Scottish Fiscal Commission

Scotland's Economic and Fiscal Forecasts - Summary

January 2021

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

This report is our fourth set of Scottish Budget forecasts. These forecasts are our first since the COVID-19 pandemic began in Scotland and they cover the years 2021-22 to 2025-26. They demonstrate the profound effects COVID-19 has had on the economy and the Scottish Budget. There is huge uncertainty about how the pandemic will develop, and in turn what future associated public health restrictions and fiscal support measures might be put in place. This in turn means our forecasts are subject to greater uncertainty than in a typical year. Throughout this report we discuss the assumptions and judgements we have made, and the associated risks. Our forecasts represent the collective view of the four Commissioners of the Scottish Fiscal Commission who take full responsibility for the judgements that underpin them.

While the staff of the Scottish Fiscal Commission have as always greatly supported us in producing these forecasts, we take this opportunity to acknowledge the exceptional level of dedication and hard work they have shown in doing so while working remotely.

Our forecasts rely on data from a range of providers and we are grateful for their support. We would also like to thank officials from the Scottish Government, Revenue Scotland, Social Security Scotland, DWP, HM Treasury, HMRC and the OBR for their constructive challenge of our judgments and for ensuring that we considered all the available evidence.

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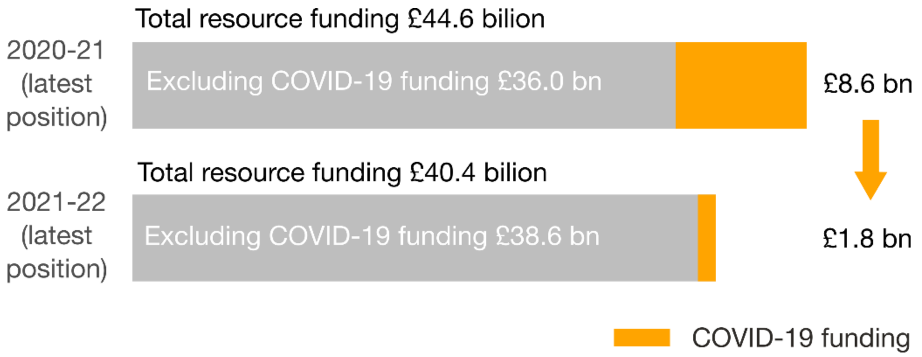
28 January 2021

Fiscal Overview

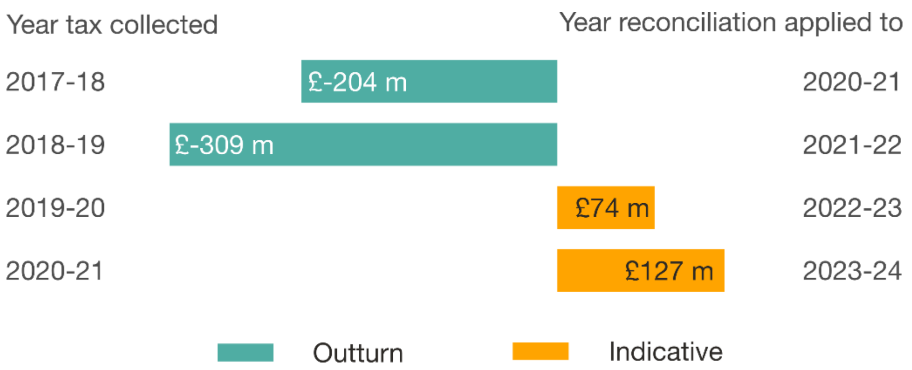
COVID-19 funding increased successively over the course of 2020-21, from £3.5 billion in April to the latest estimate of £8.6 billion.

The 2021-22 Scottish Budget is set based on £1.8 billion COVID-19 funding. Treasury confirmed £1.3 billion and £500 million is assumed by the Scottish Government.



Income tax reconciliations adjust for differences between outturn and forecasts in previous years. We are expecting two positive reconciliations, related to tax collected in 2019-20 and 2020-21.

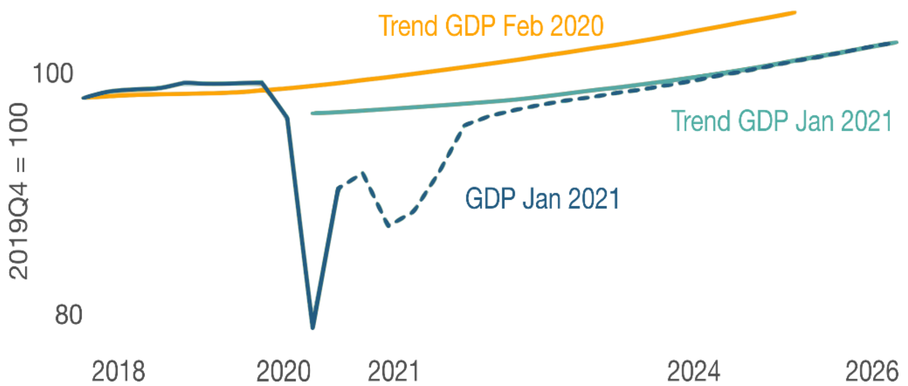
Estimates of future reconciliations are highly uncertain and will be finalised when outturn data are released.



