# Scotland's Economic and Fiscal Forecasts December 2017 Summary

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# Foreword

The Scottish Fiscal Commission is the independent fiscal institution for Scotland. This report signifies an important milestone in the Commission's work, and in fiscal devolution to Scotland. These are the first independent and official forecasts of Scottish GDP, devolved tax receipts and devolved social security expenditure.

The Commission is part of the maturing fiscal landscape in Scotland, and we are proud to present our first forecasts today. These forecasts are a key element of the Budget process. They have been designed to be a resource in understanding the Scottish Government's Draft Budget and in supporting scrutiny.

The forecasts presented in this document represent the collective view of the Scottish Fiscal Commission, comprising the three Commissioners. We take full responsibility for the judgements that underpin them and for the conclusions we have reached.

Producing our forecasts for the first time, we have put into practice the Protocol agreed with the Scottish Government. This process is described in the Introduction to the report. It has evolved as we prepared the forecasts, learning what works in order to aid scrutiny and challenge.

We would like to thank the hard-working and rigorous staff of the Commission for their support in the production of our forecasts and underpinning analysis. We would also like to thank officials from across the public sector for their work challenging us on our judgements and ensuring we considered all the available evidence, through more than 25 challenge meetings. This includes the Scottish Government, Revenue Scotland, SEPA, the OBR, and HMRC.

| | | |
|---|---|---|
| Lady Susan Rice CBE | Professor Alasdair Smith | David Wilson |

# Scotland's Economic and Fiscal Forecasts December 2017

## Economy

| | 2016 | 2017 | 2018 | 2022 | |
|---|---|---|---|---|---|
| Economic Growth | 0.4% | 0.7% | 0.7% | 1.1% | Economic growth is subdued, well below the 2% historic growth rate before financial crisis |
| Trend Productivity Growth | 0.2% | 0.2% | 0.5% | 1.0% | Sluggish GDP growth is driven by slow growth in trend productivity |
| Nominal Wage Growth | 3.3% | 2.0% | 2.3% | 3.1% | Slow productivity growth also holds back wage growth compared to historic norms |
| Employment Growth | -0.6% | 1.3% | 0.6% | 0.1% | Tightening in the labour market and slowing population growth mean slowing employment growth |

## Tax

| | 2016-17 | 2017-18 | 2018-19 | 2022-23 | £ million |
|---|---|---|---|---|---|
| Income Tax | 11,214 | 11,584 | 12,115 | 14,296 | New policy measure increases forecast by £199 million by 2022-23 |
| Non-Domestic Rates | 2,713 | 2,810 | 2,812 | 3,331 | New policy measures announced have reduced our forecast across the period |
| LBTT | 484 | 557 | 588 | 748 | This is the sum of receipts for Residential and Non-Residential LBTT, and the Additional Dwelling Supplement |
| Scottish Landfill Tax | 148 | 137 | 106 | 82 | Landfill volumes fall significantly because of increased incineration capacity |

## Social security

| | 2016-17 | 2017-18 | 2018-19 | 2022-23 | £ million |
|---|---|---|---|---|---|
| Carer's Allowance (inc. Supplement) | **234** | 247 | 300 | 355 | Increases in weekly payments and the state pension age increase expenditure |
| Discretionary Housing Payments | **50** | 60 | 61 | 66 | Expenditure is increasing because of the cost of mitigating the bedroom tax |
| Scottish Welfare Fund | **33** | 33 | 34 | 35 | Mitigating UK policy to reduce housing cost payments to 18-21 year olds increases costs |
| Employability | **0** | 11 | 24 | 3 | Services are accepting referrals between 2017 and 2020, to help people into work |

## Policy Announcements - Tax

| | 2018-19 | 2022-23 | £ million |
|---|---|---|---|
| Income Tax | +164 | +199 | New 5 band income tax system announced |
| Non-Domestic Rates | -96 | -92 | Seven new measures have been announced, which all reduce revenue |
| LBTT | -6 | -7 | First time buyer relief announced increasing the zero band up to £175,000 |

## Policy Announcements - Spend

| | | | £ million |
|---|---|---|---|
| Carer's Allowance Supplement | 35 | 35 | Carer's Allowance Supplement to bring up to JSA level |

# Summary

## Introduction

1 In April 2017 the Scottish Fiscal Commission became responsible for producing independent economic and fiscal forecasts to inform the Scottish Budget.

2 The Commission has produced forecasts of:

- Revenue from fully devolved taxes;
- Non-savings non-dividend income tax receipts; and
- Devolved social security expenditure.[1]

**Table 1: Summary of tax forecasts 2016-17 to 2022-23**

| £ million | 2016-17 Outturn* | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---|---|---|---|---|---|---|---|
| Income Tax (NSND) | 11,214 | 11,584 | 12,115 | 12,582 | 13,084 | 13,662 | 14,296 |
| Non-Domestic Rates | 2,731 | 2,810 | 2,812 | 2,867 | 2,939 | 3,117 | 3,331 |
| Land & Buildings Transaction Tax | 484 | 557 | 588 | 628 | 668 | 707 | 748 |
| *of which, Residential* | *214* | *271* | *305* | *336* | *366* | *395* | *426* |
| *ADS* | *93* | *93* | *93* | *98* | *102* | *106* | *110* |
| *Non-Residential* | *177* | *193* | *190* | *194* | *200* | *206* | *212* |
| Air Passenger Duty | 264 | 292 | 306 | 314 | 324 | 336 | 348 |
| Scottish Landfill Tax | 148 | 137 | 106 | 88 | 90 | 82 | 82 |
| **Total Tax** | **14,842** | **15,379** | **15,928** | **16,480** | **17,105** | **17,905** | **18,805** |

Source: Scottish Fiscal Commission. Figures may not sum to totals because of rounding * Figure for Income Tax is not outturn data, as none is yet available for liabilities in 2016-17. See the income tax section for further detail. Figures may not sum to totals because of rounding

[1] The Commission's specific role on social security is defined in the Scottish Fiscal Commission (Modification of Functions) Regulations 2017 (link)

3 In preparing these forecasts the Commission has considered the Government's proposals for policy changes to taxes and social security spending included in the Draft Budget and has produced a costing for each policy. Table 1 shows the tax forecasts produced.

4 The Commission is also responsible for forecasting onshore GDP growth in Scotland. The forecast of GDP growth feeds into the Commission's fiscal forecasts. The GDP forecast is also used to assess whether the condition (a 'Scotland-specific economic shock') that triggers additional borrowing powers for the Scottish Government is met.

5 The Commission was previously a non-statutory body, which was established in 2014 to scrutinise Scottish Government forecasts of devolved taxes following the Scotland Act 2012. In December 2016, the Commission found the Scottish Government's forecasts of Non-savings non-dividend Income Tax, Land and Buildings Transaction Tax and Scottish Landfill Tax to be reasonable. We also had a role in scrutinising the buoyancy and inflation elements of the Non-Domestic Rates forecast, which we also found to be reasonable.[2]

## Economy

6 Scottish economic growth has been slower over the last decade than historic average rates, and the Commission's view is that pattern of slower growth is likely to persist over the next five years.

