

Scotland's Economic and  
Fiscal Forecasts  
Summary  
February 2020

---

© Crown copyright 2020

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit:

<http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk)

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at [www.fiscalcommission.scot](http://www.fiscalcommission.scot)

Any enquiries regarding this publication should be sent to us at: Scottish Fiscal Commission, Governor's House, Regent Road, Edinburgh EH1 3DE or [info@fiscalcommission.scot](mailto:info@fiscalcommission.scot)

Published by the Scottish Fiscal Commission, February 2020



# 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 revenues and devolved social security spending to inform the Scottish Budget.

This report contains our third set of Scottish Budget forecasts, covering the years 2020-21 to 2024-25. It is also the first set of Budget forecasts we have produced where the Scottish Budget took place before the UK Budget, and in which there was not a UK fiscal event in the autumn.

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.

The deadline for new data to be included in our forecasts was on 15 January 2020 and our Brexit assumptions were finalised on 17 January when the economic forecast closed. The deadline for Scottish Government policy measures was on 23 January. The forecasts set out in this report were provided to the Scottish Government on 28 January. We expect to produce our next forecasts in May 2020 to support the Government's Medium Term Financial Strategy.

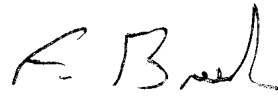
As with each fiscal event, our relationship with the Scottish Government evolved further as we prepared this set of forecasts and we will continue to learn from what works well and what could be improved. In producing our forecasts we have put into practice the revised Protocol agreed with the Scottish Government in September 2019.

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, DWP, HM Treasury, HMRC and the OBR for their constructive challenge of our judgements and for ensuring that we considered all the available evidence.

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

6 February 2020


Economy		2019	2020	2021	2024	% growth
	<b>GDP</b>	0.9	1.0	1.1	1.2	Growth in 2020 is supported by reduced Brexit uncertainty, while the long-term outlook remains subdued.
	<b>Trend Productivity</b>	0.3	0.6	0.9	1.3	Productivity growth remains low in the short term, then starts to gradually increase.
	<b>Nominal Earnings</b>	2.8	3.0	3.1	3.3	Nominal earnings growth forecasts revised up to reflect outturn data and the tight labour market.
	<b>Real Earnings</b>	1.0	1.1	1.0	1.2	Real earnings growth expected to be positive but still low by historic standards.

Tax		2019-20	2020-21	2021-22	2024-25	£ million
	<b>Income Tax</b>	11,677	12,365	12,897	14,722	In 2020-21, income tax revenue is expected to be £80 million higher than our December 2018 forecast.
	<b>Non-Domestic Rates</b>	2,806	2,749	3,012	3,590	New data reduced our forecast every year but measures in the NDR Bill increase the forecast from 2022-23 onwards.
	<b>LBTT</b>	613	641	666	749	In 2020-21, revenue from LBTT is expected to be £39 million lower compared to our December 2018 forecast.
	<b>Scottish Landfill Tax</b>	124	116	110	66	Delay to the ban on biodegradable municipal waste increases revenues until implemented in 2025.



### Policy Announcements

	<b>Income Tax</b>		51	54	63	The higher rate threshold has been frozen at £43,430 in 2020-21.
	<b>Non-Domestic Rates</b>		-7	-7	0	New Intermediate Property Rate lowers the tax rate for properties with a rateable value between £51,000 and £95,000.
	<b>LBTT</b>		10	11	12	Non-residential leases above £2 million will pay 2 per cent on the portion above £2 million instead of 1 per cent.

### Social Security

Social Security		2019-20	2020-21	2021-22	2024-25	£ million
	<b>All devolved social security assistance</b>	458	3,435	3,578	3,959	Total spending on social security assistance devolved to the Scottish Government.

### Policy Announcements

	<b>Child Disability Assistance</b>		217	250	312	The new Scottish assistance opens for applications in summer 2020 to replace Disability Living Allowance for Children.
	<b>Scottish Child Payment</b>		21	65	162	New Scottish Child Payment launches for children under 6 in 2020, and for all children up to sixteen years old in December 2022.





# Summary

## Introduction

- 1 This report contains our official economic, tax and social security forecasts along with policy costings for the changes in tax and social security proposed in the Government's Budget. Our forecasts are just one component of the Scottish Budget; we also discuss how the Scottish Budget is set and the effect of the devolution of tax and social security benefits. Within this context we provide our assessment of the reasonableness of the Government's borrowing plans.
- 2 The Scottish Budget continues to grow in size and complexity as more of the fiscal framework comes into operation for the first time. The Scottish Government will become responsible for a further £3 billion of social security payments from April 2020. The Government is also using its resource borrowing powers to manage the first income tax reconciliation.
- 3 The Scottish Budget has been set before the UK Budget has been published and there has not been an autumn UK fiscal event with its accompanying OBR forecasts. These circumstances introduce new considerations relating to the funding arrangements for the Scottish Budget including the Block Grant and Block Grant Adjustments.
- 4 Monitoring and management of the Budget through the course of the year will be increasingly important from 2020-21 onwards with more parts of the Budget being variable and harder to predict. As usual, during the year the Government will receive updated information on its tax revenues, the progress of its spending plans, any changes in funding from the UK Government and changes in the Block Grant Adjustments (known as reconciliations). Some of the magnitudes may be exacerbated by the Scottish Budget preceding the UK Budget.
- 5 The devolution of £3 billion of social security benefits from April 2020 will add to the risk of in-year spending variations given the demand-led nature of these payments. Spending will be determined by the number of eligible people who

apply for support, all of whom must be paid at the rate set in the legislation. The Scottish Government will have to meet this spending as it arises, even if it differs from the forecast used to set the Budget initially. The composition of the social security portfolio, with spending on three large payments dominating the total (as shown in Table 8), means that even modest forecast errors are unlikely to offset each other and may result in in-year spending differing from our forecasts.

