

Scotland's Economic and Fiscal Forecasts

December 2018

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Overview

1. Introduction – Dame Susan Rice, chair
2. Scotland's Economic and Fiscal Forecasts – John Ireland, Chief Executive
3. Question and Answer

Aim to finish for 11 AM

Pre-arranged interviews with Dame Susan Rice (see Caroline)

Introduction



Dame Susan Rice

Scotland's Economic and Fiscal Forecasts

John Ireland

Economy Forecasts

Economy Forecasts

		2018	2019	2020	2023	% growth
	GDP	1.4	1.2	1.0	1.2	Growth has been revised up in the shorter term, growth in the longer term is subdued
	Trend Productivity	0.3	0.7	0.9	1.2	Productivity growth gradually starts to increase after decade of slow growth
	Nominal Earnings	2.0	2.3	2.5	3.1	Nominal earnings higher than in our May 2018 forecast, and expected to gradually increase
	Real Earnings	-0.3	0.3	0.5	1.1	Real earnings growth expected to remain low by historic standards

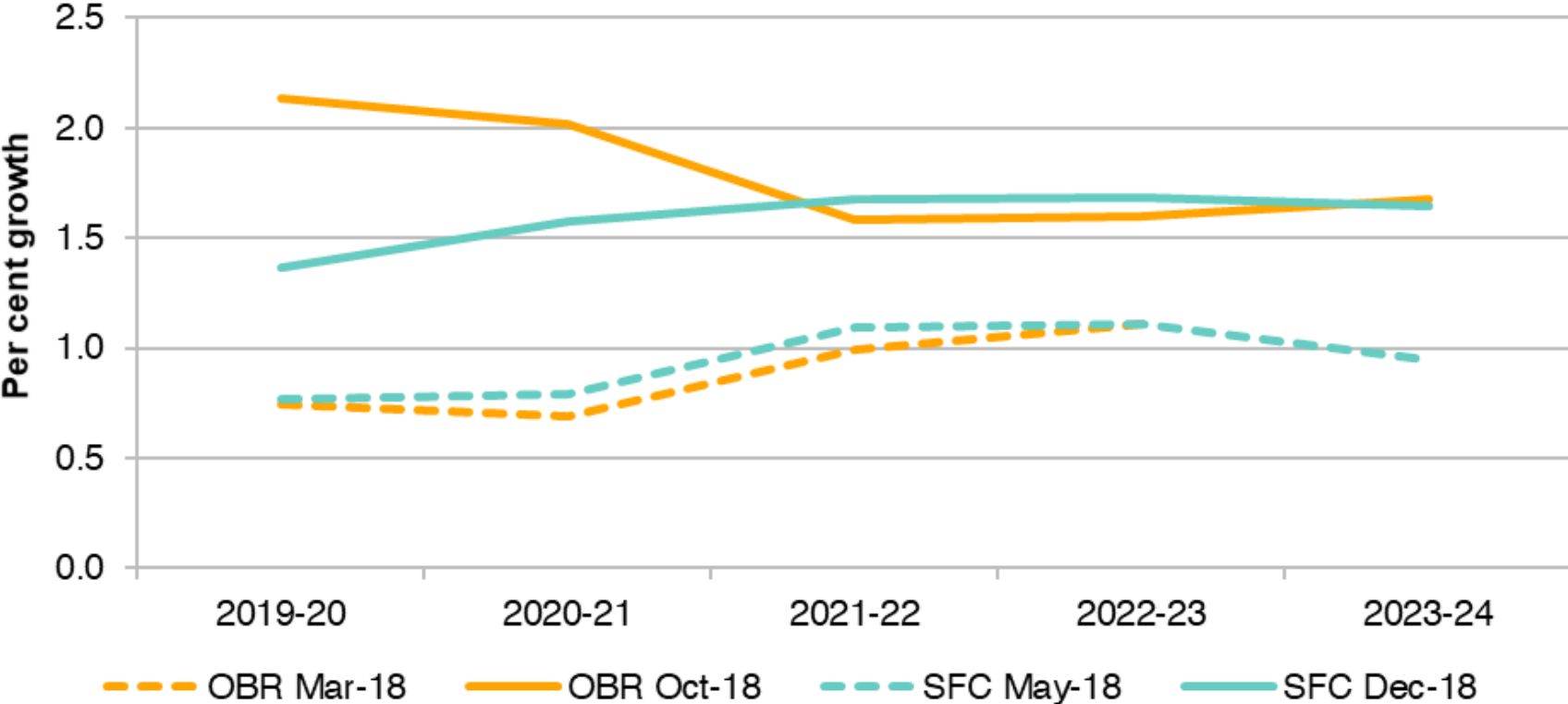
Economy – Brexit

- Our Central case remains relatively orderly and smooth exit from EU
- “No Deal” is downside risk to forecasts
- We have not prepared scenarios on different Exit options nor made comparisons with a no Brexit base