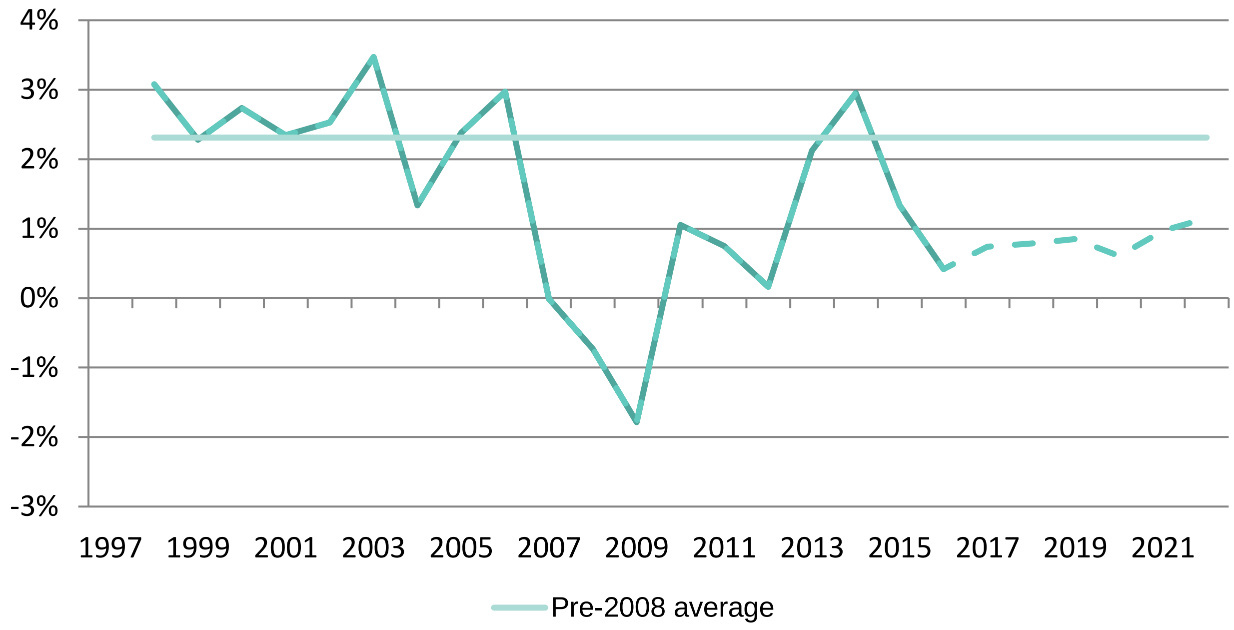
**Table 2: Headline economy forecasts, calendar year basis**

| | 2016 Outturn | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|
| GDP (% change) | 0.4 | 0.7 | 0.7 | 0.9 | 0.6 | 0.9 | 1.1 |

Source: Scottish Government (2017) Quarterly National Accounts Scotland Quarter 2 2017 (link), Scottish Fiscal Commission

[2] Scottish Fiscal Commission (2016) Non-statutory Report of Draft Budget 2017-18 (link)

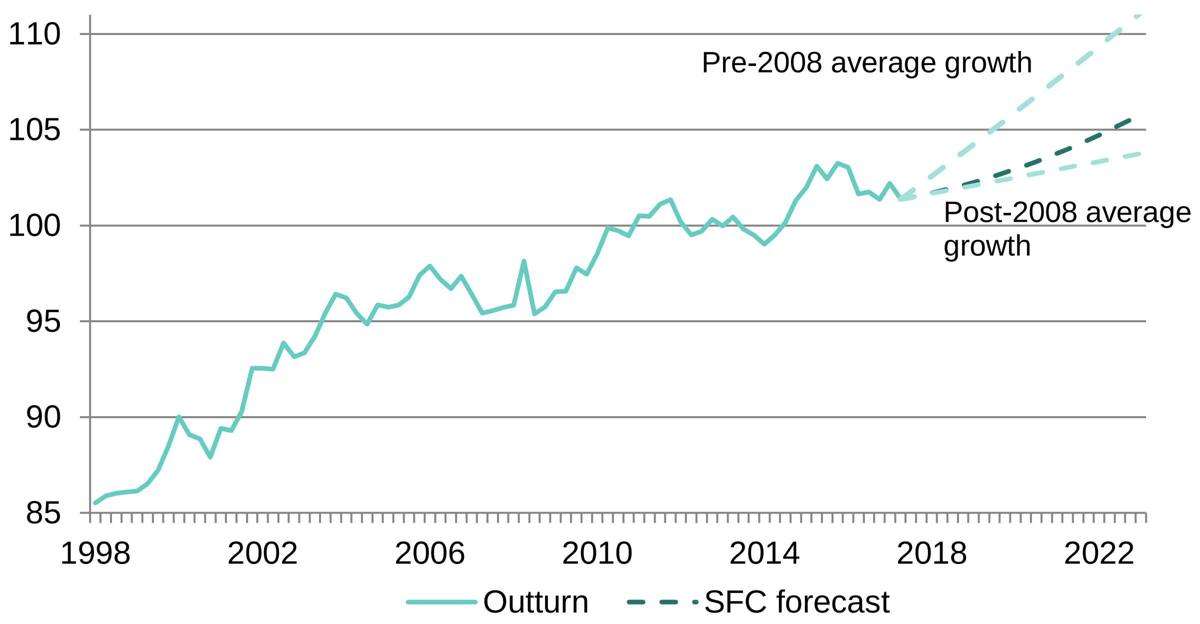
**Figure 1: GDP growth in Scotland: outturn & forecast**




Source: Scottish Government (2017) Quarterly National Accounts Scotland Quarter 2 2017 (link), Scottish Fiscal Commission

7 One of the key factors is slow growth in productivity or output per hour worked. The underlying reasons for this are not yet fully understood and are not unique to Scotland. The Commission's forecast for productivity is shown in Figure 2 below, alongside the historic data and pre- and post-financial crisis averages.

**Figure 2: Productivity Growth in Scotland (2014=100)**




Source: Scottish Fiscal Commission

8 The general slowdown in economic growth observed in recent years would on its own imply a lower forecast for the next five years than pre-2008 historic averages. Scotland faces additional challenges which mean the period of slower growth is unlikely to end in the near future.

9 The growth that has been achieved in some recent years has been driven by factors which include a boom in the construction industry, strong labour market growth, a falling savings ratio and support from the oil and gas industry. These factors are unlikely to continue to support growth to the same extent in the coming years.

10 Future downside risks include the UK's changing relationship with the EU, a weakening outlook for global trade, Scotland's industrial and demographic structure and weak onshore demand linked to activity in the oil and gas industry.

11 In combination, this means limited increases in average earnings and a more modest outlook for employment growth in the coming years compared to the recent past.