- 6 The Scottish Government and Parliament will need to consider how best to monitor and respond to these in-year budget revisions.
- 7 Our next forecasts, published alongside the Scottish Government's Medium Term Financial Strategy (MTFS) currently anticipated in May, will be combined with the March UK Budget and updated OBR forecasts to provide an updated overview of the Scottish public finances.

## Fiscal Overview

### Funding arrangements for the Scottish Budget

- 8 A large part of the Scottish Government's funding is based on the Barnett-determined Block Grant and Block Grant Adjustments (BGAs), usually updated at the UK Budget based on the UK Government's policy and OBR forecasts. In the absence of this information, the Scottish Government has reached a number of funding agreements with the UK Government. At the same time decisions on the use of borrowing and the Scotland Reserve by the Scottish Government affect the total level of funding available for the Scottish Government to spend in 2020-21.
- 9 Table 1 summarises the Scottish Government's funding included in Budget 2020-21. We discuss each of these components in turn.



**Table 1: Funding and spending plans for the Scottish Budget 2020-21**

£ million		2020-21
<b>Resource</b>	Barnett-determined Block Grant – resource [1]	29,569
	SFC tax revenue forecasts [2]	13,123
	Tax and non-tax BGAs	-12,991
	Social Security BGAs	3,203
	Reconciliations [3]	-207
	Other [4]	639
	<b>Total resource funding</b>	<b>33,335</b>
	Resource borrowing	207
	Drawdown from Scotland Reserve	106
	Other [5]	269
<b>Total resource spending</b>	<b>33,917</b>	
<b>Capital</b>	Barnett-determined Block Grant – capital [1]	4,408
	Financial Transactions (FTs) [1]	606
	Other [6]	326
	<b>Total capital funding</b>	<b>5,340</b>
	Capital borrowing	450
	Drawdown from Scotland Reserve (capital and FTs) [7]	37
	Other [8]	-10
<b>Total capital spending</b>	<b>5,817</b>	

Source: Scottish Government, Scottish Fiscal Commission.

The table does not include non-cash budget. Figures may not sum because of rounding.

All components of the Budget will vary in 2020-21 reflecting changes to the Barnett-determined Block Grant following changes in UK Government spending, changes in our forecasts of tax revenues, changes to the BGAs, and changes in the Scottish Government's plans for borrowing and the use of the Scotland Reserve.

[1] Agreed with HM Treasury based on September 2019 Spending Round.

[2] Scottish Fiscal Commission tax revenue forecasts cover income tax, Land and Building Transaction Tax, and Scottish Landfill Tax. Non-Domestic Rates are not included in the revenue forecasts as these are used separately to set the distributable amount for Non-Domestic Rates.

[3] Includes final reconciliations for: 2017-18 income tax revenue and BGA (-£204 million), 2018-19 Land and Building Transaction Tax BGA (-£3 million), 2018-19 Scottish Landfill Tax BGA (-£2 million), 2018-19 fines, forfeitures and penalties (FFFPs) BGA (£2 million), 2018-19 Carer's Allowance BGA (£0 million).

[4] Includes Pillar 1 Farm payments (£472 million), anticipated Barnett RDEL consequentials (£142 million), and Scottish Government's forecast of revenues from FFFPs (£25 million).

[5] Includes Rail Resource Grant (£80 million), fiscal framework administration costs (£66 million), Migrant Surcharge (£22 million), In-Year Reconciliations deferred from 2019-20 (£30 million), deferred consequentials from 2019-20 Supplementary Estimates (£58 million), Queen's and Lord Treasurer's Remembrancer (£5 million), and Machinery of Government Transfers (£8 million).

[6] Anticipated Barnett CDEL consequentials, (£326 million).

[7] Includes planned drawdowns of £5 million for general capital spending and £32.2 million for FTs.

[8] Includes Glasgow City funding (£15 million) and repayment of Financial Transactions to HMT (-£25 million).

## Barnett-determined Block Grant

10 The Scottish Government receives funding from the UK Government based on the UK Government's spending announcements. This is known as the

Barnett-determined Block Grant. While these spending announcements are normally in the UK Budget, the Scottish and UK Governments have agreed to base the Barnett-determined Block Grant on the commitments made in the UK Government's September 2019 Spending Round.<sup>1</sup>

- 11 As usual, we expect the Barnett-determined Block Grant to be adjusted throughout the year to reflect new UK spending announcements. These adjustments are known as Barnett consequentials. The Scottish Government have already included some anticipated consequentials on top of the agreed Block Grant within its Budget (see notes [4] and [6] to Table 1).<sup>2</sup> In our view, it is reasonable to expect there will be increases in UK Government spending announced in the March UK Budget, and for the Scottish Government to include some provision in estimating the total size of their Budget. The exact size of the consequentials will only be known following the UK Budget.

