
2020-21 Fiscal Update

January 2021

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Foreword

The coronavirus (COVID-19) pandemic has had a profound effect on the fiscal and economic outlook in Scotland and the UK.

Over the course of 2020-21 the UK Government's public health response and associated restrictions have evolved, and successive UK Government announcements resulted in additional funding for the Scottish Government. As a result, the 2020-21 Scottish Budget has increased by 19 per cent, or £8 billion since it was set in February 2020.

In July the UK Government first announced a guaranteed minimum level of funding for COVID-19 of £6.5 billion to provide the Scottish Government with more certainty in its budget management. This has since been increased three times, most recently to £8.6 billion in December 2020. Funding could increase again if spending by the UK Government is higher than expected in December. The later in the financial year additional funding from the UK Government arrives the more difficult it is for the Scottish Government to manage its budget. There is variability in Scottish Government expenditure too, as public health decisions create a need for additional expenditure, for example in grants to businesses forced to close because of restrictions. This unprecedented variability in both funding and expenditure needs makes it difficult for the Scottish Government to balance its budget in 2020-21 as well as to plan for 2021-22. Additional funding is important and welcome, but the later it comes in the budget year, the harder it is to spend it effectively.

In addition there have been a number of changes to Scotland and UK policies relating to the 2020-21 tax year, such as the increased starting threshold for residential Land Building Transaction Tax, and the UK Stamp Duty relief. Even though there have been some differences in policy between the UK and the Scottish Government, the pandemic has had similar effects on tax revenues and social security spending in Scotland and the rest of the UK. This means that our forecasts and the Block Grant Adjustments (BGAs) have changed in a similar manner, leading to a broadly unchanged net effect for the Scottish Government. We have previously highlighted the risk that differential effects in Scotland and the rest of the UK could result in differences between the BGAs and revenues and spending in Scotland, this risk has not emerged this year.

This Fiscal Update is released at the same time as our Scotland's Economic and Fiscal Forecasts (SEFF) publication, which sets out our five-year forecasts of the Scottish economy, tax revenue, social security spending and commentary on the 2021-22 Scottish Budget. Although this publication concerns the 2020-21 Scottish Budget rather than the 2021-22 Scottish Budget, in the SEFF we do reference much of the analysis here because we expect similar issues to arise as COVID-19 continues to significantly affect the 2021-22 Scottish Budget.



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28 January 2021

Contents

Foreword	1
Chapter 1 Scottish Budget 2020-21	3
Chapter 2 Scottish Fiscal Commission Forecasts	8
Additional information	11

Chapter 1

Scottish Budget 2020-21

Introduction

- 1.1 The Scottish Budget is the total amount of money that the Scottish Government has at its disposal and is set prior to the start of the financial year. The Budget can change over the financial year, with the potential for each portfolio to be adjusted at the Autumn and Spring Budget Revisions. This year it has changed considerably and an additional Summer Budget Revision took place in May. The Spring Budget Revision has been delayed until the end of February because further changes are still likely.
- 1.2 The Scottish Budget has increased by £8 billion since it was set in February 2020 which reflects the response to the COVID-19 pandemic. To help understanding and scrutiny of the Budget we published our first Fiscal Update in April and issued our second update in September.¹ These explained how the 2020-21 Scottish Budget funding position had changed since the Budget was set, and discussed the tools available to the Government to help manage the Budget. We are now able to examine how our forecasts of tax revenues and social security spending have changed and how the corresponding funding has changed through the Block Grant Adjustments (BGAs).
- 1.3 This chapter provides commentary on changes to the 2020-21 Scottish Budget funding. Details of how our tax and social security forecasts have affected the 2020-21 Scottish Budget can be found in Chapter 2.

