our next forecast on the assumption that councils will continue to spend less than they are allocated, but this would need to be balanced with a potentially greater demand for housing support as a result of COVID-19.

Launch dates for new payments

4.31 We assumed that all of the payments due to start in summer 2019 would launch in early June. In fact they launched from late April through to mid-September. The net effect was to reduce spending by £2 million, mainly due to the relatively late launch of Funeral Support Payment. Where launch dates differ from our assumptions there can be large relative errors. This is not necessarily an area of significant risk for the Scottish Budget as the late launch of a new payment will usually mean lower spending, and the Scottish Government can take account of their in-year budget position in any decision to launch earlier.

Demography

4.32 The monthly number of births in Scotland continued to fall throughout 2019. This did not have a material effect on our overall forecast error this time, as spending on benefits for very young children is quite low, but over the medium term falling fertility could have a larger effect, particularly once the Scottish Child Payment is launched. We will consider using a lower fertility assumption in our next forecast.

Use of in-year financial data and allowance for end-year accounting adjustments

4.33 During 2019 we started to receive monthly financial data from Social Security Scotland. Our February 2020 forecasts were informed by data up to November 2019. For Carer's Allowance, Best Start Grant and Funeral Support Payments this led us to reduce our February 2020 forecasts, but full-year outturn proved to be higher, and was closer to our May 2019 forecasts.

4.34 For Best Start Grant and Funeral Support Payment, this was because the final outturn included around £2 million to allow for payments which related to eligibility in 2019-20 but were made after the year end. We would anticipate that these are to some extent 'year one' effects for the new elements

[15] The Scottish Government fully funds any Discretionary Housing Payments that are awarded to mitigate the Bedroom Tax, but where payments are made for any other reason, councils were allocated a share of a fixed budget of £10.9 million. They have to fund any further payments themselves, and the funding arrangements usually allow Scottish Government to recover any underspend.

of Best Start Grant and Funeral Support Payment, and in future years would tend to cancel out with similar payments made at the start of the year.

4.35 For Carer's Allowance, the £284 million outturn included an impairment charge of £5 million representing a drop in the expected level and pace of recovery of overpaid benefit. We are reviewing with the Scottish Government whether our social security forecasts and outturn should include impairments and may base our future forecasts on a narrower definition of spending.

Previous lessons from our 2019 Forecast Evaluation Report

4.36 In our September 2019 Forecast Evaluation Report we discussed several issues which had led to error in our December 2017 forecast of 2018-19 spending. Most of these factors were inevitably still present in our December 2018 forecast and contributed to the forecast error assessed in this report. Where we have acted on these lessons in our May 2019 and February 2020 forecasts, for example increasing our take-up assumptions, and allowing for state pension age changes in our DHP forecast, they have contributed to reducing forecast errors for 2019-20.

Forecast scope and outturn definitions

4.37 Various different figures for 'social security spending' are released at different times of the year and in different contexts. In this section we discuss how our forecast remit and the outturn figures we use relate to other statistics and statements from Social Security Scotland and the Scottish Government.

Our scope

4.38 The remit for our social security forecasts is wider than just the devolved benefits administered by Social Security Scotland or run under agency agreement by DWP. Our remit is set out in the Scottish Fiscal Commission Act 2016 and currently covers any social security or employment support that operates under powers devolved in Part 3 of the Scotland Act 2016. [16] [17]

4.39 Not all of this falls within the Scottish Government's Social Security and Older People portfolio. Best Start Foods is administered by Social Security Scotland but spending falls within the Health and Sport portfolio, while the Fair Start Scotland employability service is part of the Finance, Economy and Fair Work portfolio. As new services or payments are announced or launched we will include them in our forecast if they fall within this remit and if annual spending is expected to be above our materiality threshold.[18]

4.40 The Young Carer Grant was launched in October 2019. It is within the scope of our social security forecasting remit, but we judged that spending was likely to be below our £0.5 million materiality threshold so we did not include it in our December 2018 forecast. Provisional outturn for 2019-20 was £0.4 million so this judgement was correct for 2019-20, but as the payment was available for only half the year and is uprated we will consider for our next forecast whether future spending may be material.

[16] Scottish Fiscal Commission Act 2016 (link)
[17] Scotland Act 2016 (link)
[18] The new Scottish Child Payment is part of the Communities and Local Government portfolio in the 2020-21 Scottish Budget.

