
2021-22 Fiscal Update

March 2021

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Foreword

The Scottish Government presented its Budget to the Scottish Parliament on 28 January 2021. At that time we highlighted how the Budget was likely to change significantly as a result of the UK budget and the continued public health restrictions across the UK. This Fiscal Update is part of our regular series of publications which monitor how the funding for the Scottish Budget is changing over time.

On 15 February 2021 the UK Government announced additional COVID-19 funding for the Scottish Government relating to 2020-21. Because the funding was confirmed late in the financial year HM Treasury allowed the Scottish Government to defer this funding in full until 2021-22 without using the Scotland Reserve. There have been a few relatively small changes to the 2020-21 Budget since our last Fiscal Update in January, these are set out in Annex A.

Overall the 2021-22 Scottish Budget has increased by £1.3 billion, or 2.8 per cent since it was introduced on 28 January 2021. As well as the funding deferred from 2020-21, this increase reflects additional funding following the UK Budget on 3 March 2021. The Scottish Government has since announced new reliefs for Non-Domestic Rates. Our costing published on 5 March 2021 showed these would reduce revenues by £541 million, and the Budget now accounts for this reduction.¹

As part of the Budget deal with the Scottish Green Party and Scottish Liberal Democrats, the Scottish Government has announced additional spending commitments, the costs of which are covered by the funding allocated at the UK Budget and deferred funding from 2020-21.²

The Scottish Budget has increased significantly since it was first introduced in January. There will likely be further changes to the Budget during the financial year and so on-going monitoring of the Budget is increasingly important. Following the recommendation of the Finance and Constitution Committee we plan to publish our next set of forecasts in September 2021.

Our forecasts in January 2021 resulted in the triggering of a Scotland-specific economic shock, which provides the Scottish Government with enhanced borrowing powers for the next three years. These powers will not be revoked even if revised forecasts or outturn data no longer trigger a shock. The conditions for a shock are still present in the comparison of the Office for Budget Responsibility's latest forecasts to our January 2021 forecasts. We still believe the outlook for Scottish GDP and UK GDP are broadly similar, but the short-term forecasts are sensitive to assumptions about public health restrictions.



Dame Susan Rice DBE



Professor Francis Breedon



Professor Alasdair Smith



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9 March 2021

¹ Scottish Fiscal Commission (2021) Supplementary Costings – Non-Domestic Rates Measures and Self-Isolation Support Grant – March 2021 ([link](#))

² Scottish Government (2021) Budget deal secured – 8 March 2021 ([link](#))

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Chapter 1

2021-22 Scottish Budget

Introduction

- 1.1 The 2021-22 Scottish Budget has increased by £1.3 billion since it was set on 28 January 2021.³ The increase has occurred because of additional funding allocated at the UK Budget and COVID-19 funding deferred from 2020-21. The NDR distributable amount has been reduced to reflect the expected reduction in revenue from reliefs introduced in March 2021. This chapter explains how these changes have affected the resource, capital and financial transaction funding for 2021-22.
- 1.2 Information on how the funding for the 2020-21 Scottish Budget has changed can be found in Annex A.

Changes since 28 January 2021

- 1.3 On 15 February 2021, the UK Government announced additional COVID-19 funding for the Scottish Government, consisting of £874 million resource, £237 million capital and £42 million in financial transactions.⁴ This funding was related to 2020-21, but with provision for it to be deferred to 2021-22, without passing through the Scotland Reserve. The Scottish Government has confirmed this funding will be deferred in full and added to the 2021-22 Scottish Budget.
- 1.4 The 2021-22 UK Budget was published on 3 March 2021.⁵ This announcement included £1,215 million of resource funding for the Scottish Budget. In the Budget introduced on 28 January, the Scottish Government anticipated it would receive £500 million of additional UK Government funding. Once accounting for this, and removing £40 million for an error at the UK Spending Review, the UK Budget increased the resource budget by £675 million.
- 1.5 On 8 March 2021 the Scottish Government agreed a Budget deal for Stage 3 with the Scottish Green Party and the Liberal Democrats.⁶ With the exception of public sector pay, the deal is funded from the additional UK Government funding deferred from 2020-21 and announced at the UK Budget. The agreement on public sector pay policy has been estimated to cost around £100 million but the final cost will depend on the details of the pay arrangements reached with different workforces. The Scottish Government plan to revise the Budget during the year if required to allocate additional funding for respective pay deals. The cost and funding arrangements should be monitored during the financial year as part of the wider monitoring of the Budget.
- 1.6 Figure 1.1 and 1.2 set out how the resource and capital funding positions have changed since our last publication.