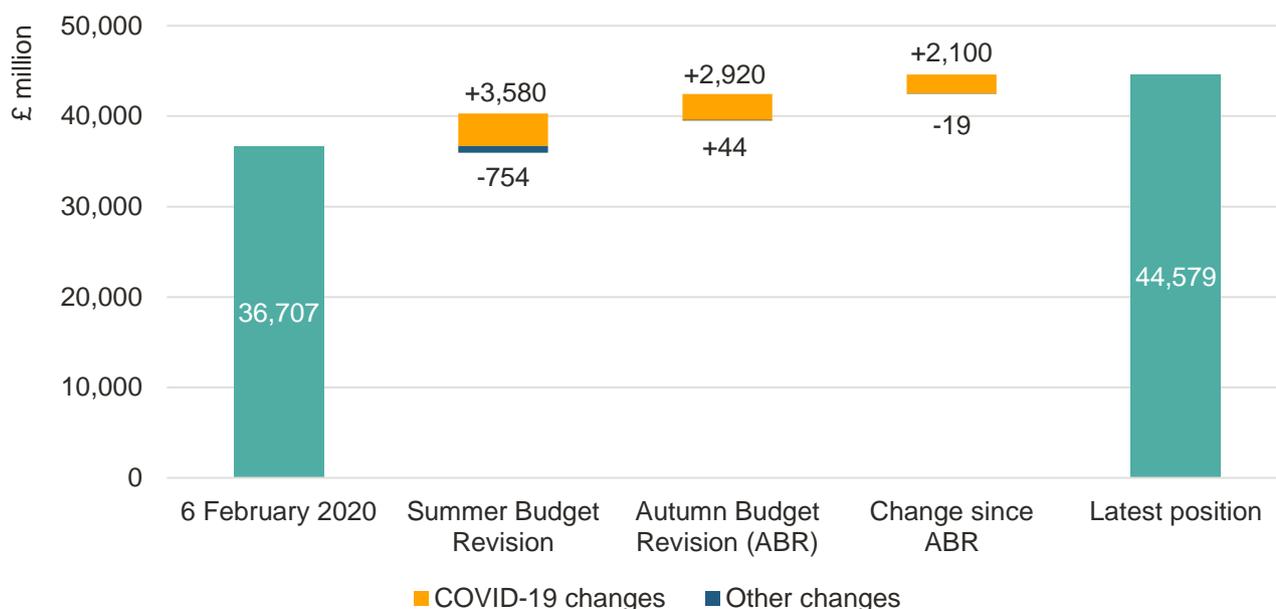
Resource funding

- 1.4 Resource spending covers day-to-day costs (such as wages, purchasing goods and services, and grants and subsidies).² Resource spending is funded through the resource block grant from the UK Government, devolved tax revenues and resource borrowing. Overall resource funding has increased by £7.9 billion, or 21 per cent since the Budget was introduced on 6 February 2020. These increases have taken place throughout the year, and it is possible there will be further increases in the Scottish Government's funding if the UK Government's spending increases as a result of recent COVID-19 restrictions in England. Figure 1.1 illustrates the increases to resource funding since the 2020-21 Scottish Budget was presented to Parliament.

¹ Our first fiscal update took account of changes arising from the UK Budget in March and the initial increases in spending associated with COVID-19. Scottish Fiscal Commission (2020) Supplementary Publication: Fiscal Update – April 2020 ([link](#)). Our second fiscal update focused on policy changes announced by the Scottish Government, and the guaranteed funding provided from the UK Government for spending associated with COVID-19. Scottish Fiscal Commission (2020) Supplementary Publication: Fiscal Update – September 2020 ([link](#)).

² UK Government (2020) Statement of funding policy: funding the Scottish Government, Welsh Government and Northern Ireland Executive ([link](#))

Figure 1.1: Changes in resource funding for 2020-21



Source: Scottish Fiscal Commission, Scottish Government.

Figures may not sum because of rounding.

The Autumn Budget Revision was presented to Parliament on 24 September 2020.

- 1.5** The increase to the 2020-21 Scottish Budget has largely been driven by a substantial increase in funding from the UK Government, reflecting spending in the rest of the UK in devolved areas, such as health and business support, in response to the pandemic.
- 1.6** Recognising the unusual circumstances this year and the need for the Scottish Government to have greater certainty about the level of funding being received, the UK Government guaranteed the additional COVID-19 funding provided to the Scottish Government. This guarantee was first introduced in July and was set at £6.5 billion.³ In October the guarantee was increased to £7.2 billion, further increasing to £8.2 billion at the UK Spending Review in November, with the latest increase to £8.6 billion on 22 December 2020.^{4,5,6} It is possible this guaranteed funding will be revised again if public health restrictions in England continue, and the extension of funding to support businesses in England results in additional funding for the Scottish Government.
- 1.7** Since we reported in September, smaller changes to the Scottish Budget include revisions to our tax forecasts and updated BGAs. Figure 1.2 sets out the detailed changes to the Scottish Budget since our Fiscal Update in September 2020.