Economy

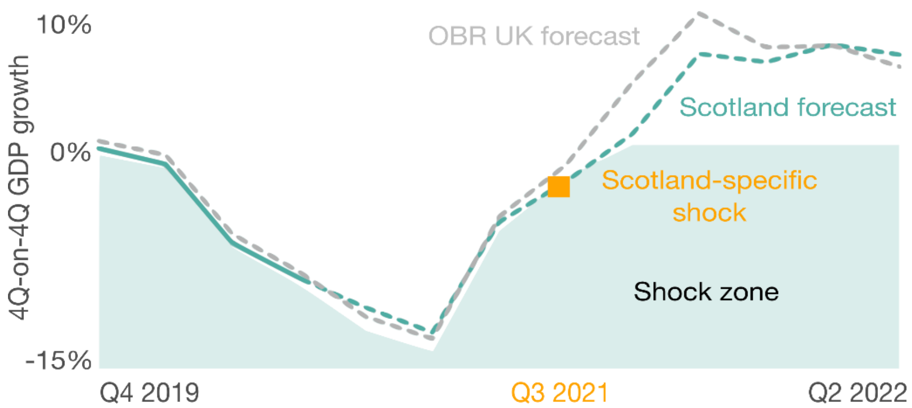
We expect the latest lockdown to reduce economic activity by 5 per cent in the first quarter of 2021.

We forecast that GDP grows by 2 per cent over 2021, 7 per cent in 2022, and recovers to its pre COVID level in 2024. By 2025, GDP is 4 per cent lower than we forecast in February.

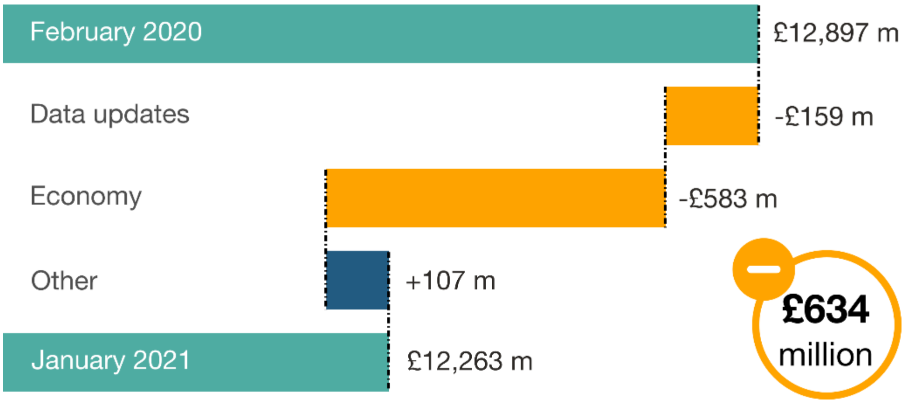


Differences between our and OBR's forecasts trigger a Scotland-specific economic shock in Q3 2021. This is mainly because we could account for the early-2021 restrictions.

This shock increases annual limits on resource borrowing by £300 million and removes annual limits on the withdrawal of funds from the Scotland Reserve.



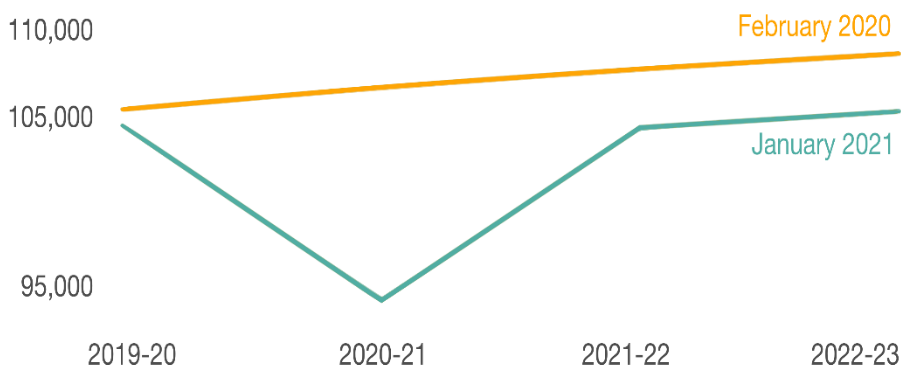
Tax



Our income tax forecast for 2021-22 has fallen by £634 million compared to our previous forecast, primarily because of falls in employment.

The forecast now uses the HMRC RTI data for 2019-20 and 2020-21, giving us more timely information on the effects of the furlough schemes.

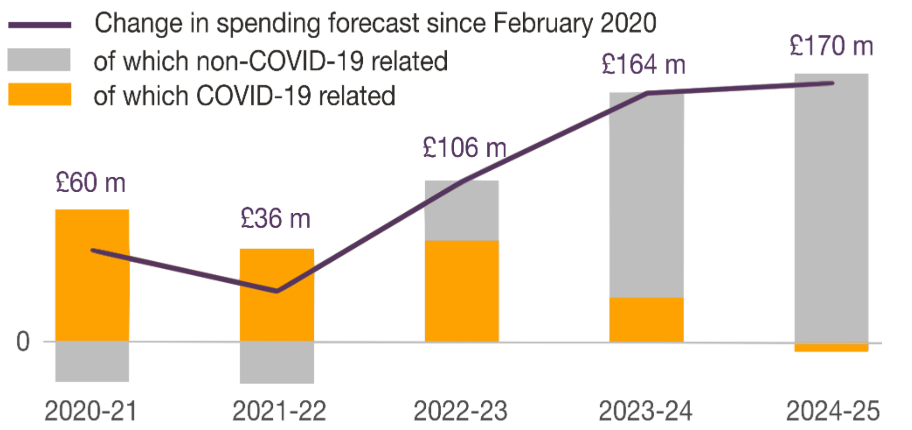
Residential housing transactions



The lockdown's effect on the housing market has been primarily via transactions which bounced back in 2021-22.