## UK-EU relationship

12 The Commission must make assumptions about the impact of Brexit on Scotland. The outcome of the negotiations is unknown at present, and it is therefore difficult to forecast the impact on the economy. Broadly, the Commission expects both the uncertainty created by the UK-EU negotiation, and the final settlement, to impact negatively on the Scottish economy over the next five years.

13 We follow the same approach as the OBR. We use broad-brush assumptions including:

- The UK leaves the EU in March 2019;
- New trading arrangements with the EU and others slows the pace of import and export growth; and
- The UK adopts a tighter immigration regime than currently in place.

14 On the last point, we use the 50 per cent net EU migration variant of the ONS 2016 based population projections for Scotland, whereas the OBR uses the principal projection for the UK.[3] The Commission judges the 50 per

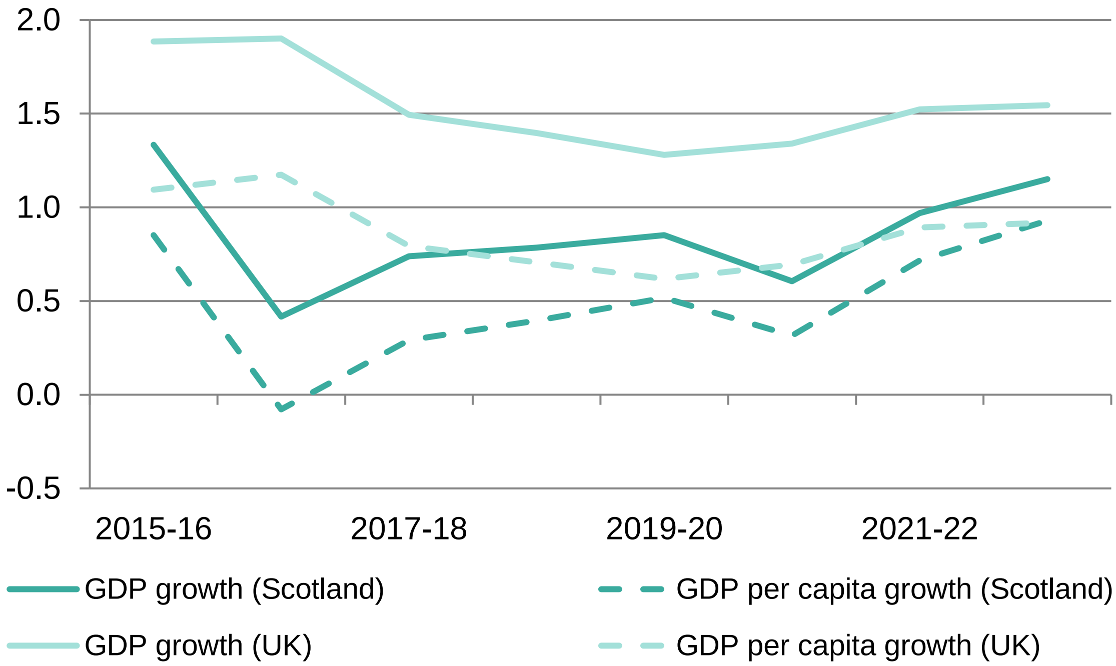
[3] ONS (2017) 2016-based Population Projections, 50 per cent EU Migration Variant Population projections Scotland (link)

cent net EU migration variant to be more appropriate for Scottish circumstances.

## Population and demographic factors

15 Like many developed nations, Scotland faces demographic challenges because of an ageing population. While the Scottish population has been growing in recent years, it has not been growing as fast as the rest of the UK (mainly England) and this difference is projected to continue. Figure 3 shows comparisons between Scottish and UK GDP growth, and GDP growth per person, also known as per capita growth. We expect growth rates of GDP per person in Scotland to converge with those in the UK, while growth in Scottish GDP will remain below UK rates because of a lower growth rate in the Scottish population than the UK population.

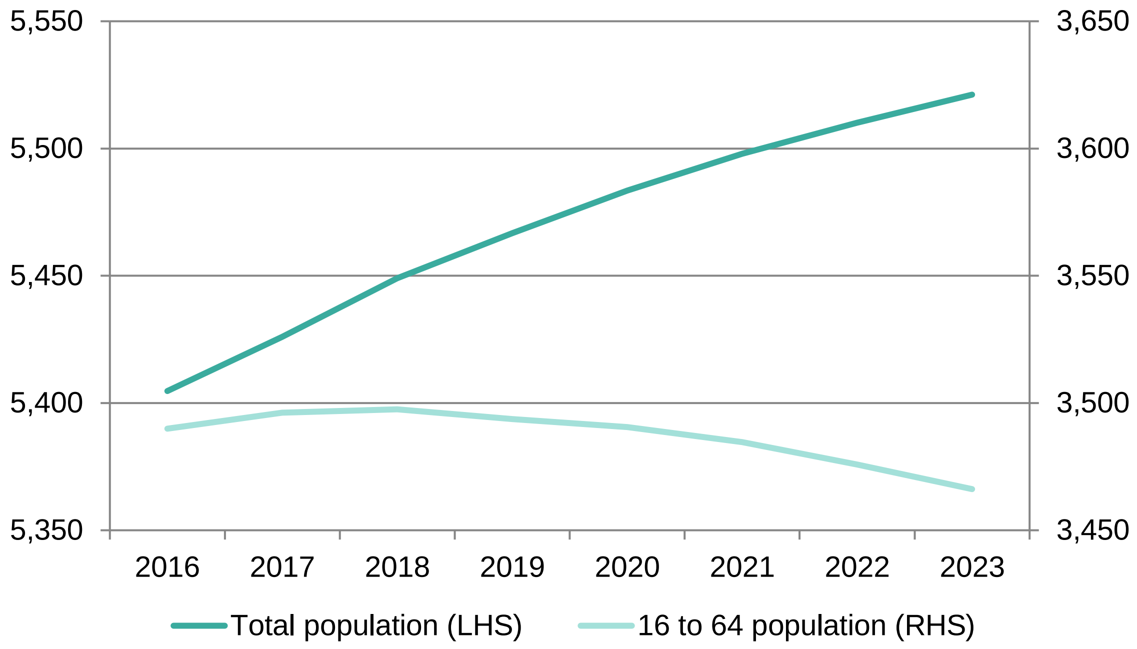
**Figure 3: Forecast growth in GDP and GDP per person, Scotland as forecast by the SFC and UK as forecast by the OBR**




Source: Scottish Fiscal Commission, OBR (2017) Economic and Fiscal Outlook – November 2017 (link)

16 The size of the population aged 16 to 64, which makes up most of the working age population, is very important for the economy and the public finances. These individuals are more likely to be working and will be generating the highest tax receipts, for example, in income tax. While the total population is expected to grow, Figure 4 demonstrates that the population aged 16 to 64 is expected to start to shrink from 2018 onwards.