³ HM Treasury (24 July 2020) Scotland, Wales and Northern Ireland receive additional coronavirus funding guarantee from UK Government ([link](#))

⁴ HM Treasury (9 October 2020) Job Support Scheme expanded to firms required to close because of COVID-19 Restrictions ([link](#))

⁵ HM Treasury (25 November 2020) Spending Review 2020 ([link](#))

⁶ HM Treasury (23 December 2020) £400 million of new funding to support Scotland through COVID-19 ([link](#))

Figure 1.2: Changes in resource funding for 2020-21 since our September Fiscal Update

£ million	6 February 2020	Changes made up to Autumn Budget Revision [1]	Changes since ABR	Latest position
Barnett determined Block Grant and non-COVID funding	29,711	+105		29,816
Other and non-Barnett funding	736	+42		778
COVID-19 funding	0	+6,500	+2,100	8,600
SFC tax revenue forecasts [2]	13,123	-37	-108	12,977
Tax and non-tax BGAs [3]	-12,991	+60	+106	-12,825
Social Security BGAs [3]	3,203		-17	3,185
Final reconciliations [4]	-177			-177
Resource borrowing	207			207
Resource reserve drawdown	106	+43		149
NDR Distributable Amount	2,790	-922		1,868
Total resource funding	36,707	+5,791	+2,081	44,579

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2020) Supplementary Publication – Fiscal Update – September 2020 ([link](#)), Scottish Government.

Figures may not sum because of rounding.

[1] Our September 2020 Fiscal Update provided an update of how the 2020-21 Scottish Budget changed until position at the Autumn Budget Revision. This table and accompanying footnotes focus on changes since the Autumn Budget Revision.

[2] SFC tax revenue forecasts are updated to reflect changes to our Land and Buildings Transaction Tax and Scottish Landfill Tax forecasts.

[3] Tax and non-tax BGAs and Social security BGAs are updated to reflect changes to the OBR's forecasts in November 2020. There has been no change to the income tax BGA as this is fixed for 2020-21.

[4] 2020-21 includes final reconciliations for: 2017-18 income tax revenue and BGA (-£204 million), 2018-19 Land and Building Transaction Tax BGA (-£3 million), 2018-19 Scottish Landfill Tax BGA (-£2 million), 2018-19 fines, forfeitures and fixed penalties (FFFPs) BGA (£2 million), 2018-19 Carer's Allowance BGA (£0 million), and in-year reconciliations deferred from 2019-20 (£30 million).

1.8 With only two months remaining of this financial year, the Scottish Government has a difficult task meeting the balanced budget requirement for 2020-21. Its funding may depend on the policy response of the UK Government in the last quarter of the financial year to the growing public health crisis and could increase above the guaranteed level. The tighter public health restrictions will result in spending increases in the demand-led schemes which the Scottish Government is operating to support businesses during COVID-19. To date, spending on these schemes amounts to over £3 billion.⁷ The latest position which we present in Figure 1.2 is unlikely to be the final position.

1.9 The Scottish Government has limited tools with which to manage this changing Budget. The Government could borrow up to £93 million in 2020-21 for forecast errors that have a negative effect on the Scottish Budget.⁸ Although changes in the tax and social security forecasts are largely offset by changes in the BGAs, the rules around resource borrowing mean the Scottish Government can borrow for all negative forecast errors, even if these are offset by other positive changes. These negative forecast errors amount to £302 million but currently the Scottish Government does not plan

⁷ Source: Scottish Government.

⁸ The Scottish Government have already borrowed £207 million as a result of the 2017-18 income tax reconciliation and smaller final reconciliations relating to 2018-19. This leaves £93 million remaining of the overall additional amount the Government can borrow because of forecast errors.

to use the available borrowing of £93 million to manage these.⁹ The Scottish Government already plans to utilise the remaining resource balance of the Scotland Reserve in the 2021-22 Budget.