### **Block Grant Adjustments for 2020-21**

- 12 Block Grant Adjustments (BGAs) remove funding where the Scottish Government is now raising its own tax revenue and add funding where the Scottish Government is responsible for social security payments. The BGAs are based on OBR forecasts of UK Government tax revenues and social security spending. In the absence of updated OBR forecasts, the Scottish and UK Governments have agreed provisional BGAs in line with guidance in the fiscal framework.<sup>3</sup> These are based on the OBR's latest available economic forecasts, which were produced in March 2019.
- 13 Comparing these BGAs with our forecasts can illustrate how much more or less the Scottish Government has to spend, now the tax or benefit is devolved. In current circumstances, any comparison should be made with caution as the BGAs are set based on the OBR's March 2019 economic assumptions while the SFC forecasts include more up to date information. The BGAs are likely to change following the UK Budget in March. Table 2 and Table 3 show revenue or spend compared to BGAs for tax and social security respectively.

---

<sup>1</sup> HM Treasury (2019) Spending Round 2019 ([link](#))

<sup>2</sup> Conservative and Unionist Party (2019) Costings Document – Manifesto 2019 ([link](#))

<sup>3</sup> Scottish Parliament (2020) Letter from the Cabinet Secretary for Finance, Economy and Fair Work to the Finance and Constitution Committee ([link](#)) and The agreement between the Scottish Government and the United Kingdom government on the Scottish Government's fiscal framework ([link](#))

**Table 2: SFC tax forecasts and provisional Budget-setting tax BGAs for 2020-21**

£ million	SFC revenue forecast	Provisional BGA	Difference
Income tax	12,365	12,319	46
Land & Buildings Transaction Tax	641	557	85
Scottish Landfill Tax	116	87	29
Total	13,123	12,963	160

Source: Scottish Fiscal Commission, Scottish Government.

Figures may not sum because of rounding. Differences are calculated as revenue subtract BGA to show the effect on the Scottish Government's funding. The remaining devolved taxes are not covered by BGA arrangements. The SFC revenue forecasts and provisional BGAs are calculated on different bases, so comparisons should be interpreted with caution.

**Table 3: SFC social security forecasts and provisional Budget-setting social security BGAs for 2020-21**

£ million	SFC spend forecast	Provisional BGA	Difference
Attendance Allowance	532	535	3
Disability Living Allowance [1]	718	669	-49
Personal Independence Payment	1,583	1,601	19
Carer's Allowance	292	303	12
Industrial Injuries Disablement Scheme	80	85	5
Severe Disablement Allowance	7	9	1
Total	3,213	3,203	-10

Source: Scottish Fiscal Commission, Scottish Government.

Figures may not sum because of rounding. Differences are calculated as BGA subtract spend to show the effect on the Scottish Government's funding. The other benefits being devolved to Scotland in April 2020 are not covered by BGA arrangements and instead are funded through the Barnett formula. The SFC spending forecasts and provisional BGAs are calculated on different bases, so comparisons should be interpreted with caution.

[1] SFC spend forecast for Disability Living Allowance (DLA) includes DLA working age, DLA for Children & Disability Assistance for Children and Young People (DACYP) and DLA Pensioners.