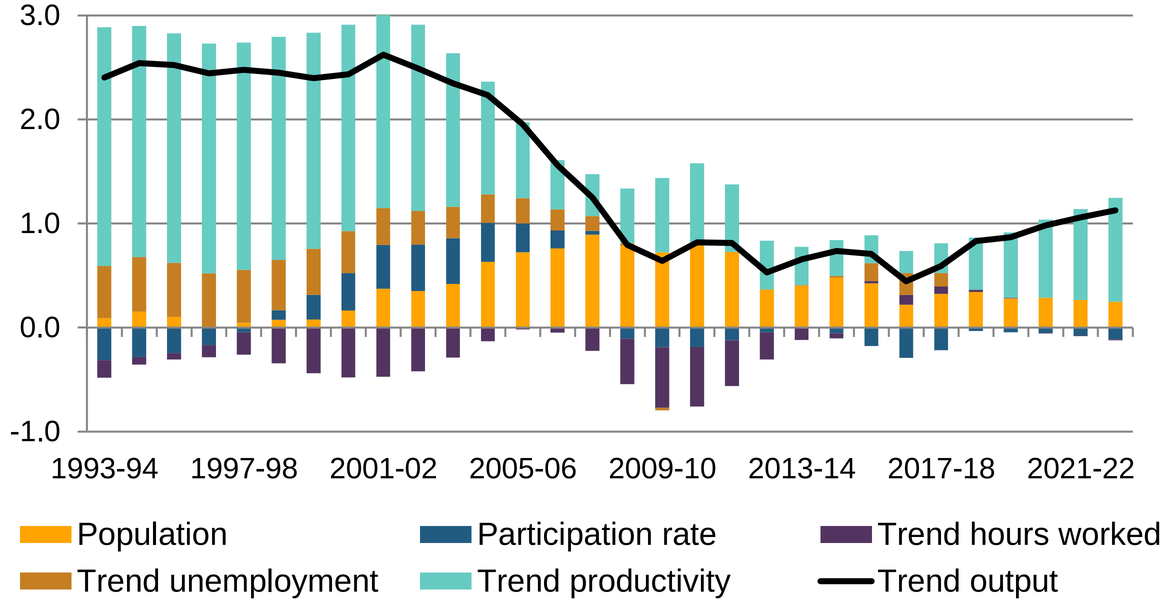
**Figure 4: Forecast Scottish total population and population aged 16 to 64, thousands**




Source: ONS (2017) 2016-based Population Projections, 50 per cent EU Migration Variant Population projections Scotland ([link](link))

## Potential output

**Figure 5: Growth in Scottish potential output by component**




Source: Scottish Fiscal Commission

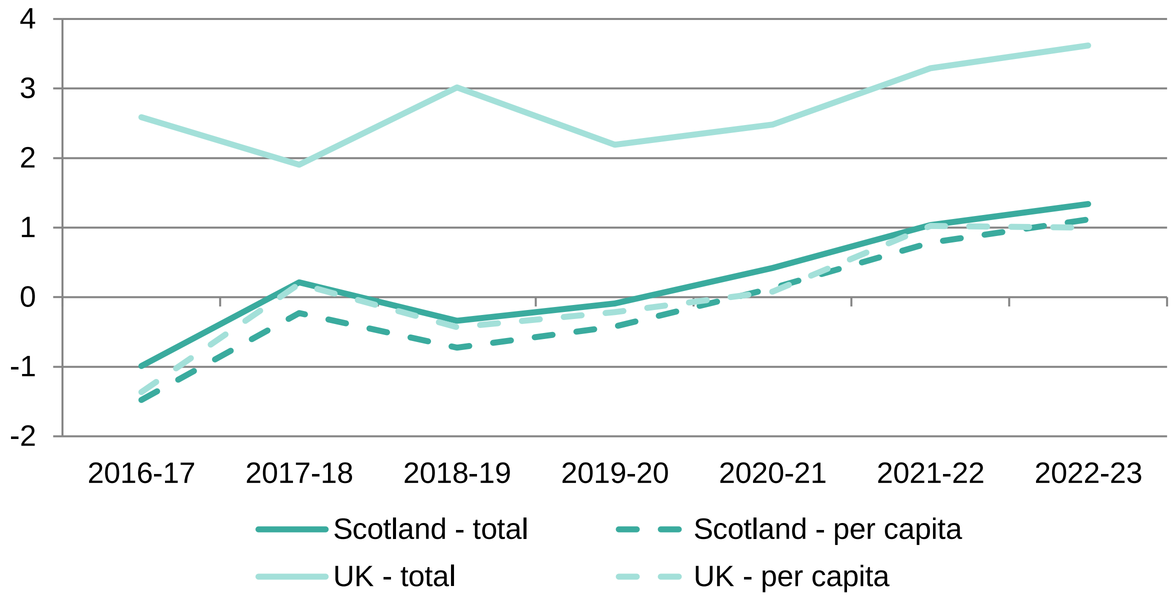
17 The judgements the Commission has made on the future path for productivity, the labour market and population growth drive the potential

output of the Scottish economy. Slow growth in the potential size of the economy will act as a limit to GDP growth.

## Earnings

18 Real household disposable income is not expected to see any growth until 2020-21 because of a combination of slow wage growth, very limited employment growth and inflation. Growth in real household incomes will start to strengthen gradually from 2020 onwards as wage growth starts to increase.

**Figure 6: Growth rate of Real Household Disposable Income (RHDI), total and per capita, Scotland compared to OBR UK forecasts**