³ The 2021-22 Scottish Budget has increased by £1,286 million of which £278 million is capital and £1,008 million is resource.

⁴ UK Government (2021) Further £1.1 billion boost for Scotland's response to COVID-19 ([link](#))

⁵ UK Government (2021) Budget 2021: documents ([link](#))

⁶ Scottish Government (2021) Budget deal secured ([link](#))

Figure 1.1: Changes to 2021-22 resource funding

£ million	28 January 2021	Changes since 28 January 2021	Latest position
Barnett determined Block Grant and non-COVID-19 funding [1]	30,923	+9	30,931
Ring-fenced and non-Barnett funding [2]	756	-40	716
COVID-19 funding [3]	1,828	+1,580	3,408
SFC tax revenue forecasts	12,937		12,937
Tax and non-tax BGAs [4]	-12,430		-12,430
Social Security BGAs	3,310		3,310
Final reconciliations	-319		-319
Resource borrowing	319		319
Resource reserve drawdown	231		231
Other [5]	246		246
NDR Distributable Amount [6]	2,631	-541	2,090
Total resource funding	40,431	+1,008	41,439

Source: Scottish Fiscal Commission

Figures may not sum because of rounding.

[1] The Barnett-determined block grant was initially set based on the UK Government's November 2020 spending review ([link](#)).

[2] Our January 2021 Fiscal Overview combined two categories together: "Ring-fenced and non-Barnett funding" and "Other". The Ring-fenced and non-Barnett funding category includes: EU replacement farm funding (£570 million), EU replacement fisheries funding (£14 million), Bew review (£26 million), rail resource grant (£80 million) and Scotland Act Implementation (£66 million). Changes since 28 January 2021 includes a £40 million reduction for rail resource funding, because of an error in the UK Government's November 2020 spending review allocation.

[3] On 28 January 2021 COVID-19 funding included: £1,328 million confirmed funding from the UK Government's spending review and £500 million of anticipated funding. This has since increased, with £874 million of resource funding deferred from 2020-21 and £1,206 million allocated at the UK Budget. We remove the £500 million in assumed funding from the UK Budget funding to calculate the changes since 28 January 2021 figure.

[4] Non-tax refers to fines, forfeitures and fixed penalties and proceeds of crime.

[5] Our January 2021 Fiscal Overview combined two categories together: "Ring-fenced and non-Barnett funding" and "Other". The Other category includes: migrant surcharge (£22 million), funding for fisheries (£7 million), machinery of government transfers (£3 million), Queen's and Lord Treasurer's Remembrancer (£5 million), anticipated donations from recipients of NDR reliefs (£185 million) and forecast revenues for fines, forfeitures and fixed penalties and proceeds of crime (£25 million).

[6] The Scottish Government reduced the NDR distributable amount to reflect the expected reduction in revenues from reliefs introduced in March 2021.

Figure 1.2: Changes to 2021-22 capital and financial transaction funding

£ million		28 January 2021	Changes since 28 January 2021	Latest position
Capital	Barnett determined Block Grant and non-COVID-19 funding	4,973		4,973
	COVID-19 funding [1]	0	+237	237
	Capital borrowing	450		450
	Reserve drawdown	0		0
Financial transactions	Barnett determined Block Grant and non-COVID funding	208		208
	COVID-19 funding [1]	0	+42	42
	Reserve drawdown	200		200
	Total funding	5,831	+278	6,110

Source: Scottish Fiscal Commission

Figures may not sum because of rounding.

[1] COVID-19 funding has increased because of deferred funding from 2020-21, which included £237 million capital and £42 million financial transactions.

