Scottish Fiscal Commission

Scotland's Economic and Fiscal Forecasts – December 2018 Summary

This publication is available at www.fiscalcommission.scot

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Foreword

The Scottish Fiscal Commission is the independent fiscal institution for Scotland. Our statutory duty is to provide independent and official forecasts of Scottish GDP, devolved tax receipts and devolved social security expenditure to inform the Scottish Budget. This report is our third set of forecasts, covering the years 2019-20 to 2023-24.

Our forecasts represent the collective view of the Scottish Fiscal Commission, comprising the four Commissioners. We take full responsibility for the judgements that underpin them.

Our judgement on the UK-EU negotiations was formed based on information available up to the time that our economy forecasts closed on 27 November 2018. The forecasts set out in this report were provided to the Scottish Government on 4 December 2018. We expect to produce our next forecasts in summer 2019 to support the Government's Medium Term Financial Strategy.

As with each fiscal event, our relationship with the Scottish Government has evolved further as we prepared this set of forecasts and we will continue to learn from what works well and what could be improved. In producing our forecasts we have put into practice the revised Protocol agreed with the Scottish Government in March this year.

Our forecasts rely on data from a range of providers and we are grateful for their support. In particular we would like to thank Revenue Scotland for their work to ensure that we were able to incorporate as much of their data as possible in the forecasts. We would also like to thank officials from the Scottish Government, Revenue Scotland, HMRC and the OBR for their constructive challenge of our judgments and for ensuring that we considered all the available evidence.

The Scottish Government's budget is increasingly determined by devolved tax receipts and social security spending. Our independent forecasts are now playing a greater role in the budget arithmetic and are reflected in the Scottish Budget published today.

We would like to thank once again the hard-working staff of the Commission for their support in the production of our forecasts and underpinning analysis.

Dame Susan Rice DBE	Professor Francis Breedon
Professor Alasdair Smith	Professor David Ulph

12 December 2018

Scotland's Economic and Fiscal Forecasts — December 2018

Economy

Economy	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

Tax

Tax	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

Social security

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

Policy Announcements - Tax

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

Policy Announcements - New Benefits

Policy Announcements - New Benefits				£ 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

Summary

Introduction

1 The Scottish Fiscal Commission is responsible for producing independent economic and fiscal forecasts to inform the Scottish Budget.

2 We produce five-year forecasts of Scottish Government tax receipts and social security expenditure, and the Scottish economy. We also assess the reasonableness of the Scottish Government's borrowing projections.

3 This summary and the full report set out our forecasts and assessments, and the main judgements and developments underpinning them. We are committed to being as open and transparent as possible. We provide further detail on our forecasts throughout this report, and provide workbooks including additional details and breakdowns are available on our website.

4 Our fiscal forecasts are an important determinant of the total budget that is available to the Scottish Government. The other main determinants of the Scottish Government's budget are the Block Grant and the Block Grant Adjustments, which are determined by the UK Government.[1] Our economy forecasts are a significant component of our fiscal forecasts. Our forecasts also determine whether there is a Scotland-specific economic shock, which would trigger additional borrowing powers.

Economy

5 Our forecast of GDP is shown in Table 1. Average annual GDP growth since 2010 has been around 1 per cent, below the rate of GDP growth in earlier decades. Following a strong performance in the production industry and exports in 2017 and 2018 so far, we forecast GDP growth of 1.4 per cent in 2018 and 1.2 per cent in 2019.

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[1] Further information on how our forecasts factor into the Scottish Budget can be found from paragraph 31 onwards.

6 We do not expect this stronger growth to be sustained beyond 2019. We expect economic growth to be subdued in the longer term, averaging just over 1 per cent over the next five years.

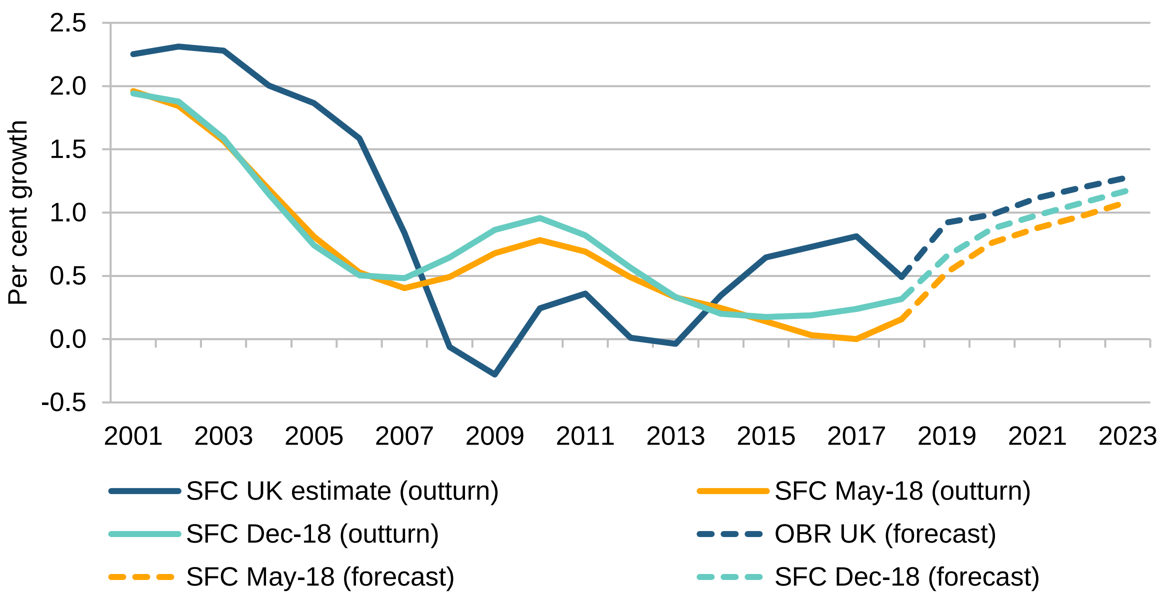
Table 1: Scottish GDP growth forecast, calendar year basis (per cent)

(%)	2017	2018	2019	2020	2021	2022	2023
GDP growth	1.4	1.4	1.2	1.0	1.0	1.1	1.2

Source: Scottish Fiscal Commission
Shading shows outturn available at time of publication.

7 Our expectation of relatively subdued growth over the next five years is primarily the result of slow productivity growth. As Figure 1 shows, trend productivity growth has been declining in Scotland since the early 2000s. We expect the growth rate of productivity to gradually increase over the next five years, and we have slightly revised up our forecast since May 2018.

Figure 1: Trend productivity growth in Scotland and the UK



Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – May 2018 (link), ONS (2018) Labour Productivity, UK: April to June 2018 (link), OBR (2018) Economic and Fiscal Outlook October 2018 (link).
The OBR does not publish a historical series for trend productivity growth. The series we provided is based on our smoothed series of ONS outturn data for UK actual productivity.

8 Other factors leading to a subdued longer-term economic outlook include slow population growth, particularly in the 16 to 64 age group, weak demand from the UK continental shelf oil and gas industry as a result of volatile oil prices, the effect of Brexit on the economy, and, weak growth in household incomes.

9 The potential effect of Brexit on Scotland remains highly uncertain. Our forecast over a five-year horizon broadly assumes a relatively smooth and

orderly Brexit process. We consider a no-deal Brexit to be a downside risk to our forecast.

10 Although we continue to expect growth in the longer-term to be subdued, we do expect slightly higher growth throughout the forecast period than we did in May. Our headline economy forecasts are shown in Table 2, with comparisons to the forecasts we published in May.

Table 2: Headline economy forecasts, May 2018 and December 2018, calendar year, figures are per cent growth rates unless otherwise stated

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

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – May 2018 (link).
Shading shows outturn available at time of publication.

11 There have been three important developments since May 2018 which have led to these upward revisions:

- GDP growth over the last two years has been stronger than we expected in May 2018 following new data releases and revisions to past GDP data. This more positive performance has been driven, in part, by growth in the production industry and exports. As a result of these upward revisions to the data, we have increased our forecasts of economic growth in the near term.