- 1.10 As discussed in the SEFF, we are now forecasting a Scotland-specific economic shock in 2021-22.¹⁰ The triggering of the shock removes the drawdown limits on the Scotland Reserve in 2021-22. This will allow the Scottish Government access to the full balance in the Reserve, rather than the usual £250 million drawdown limit. Although still constrained by the aggregate limit of £700 million, the Reserve can be used to manage any late increases in funding or underspends.
- 1.11 The Scottish Government has requested additional flexibilities from the UK Government to manage the Budget this year.¹¹ HM Treasury has, as yet, not granted any additional flexibilities. As it is likely there may still be further changes to both the funding and spending position in 2020-21, it is not yet clear whether the existing flexibilities will be sufficient for the Scottish Government to manage the Budget. Discussions between HM Treasury and the Scottish Government are ongoing, in previous years HM Treasury has allowed the Scottish Government to defer late consequentials to the next financial year.

Capital funding

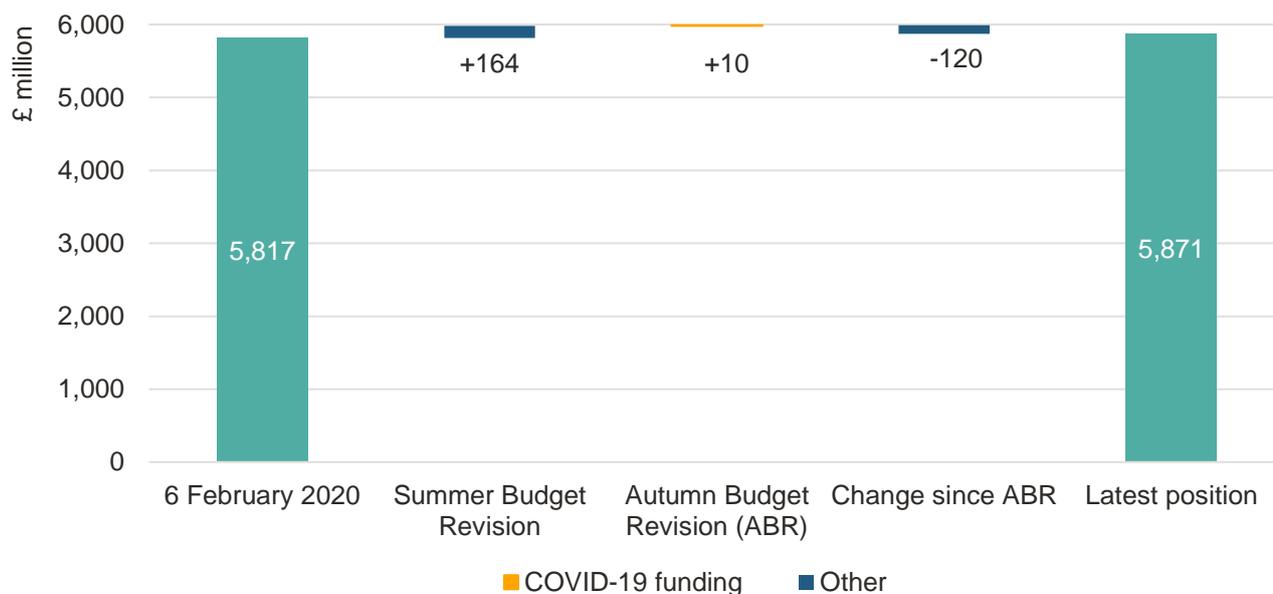
- 1.12 Capital spending covers long-term investment, such as hospitals, roads and research and development. Capital funding has increased by £54 million, or 1 per cent, since the Budget was introduced on 6 February 2020. The largest change was at the Summer Budget Revision, which included additional funding from the UK Budget in March 2020. At the Autumn Budget Revision there was a £10 million allocation of COVID-19 capital funding. The Scottish Government has since increased drawdowns from the capital reserve by £30 million and reduced their planned capital borrowing by £150 million, reflecting lower capital spending than expected in February 2020. Figure 1.3 illustrates changes to capital funding since the 2020-21 Scottish Budget was presented to Parliament.

⁹ Considering negative forecast errors only, a total of £302 million of negative forecast errors have occurred to date in 2020-21. Of these £145 million relates to our devolved tax forecasts, £90 million to our social security forecasts and £67 million in negative changes to the social security BGAs. Positive forecast revisions largely cancel out these negative revisions, but only negative revisions are counted for borrowing.

¹⁰ Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 ([link](#))

¹¹ These requests were for: fixed funding from the UK Government for the remainder of the financial year, flexibility to transfer capital spending to resource spending, an increase in the borrowing limit for all spending variation (not just social security and tax) to £500 million and an increase in the drawdown limit for the capital reserve.