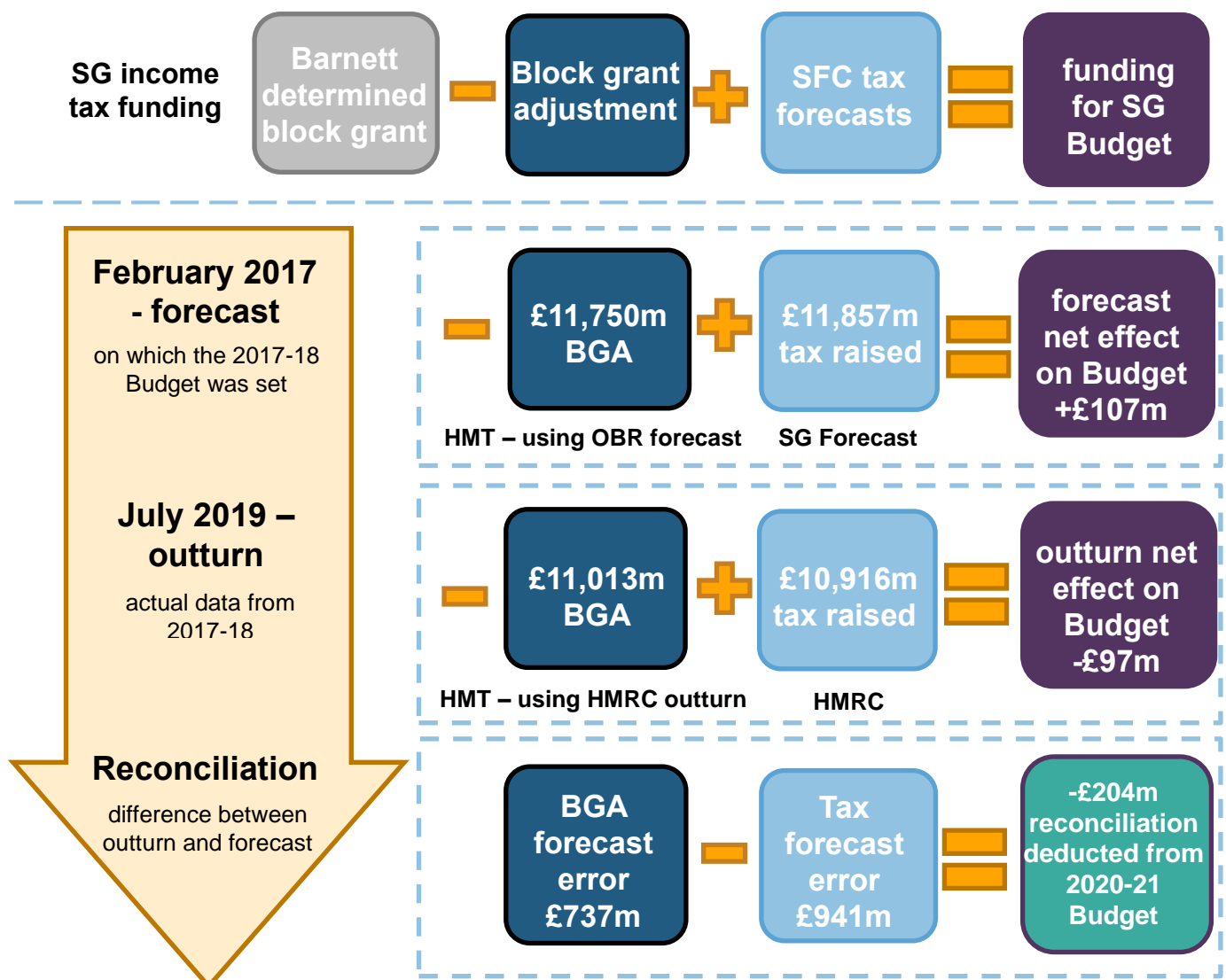
14 Almost all the social security forecasts reflect current UK Government policy because the DWP will continue to administer the benefits during 2020-21.<sup>4</sup> This is important because once the forecasts are based on Scottish policy, we expect the forecasts of Scottish spending to increase given Ministerial announcements and the passage of the Social Security (Scotland) 2018 Act. Any differences between spending and the BGAs will have to be managed within the Scottish Budget. In contrast, the SFC revenue forecasts in Table 2 include Scottish Government tax policy changes since devolution.

<sup>4</sup> Our Disability Living Allowance forecast includes the introduction of the new Disability Assistance for Children and Young People but does not include any future changes made to the working-age adult or pensioner benefits.

## Reconciliations

- 15 Reconciliations will have a significant effect on the Scottish Budget this year. The Scottish Budget is set based on forecasts and as information on actual revenues and spending becomes available the Scottish Government's funding is altered in response. These changes in funding are called reconciliations. Depending on the tax or benefit, reconciliations are applied in-year or as adjustments to future Budgets.
- 16 For the first time, an income tax reconciliation will be applied to the Budget. This relates to income tax from 2017-18 and will be applied in 2020-21. Reconciliations relate to the differences between how much revenue was forecast and how much was collected in Scotland and in the rest of the UK. They do not directly relate to the relative performance of revenues in Scotland and the rest of the UK. Figure 1 shows how the income tax reconciliation was calculated.

**Figure 1: 2017-18 income tax reconciliation**



Source: Scottish Fiscal Commission

- 17 A number of other devolved taxes and social security benefits have reconciliation processes, which are different to income tax.<sup>5</sup> So far these reconciliations have been small, but with further devolution of £3 billion of social security spending, these may become more significant in future years.
- 18 Table 4 shows all final reconciliations applied in 2020-21. These are based on outturn information and will not change.

**Table 4: Final reconciliations applied in 2020-21**

£ million	Final reconciliation applied in 2020-21
2017-18 Income tax	-204
2018-19 Scottish Landfill Tax	-2
2018-19 Land and Buildings Transaction Tax	-3
2018-19 Carer's Allowance	0
2018-19 Fines, forfeitures and fixed penalties	2
<b>Total</b>	<b>-207</b>

Source: Scottish Government

Figures may not sum because of rounding. The negative reconciliations sum to -£209 million. These negative reconciliations allow the Scottish Government to access £209 million resource borrowing in 2020-21.