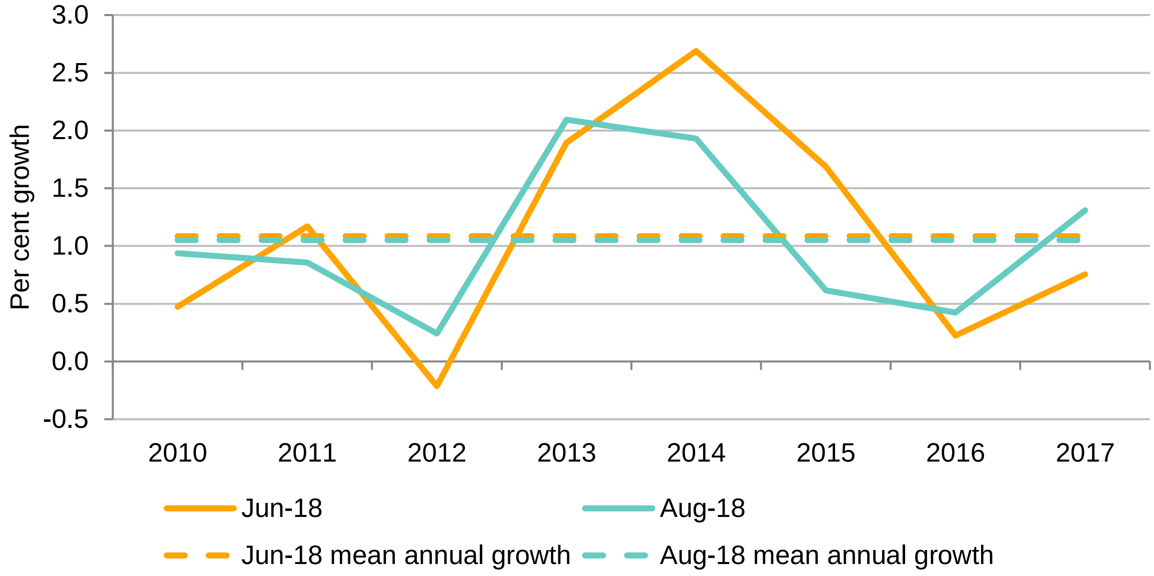
- Government expenditure in Scotland is expected to grow significantly faster than we had previously forecast. This has been driven primarily by increases in UK Government expenditure announced in the UK Budget in October 2018. Via the Block Grant, this also increases the budget for the Scottish Government. We expect this to support higher GDP growth over the next five years.

- Though growth in earnings remains slow, earnings data for 2018 have been a little stronger than we expected in May. In addition, stronger growth in GDP and productivity will support stronger growth in earnings. We have therefore revised our outlook for real earnings growth upwards by around 0.2 to 0.3 percentage points over the next few years.

Determinants of change in our forecasts: new GDP data

12 The latest GDP figures for Scotland show stronger growth in the economy over the last two years than the data available in May 2018 suggested, as shown in Figure 2.[2] This follows significant revisions to GDP estimates, primarily driven by changes to measures of activity in the construction industry. The revisions imply stronger GDP growth in 2017 than was estimated when we published our May 2018 forecasts.

Figure 2: Revisions to Scottish GDP



Source: Scottish Fiscal Commission, Scottish Government (2018) Scotland's Gross Domestic Product Quarter 1 2018, June 2018 (link), Scottish Government (2018) Quarterly National Accounts Scotland Quarter 1 2018, August 2018 (link).

13 GDP data for 2018 Q1 and Q2 suggest this higher GDP growth is continuing in 2018, with quarterly growth of 0.4 per cent and 0.5 per cent respectively. These higher than expected results have led us to revise up our near-term outlook for GDP growth, with our forecasts of GDP growth in 2019 increasing from 0.8 per cent to 1.2 per cent.

14 While GDP growth has recently increased, average growth since 2010 remains low. We do not think higher growth over the last six quarters on its own provides compelling evidence to alter our longer-term outlook at this time. Our outlook for GDP growth remains subdued over the longer term.

[2] For further information see Scottish Fiscal Commission (2018) Forecast Evaluation Report (link)

Determinants of change in our forecasts: higher government expenditure

15 At the UK Budget in October 2018, the UK Government saw an improvement in its underlying budget deficit in 2018-19 of £12 billion, with greater improvements for later years. The UK Government has chosen to spend much of this gain. This increases total government spending in Scotland in two ways: the Scottish Government will receive extra funding via the Block Grant as a consequence of higher UK Government spending, and the expenditure of other UK Government departments in Scotland may also increase directly.

16 The primary drivers of the Scottish Government's budget are the Block Grant, our tax forecasts, and the corresponding Block Grant Adjustments (BGAs). Table 3 shows how the Block Grant, and the net effect of our tax forecasts and the BGA, have changed since our May 2018 forecasts.

Table 3: Changes in Scottish Government resource expenditure forecasts since May 2018

£ million	2019-20	2020-21	2021-22	2022-23	2023-24
Base resource spending limit (block grant)	27,633	28,822	29,688	30,596	31,631
Change since May 18	570	1,468	1,840	2,255	
Net BGA	271	281	284	310	329
Change since May 18	89	7	-127	-203	

Source: Scottish Fiscal Commission, Scottish Government.
The figures for 2019-20 are consistent with Budget 2019-20. Figures for 2020-21 onwards are Scottish Fiscal Commission forecasts. The Scottish Government's budget is also affected by funding for social security and some non-budget elements. The Block Grant accounts for most of the Scottish Government's base resource spending limit, but there are other minor elements included in these figures.

17 As a result of a significantly higher Block Grant, total government expenditure in Scotland is forecast to be greater over the next five years than we expected in May, leading to significantly higher spending and demand in the economy. Compared to our May 2018 forecast of real growth in government consumption of 0.8 per cent, we now expect real government consumption to grow by 1.4 per cent in 2019-20. Real government consumption growth has been revised up by between 0.5 and 1.1 percentage points in each year of the forecast.

18 Government expenditure accounts for around quarter of the economy, and so these large revisions to the outlook for government expenditure will create significant additional demand in the economy. We expect this not only to support higher demand driven GDP growth in the short term, but also to lead to slightly greater trend GDP growth in the longer term. As a result, we have revised up our forecast of trend productivity growth by 0.1 percentage points in each year from 2019-20 onwards.

Determinants of change in our forecasts: earnings

19 Table 4 shows the data on earnings available at the time of our May 2018 forecasts and the latest data available on earnings. In previous decades, average nominal earnings in Scotland have grown by around 4.0 to 4.5 per cent annually. Since 2010, earnings growth has slowed significantly averaging around 1.7 per cent a year.

Table 4: Data on average nominal earnings in Scotland, annual growth (per cent)

Data source	Forecast	Average 2010 to 2015	2016	2017	2018
ASHE	May-18	1.2	2.5	1.0	
	Dec-18	1.2	2.5	0.9	*3.3*
RTI	May-18		1.1	2.0	
	Dec-18		0.7	2.1	*1.9*
LFS	May-18	1.8	4.0	-1.5	
	Dec-18	1.8	4.0	-1.5	*1.4*
QNAS COE based measure [1]	May-18	2.2	2.7	1.5	
	Dec-18	2.0	3.9	1.4	*0.5*
Average	May-18	1.7	2.6	0.8	
	Dec-18	1.7	2.8	0.7	*1.8*

Source: Scottish Fiscal Commission, ONS (2018) ASHE access via nomisweb (link), HMRC (2018) UK Real Time Information (link), ONS (2018) Labour Force Survey gross weekly earnings of full-time employees by region (link).
Italics for 2018 show part-year outturn data expressed as annualised values for comparison to previous years.
[1] QNAS only contain COE data for the whole economy. It does not report average annual earnings figures. The data we present in this table are based on Scottish Fiscal Commission calculations applied to QNAS COE data.

20 The data available in May 2018 showed a mixed picture on earnings, but with generally very weak earnings growth for 2017. In our May 2018 forecasts we made a significant downward revision to our outlook for earnings growth compared to our December 2017 forecast. This decision was based in part on the weak earnings data for 2017, but was also an evolution of our judgement, recognising the persistently weak growth in earnings since 2010. Table 2 also shows the latest figures including new part-year data for 2018 which suggest a strengthening of earnings growth in 2018 compared to 2017. The four data sources suggest growth in earnings of around 1.8 per cent, slightly stronger than our May 2018 forecast of 1.6 per cent. Higher growth in public sector pay also leads us to expect earnings growth to increase.

21 Table 5 shows our current and previous earnings forecasts.

Table 5: Average nominal earnings growth, successive forecasts (per cent)

(%)	2017	2018	2019	2020	2021	2022	2023
December 2017	2.0	2.2	2.4	2.6	2.8	3.1	
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

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – May 2018 (link), Scottish Fiscal Commission (2017) Scotland's Economic and Fiscal Forecasts – December 2017 (link).
Shading shows outturn available at time of publication.

22 For our latest forecasts, we retain our judgement from May that the outlook for earnings growth is weak, and that growth in earnings is lower than we might expect given growth in productivity and labour market conditions. Following recent stronger earnings data, we have slightly revised up our outlook for earnings growth in 2018.

23 Longer term, a small upwards revision to our forecast of productivity has fed through to stronger earnings growth. Overall, our December 2018 forecast of earnings growth is above our May 2018 forecast, but below our December 2017 forecast.

Brexit

24 The agreement between the UK Government and the EU in November 2018 is a significant development in the Brexit process. There are two parts to the agreement: the Withdrawal Agreement (WA) and a Political Declaration (PD).

25 While the WA and PD are important advances since our previous forecast, there remains much political uncertainty about the outcome. At present, there is no meaningful basis for making predictions of the development of the UK-EU economic relationship over the next few years on which we could produce our economy forecast. Even if we could foresee how the formal relationship might develop, the economic and fiscal implications would remain highly uncertain.

26 In creating their forecasts, the OBR assume that:

- the UK leaves the EU in March 2019
- new trading arrangements with the EU and others slow the pace of import and export growth
- the UK adopts a tighter migration regime than that currently in place

27 We continue to use the same broad-brush judgements as the OBR. These basic judgements encompass a range of potential outcomes and effects, all

of which assume a relatively orderly and smooth exit from the EU. We consider a no-deal Brexit to be a downside risk to our forecast.