Figure 1.3: Changes in capital funding for 2020-21



Source: Scottish Fiscal Commission, Scottish Government.

Figures may not sum because of rounding.

The Autumn Budget Revision was presented to Parliament on 24 September 2020.

Figure 1.4: Changes in capital funding for 2020-21 since our September Fiscal Update

£ million	6 February 2020	Changes made up to Autumn Budget Revision [1]	Changes since ABR	Latest position
Barnett determined Block Grant and non-COVID funding	4,734	+152		4,886
Other and non-Barnett funding	-10			-10
Financial transactions	606	+5		611
COVID-19 funding [2]	0	+10		10
Capital borrowing [3]	450		-150	300
Capital reserve drawdown	37	+7	+30	74
Total capital funding	5,817	+174	-120	5,871

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2020) Supplementary Publication – Fiscal Update – September 2020 ([link](#)), Scottish Government.

Figures may not sum because of rounding.

[1] Our September 2020 Fiscal Update provided an update of how the 2020-21 Scottish Budget changed until position at the Autumn Budget Revision. This table and accompanying footnotes focus on changes since the Autumn Budget Revision.

[2] In our September Fiscal Update the £10 million COVID-19 funding was classified differently, with £9 million under “Assumed or actual consequentials” and £1 million under “Financial Transactions”. We were subsequently informed this funding is attributed to COVID-19 and we have adjusted accordingly. This funding is split between £9 million capital and £1 million financial transactions.

[3] The Scottish Government is reducing planned borrowing to £300 million in 2020-21.

Chapter 2

SFC Forecasts

- 2.1 Our February 2020 forecasts were used to set the 2020-21 Scottish Budget. The outlook for 2020-21 has since changed significantly, because of the ongoing effect of COVID-19 and the UK and Scottish Government’s policy responses to the crisis. The current devolution funding arrangements mean that changes in funding for the Scottish Budget are based on the performance of tax revenues and social security spending in Scotland relative to the rest of the UK.
- 2.2 In this section we discuss changes to our forecasts for 2020-21 and their effects on funding for the 2020-21 Scottish Budget. The fiscal framework arrangement means changes in the forecasts of fully devolved taxes and social security spending are applied in-year, so these affect the 2020-21 Budget. These funding changes will be applied at the Spring Budget Revision, now expected in late February. In contrast income tax and Non-Domestic Rates are fixed for the year. Changes in those forecasts are applied in future years’ budgets.¹²
- 2.3 In general, we’re forecasting significantly lower tax revenues but only small changes to social security spending compared to our outlook in February 2020.
- 2.4 Where relevant, we compare changes to our forecasts with changes in the associated BGAs to derive the net effect on funding for 2020-21.¹³ Areas which are not funded by BGAs, such as Coronavirus Carer’s Allowance Supplement, the Scottish Welfare Fund and the Self-Isolation Support Grant are funded through the Barnett-determined Block Grant.

Tax forecasts managed in-year

- 2.5 Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT) are fully devolved taxes. Changes to our forecasts and Block Grant Adjustments affect the budget in-year.
- 2.6 Our forecast of revenues from LBTT and SLfT have fallen by £145 million since February. This is in line with the reduction in corresponding tax revenues collected by the UK Government so is largely matched by a positive £166 million change to the BGAs. The combined effect of changes to our and the OBR’s forecasts is an increase of £21 million in the Scottish Budget in 2020-21 shown in Figure 2.1.

Figure 2.1: Changes to fully devolved tax forecasts for 2020-21, since February 2020

£ million	Change in SFC forecast	Change in Block Grant Adjustment	Net position
Fully devolved taxes	-145	+166	+21

Source: Scottish Fiscal Commission, Scottish Government.

Fully devolved taxes includes LBTT and SLfT.

Numbers shown as positive or negative depending on effect on Scottish Budget.

Figures may not sum to total because of rounding.

¹² A full discussion on changes in our income tax and NDR forecasts can be found in Scottish Fiscal Commission (2021) Scotland’s Economic and Fiscal Forecasts – January 2021 ([link](#))

¹³ Block Grant Adjustments were updated following the OBR’s forecasts in November 2020.