Block Grant Adjustments

- 1.7** Funding for the 2021-22 Scottish Budget was set, in part, based on provisional Block Grant Adjustments (BGAs). These were determined by the Office for Budget Responsibility's (OBR) November 2020 forecasts, and reflect forecast tax revenues and social security spending in the rest of the UK.
- 1.8** On 3 March 2021 the OBR published updated forecasts to accompany the 2021-22 UK Budget, which allows the calculation of updated BGAs.⁷ These updated BGAs indicate a £39 million reduction in funding, largely because the OBR is now forecasting stronger growth in 2021-22 income tax and Stamp Duty Land Tax in the rest of the UK, compared with its forecasts in November 2020. This is partially offset by increases in the social security BGAs.

Figure 1.3: 2021-22 Block Grant Adjustments by date of OBR forecast

£ million	November 2020	March 2021	Difference
Tax	-12,398	-12,452	-54
Social security	3,310	3,325	15
Total			-39

Source: Scottish Fiscal Commission

Differences are calculated as March 2021 subtract November 2020. Figures may not sum because of rounding.

- 1.9** The Scottish Government has not included these updated BGAs in the 2021-22 Scottish Budget at present. On this basis, the income tax BGA will be fixed on the November 2020 value until outturn data are released in 2023-24. All other tax and social security BGAs are updated during the year, which means any changes in the OBR's outlook for tax revenues or social security spending will

⁷ OBR (2021) Devolved tax and spending forecasts – March 2021 ([link](#))

adjust funding for the 2021-22 Scottish Budget when the OBR produce their next forecasts in the autumn 2021.

Non-Domestic Rating Account

1.10 The Commission forecasts the ‘contributable amount’ of Non-Domestic Rates (NDR), the revenue collected by local authorities and pooled nationally. The Scottish Government redistributes the ‘distributable amount’ of NDR to local authorities as part of the local government finance settlement. The Scottish Government has made two changes to NDR since January 2021 which reduce the contributable amount by £541 million.⁸

1.11 The Scottish Government has made a corresponding change to the NDR distributable amount, reducing it to £2,090 million as shown in Figure 1.4. Overall the estimated position of the NDR Rating Account (shown as row E in Figure 1.4) is unchanged since our January 2021 publication.

Figure 1.4: Illustrative projected balance of the Non-Domestic Rating Account

£ million	2018-19	2019-20	2020-21	2021-22
Provisional contributable amount (A)	2,883	2,890	1,916	2,139
Net effect of prior year adjustments (B)	-82	-36	-129	-68
Distributable amount (C)	2,636	2,853	1,868	2,090
Annual balance (D) (A + B – C)	165	1	-80	-20
Cumulative balance (E) (E from previous year + D)	24	25	-56	-75

Source: Scottish Fiscal Commission, Scottish Government.

Figures may not sum because of rounding.

Shaded cells refer to outturn at the time of publication.

The projected balance is provisional because at time of publication, we do not have the audited NDR income figures for 2019-20; it is based on the provisional outturn figures provided on the Notified returns. The presentation differs slightly to that in the published audit of the NDR rating account, mainly because of the presentation of line B – ‘net effect of prior year adjustments’.

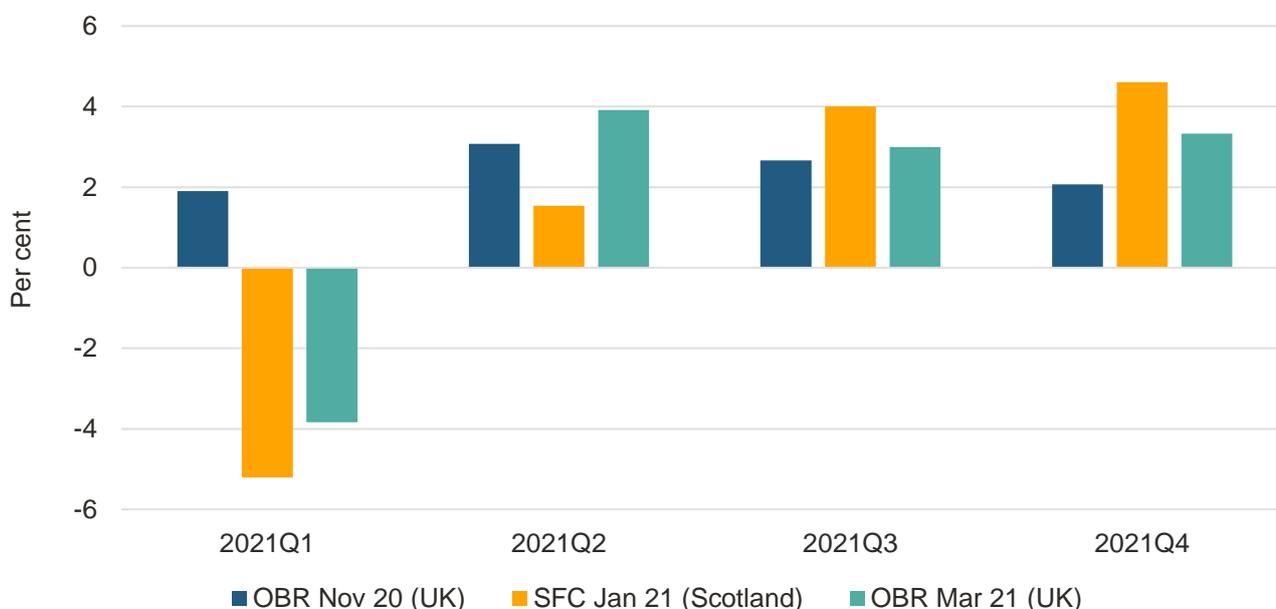
⁸ Scottish Fiscal Commission (2021) Supplementary Costings – Non-Domestic Rates Measures and Self-Isolation Support Grant – March 2021 ([link](#))