28 We are not attempting to pinpoint the exact effect of Brexit on the Scottish economy, not least because the full effects of Brexit are likely to play out over a long time horizon. Nor do we consider a counter-factual case of no Brexit. Our focus is the effect on the economy over the forecast horizon of five years. The Commission's judgement is that the OBR's broad-brush assumptions continue to provide a suitable starting point for incorporating the potential effects on Scotland.

29 The Commission captures the effect of Brexit through three channels:

1. Migration – we use the ONS 50 per cent EU migration variant, with projected lower EU migration than in the principal projection. This is slightly different to the principal population projection used by the OBR for the UK.

2. Productivity – we are forecasting slow growth in productivity, in part due to Brexit.

3. Trade – Using OBR assumptions, we forecast slower growth in Scottish international trade from the end of the transition period, currently scheduled to last until 31 December 2020.

30 We have already noted the downside risk of a no-deal Brexit, and this risk has increased since we began work on our forecasts in September 2018. Our judgement on the UK-EU negotiations was formed based on information available up to the time of the economy forecasts closing on 27 November 2018. The forecasts set out in this report were provided to the Scottish Government on 4 December 2018 and inform the Scottish Government's Budget 2019-20. We expect to produce our next forecasts in summer 2019 to support the Scottish Government's Medium-Term Financial Strategy.

Fiscal Forecasts: How they are used in the Scottish Budget

31 The Commission's fiscal forecasts directly inform the Scottish Government's Budget. In total we are forecasting £15.2 billion of the Scottish Budget will be raised by tax in 2019-20. These tax revenues reflect the expansion in tax powers over the last four years, with Land and Buildings Transaction Tax and Scottish Landfill Tax devolved from April 2015 and non-savings non-dividend income tax devolved from April 2017. Non-Domestic Rates have been devolved to the Scottish Parliament since its creation.

32 In our previous forecasts, our social security coverage was largely illustrative as few benefits had been devolved. More benefits are now devolved or will be devolved next year. The Scottish Government has reformed those

benefits being devolved, widening eligibility criteria and increasing payment amounts.

- Carer's Allowance and the Sure Start Maternity Grant were devolved in 2018. The Sure Start Maternity Grant was replaced with the Best Start Grant – Pregnancy and Baby Payment from 10 December 2018.

- Carer's Allowance Supplement is a new benefit: the first payments were made in September 2018.

- The Scottish Budget 2019-20 includes plans to devolve Funeral Payments and replace this with Funeral Expense Assistance. Healthy Start Vouchers will be replaced with Best Start Foods and two additional payments will be introduced under Best Start Grant – the Early Learning Payment and School-Age Payment.

33 As a result our forecasts of social security expenditure have increased significantly. In total our social security forecasts are for £458 million expenditure in 2019-20. We estimate that the new and expanded social security plans will cost £90 million more than the funding received for these benefits.[3]

34 As more tax and spending powers are devolved, the Scottish Budget is increasingly affected not only by our forecasts, but also by the corresponding Block Grant Adjustments (BGAs). Figure 3 provides a stylised representation of the way the Scottish Budget is determined. For taxes these adjustments are reductions in the Block Grant, whilst for the larger social security benefits they are additions to the Block Grant.[4,5] The adjustments reflect the revenue the UK Government no longer receives because of the devolution of taxes to Scotland and the payments no longer made by the UK Government on devolved benefits.

35 Smaller social security benefits result in additions to the Block Grant, indexed using the Barnett formula and will not directly correspond to UK Government expenditure on the same benefit.[6]

36 The UK and Scottish Governments calculate the BGAs based on OBR forecasts of UK Government receipts and spending of the corresponding tax

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[3] This covers the funding received for Carer's Allowance, Carer's Allowance Supplement, Discretionary Housing Payments, Best Start Grant, Funeral Expense Assistance and Employability Services.

[4] Non-Domestic Rates (NDR) were devolved before the Scotland Act 2012 and are outwith the fiscal framework. This means there is no Block Grant Adjustment for the equivalent UK Government tax.

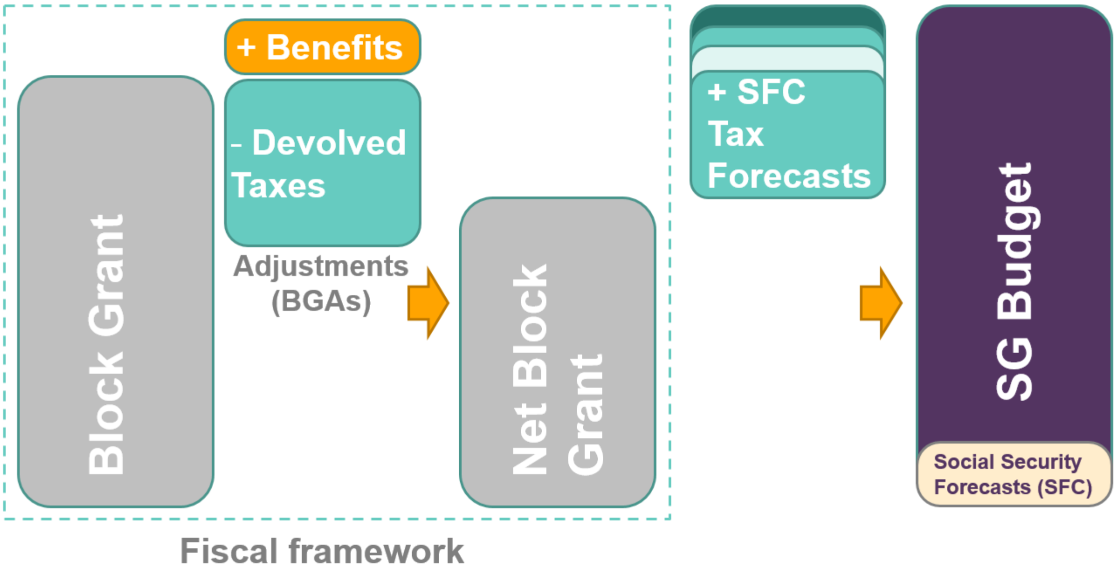
[5] Block Grant Additions will be made for Attendance Allowance, Carer's Allowance, Cold Weather Payments, Disability Living Allowance, Personal Independence Payment, Industrial Injuries Benefits, Severe Disablement Allowance and Winter Fuel Payments.

[6] Best Start Grant, Funeral Expense Assistance, Employability Services and Discretionary Housing Payments

and benefit elsewhere in the UK. The BGAs are not based on the OBR's forecasts of Scottish taxes or benefits, which are produced as part of their work to forecast UK-wide public finances.

37 The BGAs are initially based on forecasts and a final reconciliation takes place once outturn data become available. Further details on reconciliations can be found below.

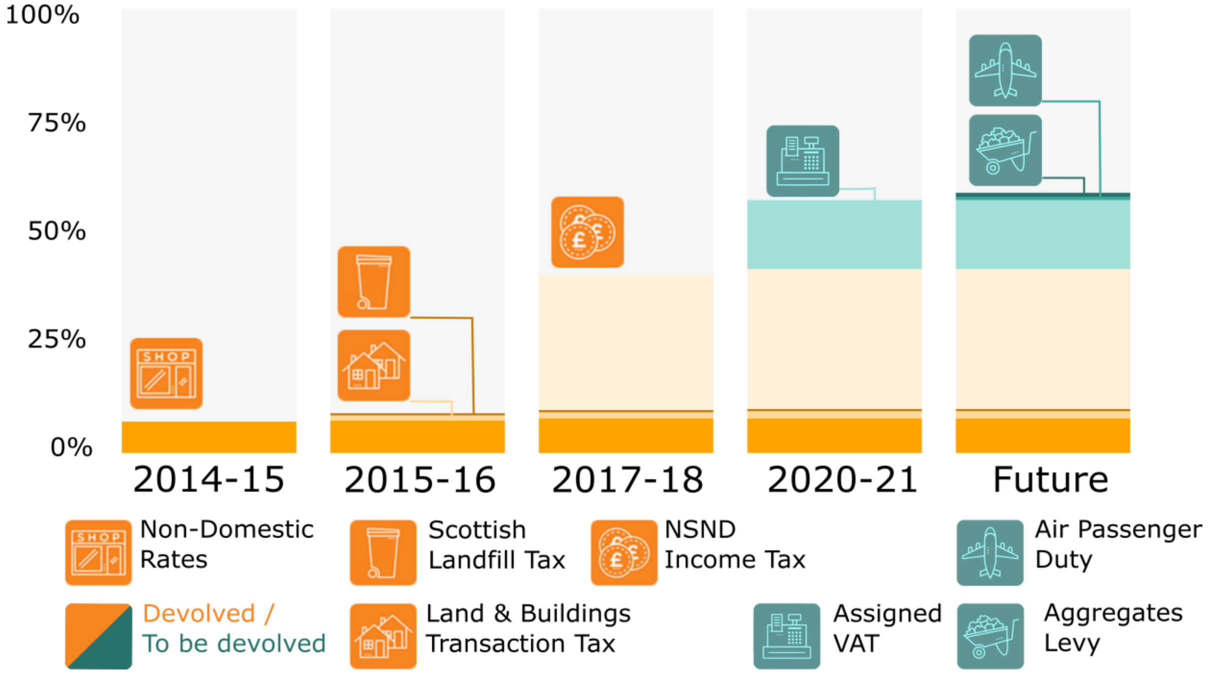
Figure 3: How is the Scottish Budget Determined?