## Managing reconciliations

- 19 The Scottish Government now needs to manage reconciliations during the year for all benefits and taxes (except income tax), and to manage reconciliations across years – the most significant of which are for income tax. The process is slightly different this year as the Scottish Government and HM Treasury have agreed flexibilities to give the Scottish Government the option of updating the BGAs following the March UK Budget. These arrangements affect the timing of reconciliations.
- 20 The BGAs for the fully devolved taxes and benefits should have been updated during 2019-20. In the absence of a UK Budget, there has not yet been a 2019-20 in-year reconciliation. The Scottish Government has chosen to delay the 2019-20 in-year reconciliations until after the UK Budget; these will then be applied to the Budget 2020-21. The latest forecasts assume a £30 million positive reconciliation – this forecast has been included in the Scottish Budget 2020-21 and increases the available funding (see note [5] to Table 1). The actual size of the reconciliation will be known following the UK Budget.
- 21 The arrangements give the Scottish Government the option of updating the 2020-21 provisional Budget setting BGAs following the March UK Budget. For

<sup>5</sup> A description of the reconciliation process for fully devolved taxes and social security can be found on our website ([link](#)). The Scottish Budget also includes revenues from fines, forfeitures and fixed penalties along with an associated reconciliations process. The revenues are forecast by the Scottish Government and included in Table 1, we report the final reconciliation applied in 2020-21 in Table 4 for completeness.

income tax, typically the BGA and revenue figures are fixed based on the forecast until the outturn data are known and a reconciliation is applied the following year; this will be in 2023-24. While updating the BGA could reduce the likely scale of the final reconciliation as it will include any income tax policies announced in the UK Budget and be based on more recent data, without updating the corresponding forecast of Scottish revenues it may not be the case that the final reconciliation is reduced.

- 22 Our updated forecasts of income tax revenues in 2018-19 and 2019-20 can be compared to the provisional BGAs, based on the OBR's March 2019 economic forecasts, to estimate the possible size of reconciliations in the future (indicative reconciliations). Based on these forecasts the reconciliation for 2018-19 income tax, to be applied to the Scottish Budget in 2021-22, would be -£555 million and for 2019-20 income tax, applied in 2022-23, would be -£211 million.
- 23 These indicative reconciliations can be updated following the March UK Budget.
- 24 As more of the fiscal framework comes into operation we will now see reconciliations affecting the Budget each year. How the Scottish Government chooses to respond to the reconciliations above should be considered, in part, alongside the possible future reconciliations.

## **Borrowing**

- 25 The Scottish Government is planning to draw down £106 million from the resource reserve in 2020-21 as well as borrowing £207 million. These plans are within the limits of the fiscal framework and we therefore consider them reasonable. Based on the information we have to date, which suggest £100 million will remain in the resource reserve at the end of 2020-21, it would seem that the Government is not building up its reserves to deal with the large income tax reconciliations expected to reduce the Budget in 2021-22 and 2022-23.
- 26 By the time of the MTFS, anticipated in May 2020, the Scottish Government will have updated information on the size of the indicative reconciliations and of any changes to funding from the UK Government following the March Budget. Based on this information the Scottish Government should consider how best to prepare for the future reconciliations.
- 27 The Scottish Government can also borrow to fund capital spending, as shown in Table 1. The Government plans to borrow £450 million in 2020-21, this is £100 million more than was planned in the MTFS in May 2019.
- 28 In 2019-20 the Scottish Government and HM Treasury have agreed the drawdown limit for the capital and financial transaction reserves will be

waived, drawing down £181 million. This is considerably higher than the £46 million planned at the time of the 2019-20 Budget, and more than the £100 million limit which usually applies. This larger drawdown and the waiving of the limit has occurred following negative capital consequential during the course of 2019-20. The Scottish Government is planning on drawing down £37 million in 2020-21, currently estimated to leave £6 million in financial transactions in the capital reserve at the end of 2020-21.

## Economy

- 29 Over the course of 2018 and 2019, Brexit negotiations have played a dominant role in the economic narrative of Scotland and the UK. Uncertainty about both the nature and timing of Brexit has resulted in subdued growth over the last year and greater volatility between quarters. Looking ahead in 2020, the UK has now left the EU, and the unwinding of some Brexit-related uncertainty may support some additional growth. However, Brexit remains a risk to continued economic growth.
- 30 Concerns remain about slowing global growth, particularly in the Euro Area, and this is expected to affect Scotland's trade prospects. The outlook for trade has been exacerbated by the potential for global trade wars and, more recently, the potential fallout from the coronavirus.
- 31 Table 5 summarises our economy forecast and compares it to our forecast from December 2018.
- 32 Our estimate of productivity growth in Scotland has remained low and below our previous forecasts. As a result, we have revised down our forecast of trend productivity growth at the beginning of the forecast period. Offsetting slower productivity growth and weaker global conditions, higher UK and Scottish Government spending is expected to continue to support growth in the Scottish economy.

**Table 5: Headline economy forecasts, December 2018 and February 2020, per cent growth rates unless otherwise stated**

GDP	2018	2019	2020	2021	2022	2023	2024
December 2018	1.4	1.2	1.0	1.0	1.1	1.2	
February 2020	1.5	0.9	1.0	1.1	1.2	1.2	1.2
Trend productivity							
December 2018	0.3	0.7	0.9	1.0	1.1	1.2	
February 2020	0.2	0.3	0.6	0.9	1.1	1.2	1.3
Average nominal earnings							
December 2018	2.0	2.3	2.5	2.8	3.0	3.1	
February 2020	2.6	2.8	3.0	3.1	3.2	3.3	3.3
Average real earnings							
December 2018	-0.3	0.3	0.5	0.6	0.9	1.1	
February 2020	0.6	1.0	1.1	1.0	1.2	1.2	1.2
Employment (millions)							
December 2018	2.64	2.65	2.65	2.66	2.66	2.66	
February 2020	2.67	2.68	2.67	2.67	2.68	2.68	2.69

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 ([link](#)).