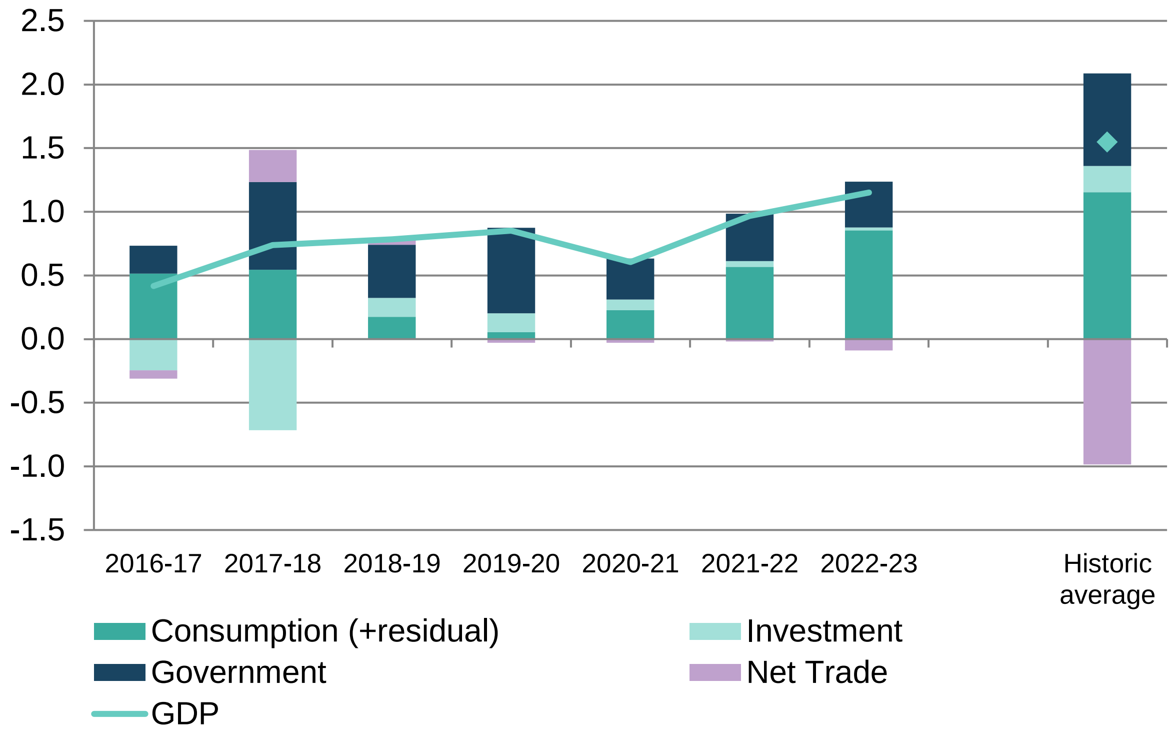



Source: Scottish Fiscal Commission, OBR (2017) Economic and Fiscal Outlook – November 2017 (link)

19 The outlook for real household disposable incomes, combined with an already low savings ratio, limits growth in consumption in the early years of the forecast. As Figure 7 shows, the economic growth achieved in 2018-19 and 2019-20 will be driven by the public sector and the fiscal expansion happening in these years, as well as a slight bounce back in investment following falls in recent years.

## Overall Economic Outlook

**Figure 7: Contributions by component of expenditure to growth in GDP**




Source: Scottish Fiscal Commission
Note: Historic average is based on growth from 1998 to 2016

20 The outlook for productivity is the most challenging aspect of the economy forecasts. Growth in productivity will have a profound impact on GDP and the Scottish economy as a whole. The sensitivity of the economy forecasts, and income tax revenues, to our productivity assumptions are explored in the main report.

21 The Commission's judgement on productivity is that recent trends broadly continue. This judgement is reinforced by further specific factors such as the impact of the oil & gas industry, the impact of the changing UK-EU relationship and recent labour market issues. These all tend to have a negative impact on the outlook for productivity compared to recent years.

22 Productivity may not turn out as currently expected for two reasons: either trends change, or some of the issues or events highlighted above evolve differently to how we expect. Growth in productivity could surprise in either direction, and this will have a significant impact on GDP and income tax. With an uncertain outlook, the Commission has balanced a number of factors in coming to our judgement.

## Tax

23 The Commission’s fiscal forecasts directly inform the Scottish Government’s Budget. Box 1 explains how the Scottish Budget is determined both by our forecasts and by the OBR forecasts of corresponding UK Government tax receipts.

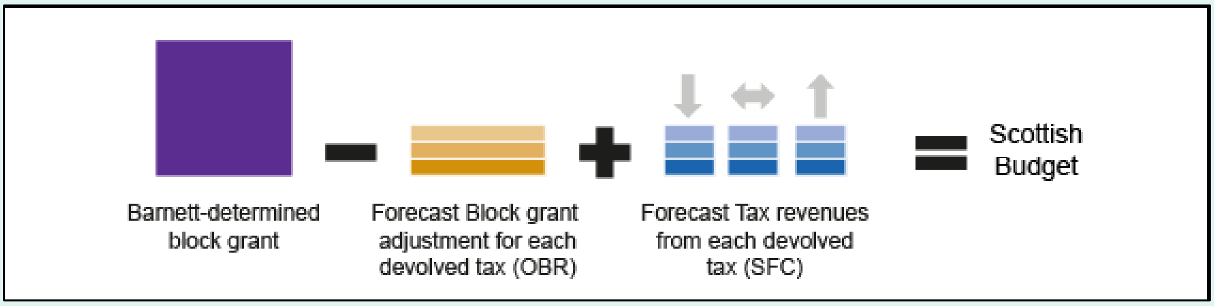
**Box 1: Commission Forecasts and the Fiscal Framework**

The Scottish Fiscal Commission’s forecasts are an important component in determining the total budget that is available to the Scottish Government to spend in each fiscal year. However, it is important to remember that they are not the only relevant forecasts.

The diagram below presents a stylised representation of the way the Scottish Budget will be determined under the Fiscal Framework agreed alongside the Scotland Act 2016. The forecast block grant adjustment changes are based on OBR forecasts of UK Government receipts of corresponding taxes, they do not relate to the OBR’s forecasts of Scottish taxes. These forecasts of UK Government receipts are then used by the UK and Scottish Government to calculate the block grant adjustments, in which process the OBR and the Commission have no involvement.

There is one exception to the general picture, which arises in this year’s income tax calculation. See Box 3.2 in Chapter 3 for further details.

**Figure 8: How is the Scottish Budget Determined?**



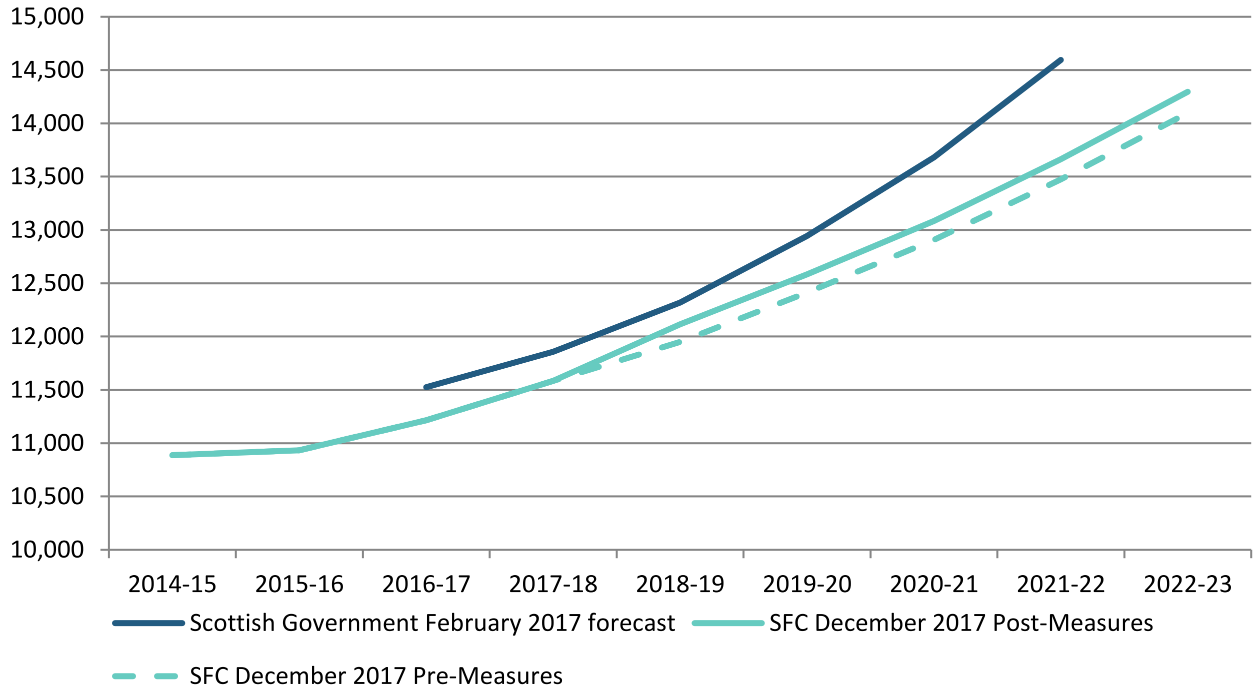

Source: SPICe Briefing (2017) UK Autumn Budget 2017 – impact on Scotland (link)