Source: Scottish Fiscal Commission

38 Figure 4 illustrates how the devolution of tax powers has changed the proportion of the Scottish Budget determined by tax revenue.

Figure 4: Proportion of Scottish Budget determined by devolved and assigned tax revenue



Source: Scottish Fiscal Commission
Non-Domestic Rates have been devolved to the Scottish Parliament since its creation.

39 Three Scotland Act 2016 tax powers, assigned VAT, Air Passenger Duty and Aggregates Levy, are yet to be implemented. Once VAT assignment begins to affect the Scottish Budget, expected to be in 2020-21, assigned VAT will be the second largest source of tax revenue after income tax with a forecast revenue of over £5 billion. These taxes will also give rise to BGAs.

40 Responsibility for the remaining benefits to be devolved will transfer to the Scottish Parliament by April 2020 at the latest.[7] In 2017-18 these benefits accounted for £2.6 billion of expenditure.[8] We will provide forecasts for these benefits in our publication next year alongside the Scottish Budget 2020-21.[9] This means that the Budget next year will include expenditure and BGA forecasts for significantly larger benefits.

Fiscal Forecasts: Overview of Block Grant Adjustments

41 Table 6 shows the forecasts for the devolved taxes and corresponding BGAs over the next five years. Forecast receipts are greater than the BGAs over the whole of this period. The differences reflect both policy decisions by the Scottish and UK Governments as well as differences in the underlying growth of tax revenues. For example the Scottish Government's

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[7] Explanatory memorandum to the Scotland Act 1998 (Agency Arrangements) (Specification) Order 2018 (link)

[8] Scottish Government (2018) Government Expenditure and Revenue Scotland 2017-18 (link)

[9] The benefits still to be devolved are: Attendance Allowance, Disability Living Allowance, Personal Independence Payment, Industrial Injuries Disablement Benefit, Severe Disablement Allowance, Cold Weather Payment and Winter Fuel Payment

announcement at this Budget of two changes to Land and Buildings Transaction Tax (LBTT) has increased our forecast of revenues, whilst the UK Government's policy on first time buyer relief resulted in a downward revision to Stamp Duty Land Tax receipts, and therefore to the corresponding BGA.

Table 6: Net position of tax forecasts and Scottish Government Block Grant Adjustments

£ 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

Source: Scottish Fiscal Commission, Scottish Government.
Figures may not sum because of rounding. Net difference equals the Scottish Fiscal Commission forecast minus the BGA, a positive number represents additional revenues available to the Scottish Government.

42 Table 7 shows the forecast position for Carer's Allowance, the only benefit devolved to date with a corresponding BGA. These figures show that forecast expenditure on the main Carer's Allowance benefit is fairly consistent with the forecast BGA. This table does not include expenditure on the Carer's Allowance Supplement. As this is a new benefit introduced by the Scottish Government it must be fully met from within the Scottish Government's existing budget.

Table 7: Net position of social security forecasts and Scottish Government Block Grant Adjustments

£ million		2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Carer's Allowance	SFC forecast	157	283	305	324	344	364
	BGA forecast	157	290	307	328	348	359
	Net difference	-1	-6	-2	-3	-4	5

Source: Scottish Fiscal Commission, Scottish Government. Figures may not sum because of rounding.
Net difference equals the Scottish Fiscal Commission forecast minus the BGA, a positive number represents additional expenditure incurred by the Scottish Government.
The Carer's Allowance expenditure presented does not include the Carer's Allowance Supplement, the costs of which must be fully met from within the Scottish Government's Budget.

Fiscal Forecasts: Reconciliations

43 The BGAs are initially based on forecasts; these are updated as forecasts are revised and a final reconciliation takes place once outturn data are

available.[10] The Scottish Budget in future years will also be affected by reconciliations relating to previous years' forecasts of Scottish receipts and the BGAs. The largest reconciliations in the next couple of years are expected to relate to income tax. The first reconciliation for income tax will occur after the outturn data for 2017-18 become available next summer and will affect the Scottish Budget 2020-21.

44 Table 8 sets out the forecasts of Scottish income tax and the BGA used to set the Scottish Government's Budget for 2017-18. At that time liabilities were forecast to be £107 million higher than the BGA. Since then the 2016-17 outturn data has been published resulting in significant downward revisions to forecasts of both Scottish liabilities and the BGA. In addition the OBR's forecasts of UK Government liabilities have been revised upwards, whilst our forecasts of Scottish liabilities have been revised downwards. The latest forecasts are that the outturn BGA will be £38 million greater than outturn liabilities. Overall this suggests the reconciliation will result in an adjustment of minus £145 million to the Scottish Budget 2020-21.

45 Our forecast of income tax produced in February 2018 was used to set the budget for 2018-19. Since then our income tax forecast has been revised down by £725 million whilst the corresponding BGA has been revised down by £254 million. The final reconciliation will be determined once outturn data are available in summer 2020. Based on the latest forecasts we expect this reconciliation to result in an adjustment of minus £472 million to the Scottish Budget 2021-22.

Table 8: 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

Source: Scottish Fiscal Commission, Scottish Government, Scottish Government (2017) Draft Budget 2017-18: Updated Income Tax Policy Forecasts (link), Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts Supplementary Publication Updated Income Tax Forecasts (link).
Figures may not sum because of rounding.

[10] For the fully devolved taxes and benefits, the BGAs are updated at the UK Autumn Budget and an adjustment is made to the Scottish Government's budget accordingly. In the case of income tax there is no effect on the Scottish Government's budget until the final outturn data are available, at that time both the BGA and the forecast of receipts are updated.

Fiscal Forecasts: Tax

46 We forecast that £15.2 billion of the Scottish Budget will be raised by tax in 2019-20.

47 Table 9 shows a summary of the tax forecasts produced to inform the Scottish Budget.

Table 9: Summary of tax forecasts informing the Scottish Budget

£ million	2017-18 Outturn	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Income tax (NSND)	11,008	11,452	11,684	12,285	12,746	13,242	13,805
Non-Domestic Rates	2,762	2,827	2,785	2,887	3,087	3,295	3,332
Land & Buildings Transaction Tax	557	569	643	680	716	751	787
of which, Residential	258	267	296	324	349	373	398
ADS	95	94	122	123	127	130	134
Non-Residential	204	208	226	233	240	247	255
Scottish Landfill Tax	148	136	104	83	13	13	14
Total tax	**14,475**	**14,983**	**15,215**	**15,935**	**16,562**	**17,300**	**17,937**

Source: Scottish Fiscal Commission, Revenue Scotland (2018) Annual Report and Financial Statements 2017-18 (link), Scottish Government NDRi returns.
Figures may not sum because of rounding. Figure for income tax is forecast not outturn data, as liabilities data in 2017-18 are not yet available. See the income tax section for further detail.

48 In addition we produce two illustrative tax forecasts. The first is for assigned VAT receipts. The assignment of VAT is yet to commence so there is no effect on the Scottish Budget. Our second illustrative forecast is of the Scottish share of Air Passenger Duty (APD). Devolution of APD has been deferred until the issue raised in relation to the Highlands and Islands exemption has been resolved.[11]

Table 10: Summary of illustrative tax forecasts

£ million	2017-18 Outturn	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Assigned VAT Receipts	5,383	5,631	5,801	5,966	6,122	6,279	6,434
Scottish share of Air Passenger Duty	277	302	312	322	336	349	364

Source: Scottish Fiscal Commission, HMRC, HM Treasury and Scottish Government.
Outturn in the context of assigned VAT receipts refers to a provisional estimate from the assignment outturn model which is still in development by HMRC, HM Treasury and the Scottish Government. Further details can be found in the VAT section of Chapter 3. Figure for Air Passenger Duty is not classed as outturn data. It is an estimate of the Scottish share of tax receipts.

[11] Letter from Cabinet Secretary for Finance and Constitution to the Convener of the Finance and Constitution Committee 1 June 2018 (link)

Income tax

49 Table 11 presents our December 2018 income tax forecast, and shows how it has changed since May 2018.

Table 11: Income tax forecast comparison with May 2018

£ million	2016-17 Outturn	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
May 2018	11,267	11,467	11,969	12,345	12,805	13,335	13,936	14,547
2016-17 Outturn data	-548	-556	-570	-586	-608	-634	-663	-696
Economy forecast	0	102	83	142	141	126	86	17
UK policy adjustment	0	1	-15	-275	-85	-98	-120	-140
Scottish Budget 2019-20 policy	0	0	0	68	71	75	80	84
Other *	0	-6	-14	-9	-39	-58	-76	-8
December 2018	10,719	11,008	11,452	11,684	12,285	12,746	13,242	13,805
Change from May 2018	-548	-459	-517	-661	-519	-589	-694	-743

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – May 2018 (link). Outturn in 2016-17 is the published HMRC outturn NSND income tax liabilities estimate (link).

* Includes revisions to OBR triple lock pension forecast, CPI forecasts, HMRC Gift Aid estimates, and policy recostings. Further information is provided in Chapter 3.