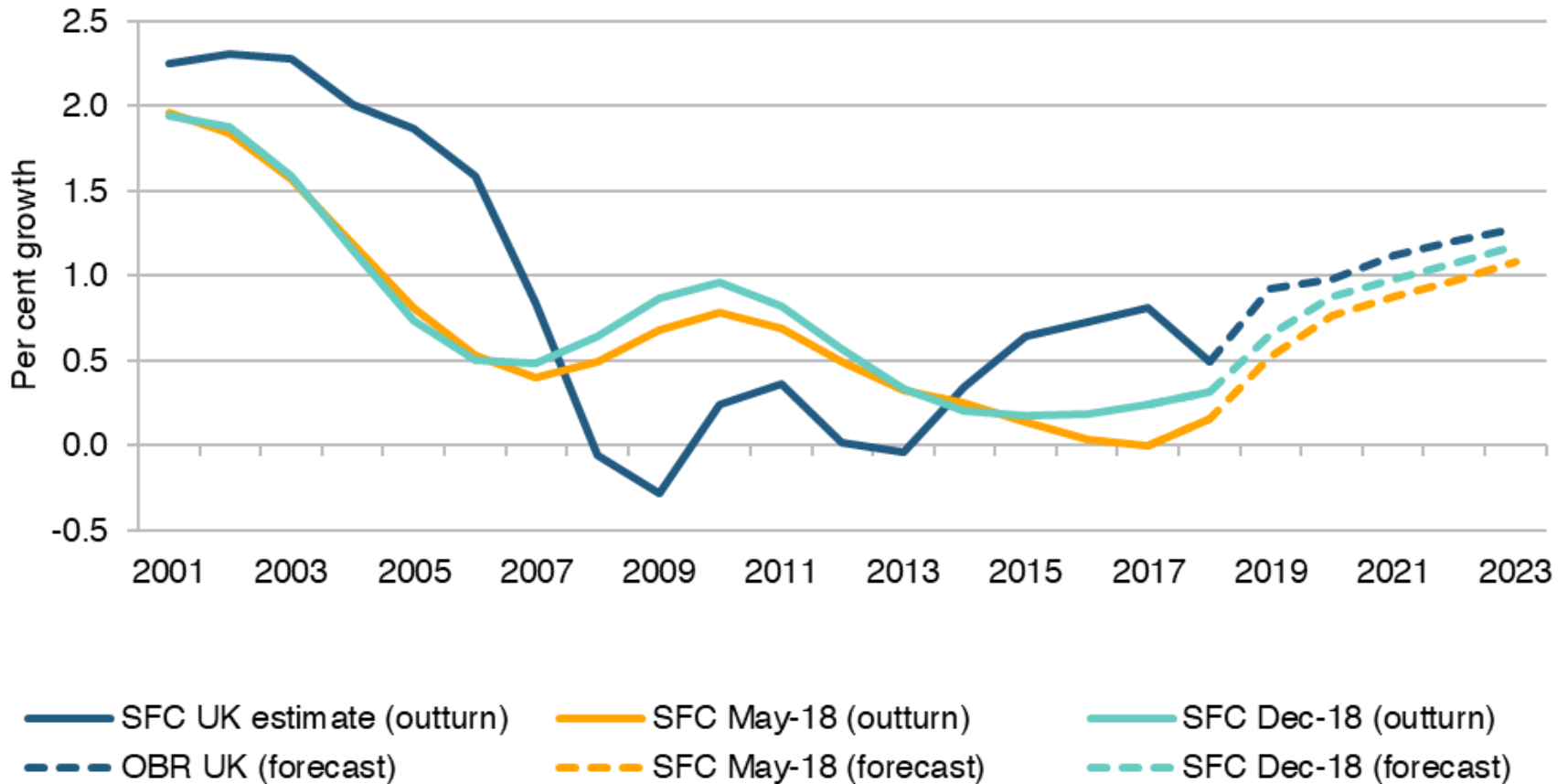
Economy – Forecast Comparison

GDP	2017	2018	2019	2020	2021	2022	2023
May 2018	0.8	0.7	0.8	0.9	0.9	0.9	0.9
December 2018	1.4	1.4	1.2	1.0	1.0	1.1	1.2
Trend productivity							
May 2018	0.0	0.2	0.5	0.8	0.9	1.0	1.1
December 2018	0.2	0.3	0.7	0.9	1.0	1.1	1.2
Average nominal earnings							
May 2018	1.1	1.6	1.9	2.2	2.6	2.9	3.2
December 2018	1.5	2.0	2.3	2.5	2.8	3.0	3.1
Average real earnings							
May 2018	-1.0	-0.5	0.0	0.3	0.6	0.9	1.1
December 2018	-0.6	-0.3	0.3	0.5	0.6	0.9	1.1
Employment (millions)							
May 2018	2.64	2.65	2.65	2.65	2.66	2.66	2.66
December 2018	2.64	2.64	2.65	2.65	2.66	2.66	2.66