Taxes which were devolved before the Scotland Acts 2012 and 2016, such as Council Tax and Non-Domestic Rates Income (NDRi), are outwith the Fiscal Framework and so have no impact on the Block Grant. This means there is no indexation mechanism with equivalent UK Government taxes. The Commission has been tasked with producing a forecast of NDRi, but is not responsible for forecasting Council Tax.

## Income tax

24 The outlook for income tax is driven by the outlook for earnings and employment. Slow growth in the economy means slow growth in income tax revenues. As a result, the Commission is forecasting significantly lower revenue from income tax than previously forecast by the Scottish Government.

**Figure 9: Comparison of income tax forecast with Feb 2017 forecast (£m)**




Source: Scottish Government (February 2017) forecast (link), Scottish Fiscal Commission

25 The Scottish Government announced changes to income tax policy, setting new tax rates as shown in Table 3.

**Table 3: Policy announcement**

| Previous Categorisation | New Categorisation | Gross Income (18-19) | Policy Tax Rate | Baseline Tax Rate |
|---|---|---|---|---|
| Basic Rate | Starter Rate | £11,850 - £13,850 | 19% | 20% |
| | Basic Rate | £13,851-£24,000 | 20% | |
| | Intermediate Rate | £24,001 - £44,273 | 21% | |
| Higher Rate | Higher Rate | £44,274 - £150,000 | 41% | 40% |
| Additional Rate | Top Rate | Above £150,000 | 46% | 45% |

Source: Scottish Government

26 Considering the impact of changes in taxpayer behaviour as well as the direct impact on revenue, the policy is expected to raise £164 million to £199 million per year over the next five years, as shown in Table 4.

**Table 4: Impact of proposed Scottish Government policy**

| £ million | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---|---|---|---|---|---|
| Final costing | 164 | 170 | 178 | 188 | 199 |

Source: Scottish Fiscal Commission

## Behavioural effects

27 The Commission captures a range of behavioural effects in our income tax modelling. It is important to separate those behaviours which are already included and those additional changes in behaviour in response to changes in policy.

28 In the forecast baseline, the Commission includes an adjustment to capture the impact of recent increases in tax motivated incorporations in both the UK and Scotland.[4] We also use HMRC and OBR modelling work to capture the impact of UK-wide efforts to reduce tax avoidance and evasion.

29 Taxpayers may also change their behaviour in response to changes in tax policy. These may take various forms such as tax avoidance, tax evasion, migration or a change in labour supply. Responses may be particularly large

[4] For a detailed discussion of tax motivated incorporations, see paragraphs 3.14 onwards in the tax chapter.

at the top of the income distribution, whereas we would not typically expect much of a behavioural response amongst lower income taxpayers.

30 The Commission uses an approach in line with HMRC and the OBR income taxpayer behaviour modelling. However, for the very highest income taxpayers, the Commission assumes a greater behavioural response. This is because there is scope for some very high income individuals to relocate within the UK to avoid higher taxes in Scotland. The Commission also considered a possible forestalling effect, in which high income individuals would transfer income into the current tax year in response to the proposed increase in the additional rate of tax in the following year, but this is expected to be negligible for the current policy. The effects of behaviour on the static costing are shown in Table 5 below.

**Table 5: Static costing and behavioural effect**

| £ million | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---|---|---|---|---|---|
| Static costing | 215 | 224 | 235 | 249 | 264 |
| Behavioural effect | -51 | -54 | -57 | -61 | -65 |
| Final costing | 164 | 170 | 178 | 188 | 199 |

Source: Scottish Fiscal Commission. Figures may not sum to totals because of rounding.

## Non-Domestic Rates (NDR)

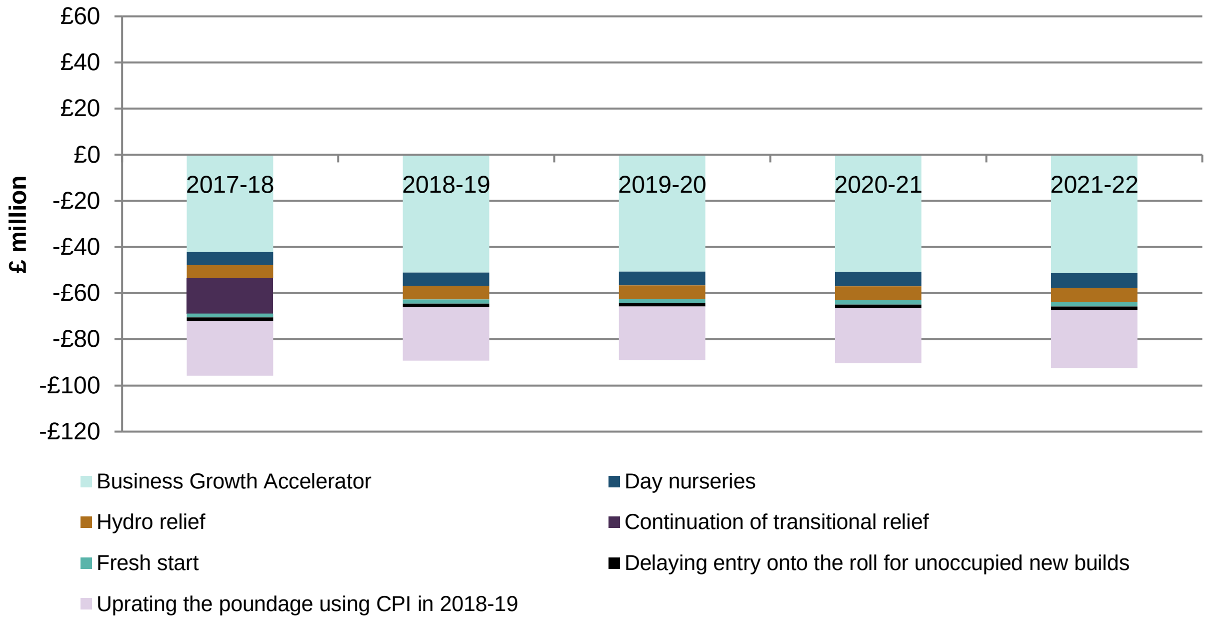
31 Our forecast of NDR for 2018-19 was £2,908 million in the absence of any policy changes by the Scottish Government. The Scottish Government has announced a number of policy measures in this Draft Budget which reduces the amount of NDR income collected by £96 million. Our final forecast for NDR income is £2,812 million in 2018-19.