50 Overall, we have revised down our income tax forecast since May 2018. Table 11 shows how a number of different factors have contributed to the revisions. New outturn data for 2016-17 and changes in UK income tax policy have reduced our forecast, while changes in Scottish income tax policy and a more positive outlook for the economy since May have increased our income tax forecast. In combination, we expect income tax liabilities to be £661 million lower in 2019-20 than in our May 2018 forecast.

Scottish Government higher rate threshold policy

51 In this budget the Scottish Government has announced a policy to set the higher rate threshold at £43,430 in 2019-20, the same as in 2018-19. Maintaining the higher rate threshold at this level raises money for the Government compared to our baseline assumption that the higher rate threshold would increase in line with inflation.

52 As a result of this policy, around 24,000 additional taxpayers will be higher rate taxpayers rather than intermediate rate taxpayers. The existing 343,000 higher and additional rate taxpayers will pay an extra £210 in tax as a result of this policy. In total, and accounting for behavioural change, we estimate that this policy will raise £68 million in 2019-20.

The effect of data revisions on the income tax forecast

53 In previous forecasts, the primary source of information on Scottish income tax was the Survey of Personal Incomes (SPI), a sample from HMRC's income tax systems. Since our May 2018 forecast, HMRC has, for the first time, published new income tax outturn data based on full administrative data using Scottish taxpayer codes. Now that the HMRC outturn data are available, they are the primary measure of total income tax liabilities in Scotland.

54 The HMRC outturn estimate for 2016-17 of £10,719 million was £548 million lower than our May 2018 SPI-based estimate for 2016-17. We discussed this in our September 2018 Forecast Evaluation Report, concluding that differences in the number of taxpayers between the two sources of data accounted for much of the difference.[12]

55 We have now calibrated our forecasts to match the available 2016-17 outturn data. This leads to a reduction of £586 million in our forecast of income tax in 2019-20.

56 There is no direct effect on the Scottish Budget as 2016-17 is the base year for the Block Grant Adjustment (BGA). Outturn data for 2017-18, expected in summer 2019, may have an effect on the budget via the reconciliation process. See Fiscal Forecasts: Reconciliations section for further information.

Policy and behavioural effects

57 In its October 2018 Budget the UK Government announced an increase in the UK higher rate threshold to £50,000 in 2019-20. With the higher rate threshold in Scotland set at £43,430 in 2019-20, there is a growing gap between the higher rate threshold in Scotland and the rest of the UK. This difference has two distinct effects on taxpayers.

58 Firstly, because the National Insurance Contributions (NICs) Upper Earnings Limit (UEL) is aligned with the UK higher rate threshold, taxpayers in Scotland earning between £43,430 and £50,000 face a combined income tax and NICs marginal tax rate of 53 per cent, compared to 32 per cent for this income range in the rest of the UK.[13]

59 We expect that this higher marginal tax rate will start to affect taxpayer behaviour, for example decisions on how many hours to work. We estimate that in 2019-20 around 120,000 taxpayers in Scotland will be subject to this

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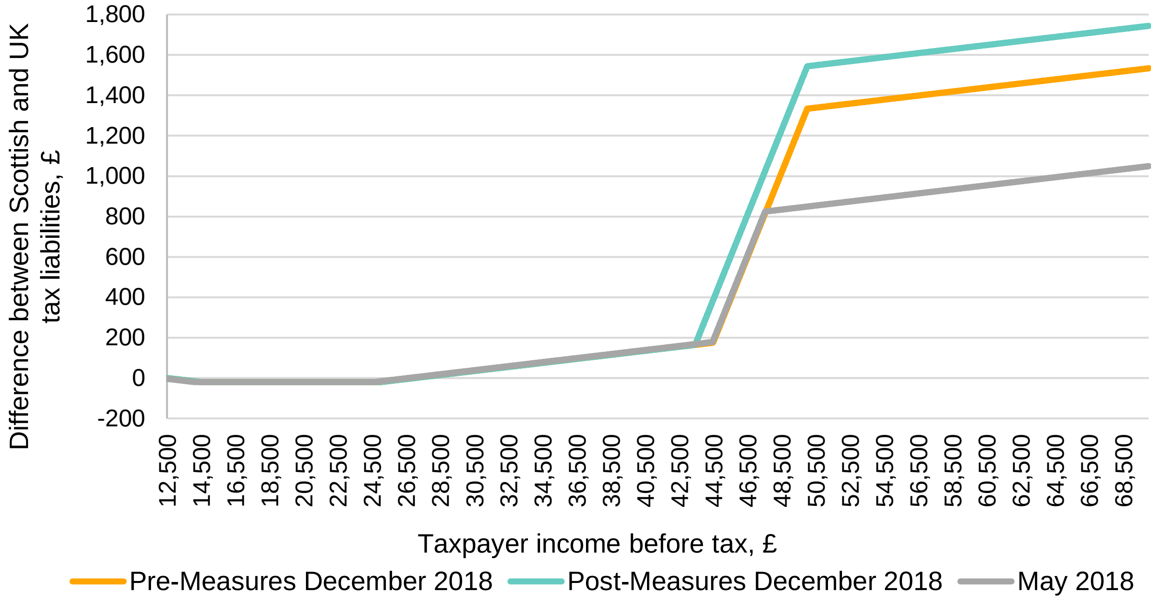
[12] Scottish Fiscal Commission (2018) Forecast Evaluation Report (link)

[13] In Scotland, taxpayers in this range will pay 41 per cent income tax and 12 per cent NICs, giving a combined marginal tax rate of 53 per cent. In the rest of the UK, the same taxpayers would pay 20 per cent income tax and 12 per cent NICs, giving a combined marginal tax rate of 32 per cent.

higher marginal rate. Using our standard approach to modelling taxpayer behaviour, we have estimated that this effect will lead to a reduction in income tax in Scotland of £7 million in 2019-20.

60 Secondly, there is a growing difference in income tax liabilities for higher earners in Scotland and the UK. For example, a taxpayer earning £50,000 is expected to pay around £1,540 more in income tax in Scotland in 2019-20 than in the UK, and this expected difference has increased by more than £695 since since our May 2018 forecast, as shown in Figure 5. We expect this to start to have an effect on tax residency decisions.

Figure 5: Income tax difference for Scottish and rUK taxpayers earning between £12,500 and £70,000 in 2019-20



Source: Scottish Fiscal Commission

61 Changes in taxpayer residence behaviour includes both changes in migration and, for those individuals who already split their lives between Scotland and the rest of the UK, decisions about how to report their primary residence to HMRC. We expect the latter category to account for most of the behaviour change in response to higher income tax in Scotland by higher and additional rate taxpayers. We estimate that changes in taxpayer residence behaviour will lead to a reduction of income tax in Scotland of £6 million in 2019-20.

62 In total, taking account of both of these effects, we expect the difference between the higher rate thresholds in Scotland and the rest of the UK to lead to a reduction of income tax in Scotland of £13 million in 2019-20.

Non-Domestic Rates (NDR)

63 Our forecast of NDR for 2019-20 is £2,785 million, £74 million lower than forecast in May 2018. The downward revision reflects data and modelling updates as well as Scottish Government policy changes. The largest change results from the Scottish Government's announcement that the tax rate, or poundage, will be set at 49.0p, reducing receipts by £35 million in 2019-20 relative to our baseline assumption of an increase in line with RPI.

64 The Scottish Government has also announced that transitional relief for the hospitality sector and offices in Aberdeen and Aberdeenshire will be extended to the end of 2021-22. Previously plans for the relief were only announced up to the end of 2018-19. This extension reduces the forecast by £7 million in 2019-20. An announced relief for new investment in fibre to be introduced in April 2019 has a minimal effect on the forecast – we estimate the cost of the relief will reach £2 million by 2023-24.

65 The Scottish Government announced a number of reliefs in December 2017, some of which were introduced in response to the Barclay Review.[14] As new data become available we have reduced our estimate of the cost of the reliefs by £19 million in 2019-20, thus increasing NDR receipts. The largest change has been made to our costing of the Business Growth Accelerator. The reduction in this costing reflects lower than expected ratepayer awareness of the relief and IT infrastructure challenges in certain local authorities. Our costing for 2018-19 onwards has therefore been revised down, although we include an adjustment for increased take-up of the relief in future years.

66 Other data updates and modelling changes have reduced the forecast by £51 million. After accounting for policy changes there has been a net reduction of £74 million to the 2019-20 forecast.

67 The Commission forecasts what is known as the contributable amount of NDR. This can be thought of as the amount collected by local authorities through the course of the year which flows to the Scottish Government. The amount available to local authorities to spend – the distributable amount – is set by the Scottish Government before the start of the financial year.

68 Differences between the amount distributed by the Scottish Government and amounts collected by local authorities are shown after year-end in the audited publication of the NDR Rating Account.

69 Given our forecast of the contributable amount and the Scottish Government's proposed distributable amount, we now project a £100 million negative balance in the NDR Rating Account at the end of 2019-20. Should

[14] Report of the Barclay Review of Non-Domestic Rates 2017 (link)

the projected negative balance in 2019-20 materialise this will have to be addressed by the Government at future Budgets. The audited balance of the account will in practice also depend on local authorities in-year estimates of NDR revenue collected.[15]

[15] Contributions to the pool are determined by local authorities own estimates of collections for the year ahead, submitted to the Scottish Government after the start of the financial year. Differences between this and final collections are reconciled the following year on the account. Because of this, the balance of the pool could be positive despite our projection of a negative balance if local authorities report a high level of collections on their start of year estimates.