Outturn definitions

Social Security Scotland Annual Report and Accounts

4.41 The Social Security Scotland Annual Report and Accounts will include outturn for all the benefits they administer except Best Start Foods, and for the devolved benefits which are still administered by DWP under agency agreement.[19] We aim to use outturn consistent with these accounts, but they will not cover all the benefits within our remit, and as only provisional figures are available at this point it is possible that there will be discrepancies.

Scottish Government provisional outturn statement

4.42 On 17 June 2020, the Cabinet Secretary for Finance made a statement to the Scottish Parliament setting out provisional outturn for the 2019-20 Scottish Budget. In response to questions following this statement, the Cabinet Secretary quoted total spending of £345.3 million on social security assistance, against a budget of £346.8 million.[20] This total only includes benefits within the scope of Social Security Scotland Annual Report and Accounts and the comparison was against the revised budget that was set in February 2020.[21] Our forecast includes a wider range of spending, and we are evaluating the December 2018 forecasts which informed the original 2019-20 Scottish Budget. Figure 4.5 compares coverage of our forecasts against the different social security totals from the Scottish Government and Social Security Scotland.

Figure 4.5: Coverage of different social security totals

	SFC forecast	Social Security Portfolio	Social Security Scotland Accounts	Provisional Outturn 'Social Security Assistance'
Carer's Allowance	✓	✓	✓	✓
Carer's Allowance Supplement	✓	✓	✓	✓
Discretionary Housing Payments	✓	✓	-	-
Best Start Grant	✓	✓	✓	✓
Funeral Support Payment	✓	✓	✓	✓
Scottish Welfare Fund	✓	✓	-	-
Best Start Foods	✓	-	-	-
Employability Services	✓	-	-	-
Young Carer Grant	-	✓	✓	✓

Source: Scottish Fiscal Commission

Social Security Scotland statistics

4.43 Social Security Scotland publishes regular statistics for Carer's Allowance, Carer's Allowance Supplement, Best Start Grant, Best Start Foods, Funeral Support Payments and Young Carer Grant. The spending figures included in the statistics attribute payments to the month or year in which the benefit was actually paid, and do not include any accounting adjustments. The financial outturn

[19] For 2019-20 the only benefit administered by DWP is Carer's Allowance, but in 2020-21 this will also include a range of disability benefits.
[20] Scottish Parliament (2020) Official Report (link)
[21] Scottish Government (2020) Spring Budget Revision 2019-20 Supporting Document (link)

included in the provisional outturn statement and in this report is based on a resource accounting treatment which attributes payments to the period for which the recipient was eligible. For benefits launched during the financial year this often means that the spending in the accounts is higher than in the statistics, since it includes an allowance for payments which were issued after the year end but does not have an offsetting adjustment at the start of the financial year.

Additional information

Abbreviations

ADS	Additional Dwelling Supplement
BGA	Block Grant Adjustment
BGAc	Business Growth Accelerator
BMW	Biodegradable Municipal Waste
BSF	Best Start Foods
BSG	Best Start Grant
CA	Carer's Allowance
CAS	Carer's Allowance Supplement
CPI	Consumer Price Index
DHP	Discretionary Housing Payment
DHSC	Department for Health and Social Care
DWP	Department for Work and Pensions
EU	European Union
FER	Forecast Evaluation Report
FSP	Funeral Support Payment
GDP	Gross Domestic Product
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
LBTT	Land and Buildings Transaction Tax
NDR	Non-Domestic Rates
NRS	National Records of Scotland
OBR	Office for Budget Responsibility
ONS	Office for National Statistics
PAYE	Pay As You Earn
QNAS	Quarterly National Accounts Scotland
SEFF	Scotland's Economic and Fiscal Forecasts
SEPA	Scottish Environment Protection Agency
SFC	Scottish Fiscal Commission
SG	The Scottish Government
SLfT	Scottish Landfill Tax
SWF	Scottish Welfare Fund
VAT	Value Added Tax

A full glossary of terms is available on our website:

https://www.fiscalcommission.scot/explainers/glossary/

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All charts and tables in this publication have also been made available in spreadsheet form on our website. For technical enquiries about the analysis and data presented in this paper please contact the responsible analyst:

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22 OECD (2014) Recommendation on Principles for Independent Fiscal Institutions (link)
23 Scottish Fiscal Commission (2018) Compliance with the Code of Practice for Official Statistics (link)

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