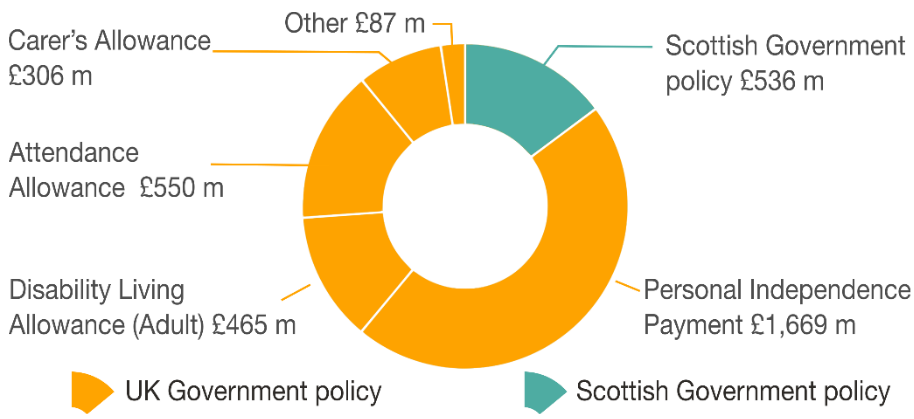
We expect the effect on average house prices to be more muted as incomes continue to be supported by the various job support schemes.

Social Security



COVID-19 has increased the number of people eligible for social security support as unemployment has increased and incomes have reduced.

There are also other COVID-19 related factors that reduce spending such as the lower inflation forecast and lower pension-age population.



In 2021-22, most social security spending, over £3 billion, will be based on UK Government policy and administered by DWP.

Personal Independence Payment is the most significant payment with an expected spend of £1.7 billion.

Fiscal Overview	2020-21	2021-22	£ million
Resource funding (latest position)	44,579	40,431	Non-COVID-19 related funding increases by £2.6 billion and COVID-19 funding decreases by £6.8 billion

Economy	2020	2021	2022	2025	% growth
GDP	-10.7	1.8	7.5	1.7	GDP growth, shocked in 2020 by restrictions on economic activity, rebounds in 2022 before stabilising
Trend Productivity	0.0	0.2	0.4	1.6	Trend productivity is subdued in the short term and then gradually rises
Nominal Earnings	2.5	2.6	2.4	3.3	Average nominal earnings growth is supported by the furlough scheme in 2020 and then increases gradually
Employment	-2.4	-1.5	1.2	0.2	Growth revised down in 2020 and 2021 to account for the effects of COVID-19 on the labour market

Tax	2020-21	2021-22	2022-23	2025-26	£ million
Income Tax	11,850	12,263	12,907	14,718	Income tax revenues grow slowly because of increased unemployment
Non-Domestic Rates	1,848	2,680	2,930	3,216	Forecast includes policy announcements for the retail, hospitality & leisure sectors and poundage set at 49p
LBTT	517	586	629	740	Housing market seeing recovery following lockdown during 2020. Limited effect on average prices
Scottish Landfill Tax	95	88	86	61	Downward revision in line with weaker outlook for the economy
Policy announcements					
Non Domestic Rates		-251	-67	-71	Poundage set at 49p in 2021-22 with extended relief for the retail hospitality & leisure sectors

Social Security	2020-21	2021-22	2022-23	2025-26	£ million
All devolved social security assistance	3,495	3,614	3,810	4,249	Spending will increase over the next five years as more people receive social security support each year and most payment amounts increase with inflation

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 Scottish Budget. Our forecasts are just one component of the Budget; we also discuss how the Scottish Budget is set and provide our assessment of the reasonableness of the Government's borrowing plans.

2 The 2021-22 Scottish Budget is being set at a time of great uncertainty about how the COVID-19 pandemic will evolve. Despite the development and roll-out of vaccines we expect both the Scottish and UK Governments to keep public health measures in place for much of 2021.

3 These public health measures have economic costs. Both Governments have introduced policies to reduce the economic effects of the public health measures on individuals, households and businesses. The most significant fiscal support from the UK Government has been the furlough schemes, allowing businesses to continue to pay employees even if they are unable to work because of public health restrictions. As part of the UK-wide fiscal response, the Scottish Government has received funding to provide support in devolved areas, including health services, local authority services and grants to businesses forced to close or operate with restrictions.

4 In spite of the response from the UK and Scottish Governments, we expect that the Scottish economy will have contracted by around 11 per cent in 2020 as a result of the COVID-19 crisis. This reduced economic activity continues into 2021, with the latest lockdown reducing GDP in the first quarter of 2021 by 5 per cent. The effect on GDP of this lockdown is less than the first as more sectors of the economy, including construction and manufacturing, remain open. We provide further information in this summary on our economy forecast and our expectations for recovery.

5 Funding for the public health measures comes largely from the UK Government. During this year, the funding the Scottish Government has received for COVID-19 has increased from £3.5 billion in April to £8.6 billion in December.[1] The UK Budget in March is likely to include additional UK spending on COVID-19 as it is clear the pandemic will continue in the next financial year. Increases in UK Government spending on COVID-19 will feed through to the Scottish Government. More funding later in the financial year is also probable.