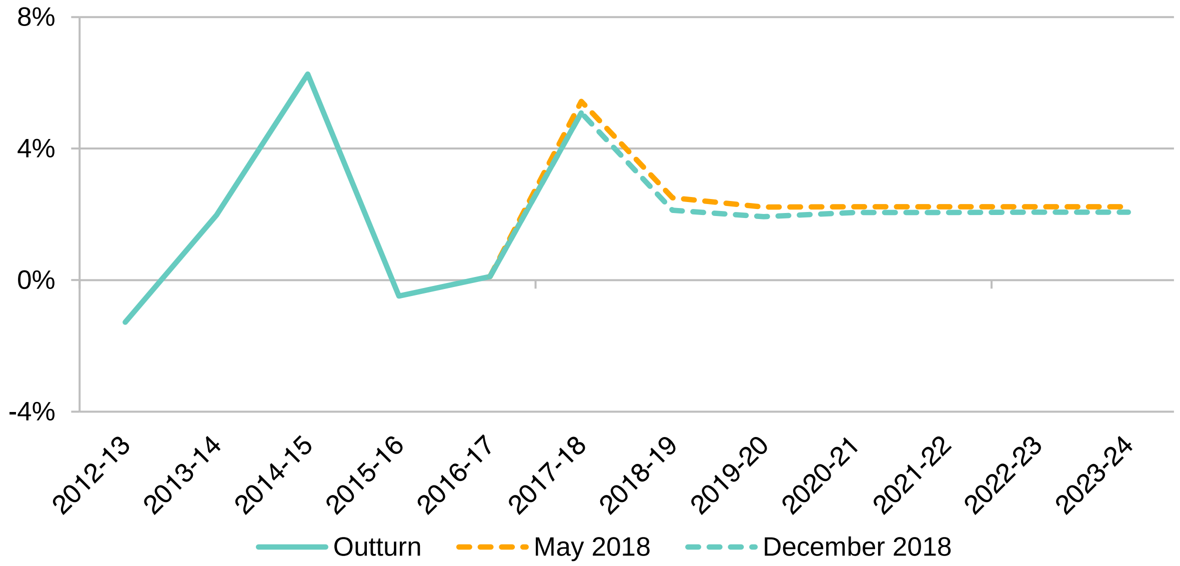
Land and Buildings Transaction Tax (LBTT)

Residential LBTT

70 Our forecast of revenues from residential LBTT in 2019-20 has been revised down from £342 million in May to £296 million. This is in part because of the weaker outlook for transactions and in part because of a revision to the forecast which now apportions slightly more transactions to the lower tax bands. A small reduction of £2 million in residential LBTT receipts in 2019-20 results from the Scottish Government's change to the Additional Dwelling Supplement tax rate and contributes to the downward revision.

71 The first half of 2018 saw considerable growth in average house prices driven by larger numbers of more expensive purchases, and smaller numbers of lower priced purchases. Our May forecasts reflected this higher growth, as shown in Figure 6. Since then average house prices have continued to grow, but at a lower rate. The third quarter of 2018 saw average house price growth of 1.8 per cent year-on-year. This has led us to revise down our short-term forecast of house price growth. Our forecasts assume that house price growth will return to around 2.1 per cent a year by the end of the five-year forecast horizon, slightly lower than our assumption of 2.2 per cent in May.

Figure 6: Scotland average house prices (annual per cent change)

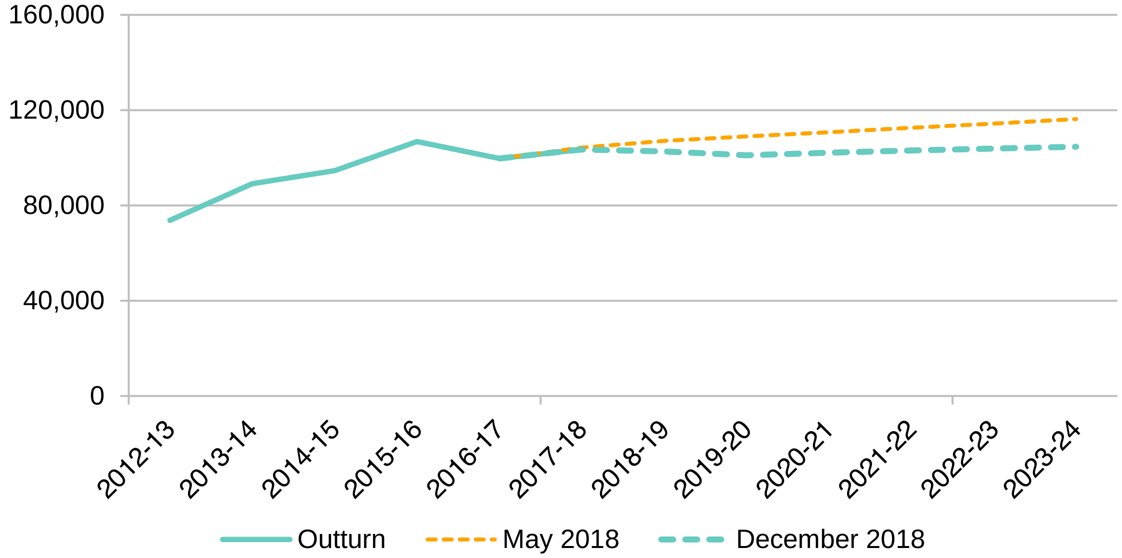


Source: Scottish Fiscal Commission, Registers of Scotland (link).
Registers of Scotland transaction statistics cover properties between £20,000 and £1,000,000. Registers of Scotland growth rates are based on date of registration while Commission's forecast is on effective date basis.

72 The number of transactions fell by 3.4 per cent in the first half of 2018-19, in line with the broader fall in UK property transactions over the same period. Our May forecast projected the drop to continue in the second quarter of 2018 but with growth returning thereafter, as illustrated in Figure 7. The

latest data are consistent with a more sustained fall in transactions in the near-term. Our transactions forecast has therefore been revised down, reducing LBTT receipts.

Figure 7: Scotland residential property transactions



Source: Scottish Fiscal Commission, Revenue Scotland effective date basis data from 2015-16 (link), HMRC Monthly Property Transactions Statistics for data before 2015-16 (link).

Additional Dwelling Supplement

73 Our forecast is for £122 million in Additional Dwelling Supplement (ADS) revenue in 2019-20. The Scottish Government will increase the tax rate on transactions liable for the ADS from 3 per cent to 4 per cent. We estimate this will increase ADS receipts by an average of £27 million per year from 2019-20 onwards. There is a small negative effect of £2 million on the main residential LBTT receipts through slightly lower transaction volumes and prices because of the increased tax rate.

74 The Scottish Government plans to introduce the increase in ADS rates from 25 January 2019, thus reducing the time for forestalling. We assume there is a limited effect between financial years with £1 million of combined residential LBTT and ADS revenue brought forward into 2018-19 from 2019-20. Within the financial year there is greater scope to move transactions. We estimate that £6 million revenue will be brought forward from February and March to January ahead of the introduction.

Non-residential LBTT

75 Non-residential LBTT receipts are forecast to be £226 million in 2019-20, increasing over the five-year forecast horizon to £255 million in 2023-24. Our pre-measures forecast is broadly unchanged from May 2018. The short-run forecast reflects the recent outturn data which saw spikes in the summer

months followed more recently by subdued receipts. These effectively cancel out and our in-year forecast for 2018-19, before any policy changes, is unchanged from May. In the medium term, prices and transactions grow in line with the Commission's economy forecast.

76 The Scottish Government has announced a change to the non-residential LBTT tax schedule. The lower tax band will apply to transactions up to £250,000, a reduction from £350,000. The lower tax rate is reduced from 3 per cent to 1 per cent, and the higher tax rate increased from 4.5 per cent to 5 per cent. These changes will come into effect on 25 January 2019. We estimate this raises £13 million in 2019-20, increasing to £15 million in 2023-24. We estimate a limited forestalling effect of £2.3 million revenue brought forward into January. Some lower value transactions will delay until after the tax change, and some higher value transactions will be brought forward.

Scottish Landfill Tax

77 Scottish Landfill Tax (SLfT) is an environmental tax levied on landfilled waste in Scotland, which is intended to help reduce the amount of waste landfilled. Our forecast is for receipts to fall from £104 million in 2019-20 to £14 million in 2023-24. There are two main drivers reducing landfilled waste and, therefore, SLfT receipts. Firstly, projected increases in incineration capacity mean that waste will be diverted from landfill to incineration plants being built in Scotland over the next five years. Secondly, the introduction of the Scottish Government's legislative ban on the landfilling of biodegradable municipal waste (BMW) from January 2021 is now included in our central forecast. Previously we included the ban as a sensitivity when we highlighted it was likely to result in lower receipts in future years.