Shaded cells refer to outturn available at time of publication.

- 33** In Scotland, earnings growth has continued to exceed our earlier expectations. After a period of subdued growth, earnings finally appear to be responding to tight conditions in the labour market. Earnings are also being supported by public sector pay policy and faster growth in the minimum wage and national living wage. As a result, we have revised up our forecast of earnings growth and this will support greater household consumption. However, it should be noted that earnings growth, both nominal and real, remains below historical values over the forecast period.
- 34** Balancing all these factors, our forecast of headline GDP is similar to December 2018, with small upwards revisions from 2021 onwards.

## Tax forecasts

- 35** Tax revenues in 2020-21 will contribute around £16 billion to the Scottish Budget. Table 6 summarises our tax forecasts that currently affect the Scottish Budget.<sup>6</sup>

<sup>6</sup> Further detail and additional illustrative forecasts for taxes that may be part of the Scottish Budget in future can be found in Chapter 4.



**Table 6: Summary of tax forecasts informing the Scottish Budget 2020-21**

£ million	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Income tax	11,677	12,365	12,897	13,447	14,059	14,722
Non-Domestic Rates	2,806	2,749	3,012	3,345	3,423	3,590
Land & Buildings Transaction Tax	613	641	666	692	720	749
<i>of which, Residential</i>	288	303	319	336	354	371
<i>ADS</i>	134	129	131	134	137	140
<i>Non-Residential</i>	191	209	216	222	230	238
Scottish Landfill Tax	124	116	110	94	79	66
<b>Total tax</b>	<b>15,220</b>	<b>15,872</b>	<b>16,685</b>	<b>17,578</b>	<b>18,281</b>	<b>19,127</b>

Source: Scottish Fiscal Commission

Figures may not sum because of rounding.

## Income tax

**36** The Scottish Government has announced that in 2020-21 the higher rate threshold will be frozen at the same rate, £43,430, as in 2019-20. We expect this freezing of the higher rate threshold, relative to our baseline assumption of increasing it in line with inflation, to raise an additional £51 million for the Scottish Budget in 2020-21. This policy means there will be more higher rate taxpayers in Scotland than would otherwise have been the case. No other income tax policies have been announced. Table 7 shows our income tax forecast compared to December 2018. A more detailed breakdown of Table 7 can be found in the income tax section in Chapter 4.

**Table 7: Summary of income tax forecast compared to December 2018**

£ million	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
December 2018	11,008	11,452	11,684	12,285	12,746	13,242	13,805
2017-18 outturn	-92	-90	-98	-110	-119	-129	-140
Economy		111	225	273	356	427	488
Other		-94	-134	-135	-141	-150	-153
February 2020 pre-measures	10,916	11,378	11,677	12,314	12,843	13,390	14,000
2020-21 policy costing				51	54	56	59
February 2020 post-measures	10,916	11,378	11,677	12,365	12,897	13,447	14,059
Change from December 2018	-92	-74	-7	80	151	205	254

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 ([link](#)), HMRC (2019) Scottish Income Tax Outturn Statistics ([link](#)).

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

**37** Outturn data for 2017-18 are now available, published by HMRC in summer 2019.<sup>7</sup> The outturn data were £92 million less than our December 2018

<sup>7</sup> HMRC (2019) Scottish Income Tax Outturn Statistics ([link](#))

forecast, leading to downward revisions of, on average, £114 million across the forecast period. We evaluated our 2017-18 forecast error in our September 2019 Forecast Evaluation Report.<sup>8</sup>

- 38 Since December 2018 improvements in the outlook for earnings growth has resulted in an upwards revision in our income tax forecast, by £273 million in 2020-21. Other adjustments result in downward revisions in 2020-21 of £135 million. Chapter 4 provides further detail on these adjustments.
- 39 Overall, our pre-measures income tax forecast for 2020-21 is broadly unchanged from December 2018, with an upwards revision of around £30 million. The extra £51 million revenue from the higher rate threshold policy results in a total upward revision of £80 million compared to December 2018.

### Other tax forecasts

- 40 We expect the fully devolved taxes, Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT), to raise £757 million in 2020-21, up from £737 million in 2019-20. This includes the £10 million estimated increase in LBTT because of the introduction of a new top band for non-residential leases.
- 41 Our NDR forecast is for £2.7 billion in 2020-21, down from £2.8 billion in 2019-20. The fall is mainly because of the timing of losses from revaluation appeals. The forecast includes a number of policies introduced in the Non-Domestic Rates (Scotland) Bill.<sup>9</sup> The Scottish Budget includes the creation of an Intermediate Property Rate, replacing the Large Business Supplement for properties with a rateable value between £51,000 and £95,000. This is expected to reduce NDR income by £7 million in 2020-21.