Chapter 2

Economy

2.1 The OBR published updated forecasts of the UK economy on 3 March. The OBR's forecast of quarterly GDP growth in 2021 is shown in Figure 2.1, alongside our January 2021 forecast and the OBR's previous November 2020 forecast.

Figure 2.1: OBR UK and SFC Scottish quarterly GDP growth forecasts for 2021



Source: Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 ([link](#)), OBR (2021) Economic and Fiscal Outlook – March 2021 ([link](#)), OBR (2020) Economic and Fiscal Outlook – November 2020 ([link](#)).

2.2 As the UK-wide lockdowns in 2021 Q1 were only announced in early January, the OBR could not incorporate these into their November 2020 forecasts. The OBR's November 2020 forecast was for a steady recovery in UK GDP in 2021, with total growth of around 6 per cent over the year.

2.3 When we published our forecasts for Scotland in January 2021, the new COVID-19 lockdowns had been announced, and the UK was still in the early days of the vaccine roll-out. We forecast a sharp fall in economic activity in Q1, moderate growth in Q2 as the lockdown started to lift, followed by stronger growth later in the year as restrictions were further lifted.

2.4 In their latest forecasts, the OBR were able to draw on more data in Q1 relating to the extent of the lockdown and the more rapid pace of the vaccine rollout. The OBR are anticipating a slightly smaller fall in GDP in Q1 for the UK than we forecast for Scotland, and a faster recovery in UK GDP starting in Q2. These differences in outlook for Q1 and Q2 mean that the OBR has forecast higher growth, of around 4 per cent for the UK in 2021, than we have forecast for Scotland. While our January forecasts are for lower growth for Q1 and Q2, we anticipated stronger growth for Scotland in Q3 and Q4, with 2 per cent growth for Scotland overall.