78 Up to 2021 the reductions in receipts are driven by increases in incineration capacity. In 2021-22 receipts are expected to be £69 million lower than they would otherwise have been because of waste being diverted to incinerators. There are always some uncertainties around the precise timing for facilities coming on line, but the new capacity in our forecast comes from projects which are in construction or in advanced stages of procurement and therefore we expect them to become operational within our forecast horizon.

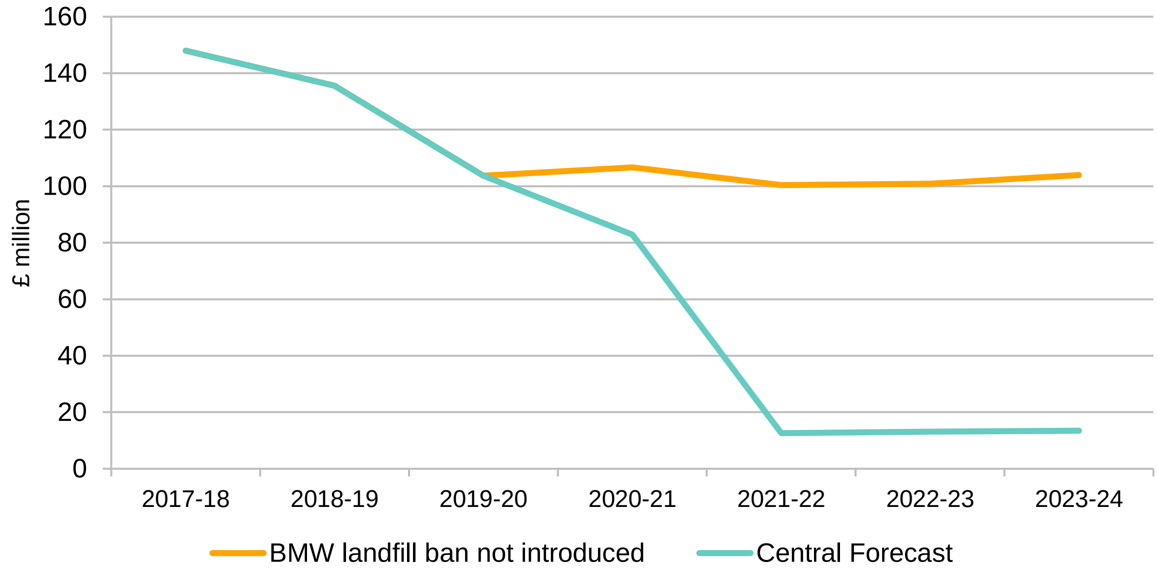
79 Despite these expected increases in incineration capacity, there are likely to be around one million tonnes of biodegradable municipal waste per year which cannot be legally landfilled in Scotland from January 2021, and for which no alternative treatment option exists in Scotland. In our previous forecasts we highlighted the effect this waste not being landfilled would have on our tax forecasts, and the need for greater evidence about how and where this waste would be diverted.

80 The ban affects receipts from 2020-21 onwards, with the full effect from 2021-22. There have been several developments which have led to this now

being included in our central forecast. The Scottish Environmental Protection Agency (SEPA) has now published guidance outlining the specific waste types affected along with more detail on its implementation and enforcement.[16] The Scottish Government has shared preliminary findings from a report examining options for waste affected by the ban. While the report does not identify where the waste will be sent, it identifies that sufficient capacity exists to handle waste with three options: landfill sites in northern England, incinerators in England and exports to Europe. We expect the costs of these three options to be higher than the current cost of landfilling in Scotland, so we do not expect diversion of waste to start until the ban comes into effect.

81 The ban results in a significant reduction in SLfT receipts – in 2021-22 receipts are £13 million. At this point we are fully incorporating the ban in our forecast. Given the uncertainties discussed above, sensitivity analysis is shown in Figure 8, demonstrating the impact on revenue if the ban is not implemented from 2021 as the Scottish Government intends. We estimate that without the ban receipts will be £88 million higher in 2021-22.

Figure 8: Effect of the BMW landfill ban not being introduced on SLfT receipts



Source: Scottish Fiscal Commission, Revenue Scotland (2018) Annual Report and Accounts 2017-18 (link).

Fiscal Forecasts: Illustrative tax forecasts

82 We produce two illustrative tax forecasts. The first is for assigned VAT receipts; but this process is yet to start so there is no effect on the Scottish

[16] SEPA published guidance (May 2018) on the BMW ban to help stakeholders understand what BMW is, why it will be banned and how the ban will be implemented (link)

Budget. Our second illustrative forecast is of the Scottish share of Air Passenger Duty (APD) where devolution of APD has been delayed.

Value Added Tax (VAT)

83 The Scotland Act 2016 assigns receipts from the first 10p of standard rate of Value Added Tax (VAT) and the first 2.5p of reduced rate of VAT in Scotland to the Scottish Government. Currently our forecasts have no direct effect on the Scottish Budget. 2019-20 is a transition year in which VAT assignment will be calculated and forecast but there will be no effect on the Scottish Budget. It is expected that the transitional period will last a year and from 2020-21 the Scottish Government will receive the VAT receipts assigned to Scotland with a corresponding BGA.

84 Our forecast for assigned VAT receipts in 2019-20 is £5,801 million, which will make VAT the second largest source of tax revenue for the Scottish Government, after income tax. Receipts will increase to £6,434 million in 2023-24. These increases are driven by our forecasts of household consumption and changes to consumer spending patterns.

85 VAT will continue to be collected by HM Revenue and Customs (HMRC) at the UK level. As tax returns are submitted by companies covering the whole of the UK it will not be possible to calculate VAT raised in Scotland. Assigned VAT receipts will initially be based on forecasts. Outturn data will be estimated by a model currently under development by HMRC, HM Treasury and the Scottish Government. We expect that revenue and BGA forecasts will then be reconciled to the outturn data estimate once available following broadly the same arrangements already in place for income tax.

Air Passenger Duty

86 Air Passenger Duty (APD) is paid by eligible passengers departing from UK airports. The Scottish Government has agreed with the UK Government to defer the devolution of APD.[17] The Commission produces an illustrative forecast of the Scottish share of APD.

87 Our forecast of Scottish APD receipts shows revenues increasing over the forecast horizon. Scottish passenger numbers have grown strongly in recent years at a time when Scottish GDP growth has been relatively subdued, we assume Scottish passenger numbers grow in line with UK GDP.

88 The forecast of Scottish APD has increased since May 2018 to reflect passenger data up to the end of June 2018 and the latest OBR determinants for UK GDP growth and inflation. With stronger than expected growth in

[17] Letter from Cabinet Secretary for Finance and Constitution to the Convener of the Finance and Constitution Committee 1 June 2018 (link)

Scottish passenger numbers, our forecast of the Scottish share in 2019-20 has risen by £19 million to £312 million.

Fiscal forecasts: Social security expenditure

89 The number of social security benefits devolved to Scotland has increased over the last year with the devolution of Carer's Allowance and the Sure Start Maternity Grant (SSMG), SSMG has been replaced with the Best Start Grant. The Scottish Government has introduced a new benefit – the Carer's Allowance Supplement and announced plans for two new benefits to be devolved in 2019 – Funeral Expense Assistance and Best Start Foods. The Best Start Grant will also be expanded in 2019.

90 The Scottish Government has introduced reforms to all of these benefits, changing payment rates, the eligibility criteria, advertising the new benefits, introducing changes to the administration of the benefits and establishing a new delivery agency, Social Security Scotland. As these are new policies and new benefits there are no past data on these benefits on which to base our forecasts. In each case we examine the data on the previous UK benefit and make an assessment of the effect the above reforms will have.

91 There is a particular challenge in assessing take-up rates, that is the proportion of an eligible population who claim the benefit to which they are entitled. Take-up rates are typically estimates as in most cases we also have to estimate the size of the eligible population. To reach an independent judgement on likely take-up rates we asked the Scottish Government to provide us with information on all planned changes to each benefit. We reviewed all the relevant information before making our judgements. Once the first data become available from Social Security Scotland, we will review and revise our forecast assumptions.

92 Table 12 shows a summary of the social security forecasts produced to inform the Scottish Budget. Our forecasts of social security expenditure are of the total amount paid to, or in respect of, claimants, and do not include any administrative costs.

Table 12: Summary of social security forecasts of Scottish Government expenditure

£ million	2017-18 Outturn	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Carer's Allowance		157	283	305	324	344	364
Carer's Allowance Supplement		35	37	40	43	45	48
Discretionary Housing Payments	58	61	63	65	66	68	69
Best Start Grant		2	12	13	13	14	15
Funeral Expense Assistance			6	6	7	6	7
Scottish Welfare Fund	33	33	33	33	33	33	33
Scottish Government Social Security portfolio – total expenditure	**91**	**287**	**435**	**462**	**486**	**511**	**535**
Healthy Start Vouchers / Best Start Foods	4	4	4	5	4	4	4
Employability Services	12	19	19	28	22	9	0
Total expenditure	**107**	**310**	**458**	**494**	**512**	**523**	**539**

Source: Scottish Fiscal Commission, Scottish Government Scottish Welfare Fund Statistics (link), DWP Benefit Expenditure by Country and Region 2016-17 (link) Scottish Government unpublished expenditure for Discretionary Housing Payments, Healthy Start Vouchers and Employability Services. Figures may not sum because of rounding.
Total expenditure is equal to the Scottish Government's social security portfolio spend plus two other benefits that have been devolved under the Scotland Act 2016, Employability Services and Best Start Foods. Expenditure for Employability Services is part of the Finance, Economy and Fair Work portfolio spending plans. Expenditure for Healthy Start Vouchers/Best Start Foods is part of the Health and Sport portfolio spending plans.