### Social security

- 42 In 2020-21 we estimate £3.4 billion will be spent by the Scottish Government on social security, around 10 per cent of total resource spending. This compares with the £458 million forecast to be spent on all social security in 2019-20.<sup>10</sup> This change is largely driven by the Scottish Government becoming financially responsible for disability benefits, such as Personal

---

<sup>8</sup> Scottish Fiscal Commission (2019) Forecast Evaluation Report ([link](#))

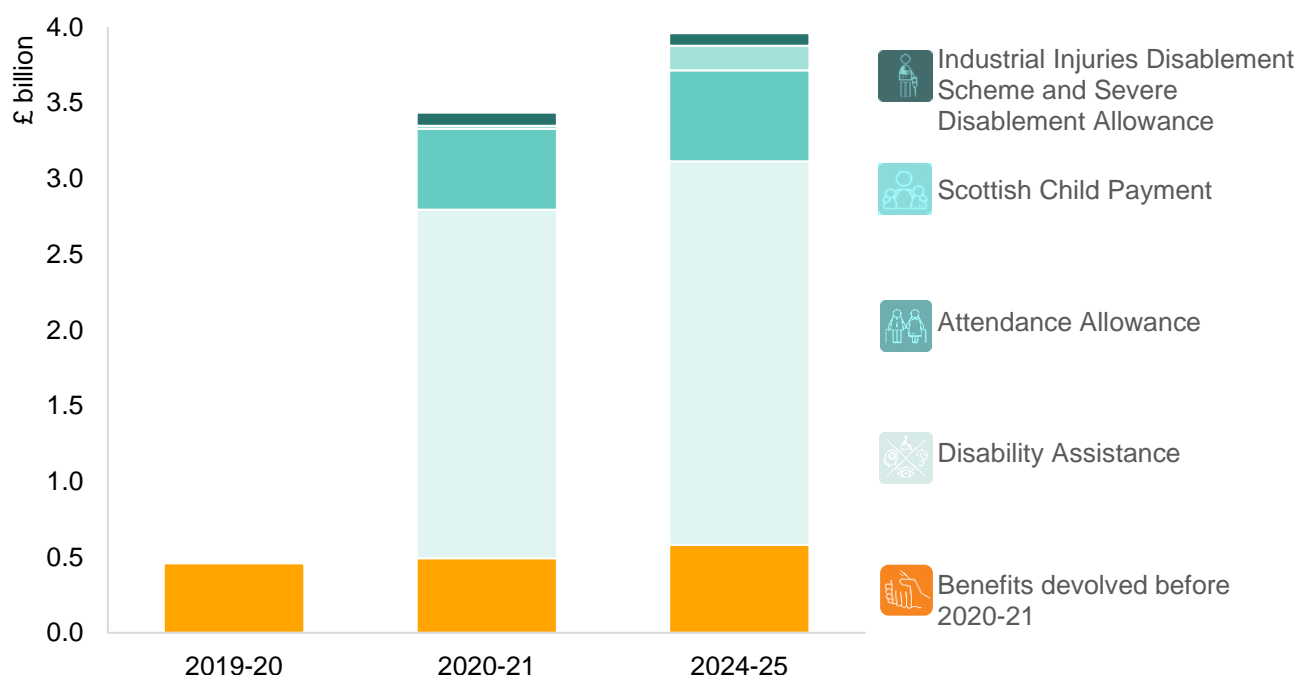
<sup>9</sup> Information on our policy costings for the Non-Domestic Rates (Scotland) Bill can be found in Scottish Fiscal Commission (2019) Non Domestic Rates (Scotland) Bill – Supplementary Costings December 2019 ([link](#))

<sup>10</sup> As shown in Table 8, £458 million is the forecast spend on the Scottish Government's social security portfolio in 2019-20 plus spending on Best Start Foods and Employability Services.

## Independence Payments and Disability Living Allowance, from April 2020 onwards.<sup>11</sup>

- 43 Social security spending is variable and harder to control than other areas of spending. Spending will be determined by the number of eligible people who apply for support, all of whom must be paid at the rate set in the policy. The Scottish Government will have to meet this expenditure as it arises, even if it differs from the forecast used to set the Budget initially. Spending on three large social security payments, Personal Independence Payments, Disability Living Allowance and Attendance Allowance, is a significant component of total social security spend (as shown in Table 8). This means that even modest forecast errors are unlikely to offset each other and may result in spending differing in-year from our forecasts.
- 44 The funding received from the UK Government, via the BGAs, may also change during the year to reflect revised forecasts of spending in England and Wales. The Scottish Government faces a risk that if spending in Scotland increases and spending in England and Wales decreases, compared to the original figures used to determine the Block Grant Adjustments and the Scottish Budget, then there could be a significant in-year cash shortfall to manage.

**Figure 2: Total social security spending forecast**



Source: Scottish Fiscal Commission

Disability Assistance includes spending for Child Disability Assistance, Disability Living Allowance Adult and Personal Independence Payment.

Total social security spending includes all social security portfolio spending as well as spending on Best Start Foods, Employability Services and Scottish Child Payment.

<sup>11</sup> Cold Weather Payments and Winter Fuel Payments will be devolved at a later date.