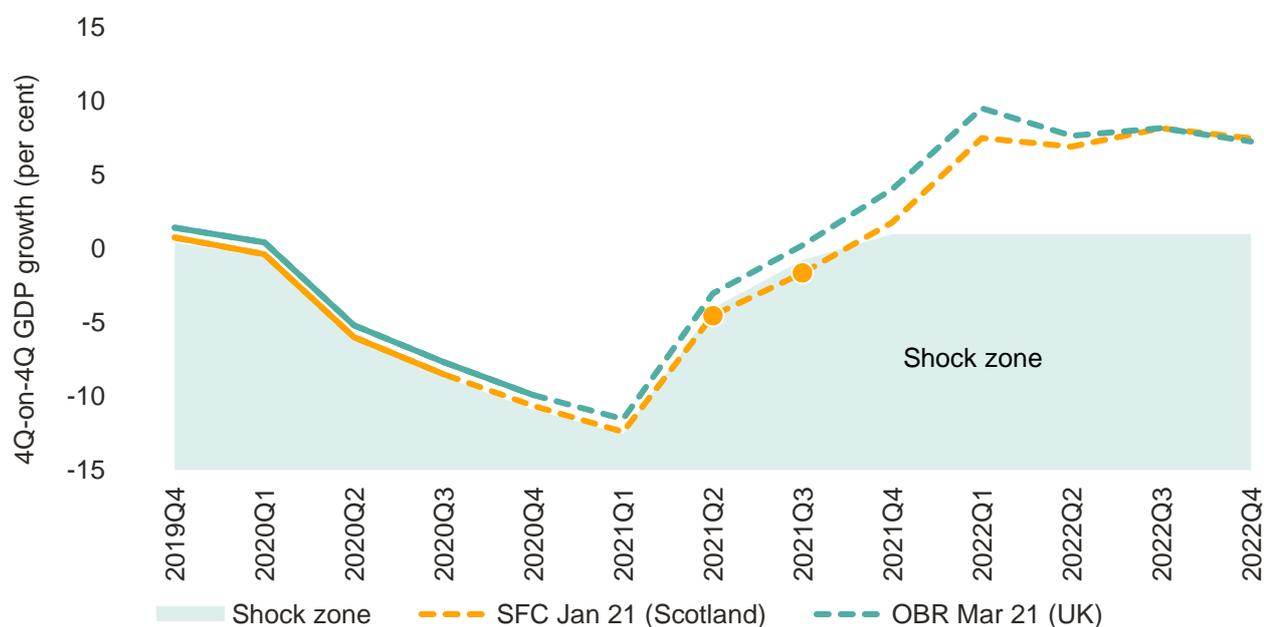
2.5 In our January 2021 forecast publication, we reported that the criteria for a Scotland-specific economic shock were met for the first time as a result of the difference between our forecasts for Scotland and the OBR's forecasts for the UK published in November 2020. We highlighted how, based on what we observed in 2020, we believe the outlook for Scottish GDP and UK GDP are broadly similar and that most of the difference between our forecasts was likely to be because of

timing, as the OBR's November 2020 forecasts did not account for the lockdowns which began in January 2021.

2.6 The Scotland-specific economic shock is still present in the comparison of our January forecasts to the OBR's forecasts for the UK published on 3 March 2021. As shown in Figure 2.2, the shock now occurs in two quarters within the 2021-22 financial year, April-June and July-September. The forecasts are highly sensitive to the assumed public health measures in each quarter. We still believe the outlook for Scottish GDP and UK GDP are broadly similar, and the conditions for a shock are still present at least partly because of the differences in timing of the forecasts. The OBR's March forecasts OBR assume faster relaxation of restrictions than we assumed in January.

2.7 There is no change in the Scottish Government's borrowing powers, the resource borrowing limit for forecast error has been increased from £300 million to £600 million for the next three financial years. Even if in future, forecasts or outturn data no longer trigger a shock in 2021-22, the relaxation of limits will not be revoked.

Figure 2.2: Scotland-specific economic shock



Source: Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 ([link](#)), OBR (2021) Economic and Fiscal Outlook – March 2021 ([link](#)).

2.8 There remains significant uncertainty about the economic outlook for Scotland and the UK, contingent on: the ongoing success of the vaccine rollout; the timing, pace and volatility of lifting restrictions; how society and the economy responds to the lifting of restrictions; and the effect on the economy of Government support measures. Focussing on 2021, the forecasts are very sensitive to small changes in assumptions around these factors. We think the triggering of the shock continues to be explained by the timing of when forecasts were produced, as well as the inherent volatility and uncertainty of forecasts, and how sensitive they are to small differences in assumptions and judgements during the COVID-19 pandemic.

2.9 Taking a longer term perspective, we expect the Scottish economy to be affected by COVID-19 similarly to the UK economy. In 2025, we expect Scottish GDP to be around 4 per cent smaller than in our pre COVID-19 forecasts, compared to the OBR's latest forecast of 3 per cent in the UK.