Tax forecasts not affecting 2020-21

- 2.7 Income tax funding remains fixed and is based on the forecasts used to set the budget in February 2020. Outturn data for 2020-21 income tax will be available in summer 2022 and at this time the reconciliation will be calculated and applied to the 2023-24 Scottish Budget. Our current estimate for this reconciliation is positive £74 million.
- 2.8 Non-Domestic Rates (NDR) have been the responsibility of the Scottish Government since devolution began. They are not covered by the fiscal framework and do not have a corresponding BGA like other devolved taxes. Instead funding for NDR is included in the Block Grant with additional spending on business rates in England resulting in additional funding for Scotland. This year, the Scottish Government granted a new NDR relief for retail, hospitality and leisure properties as well as a universal relief reducing tax due in 2020-21 because of COVID-19 restrictions. Funding for the NDR reliefs was received as part of the COVID-19 additional funding following UK Government changes to business rates in England.
- 2.9 NDR affects the Scottish Budget because the Scottish Government distributes an amount of revenue to local authorities at the start of the financial year, with the actual NDR revenues collected by local authorities and pooled centrally. Only changes in the distributable amount affect the Scottish Budget during the financial year. Differences between revenues collected and the distributable amount are managed through the NDR rating account and the setting of the distributable amount in future financial years.¹⁴ In March the Scottish Government revised down the distributable amount following the introduction of the new reliefs for retail, hospitality and leisure properties.

Social security forecasts

- 2.10 All differences between actual and forecast social security spending are managed in-year, as are differences between social security BGAs and their forecasts.¹⁵
- 2.11 The majority of social security spending (£3.2 billion or 92 per cent in 2020-21) has a corresponding BGA which changes as spending in England and Wales changes.¹⁶ In 2020-21 our forecast of spending on these social security payments has increased by £1 million.¹⁷ The equivalent BGAs have fallen by £17 million. This means there is an additional £18 million of spending that needs to be met from the Scottish Budget.

Figure 2.2: Changes to social security forecasts for 2020-21, since February 2020

£ million	Change in SFC forecast	Change in Block Grant Adjustment	Net position
Payments with associated Block Grant Adjustments	-1	-17	-18

Source: Scottish Fiscal Commission, Scottish Government.

Numbers are shown as positive or negative depending on effect on Scottish Budget.

¹⁴ A more detailed discussion of the NDR rating account estimated position can be found in Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 ([link](#))

¹⁵ One update to the BGAs applies during the financial year following the UK Governments autumn fiscal event. A final update is applied after the end of the financial year once final outturn data are available. To date these final updates have been fairly small and the larger changes have been made during the financial year.

¹⁶ This covers Attendance Allowance, Carer's Allowance, Disability Living Allowance, Industrial Injuries Disablement Scheme, Personal Independence Payment and Severe Disablement Allowance. These values are calculated based on our forecasts for 2020-21.

¹⁷ Detailed information of changes for each forecast can be found in the Chapter 5 of Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 ([link](#))

2.12 Around £300 million of social security expenditure does not have associated BGAs. These are either smaller payments devolved as part of the general Block Grant or new payments launched by the Scottish Government with no associated funding from the UK Government.¹⁸ Our revised forecasts suggest spending on these areas has increased by £59 million, or 27 per cent, in 2020-21. These increases in spending must be managed from within the Scottish Budget in-year.

¹⁸ Payments devolved as part of the general Block Grant are: Best Start Grant, Discretionary Housing Payments, Funeral Support Payment, Scottish Welfare Fund, Best Start Foods and Fair Start Scotland. New payments launched by the Scottish Government with no associated funding from the UK Government are: Carer's Allowance Supplement, Child Winter Heating Assistance and the Scottish Child Payment. The Scottish Government has also launched a new payment in 2020-21, the Self-Isolation Support Grant, with funding provided by the UK Government through the COVID-19 response as there is a UK Government equivalent scheme.

Additional information

Abbreviations

ABR	Autumn Budget Revision
BGA	Block Grant Adjustment
COVID-19	Coronavirus
FFFPs	Fines, forfeitures and fixed penalties
LBTT	Land and Buildings Transaction Tax
NDR	Non-Domestic Rates
OBR	Office for Budget Responsibility
SEFF	Scotland's Economic and Fiscal Forecasts
SFC	Scottish Fiscal Commission
SLfT	Scottish Landfill Tax

A full glossary of terms is available on our website:

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

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