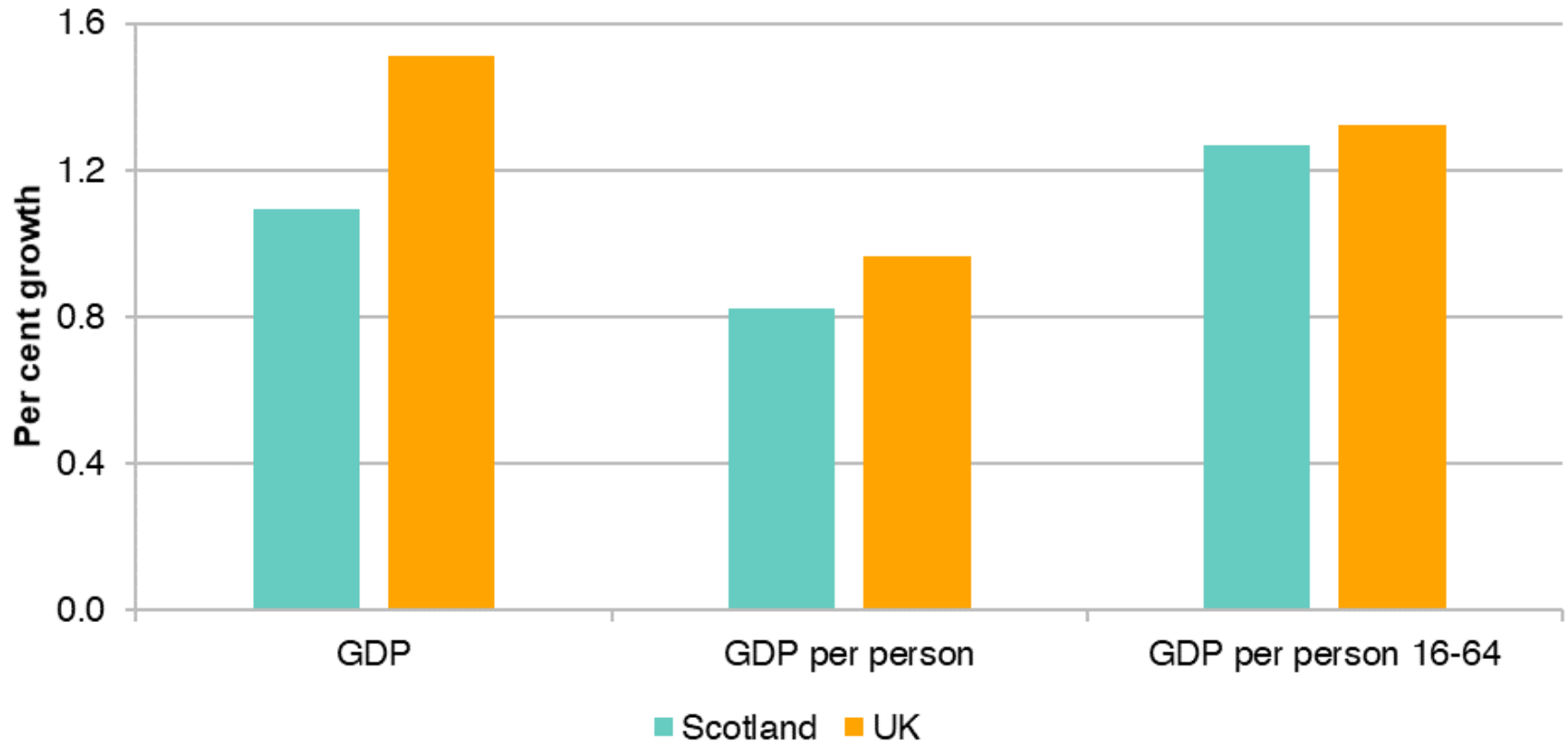
Economy – Government Consumption



Economy – Trend Productivity







Economy – GDP and GDP per person

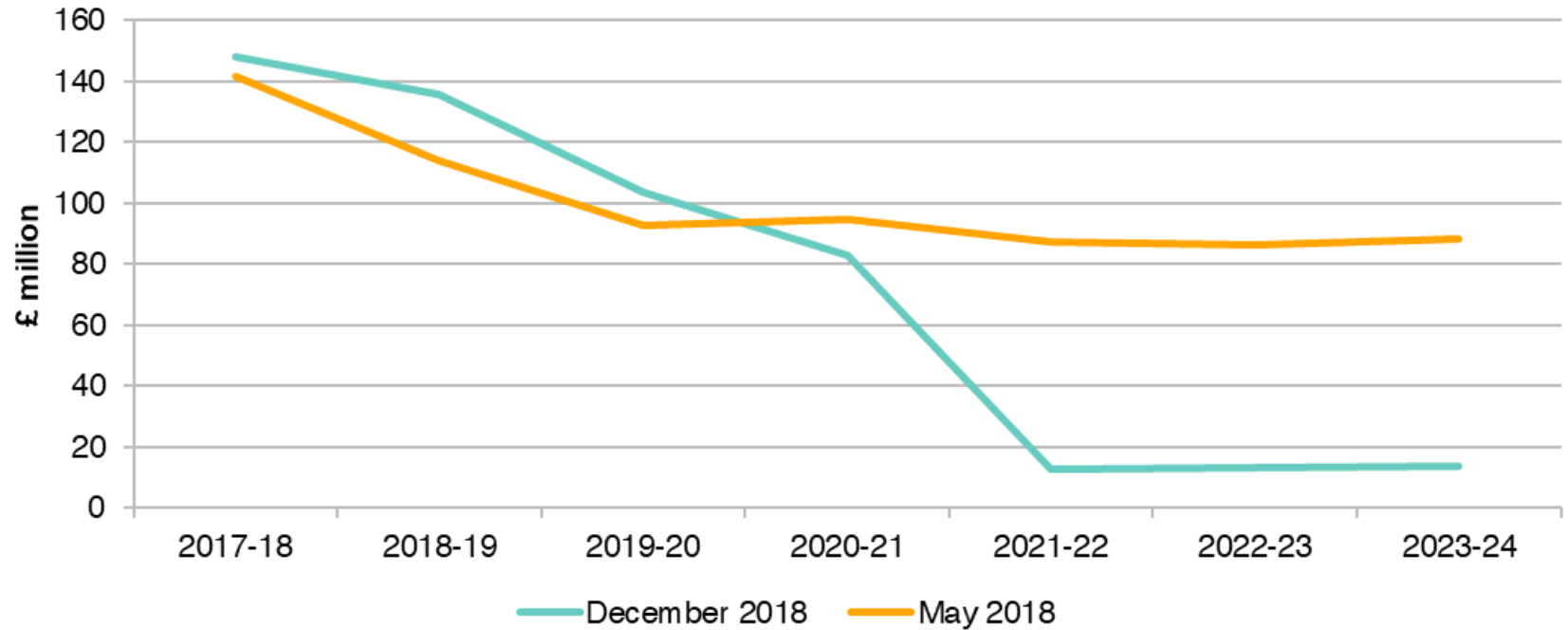


Tax Forecasts

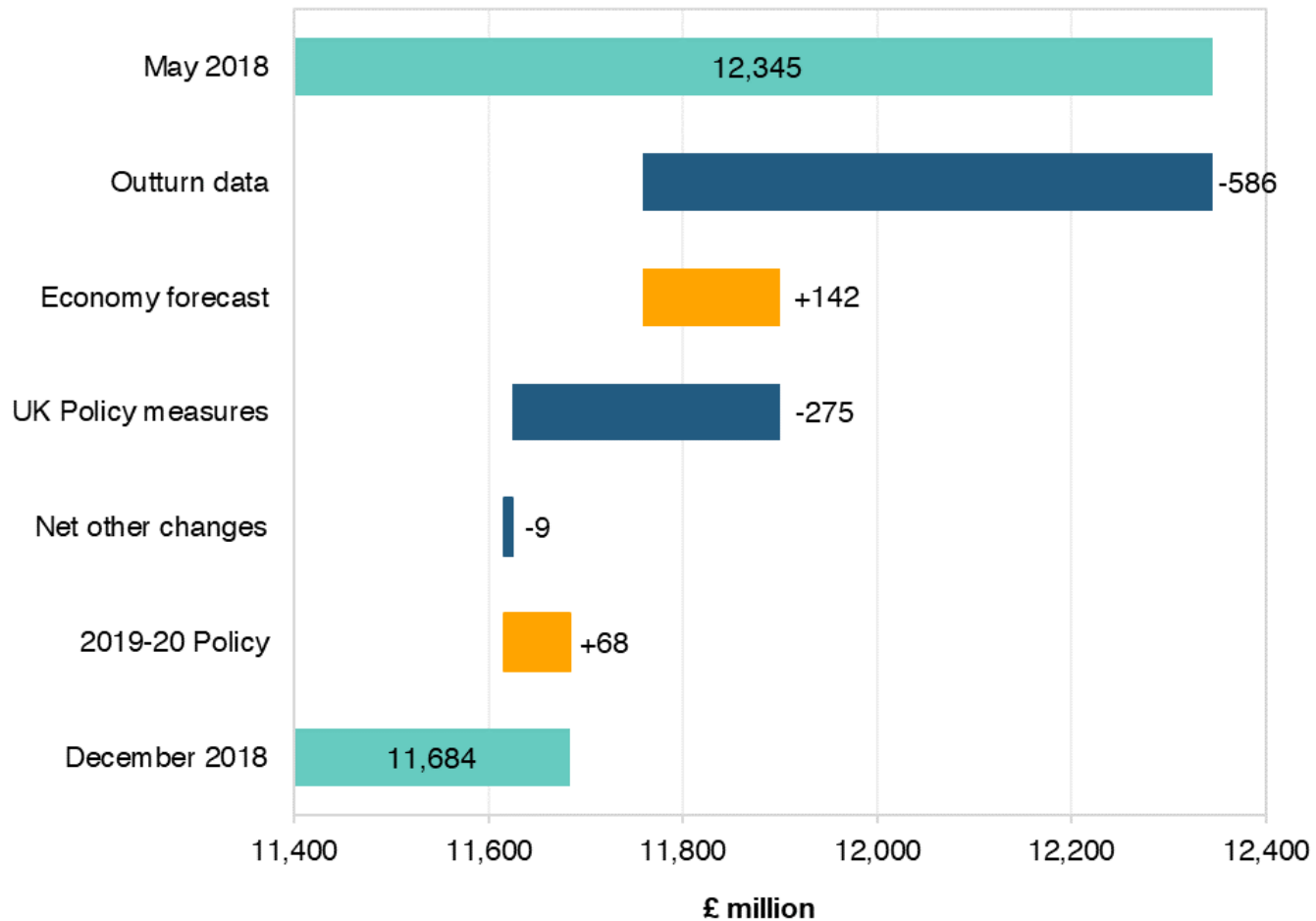
Tax – Forecasts

	2018-19	2019-20	2020-21	2023-24	£ million
 Income Tax	11,452	11,684	12,285	13,805	In 2019-20, income tax revenue is expected to be £661 million lower compared to our May 2018 forecast
 Non-Domestic Rates	2,827	2,785	2,887	3,332	New policy measures announced and data updates have reduced our forecast across the period
 LBTT	569	643	680	787	Residential LBTT forecasts revised down, but new policies on ADS and non-residential LBTT increase forecasts
 Scottish Landfill Tax	136	104	83	14	The Scottish Government's ban on the landfill of biodegradable municipal waste reduces the forecast from 2021