6 This is the context in which the Scottish Government has to set its Budget and formulate its borrowing plans for 2021-22. In this summary, we first discuss the assumptions we've made about the outlook for COVID-19 and the effects of the pandemic on the Scottish economy. We then consider the position of the Scottish Budget and the challenges facing the Scottish Government in more detail. The Government must balance its budget so it cannot overspend. But it must also avoid large underspends. The Scotland Reserve has a maximum limit of £700 million, including capital, and this cap limits the scale of underspends which can be carried forward. A further implication is that the later in the financial year additional funding from the UK Government arrives, the more difficult it is for the Scottish Government to manage its budget.

[1] Scottish Fiscal Commission (2020) Fiscal Update – April 2020 (link)

COVID-19

7 Our previous forecasts were published in February 2020, before the seismic effects that COVID-19 would have on the world were widely understood. In the last year, we have witnessed significant economic and social change as a result of the pandemic and this affects all of our forecasts. COVID-19 has been the dominant factor in producing our forecasts for the next five years and we have had to make a significant number of judgements, ranging from how we interpret data and information from March 2020 onwards to how we expect Scotland to emerge from the series of economic and social restrictions imposed by the Scottish Government.

8 As part of our forecasting process we've made a number of assumptions about the likely outlook for Scotland. Our forecasts are based on a central scenario of assumptions about cases, excess deaths and restrictions. For 2021 we assume:

- Both the tougher restrictions and the roll-out of the vaccination will take time to have an effect. We expect to see elevated case numbers and excess deaths throughout 2021 Q1. From 2021 Q2, we assume cases and excess deaths will gradually fall to the levels seen from June to September 2020.
- From 2021 Q3, the virus will be broadly controlled, though this does not mean the pandemic is over. Throughout 2021 varying levels of regional and national restrictions will need to be implemented to continue to control the spread of the virus, even as the vaccine is rolled out.
- There are no further extensions to the current job protection schemes due to finish at the end of April 2021.
- Vaccination against the virus began in late 2020. It will take time for this to take effect, not least because of limited supplies of any vaccines and the time it takes to vaccinate a large population. There are also uncertainties about the efficacy in reducing transmission and the duration of the vaccine.
- By 2021 Q4 COVID-19 is on the whole managed like a normal virus. Cases and deaths run at a low baseline level and restrictions, national or regional, are no longer required.

9 Our COVID-19 assumptions are a central case to enable us to produce our economy and fiscal forecasts for the Scottish Budget. If the COVID-19 pandemic and the associated restrictions develop in a way which is significantly different from these assumptions, the outlook for the economy, taxes and social security spending could be significantly different from our forecasts.

10 From the above it is clear that we expect no quick return to "normality" for 2021-22. In the next section we discuss what this means for our economy forecast, and we then discuss the implications for the Scottish Budget and for our tax and social security forecasts.

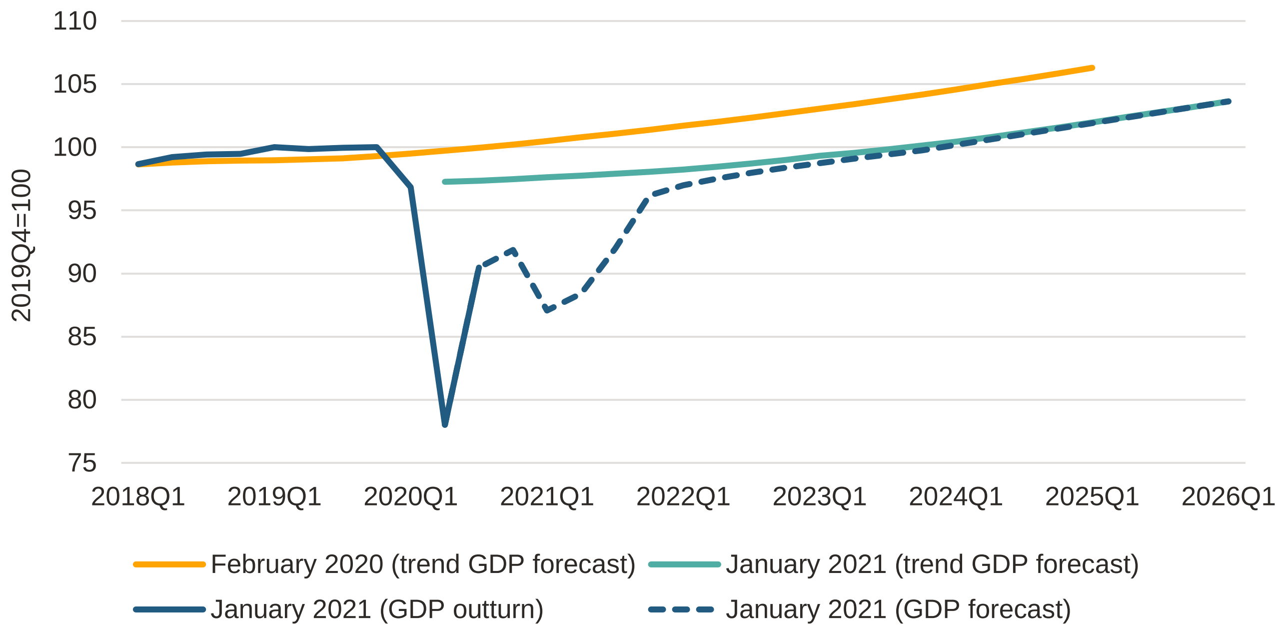
Economy

COVID-19

11 The Scottish and UK economies are both expected to contract by around 11 per cent in 2020 as a result of the COVID-19 crisis. As shown in Figure 1, Scottish GDP fell by almost a quarter during the UK-wide lockdown in early 2020. As restrictions were lifted over the summer, GDP started to

recover and grew for six consecutive months so that in 2020 Q3 Scotland had regained around two thirds of the lost output.