- 45 Our forecasts include the costs for two new forms of social security assistance being launched this year, Disability Assistance for Children and Young People (DACYP) and the Scottish Child Payment. There are some policy differences between DACYP and the UK Government Disability Living Allowance for Children benefit, which we forecast will lead to an increase in spending. Further details on our policy costing can be found in Annex A.
- 46 Scottish Child Payment is a new form of social security support without a UK equivalent benefit. The additional costs, which are expected to reach £162 million in 2024-25, will have to be met from the Scottish Budget; there is no funding transferred from the UK Government as there is no equivalent UK benefit being devolved.
- 47 Our forecasts for the Scottish Budget 2020-21 are shown in Table 8 and further information can be found in Chapter 5. Our forecasts show the total amount paid to, or in respect of, people receiving social security support in Scotland, and does not include any administrative costs.

**Table 8: Summary of social security forecasts informing the Scottish Budget 2020-21**

£ million	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Social security portfolio benefits previously forecast [1]	437	465	491	522	547	573
New social security portfolio benefits for 2020-21, of which		2,921	3,001	3,075	3,145	3,216
<i>Child Disability Assistance [2]</i>		217	250	275	295	312
<i>Personal Independence Payment</i>		1,583	1,650	1,714	1,776	1,841
<i>Disability Living Allowance Adult</i>		502	470	440	410	380
<i>Attendance Allowance</i>		532	546	562	582	601
<i>Industrial Injuries Disablement Scheme</i>		80	79	78	78	77
<i>Severe Disablement Allowance</i>		7	7	6	6	5
Scottish Government social security portfolio – total spending	437	3,387	3,492	3,597	3,692	3,789
Scottish Child Payment		21	65	94	157	162
Best Start Foods [3]	6	9	8	8	8	8
Employability Services	15	18	13	5	0	
<b>Total spending</b>	<b>458</b>	<b>3,435</b>	<b>3,578</b>	<b>3,704</b>	<b>3,857</b>	<b>3,959</b>

Source: Scottish Fiscal Commission

Figures may not sum because of rounding.

[1] Includes spending for benefits devolved before 2020-21: Carer's Allowance, Carer's Allowance Supplement, Best Start Grant, Discretionary Housing Payments, Funeral Support Payment and Scottish Welfare Fund.

[2] We use the term 'Child Disability Assistance' to refer to the combined spending on Disability Living Allowance for Children and Disability Assistance for Children and Young People.

[3] Best Start Foods includes some spending on the UK Government Healthy Start Scheme while people are transferred to the new benefit.

- 48 For the new social security portfolio benefits for 2020-21, shown in Table 8, most of our forecasts are based on current UK Government policy. As responsibility for delivery of the benefits transfers to Social Security Scotland, the benefits will be reformed and delivery of those benefits changed from the current system administered by the DWP. As there is not yet sufficient policy or operational detail available, our forecasts do not include the effect of these changes and are therefore likely to underestimate expenditure.
- 49 The exception is the spending for Child Disability Assistance which includes the Scottish Government's new Disability Assistance for Children and Young People. We estimate that the introduction of Disability Assistance for Children and Young People leads to an additional £6 million of spending in 2020-21, rising to an additional £23 million by 2024-25.

## **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.

## **Correspondence and enquiries**

Press enquiries should be sent to [press@fiscalcommission.scot](mailto:press@fiscalcommission.scot) or call Caroline Rham 0131 244 0929; Mob: 07547 674277

For technical enquiries about the analysis and data presented in this paper please contact the responsible analyst:

<b>Economy</b>	Silvia Palombi	<a href="mailto:Silvia.palombi@fiscalcommission.scot">Silvia.palombi@fiscalcommission.scot</a>
<b>Income tax</b>	Chris Dunlop	<a href="mailto:Chris.dunlop@fiscalcommission.scot">Chris.dunlop@fiscalcommission.scot</a>
<b>Fully Devolved Taxes</b>	Rupert Seggins	<a href="mailto:Rupert.seggins@fiscalcommission.scot">Rupert.seggins@fiscalcommission.scot</a>
<b>VAT</b>	Laura Thomson	<a href="mailto:Laura.thomson2@fiscalcommission.scot">Laura.thomson2@fiscalcommission.scot</a>
<b>Social security</b>	Claire Mellor	<a href="mailto:Claire.mellor@fiscalcommission.scot">Claire.mellor@fiscalcommission.scot</a>
<b>Borrowing</b>	Caroline Ellis	<a href="mailto:Caroline.ellis@fiscalcommission.scot">Caroline.ellis@fiscalcommission.scot</a>

For general enquiries about the commission and how we work please contact [info@fiscalcommission.scot](mailto:info@fiscalcommission.scot)

© Crown copyright 2020

This publication is available at [www.fiscalcommission.scot](http://www.fiscalcommission.scot)

Any enquiries regarding this publication should be sent to us at: Scottish Fiscal Commission, Governor's House, Regent Road, Edinburgh EH1 3DE or [info@fiscalcommission.scot](mailto:info@fiscalcommission.scot)

Published by the Scottish Fiscal Commission, February 2020