Tax – Scottish Landfill Tax



Tax – Changes in 2019-20 IT forecast



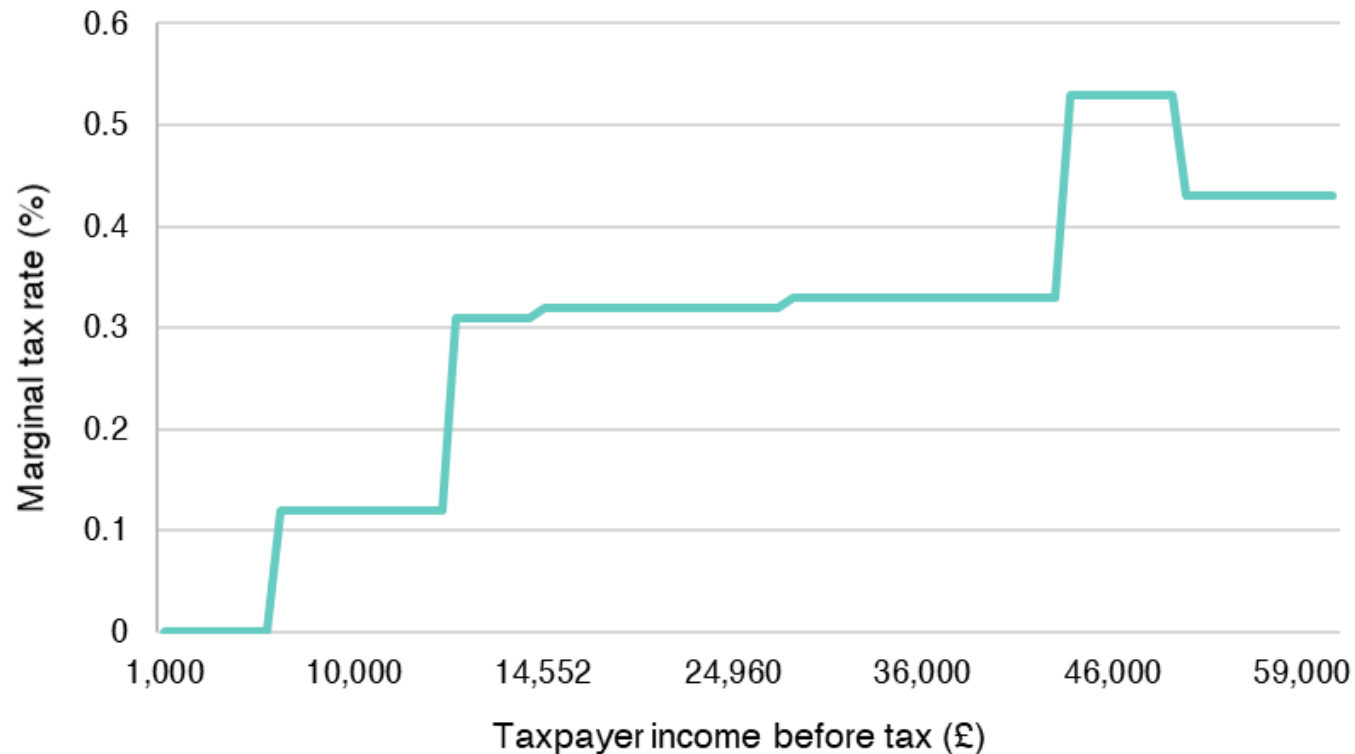
Tax – Policy Announcements

Policy Announcements - Tax		2019-20	2020-21	2023-24	£ million
	Income Tax	68	71	84	Higher rate threshold is set at £43,430, the same as in 2018-19
	Non-Domestic Rates	-42	-46	-44	Poundage set at 49.0p, continuation of transitional relief and the introduction of a relief for new fibre
	LBTT	39	38	41	Increase in Additional Dwelling Supplement rate to four per cent. Changes to non-residential LBTT rates and thresholds