Figure 1: Trend and actual Scottish GDP, February 2020 and January 2021



Source: Scottish Fiscal Commission, Scottish Government (2020) First estimate of GDP: 2020 Q3 (link).

12 Restrictions started to tighten again across the UK in late 2020, with mainland Scotland and most of the rest of the UK in lockdown at the start of 2021. We expect this new lockdown to reduce economic activity in the first quarter of this year. As in April 2020, schools were closed in January 2021 and we expect them to remain closed throughout the first quarter. In contrast to the first lockdown, more sectors of the economy remain open, many businesses have adapted to the restrictions, and support schemes such as furlough are already in place. We expect GDP to fall in 2021 Q1 by around 5 per cent, a smaller fall than during the first lockdown.

13 Our forecast for 2021 as a whole is for growth of 1.8 per cent, picking up to 7.5 per cent in 2022, mainly fuelled by household consumption as higher-income consumers who accumulated savings during the lockdown months start spending again. In contrast, lower-income households who have been disproportionately affected by the COVID-19 crisis, were less able to save during the pandemic, and may have run down savings or borrowed to cover day-to-day expenses, so at best they can be expected to spend cautiously in order to restore their finances.

14 COVID-19 will have long-lasting effects on the Scottish economy. We don't expect Scottish GDP to recover to its pre-COVID-19 level until the start of 2024. Scottish GDP in 2025 will still be 4 per cent below where we expected it to be in our February 2020 forecast. Our long-term GDP outlook has changed because we assume there will be longer-term effects of the pandemic on the Scottish economy. In particular, compared to our previous forecast, we expect that:

- Productivity is around 2 per cent lower because of factors such as lower levels of capital investment, global trade and migration during the pandemic, and scarring effects from prolonged unemployment
- Labour force participation rates for those aged 16 to 24 are 0.9 per cent lower, in part because the long-term employability of younger people may be reduced by unemployment early in their working lives

- The long-run unemployment rate increases from 4.0 to 5.5 per cent in 2020, gradually moving to 4.4 per cent at the start of 2023
- The population aged 16 and over is 0.5 per cent lower, mainly because of our assumptions regarding COVID-related excess deaths and zero net international migration in the short term.

Figure 2: Headline economy forecasts, growth rates

Per cent	2019	2020	2021	2022	2023	2024	2025
GDP							
February 2020	0.9	1.0	1.1	1.2	1.2	1.2	
January 2021	0.8	-10.7	1.8	7.5	1.6	1.6	1.7
Average nominal earnings							
February 2020	2.8	3.0	3.1	3.2	3.3	3.3	
January 2021 [1]	4.2	2.5	2.6	2.4	2.7	3.0	3.3
Employment							
February 2020	0.4	-0.3	0.1	0.2	0.2	0.2	
January 2021	0.1	-2.4	-1.5	1.2	0.9	0.4	0.2

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link).
Shaded cells refer to outturn available at time of publication.
[1] Average nominal earnings growth for 2019 as well as 2020 Q1 and Q2 are based on wages and salaries data from Scotland's Quarterly National Accounts and employees data derived from the Labour Force Survey and Annual Population Survey for Scotland. We used RTI mean pay data to inform our short-run forecast of average earnings growth in 2020 Q3.

15 The job retention schemes have largely, but not completely, protected the labour market from the economic consequences of the pandemic. Although headline unemployment figures from the Labour Force Survey have remained stable, income tax PAYE Real Time Information (RTI) indicates a decrease in paid employment since last April. There is also a fall in workforce jobs for Scotland and the UK.[2] We expect the unemployment rate to peak at 7.6 per cent in 2021 Q2 once the furlough schemes end. We have revised down our forecasts of employment growth in 2020 and 2021 to account for the effects of COVID-19 on the labour market.

16 Average nominal earnings have been relatively resilient to COVID-19, according to PAYE RTI data available up to October 2020, and are on course to grow in 2020 although at a slower rate than we expected last February. Our forecasts of average nominal earnings growth have been revised down in subsequent years, mainly reflecting lower productivity growth, lower public sector pay growth and higher unemployment compared to our previous forecast. With inflation currently very low, and lower than expected at the time of our previous forecast, real average earnings growth forecasts for 2020 and 2021 have been revised up.

Brexit

17 Another important development since our previous forecast is that the UK and EU have reached a free trade agreement which came into effect at the end of the transition period on 1 January 2021. Our recent forecasts already incorporated the long-run effects of Brexit on the Scottish economy

[2] ONS (2020) JOBS05: Workforce jobs by region and industry – December 2020 (link)

and, because the deal is within the range of our previously expected outcomes, we continue to use the same assumptions for this forecast.

Fiscal overview

18 Over the course of 2020-21 the UK Government's public health response and associated restrictions have evolved, and successive UK Government announcements resulted in additional funding for the Scottish Government. In July the UK Government announced a guaranteed minimum level of funding for COVID-19 of £6.5 billion to provide the Scottish Government with more certainty in its budget management. This has since been increased three times, most recently to £8.6 billion in December 2020. The 2020-21 Scottish Budget has now increased by 19 per cent since it was set in February 2020. Funding could increase again if spending by the UK Government is higher than expected in December.