Annex A

2020-21 Scottish Budget

Figure A.1: Changes to 2020-21 resource funding

£ million	6 February 2020	Changes up to 28 January 2021 [1]	Changes at Spring Budget Revision	Latest position
Barnett determined Block Grant and non-COVID funding [2]	29,711	+105	-40	29,776
Other and non-Barnett funding	736	+42		778
COVID-19 funding	0	+8,600		8,600
SFC tax revenue forecasts	13,123	-145		12,977
Tax and non-tax BGAs	-12,991	+166		-12,825
Social Security BGAs	3,203	-17		3,185
Final reconciliations [3]	-177	0		-177
Resource borrowing	207	0		207
Resource reserve drawdown	106	+43	+22	171
NDR Distributable Amount	2,790	-922		1,868
Total resource funding	36,707	+7,871	-18	44,561

Source: Scottish Fiscal Commission

Figures may not sum to totals because of rounding.

[1] Our three previous Fiscal Updates provide details on how the 2020-21 Scottish Budget has changed up to 28 January 2021. This table and accompanying footnotes focus on changes since 28 January 2021.

[2] This £40 million reduction is related to rail resource funding, because of an error in the UK Government's November 2020 spending review allocation.

[3] Final reconciliations include: 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 indicative in-year reconciliations deferred from 2019-20 (£30 million).

Figure A.2: Changes to 2020-21 capital funding

£ million		6 February 2020	Changes up to 28 January 2021 [1]	Changes at Spring Budget Revision	Latest position
Capital	Barnett determined Block Grant and non-COVID funding	4,734	+152		4,886
	Other and non-Barnett funding [2]	-10	0	-75	-85
	COVID-19 funding [3]	0	+9	-9	0
	Capital borrowing	450	-150		300
	Reserve drawdown	5	+65	-5	65
	Financial transactions	Barnett determined Block Grant and non-COVID funding	606	+5	
COVID-19 funding [3]		0	+1	-1	0
Reserve drawdown		32	-28	-22	-18
Total funding		5,817	+54	-112	5,759

Source: Scottish Fiscal Commission

Figures may not sum to totals because of rounding.

[1] Our three previous Fiscal Updates provide details on how the 2020-21 Scottish Budget has changed up to 28 January 2021. This table and accompanying footnotes focus on changes since 28 January 2021.

[2] The £75 million reduction is related to re-profiled Network Rail investment.

[3] Our previous Fiscal Update did not split COVID-19 funding by capital and financial transactions. This funding was removed at the Spring Budget Revision and deferred into 2021-22.

Figure A.3: Outturn and planned use of the resource reserve

£ million	2019-20	2020-21	2021-22
Opening balance	381	217	210
Drawdowns	-249	-171	-231
Additions	85	164	
Closing balance	217	210	-21 [1]

Source: Scottish Fiscal Commission, Scottish Government.

Figures may not sum to totals because of rounding. Shaded cells refer to outturn available at time of publication.

[1] The balance of the Scotland Reserve cannot be negative. As such, the Scottish Government will need to amend additions or drawdowns to ensure the balance does not fall below zero. Additions in 2020-21 are the Scottish Government's latest forecast of the underspend in 2020-21 and are subject to revision.

Figure A.4: Outturn and planned use of the capital reserve (excluding financial transactions)

£ million	2019-20	2020-21	2021-22
Opening balance	65	80	33
Drawdowns	-60	-65	0
Additions	74	18	
Closing balance	80	33	33

Source: Scottish Fiscal Commission, Scottish Government.

Figures may not sum to totals because of rounding. Shaded cells refer to outturn available at time of publication.

Figure A.5: Outturn and planned use of the financial transaction reserve

£ million	2019-20	2020-21	2021-22
Opening balance	159	136	253
Drawdowns	-120	18	-200
Additions	97	99	
Closing balance	136	253	53

Source: Scottish Fiscal Commission, Scottish Government.

Figures may not sum to totals because of rounding. Shaded cells refer to outturn available at time of publication

Additional Information

Abbreviations

BGA	Block Grant Adjustment
COVID-19	Coronavirus
EU	European Union
GDP	Gross Domestic Product
HMT	Her Majesty's Treasury
NDR	Non-Domestic Rates
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Cooperation and Development
SFC	Scottish Fiscal Commission
UK	United Kingdom

A full glossary of terms is available on our website:

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

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Correspondence and enquiries

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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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⁹ OECD (2014) Recommendation on Principles for Independent Fiscal Institutions ([link](#))

¹⁰ Scottish Fiscal Commission (2018) Compliance with the Code of Practice for Official Statistics ([link](#))

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