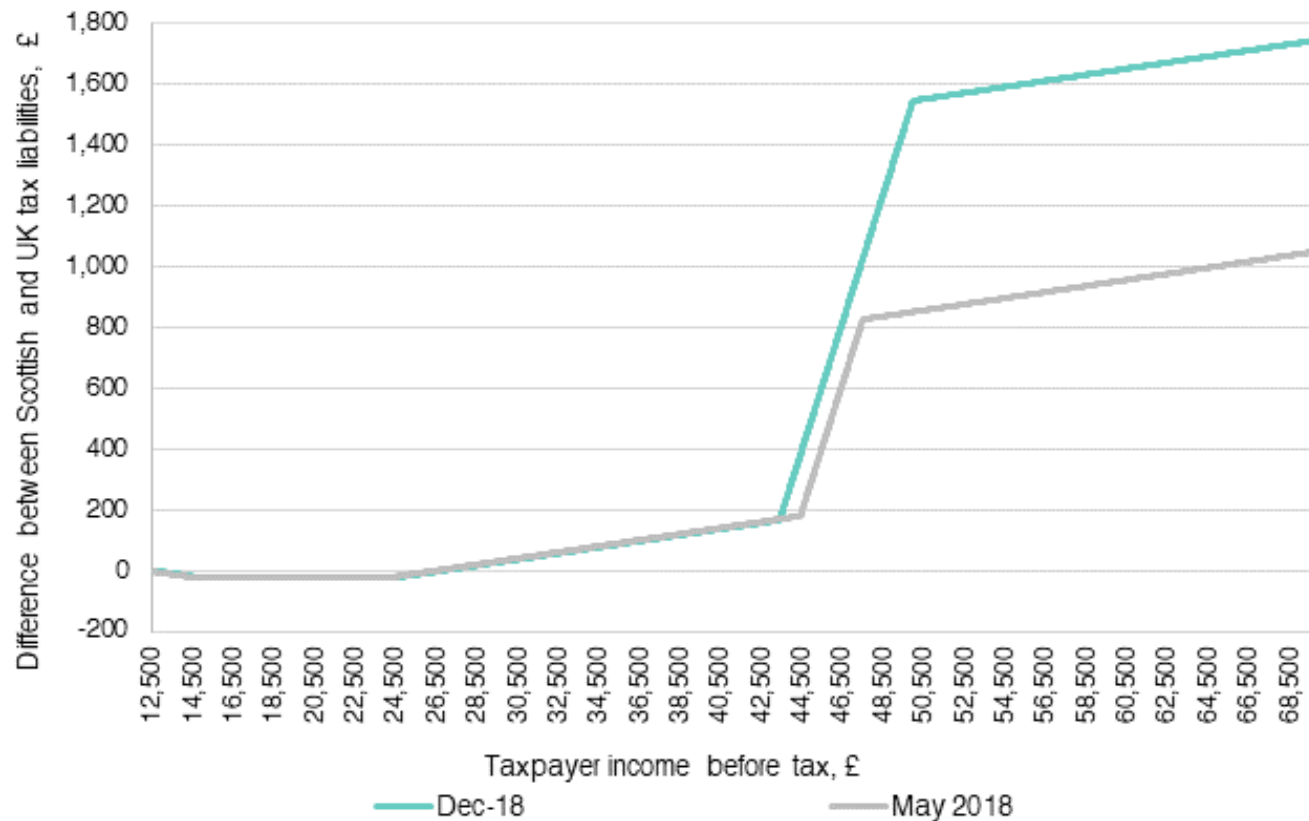
Tax – Income tax policy costing

£ million	2019-20	2020-21	2021-22	2022-23	2023-24
Static costing	75	78	83	87	93
Behavioural change	-6	-7	-7	-8	-8
Post-Behavioural costing	68	71	75	80	84