19 There is variability in Scottish Government expenditure too, as public health decisions create a need for additional expenditure, for example in grants to businesses forced to close because of restrictions.

20 This is the context within which the Scottish Government has to manage and balance its budget for 2020-21 as well as set the 2021-22 Budget. In previous publications we have highlighted how the devolution of taxes and social security would make the Scottish Budget more variable. The £8.6 billion increase in funding for COVID-19 over the course of 2020-21 has far exceeded any changes we could have expected from tax and social security variations. The challenges and risks facing the Scottish Budget are on a new scale.

21 Our Fiscal Update published separately discusses in detail the changes to the 2020-21 Scottish Budget.[3]

22 In the Spending Review in November the UK Government announced the Scottish Government will receive £1.3 billion of COVID-19 funding for 2021-22.[4] Given the uncertainties in the evolution of the pandemic, and the tightening of restrictions across the UK since November, there may be further changes in funding. The scale of these changes is highly uncertain and depends on the UK Government's fiscal and public health responses to the crisis. Currently the furlough schemes are due to finish at the end of April, but the UK Government may still decide to extend those schemes again. The Scottish Government has assumed an additional £500 million of COVID-19 funding and we consider this to be a prudent estimate.

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[3] Scottish Fiscal Commission (2021) 2020-21 Fiscal Update (link)

[4] UK Government (2020) Spending Review 2020 (link)

Figure 3: Funding for the 2021-22 Scottish Budget

£ million	Resource	Capital	Total
Barnett-determined block grant and non-COVID funding	30,923	4,973	35,896
Other and non-Barnett funding	1,002	0	1,002
COVID-19 funding	1,828	0	1,828
Borrowing	319	450	769
Scotland reserve drawdown	231	200	431
SFC tax forecasts	12,937		12,937
Tax and fines, forfeitures and fixed penalties BGAs	-12,430		-12,430
Social security BGAs	3,310		3,310
Final reconciliations	-319		-319
NDR distributable amount	2,631		2,631
Financial transactions		208	208
Total funding	40,431	5,831	46,262

Source: Scottish Fiscal Commission, Scottish Government.
BGAs is an acronym for Block Grant Adjustments. Detailed information on resource and capital funding can be found in Chapter 2, Fiscal Overview.

Scotland-specific economic shock

23 The OBR's November 2020 forecasts were made before the current lockdown, and so took a more optimistic view of prospects for the UK economy in 2021 than we are taking now. As a result of the difference between our forecast and the OBR's forecast, the criteria for a 'Scotland-specific economic shock' are met for the first time:

- annual GDP growth in Scotland, on a four-quarters-on-four-quarters basis (4Q-on-4Q), is below 1.0 per cent
- 4Q-on-4Q growth in Scotland is 1.0 percentage point or more below the UK

24 Based on what we observed in 2020, we believe the outlook for Scottish GDP and UK GDP are broadly similar and most of the difference between our forecasts for Scotland and the OBR's UK forecasts is likely to be accounted for by the fact that the two forecasts were based on different announcements about what health measures would be in place in early 2021. The Scotland-specific economic shock may not be present once the OBR updates its forecasts in March 2021, or once outturn data are available.

Borrowing

25 The fiscal framework provides additional borrowing and Scotland Reserve powers for Scotland in the event of a Scotland-specific economic shock.[5] The resource borrowing limit for forecast error increases from £300 million to £600 million for the next three financial years. In addition the annual drawdown limits from the Scotland Reserve are removed for the same period. Even if future

[5] The agreement between the Scottish Government and the United Kingdom government on the Scottish Government's fiscal framework (link)

forecasts or outturn data no longer trigger a shock in 2021-22, the relaxation of limits will not be revoked.

26 The Scottish Government plans to borrow £319 million in 2021-22, largely to manage the negative income tax reconciliation from 2018-19. As borrowing can only occur in the case of negative forecast errors, this is currently the maximum permitted borrowing. Any further negative forecast errors would permit further borrowing during 2021-22 up to the limit of £600 million.

27 The Scottish Government must balance its budget so it cannot overspend. But it must also avoid large underspends. The Scotland Reserve has a maximum limit of £700 million, including capital, and this cap limits how much underspend can be carried forward from one year to the next. While the removal of the annual drawdown limits in 2021-22 allows the Scottish Government to use any funds in the Reserve, the £700 million limit remains a constraint that is particularly significant in comparison to the scale of change seen in the budget this year.

28 The Scottish Government is using the Reserve and resource borrowing to manage the Budget during a challenging year. We consider their plans based on the information available are reasonable. But we recognise that the on-going uncertainty means these plans may change significantly and recommend that the position of the 2021-22 Budget is monitored and reviewed over the course of the financial year.

Income tax

29 Income tax revenues in 2021-22 will contribute around £12.3 billion to the Scottish Budget. Figure 4 summarises the change in our non-savings non-dividend income (NSND) income tax forecast since February 2020.

Figure 4: Change in NSND income tax revenue since February 2020

£ million	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
February 2020	11,378	11,677	12,365	12,897	13,447	14,059	14,722
January 2021	11,556	11,838	11,850	12,263	12,907	13,481	14,080
Change since previous forecast	178	161	-516	-634	-540	-578	-642

Source: Scottish Fiscal Commission, HMRC (2020) Scottish Income Tax Outturn Statistics (link)
Shaded cells refer to outturn available at time of publication. Figures may not sum because of rounding.