Carer's Allowance

93 Carer's Allowance (CA) is paid to help individuals who care for someone who is disabled and has substantial caring needs. CA was devolved from September 2018 and the Scottish Government introduced a Carer's Allowance Supplement (CAS) to increase CA to match the 2018-19 rate for Jobseekers' Allowance, with an intention to uprate the value each year. The first payments of the CAS were made in September 2018.

94 In total we forecast expenditure on CA and the CAS to increase from £320 million in 2019-20 to £412 million in 2023-24. This increase is because more people are expected to receive CA payments and the weekly payment is increased annually in line with CPI inflation. We have also increased expenditure to allow for the roll-out of Universal Credit and the effect we expect this to have on the number of individuals receiving CA and CAS. Our forecasts of expenditure in 2018-19 are lower reflecting the devolution of CA part-way through the year.

Best Start Grant

95 The Best Start Grant will be paid to low income families at different stages in a child's life. The Scottish Government introduced the Pregnancy and Baby Payment component of the Best Start Grant from 10 December 2018. This replaced the UK Government's Sure Start Maternity Grant with higher

payments for first births, and new payments for the birth of second or subsequent children. We produced a costing in September 2018 to accompany the Scottish Government's secondary legislation on the grant.

96 The Scottish Government has announced details of two further payments to be introduced in 2019; the Early Learning Payment and the School-Age Payment. The Scottish Government has committed to introduce these grants 'by summer 2019'.[18] We assume these grants come into effect on 1 June 2019.

97 As the two new payments are new benefits, not replacing an existing UK scheme, our estimates of take-up rates are initially lower than those estimated for the Pregnancy and Baby Payment. Over the five year forecast horizon we expect take-up to increase as awareness of these payments improves. There is significant uncertainty on the take-up rates in the first year of devolution, and how take-up may change over the forecast horizon.

98 We expect the combined cost of the grants to be £12 million in 2019-20, compared to £2 million of funding received from the UK Government to account for the devolution of the Sure Start Maternity Grant.

Best Start Foods

99 Best Start Foods (BSF) is a payment worth £4.25 each week to support low income families and pregnant women to purchase healthy food. Families must be in receipt of a qualifying benefit. The Scottish Government has committed to introduce BSF by summer 2019. It will replace a similar UK-wide scheme – Healthy Start Vouchers (HSV). We assume the transition to BSF begins on 1 June 2019.

100 We forecast BSF will cost between £0.5 million and £0.6 million a year more than the existing HSV scheme. This increase in expenditure results from increased weekly payment amounts and increased eligibility partly offset by a lower assumed take-up rate than the existing benefit. The Department of Health and Social Care is responsible for administering the current HSV and it writes to all those eligible for HSV to encourage them to take up the benefit. The Scottish Government intends to replicate this process for BSF, but has no firm arrangements in place. Therefore, based on the current position, we assume take-up will be lower than under the existing benefit. Should the Scottish Government make arrangements to replicate the current process we would review and update our take-up assumption.

101 Scottish Government expenditure once Best Start Foods is introduced falls over the forecast horizon from £4.5 million in 2019-20 to £4.0 million in 2023-

[18] Scottish Government (2018) Early Years assistance: consultation on the Best Start Grant regulations (link)

24. This decrease is largely driven by a fall in the estimated number of eligible people across the period.

Funeral Expense Assistance

102 Funeral Expense Assistance (FEA) supports individuals on low incomes with funeral costs. To receive FEA individuals must be in receipt of a qualifying benefit. The Scottish Government has announced FEA will replace the UK Government benefit Funeral Payments (FP) by summer 2019. We assume it is introduced on 1 June 2019.

103 The forecast for FEA is influenced by the complex nature of the benefit, and the interactions with qualifying benefits and family relationships. FEA is expected to cost around £2 million more each year compared to FP. The main reason for the difference in expenditure is because of eligibility being widened under FEA. The take-up rate is initially estimated based on average take-up rates under FP over the last three years. Over the entire forecast horizon the take-up rate is gradually increased to account for increased awareness and accessibility of the benefit.

104 The FEA award is split into two components: reasonable costs for burial/cremation and ‘other’ (non-burial/cremation) costs likely to be used towards the cost of Funeral Director fees, coffin, flowers and so on. Starting with a flat payment of £700 in 2019-20, we have uprated the ‘other’ (non-burial/cremation) costs element of the award using CPI across the forecast horizon. Expenditure on Funeral Expense Assistance is forecast to increase from £6.2 million in 2019-20 to £6.6 million in 2023-24.

Employability Services

105 The Scottish Government has introduced a new voluntary service to provide employability support to help the long-term unemployed and people with disabilities to find sustainable employment. The Scottish Government has contracted external providers to deliver the service.

106 Two interim services were operational in 2017-18: Work First Scotland and Work Able Scotland. The Fair Start Scotland (FSS) service started in April 2018 and will accept referrals for three years. Contracts with, and payments to, providers will run for five years.

107 Forecast expenditure is based on the service design, the estimated number of individuals supported and the probabilities of those individuals entering into and sustaining employment. The overall forecast annual expenditure on Employability Services is £19 million in 2019-20 increasing £28 million in 2020-21 before declining over the rest of the forecast horizon.

Other benefits

108 Discretionary Housing Payments (DHPs) are grants awarded by local authorities to people in need of extra financial assistance with housing costs. The Scottish Government has committed to using DHPs to mitigate the removal of the spare room subsidy, commonly known as the 'bedroom tax'. Our forecasts show the cost of mitigating the bedroom tax increases over the forecast horizon, from £52 million in 2019-20 to £58 million in 2023-24. The Scottish Government's spending plans for other expenditure on DHPs remains unchanged at £10.9 million a year.

109 The Scottish Welfare Fund (SWF) was set up in April 2013 and provides grants for people on low incomes. Expenditure on the SWF has been constant at £33 million since 2013. The Scottish Government has set the 2019-20 budget for the SWF at £33 million, and has not informed us of any plans to change the level of funding for the SWF over the forecast period. Our forecast therefore assumes the Scottish Government's funding remains constant at £33 million per year. We do not assess the demand for the Scottish Welfare Fund or whether the funding from the Scottish Government is reasonable.

Borrowing

Capital borrowing

110 Capital borrowing is used by the Scottish Government to fund capital projects, for example to invest in schools, roads and hospitals. The Scottish Government has given us projections of its capital borrowing requirements up to 2019-20. We judge that these projections are within the limits set out in the fiscal framework, and are therefore deemed reasonable.

111 The Scottish Government borrowed the annual maximum of £450 million in 2017-18, to be paid back over 25 years. In 2018-19 and 2019-20 the Scottish Government plans to again borrow the annual maximum over a 25 year time horizon. This will result in a projected debt stock by the end of 2019-20 of £1.86 billion which is 62 per cent of the total statutory limit of £3 billion.

112 The Scottish Government will be able to continue to borrow the maximum amount per year until they reach the statutory borrowing cap. Beyond this point the annual amount available to borrow would be limited. The exact profile of repayments and the amount available for the Scottish Government to borrow will depend on the repayment period and the interest rate on future borrowing but if current borrowing levels continued the overall stock of debt would reach the cap by 2022-23.

Resource borrowing

113 The Scottish Government can borrow for resource spending, in-year cash management and forecast errors. These borrowing powers are extended in the event of a Scotland-specific economic shock. The Scottish Government have confirmed that they have not used resource borrowing powers to date and there are no plans for resource borrowing in 2019-20.

114 We have assessed whether we are forecasting a Scotland-specific economic shock. Given our forecasts for the Scottish economy and the most recent OBR forecasts for the UK economy, we are not forecasting a Scotland-specific economic shock.

Scotland Reserve

115 The Scotland Reserve is a cash reserve which can be used for underspends and when tax receipts are higher than forecast. It is subject to annual drawdown limits. The Scottish Government has provided information on the outturn balance of the Scotland Reserve for 2017-18 and projected drawdowns in 2018-19. There were a total of £464 million of payments into the reserve during 2017-18 and the aggregate balance was £538 million at the start of 2018-19.

116 Within the current financial year, 2018-19, the Scottish Government have projected they will draw down £85 million from the capital reserve and £250 million from the resource reserve. The drawdown from the resource reserve is the maximum allowed within the fiscal framework.

117 The Scottish Budget 2019-20 expects a drawdown of £220 million from the resource reserve and £93 million from the capital reserve. We have assessed that these projections are within the limits set by the fiscal framework, and are therefore reasonable.

Voluntary compliance with the Code of Practice for Statistics

The Commission seeks to adhere to the highest standards for analysis possible. While we do not produce official statistics (we produce forecasts), the Commission and our work voluntarily complies as much as possible with the UK Statistic Authority's Code of Practice for Statistics. Further details and our statement of voluntary compliance can be found on our website.

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