32 Some of the policy measures were introduced in response to the recommendations of the Barclay Review, which reported in August of this year.[5] the introduction of a 100 per cent relief for day nurseries, expansion of the Fresh Start relief, and the introduction of a new relief, named the ‘Business Growth Accelerator’ where new properties and existing properties after improvements or extensions do not pay rates on the increase in their rateable value for the first 12 months.

[5] Report of the Barclay Review of Non-Domestic Rates, 22 August 2017 (link)

33 The Scottish Government also announced new policies not deriving from the Barclay Review: a decision to uprate the rate of tax by the Consumer Price Index (CPI) in 2018-19, continuation of transitional reliefs from 2017-18, a new relief for hydro properties and new properties having entry on the valuation roll delayed until occupied.

**Figure 10: Revenue effect of policy measures announced**




Source: Scottish Fiscal Commission

34 The Commission forecast 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 prior to the start of the year, using our forecast of the contributable amount as a guide.

35 The Scottish Government uses the NDR Rating Account to manage the difference between the amount distributed to local authorities and expectations of the amount to be raised from NDR. Any differences can be managed between years rather than within a single year.

36 We estimate that the Rating Account will be in deficit by £153 million at the end of 2017-18. Given this estimated position, the Government may choose to set the amount distributed to local authorities in 2018-19 lower than our forecast of the contributable amount in an attempt to move the account closer to a balanced position.

## Land and Buildings Transaction Tax (LBTT)

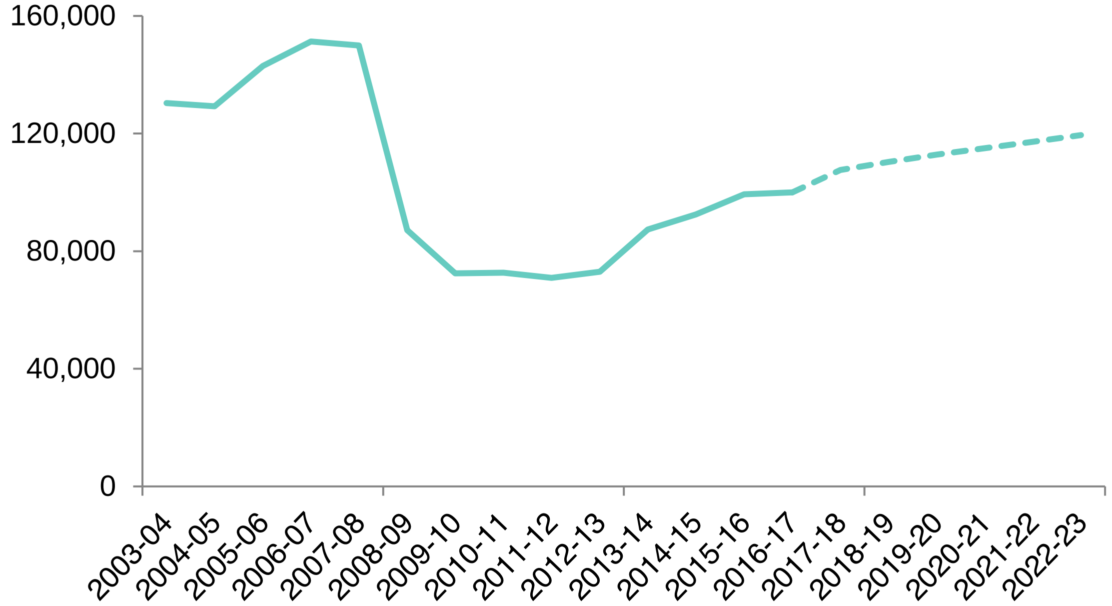
37 The Scottish housing market has shown signs of recovery in the first half of 2017-18, following low price and transactions growth in 2016-17. We expect 2017-18 as a whole to see robust growth both in prices and transactions. In the first half of the financial year house price growth has averaged 4.3 per cent and transactions growth 5.9 per cent relative to 2016-17. Our expectation is that this growth will continue into the second half of this year.

**Figure 11: Scotland average house prices (annual per cent change)**


Source: Registers of Scotland (link), Scottish Fiscal Commission

38 Across the five-year forecast horizon we assume house price growth to return to around 2 per cent a year, the average rate seen in Scotland since the financial crisis. Although the volume of transactions will remain significantly below pre-crisis levels, transactions are expected to increase over the forecast horizon as shown in Figure 12. These forecasts drive both our residential LBTT and ADS forecasts.

**Figure 12: Scotland residential property transactions**




Source: Registers of Scotland (link) Scottish Fiscal Commission

39 The Scottish Government has announced the introduction of a relief for First Time Buyers (FTBs) at this Draft Budget. This raises the zero rate tax threshold for FTBs from £145,000 to £175,000 from 1 June 2018. FTBs will pay up to £600 less in tax, depending on the value of their transaction.

40 The relief is expected to result in prices increasing for FTBs as the reduction in tax results in extra money put towards property purchases. The overall effect on the market is modest as FTBs benefiting from the reduction in tax account for only 10 per cent of the residential market. We expect there to be between 150 and 200 additional FTB transactions per year, displacing other transactions that would have taken place within the same price range (for example home movers and buy-to-let landlords).

41 The policy reduces residential LBTT revenue raised by on average £6 million per year in our forecast. The impact on ADS revenues is on average a £0.3 million reduction in revenue each year.[6] Full details of the costing can be found in Annex A of our main report.

42 Non-residential receipts are forecast to increase gradually over the five-year forecast horizon. We expect that the non-residential market will see subdued activity in line with the OBR's weaker growth forecasts for the UK.

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[6] This reduction results from FTBs displacing the purchase of additional properties, which are subject to an additional 3 per cent surcharge.

### Air Passenger Duty

43 Air Passenger Duty (APD) is paid by passengers departing from UK airports. The Scottish Government had legislated to replace APD with Air Departure Tax (ADT) from April 2018. The Scottish Government has now confirmed that devolution of APD will be postponed.[7] The Commission has developed a forecast for Scottish APD receipts; we are publishing these forecasts to inform the future plans for devolution of APD.

44 Our forecast of Scottish APD receipts shows revenues increasing over the five-year horizon. Scottish passenger numbers have grown strongly in the last four years at a time when Scottish GDP growth has been relatively subdued. We expect this trend to continue with APD receipts increasing over the next five years.