30 We have used information on income tax growth rates for 2019-20 and 2020-21 in HMRC's Real Time Information (RTI) data to inform our forecast because of uncertainty from COVID-19 and the improved consistency of the RTI tax data with outturn data. Previously, we based our forecast on the most recently available income tax outturn data, which in this case would be 2018-19. The latest RTI data decrease our income tax forecast by £340 million in 2021-22.

31 The COVID-19 pandemic reducing employment and earnings has also affected our income tax forecast. In 2021-22, we've reduced our income tax forecast by £583 million relative to our February 2020 forecasts as a result of changes to the outlook for earnings and employment. Other factors, such as the alignment to outturn income tax data, increase our forecast by £289 million bringing the total downward revision to £634 million.

Comparison with BGAs

32 Our income tax forecast for 2021-22 is £475 million higher than the BGA deducted from the Budget. This compares to our latest forecast where Scottish income tax revenues are only £173 million higher than the BGA in 2020-21.

33 Differences between the BGA and revenue could reflect differential performance of the respective economies and also policy differences. However there have been no policy changes in either the UK or Scotland that would affect 2021-22 revenues, nor do we forecast a significant divergence in overall economic performance. We believe therefore that the difference between forecast tax revenues and the BGA largely arise because of the significant uncertainty around COVID-19 and its effects on the data and judgements used in our and the OBR's income tax modelling.

34 When comparing our 2021-22 forecasts to the OBR's November forecasts for the UK, we're expecting slower growth in Scottish GDP, but significantly faster growth in income tax revenues. The furlough schemes in particular have led to a significant disconnect between growth in GDP on the one hand, and growth in earnings, employment and income tax revenues on the other hand. As a result, we wouldn't necessarily expect trends in GDP to be mirrored in trends in income tax revenues. In addition, we made our forecasts two months after the OBR made theirs, and so we included additional information on further COVID-19 restrictions, the extension to the furlough scheme, and additional RTI income tax data.

35 After the March Budget when updated OBR forecasts and an updated BGA forecast become available, the Scottish Government can choose whether to revise the Budget and use the updated BGA. We expect the Scottish Budget will need to be reviewed and revised over the course of 2021-22 as the public health and fiscal policy responses develop. We recommend that careful consideration be given to reviewing, as part of the overall reassessment of the Budget position, which income tax BGA is used.

Other devolved taxes and social security

Other devolved taxes

36 We expect revenues for the other devolved taxes to increase by 36 per cent in 2021-22 compared to 2020-21. The exception is Scottish Landfill Tax, which is expected to gradually decline over the next five years as more waste is diverted to alternatives other than landfill. Our forecasts for Non-Domestic Rates and Land and Buildings Transaction Tax reflect our expectation that the Scottish economy will continue to recover from the COVID-19 pandemic.

Figure 5: Summary of tax forecasts informing the Scottish Budget 2021-22

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Non-Domestic Rates	1,848	2,680	2,930	3,224	3,231	3,216
Land and Buildings Transaction Tax	517	586	629	664	701	740
Scottish Landfill Tax	95	88	86	72	74	61
Total	2,460	3,354	3,646	3,960	4,005	4,017

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

37 The Scottish Government has announced policy changes for Non-Domestic Rates that include freezing the poundage and a three month extension to the relief for airports and properties in the retail, hospitality and leisure sectors. We expect these to reduce tax revenues by £251 million in 2021-22.

38 Comparing the BGAs with our revenue forecasts can illustrate how much more or less funding the Scottish Government will have available. In current circumstances, any comparison should be made with caution as the BGAs are based on the OBR's November 2020 economy assumptions while our forecasts consider more up to date information. For 2021-22, we are estimating our forecasts for Land and Buildings Transaction Tax and Scottish Landfill Tax will be £64 million higher than the BGA for these taxes.

Social security

39 In 2021-22 we estimate £3.6 billion will be spent by the Scottish Government on social security. Our forecasts for the Scottish Budget 2021-22 are shown in Figure 6. 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.

40 Spending on three disability payments, Personal Independence Payments, Disability Living Allowance and Attendance Allowance, dominates the social security portfolio and accounts for 80 per cent of spending. Even modest changes in our forecasts for one or more of these payments are likely to be material and are less likely to offset each other than if we were looking at a budget with a more diversified range of social security payments.

Figure 6: Summary of social security forecasts informing the Scottish Budget 2021-22