Tax – Combined IT and NICs marginal rate in Scotland



Tax – Difference between Scottish and UK income tax liabilities






Social Security

Social Security - Forecasts

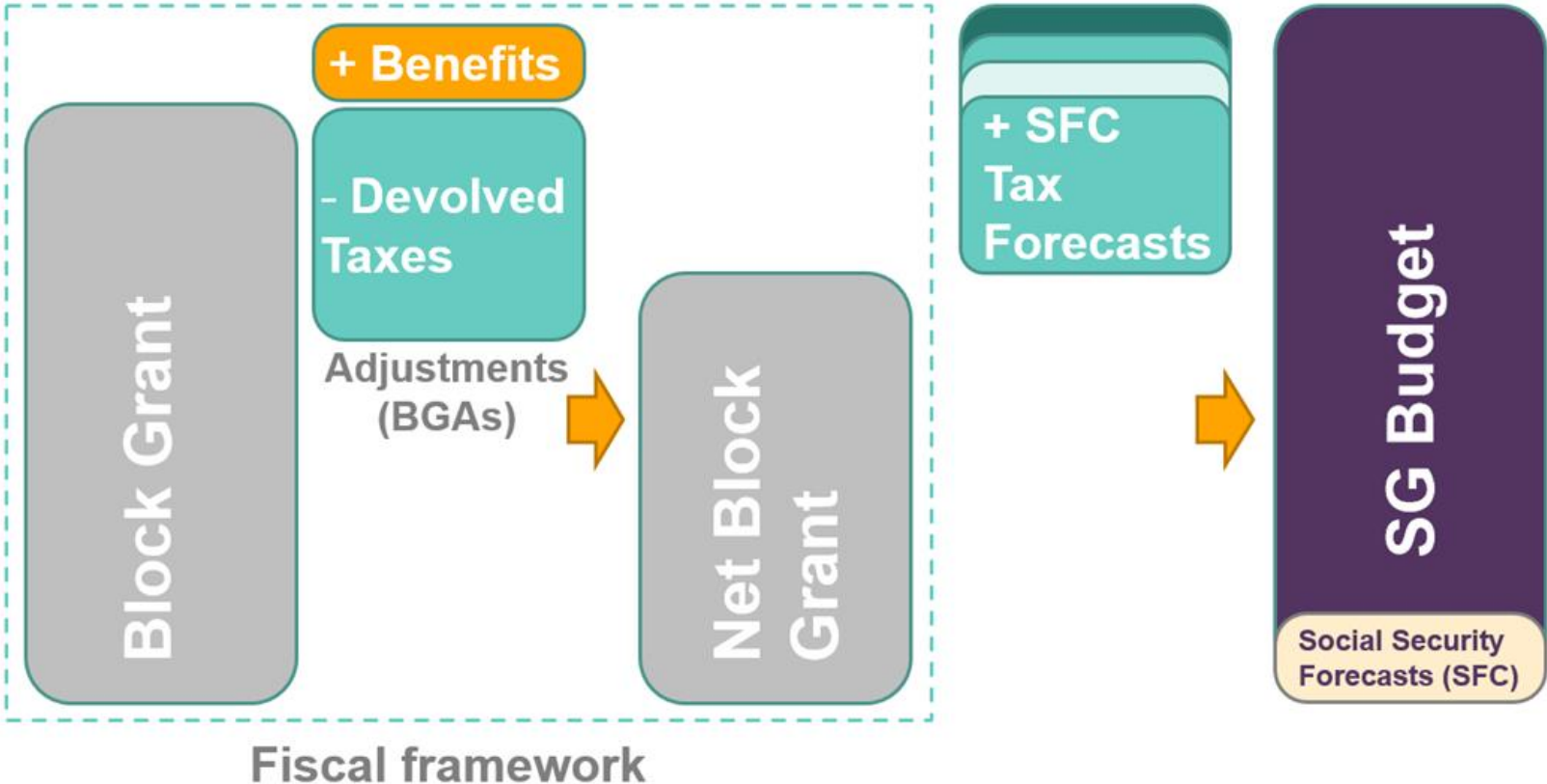
Social security		2018-19	2019-20	2020-21	2023-24	£ million
	Carer's Allowance (inc. Supplement)	191	320	345	412	Carer's Allowance was devolved in September 2018. Carer's Allowance Supplement was introduced in 2018
	Discretionary Housing Payments	61	63	65	69	Forecast increases driven by rise in the cost of mitigating the bedroom tax
	Employability	19	19	28	0	In April 2018 Fair Start Scotland started accepting referrals for three years. Spending peaks in 2020-21

Social Security – New Benefits

Policy Announcements - New Benefits		2019-20	2020-21	2023-24	£ million
	Best Start Grant	12	13	15	Best Start Grant consists of three payments: Baby and Pregnancy, Early Learning and School-Age
	Funeral Expense Assistance	6	6	7	Funeral Expense Assistance replaces Funeral Payments in 2019
	Best Start Foods	4	5	4	Best Start Foods replaces Healthy Start Vouchers in 2019

The Scottish Budget

Scottish Budget – How it works



Scottish Budget – Net Position Tax Forecasts and BGAs

£ million		2019-20	2020-21	2021-22	2022-23	2023-24
Income Tax	SFC forecast	11,684	12,285	12,746	13,242	13,805
	BGA forecast	11,501	12,089	12,478	12,954	13,493
	Net difference	182	196	268	288	312
Land & Buildings Transaction Tax	SFC forecast	643	680	716	751	787
	BGA forecast	567	596	632	667	721
	Net difference	76	85	84	83	66
Scottish Landfill Tax	SFC forecast	104	83	13	13	14
	BGA forecast	91	83	81	74	62
	Net difference	13	0	-68	-61	-48
Total	SFC forecast	12,430	13,049	13,475	14,006	14,605
	BGA forecast	12,159	12,768	13,191	13,695	14,276
	Net difference	271	281	284	310	329

Scottish Budget – Income Tax Reconciliations

£ million	Liabilities	BGA	Difference	Forecast reconciliation
2017-18 budget				
Forecasts used in budget	11,857	11,750	107	
Latest forecasts	11,008	11,046	-38	-145
2018-19 budget				
Forecast used in budget	12,177	11,749	428	
Latest forecast of outturn	11,452	11,495	-43	-472

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