### Scottish Landfill Tax

45 Landfill tax is an environmental tax which has contributed towards a reduction in the amount of waste landfilled over the last decade. While this trend appears to have levelled off in Scotland in recent years, the Commission is forecasting significant reductions in the amount of waste landfilled and subsequent tax receipts over the next five years.

46 The forecast is largely driven by the projected increase in incineration capacity across Scotland over the forecast period. The build-up in capacity is in part a reaction to the increasing cost of the tax on disposal via landfill. It is also a sign that local authorities and waste management companies are beginning to plan ahead to meet their obligations in response to the ban on the landfill of biodegradable municipal waste from 2021. The full impact of the ban is still being assessed and may result in tax receipts being significantly lower in the later years of our current forecast.

## Social security expenditure

47 As part of the devolution of social security powers to the Scottish Parliament, the Commission is required to produce independent official forecasts of social security expenditure in Scotland.

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[7] Letter from the Cabinet Secretary for Finance and Constitution to the Convener of the Finance and Constitution Committee 22 November 2017 (link)

48 The benefits are being devolved following a phased timetable and the forecasts reflect either Scottish or UK Government policy, depending on the status of each benefit. The benefits already devolved are Discretionary Housing Payments, the Scottish Welfare Fund and employability services. Our forecasts of expenditure on these areas reflect current Scottish Government policy. Scottish Ministers will take responsibility for delivery of Carer's Allowance by summer 2018 and we have forecasted expenditure based on both UK Government's Carer's Allowance policy and the Scottish Government's interim Carer's Allowance Supplement.

49 The final group of benefits forecasted are those where the Scottish Government has announced plans for devolution, but the timetable and policy information are not sufficiently detailed for us to cost at this stage. These benefits are Funeral Payments, Healthy Start Vouchers and Sure Start Maternity Grant.[8] For these benefits we are forecasting expenditure based on current UK Government policy.

50 As the Scottish Government announces plans for the devolution of further benefits we will include them in our future forecasts.

**Table 6 Summary of social security forecasts 2016-17 to 2022-23**

| £ million | 2016-17 Outturn | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---|---|---|---|---|---|---|---|
| Carer's Allowance | 234 | 247 | 265 | 282 | 297 | 309 | 321 |
| Carer's Allowance Supplement | 0 | 0 | 35 | 30 | 32 | 33 | 34 |
| Discretionary Housing Payments | 50 | 60 | 61 | 62 | 63 | 65 | 66 |
| Scottish Welfare Fund | 33 | 33 | 34 | 35 | 35 | 35 | 35 |
| Employability Services | 0 | 11 | 24 | 27 | 27 | 18 | 3 |
| Fair Start Scotland | *0* | *0* | *18* | *27* | *27* | *18* | *3* |
| Work Able Scotland | *0* | *3* | *0* | *0* | *0* | *0* | *0* |
| Work First Scotland | *0* | *9* | *6* | *0* | *0* | *0* | *0* |
| Funeral Payments | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Healthy Start Vouchers | 5 | 4 | 4 | 4 | 4 | 4 | 3 |
| Sure Start Maternity Grant | 2 | 3 | 3 | 3 | 3 | 3 | 3 |
| **Total Social Security** | **329** | **362** | **430** | **448** | **465** | **471** | **470** |

Source: Scottish Fiscal Commission

[8] The Scottish Government have announced that Funeral Expense Assistance will replace Funeral Payments and the Best Start Grant will replace Sure Start Maternity by summer 2019.

51 Other than for the interim Carer’s Allowance Supplement which is set out in the Social Security (Scotland) Bill, the Scottish Government’s intention is to set out all detailed rules relating to eligibility criteria and rates of benefits in subordinate legislation. To support the Scottish Parliament and the public in understanding and scrutinising the Scottish Government’s policy proposals, the Commission will aim to produce forecasts of expenditure to accompany subordinate legislation relating to any areas in our remit.

## Carer’s Allowance

52 Carer’s Allowance (CA) is paid to help people who care for someone who is severely disabled. Expenditure on CA is forecast to increase over the horizon because of both increases in caseload and the weekly rate increasing in line with CPI inflation.

53 The Scottish Government have committed to introducing a Supplement to CA in 2018-19 to increase CA to match the rate of Jobseekers Allowance (JSA). The Supplement will be paid as two lump-sum payments a year, each worth six months of the difference between CA and JSA. The Scottish Government and DWP have not finalised the timetable. Despite this, we have sufficient information to produce an illustrative costing.

54 We expect the cost of the Supplement to fall from £35 million in 2018-19 to £30 million in 2019-20: this is because of JSA being frozen at £73.10 per week while CA is increased with inflation. From 2020-21 onwards the cost of the Supplement gradually increases as the freeze on JSA is removed and the caseload increases.

## Discretionary Housing Payments

55 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 (RSRS), commonly known as the bedroom tax. Our forecasts show the cost of mitigating the RSRS increases over the forecast horizon, from £50 million in 2018-19 to £55 million in 2022-23. Based on Scottish Government policy, we assume other expenditure on DHPs remains constant at £10.9 million a year over the forecast horizon.

## Scottish Welfare Fund

56 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. Our forecast assumes this remains constant. The Scottish Government has committed to using the SWF to mitigate UK Government changes to the housing component of Universal Credit for some 18 to 21 year olds. Our forecasts estimate that expenditure on this policy will be £1.2 million in 2018-19, increasing to £1.6 million from 2020-21 onwards.

## Employability Services

57 The Scottish Government has introduced new voluntary services to provide employability support to help the long-term unemployed and people with disabilities to find sustainable employment. Two interim services are operational in 2017-18; Work First Scotland and Work Able Scotland. The Fair Start Scotland service starts in April 2018 and will accept referrals for three years.

58 The service is run by providers who are paid according to the number of people that move into sustained employment. Performance fees are paid upon participants reaching 13, 26 and 52 weeks of sustained employment.

59 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. Our current forecasts reflect expenditure in both the three years the service is open to new referrals, and expenditure in the subsequent two financial years while participants are receiving support and then in employment.

60 We are forecasting expenditure on the two transition schemes for both the current year, 2017-18, and the next financial year, 2018-19. Expenditure on Fair Start Scotland will occur in six financial years, 2017-18 to 2022-23. Expenditure on the employability services is highest in 2020-21 at £27.2 million.

## Other benefits

61 The Scottish Government has announced plans for the devolution of Funeral Payments, Healthy Start Vouchers and the Sure Start Maternity Grant. Currently there is insufficient detail for us to produce forecasts based on the

Scottish Government's policy. We have therefore produced forecasts of expenditure based on current UK Government policy. Once details of devolution become clearer we will produce updated forecasts.

62 Universal Credit (UC) is reserved to the UK Government and we do not directly forecast expenditure. UC is a qualifying benefit for several of the benefits we forecast so any delays or changes to the rollout could impact on our forecasts.

## Borrowing

63 The Scottish Government has provided projections of its borrowing requirements to the Commission. We have assessed these borrowing plans as being reasonable, which means they are within the limits set out in the Fiscal Framework.

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