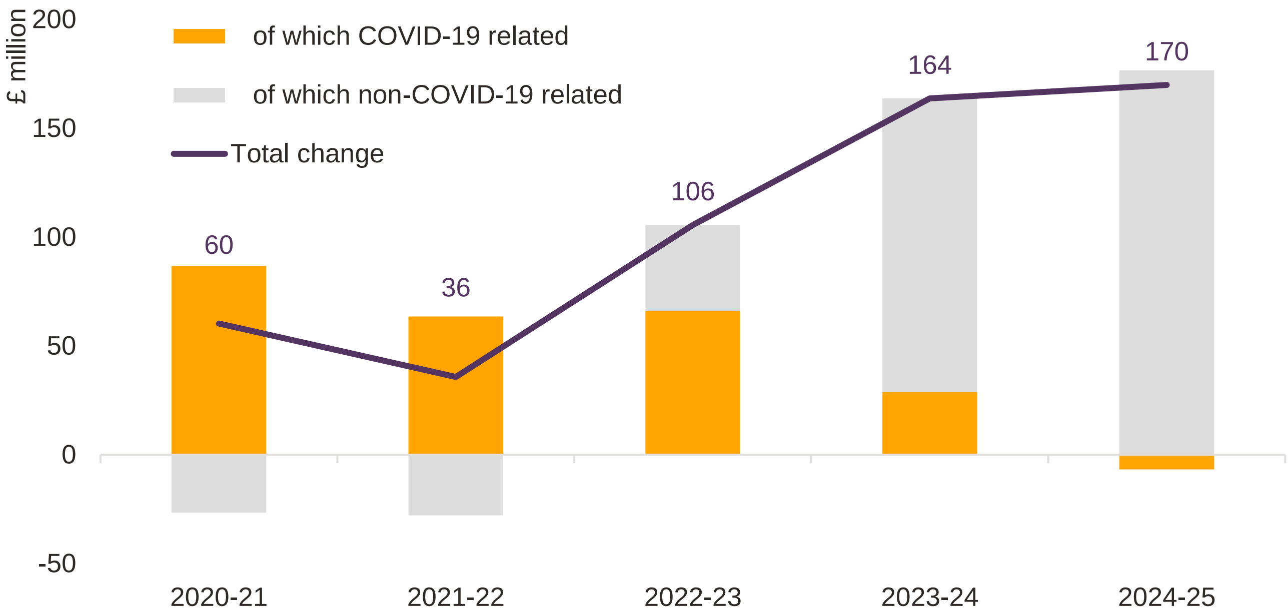
£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Scottish Government Social Security portfolio	3,379	3,492	3,694	3,916	4,031	4,155
Attendance Allowance	534	550	568	583	599	618
Carer's Allowance	299	306	322	342	359	376
Child Disability Payment [1]	208	231	269	302	325	348
Disability Living Allowance (Adult)	509	465	426	391	357	325
Personal Independence Payment	1,574	1,669	1,807	1,916	2,008	2,105
Scottish Child Payment	9	68	105	184	183	182
Other payments [2]	246	203	197	198	199	200
Fair Work, Communities and Health portfolios [3]	117	121	115	105	98	94
Total social security spending	3,495	3,614	3,810	4,020	4,129	4,249

Source: Scottish Fiscal Commission
Figures may not sum because of rounding.
[1] Child Disability Payment includes spending on the UK Government Disability Living Allowance (Child) until all children are receiving the new payment.
[2] Other payments are Best Start Grant, Carer's Allowance Supplement, Child Winter Heating Assistance, Funeral Support Payment, Industrial Injuries Disablement Scheme, Scottish Welfare Fund, Self-Isolation Support Grant and Severe Disablement Allowance.
[3] Our legislative scope also requires that we produce forecasts for other devolved social security payments. For this forecast these additional payments are Best Start Foods, Discretionary Housing Payments and Fair Start Scotland.[6]

[6] Fair Start Scotland is in the Finance, Economy and Fair Work portfolio. Discretionary Housing Payments are in the Communities and Local Government portfolio. Best Start Foods is in the Health and Sport portfolio.

41 COVID-19 has undoubtedly increased the number of people eligible for working-age social security support as unemployment has increased and those who are in work may find their income has reduced as result of the restrictions. An increase in eligibility will increase spending only if people apply for devolved payments to which they have become entitled. COVID-19 may have led to increased awareness of the assistance available and reduced some of the perceived stigma around social security support. There are other changes that we attribute to COVID-19 that reduce social security spending. For example, inflation is currently very low, and lower than we expected in our February 2020 forecasts, which decreases payment rates in all future years and reduces spending.

Figure 7: Change in spending forecast because of COVID-19 since February 2020



Source: Scottish Fiscal Commission

42 For 2021-22, the BGAs and spending forecasts are closely aligned. The overall BGA of £3,310 million is £1 million higher than our spending forecast.

43 Social security payments such as the Best Start Grant, the Scottish Child Payment and Fair Start Scotland are funded through the Scottish Government's general block grant, so there are no direct changes in funding from the UK Government to cover any increase in spending in these areas. We estimate spending on these payments will be £305 million in 2021-22 which is an increase of 15 per cent, £40 million, since our February 2020 forecast.

Additional Information

Abbreviations

BGA	Block Grant Adjustment
COVID-19	Coronavirus
DWP	Department for Work and Pensions
EU	European Union
GDP	Gross Domestic Product
HMRC	Her Majesty's Revenue and Customs
LBTT	Land and Buildings Transaction Tax
NDR	Non-Domestic Rates
NSND	Non-Savings and Non-Dividends
OBR	Office for Budget Responsibility
ONS	Office for National Statistics
PAYE	Pay As You Earn
RTI	Real Time Information
SEFF	Scotland's Economic and Fiscal Forecasts
SFC	Scottish Fiscal Commission

A full glossary of terms is available on our website:
https://www.fiscalcommission.scot/explainers/glossary/

Professional Standards

The Commission is committed to fulfilling our role as an Independent Fiscal Institution, in line with the principles set out by the Organisation for Economic Cooperation and Development (OECD).[7]

The Commission also seeks to adhere to the highest possible standards for analysis. While we do not produce official statistics, we voluntarily comply as far 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.[8]

[7] OECD (2014) Recommendation on Principles for Independent Fiscal Institutions (link)
[8] Scottish Fiscal Commission (2018) Compliance with the Code of Practice for Official Statistics (link)

Correspondence and enquiries

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All charts and tables in this publication have also been made available in spreadsheet form on our website. For technical enquiries about the analysis and data presented in this paper please contact the responsible analyst:

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