Forecast Evaluation Report

July 2021

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Foreword

Uncertainty is an inescapable element of forecasting and, as we publish our fifth Forecast Evaluation Report, has never felt more salient. We are evaluating our forecasts covering the first year of the COVID-19 pandemic. This was a period of fast paced and exceptional change, which was not possible to foresee when we published our forecasts in early February 2020 to inform the 2020-21 Scottish Budget.

In this report, we have evaluated our forecasts for social security, Land and Buildings Transaction Tax, and Scottish Landfill Tax in 2020-21, and for the Scottish economy in 2020. Our February 2020 forecasts overestimated the economy and tax revenues and underestimated social security spending. This comes as no surprise in light of the Scottish Government's policy responses to manage the pandemic.

Our forecasts play a central role in the Scottish Budget and it is vital that we critically evaluate them. While COVID-19 dominates our forecast errors, and we will never be able to predict such an event in our forecasts, we have drawn some lessons from looking in detail at our forecasts.

We have brought forward the publication of this report to take advantage of the outturn data that are already available. However, outturn data for 2019-20 income tax and 2020-21 data for Non-Domestic Rates were not available for evaluations to be included in this publication. We will publish a supplementary evaluation of these forecasts on 26 August, alongside our next set of forecasts.

We would like to thank everyone who has contributed to this report, in particular those data providers who have worked hard to ensure we have the information we need. This includes the Scottish Government, Revenue Scotland, Social Security Scotland, DWP and the OBR.

Susan Rice

Dame Susan Rice DBE

F. Breedon

Professor Francis Breedon

Alasdair Smith

Professor Alasdair Smith

David Ulph

Professor David Ulph

15 July 2021

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Summary

1 In this report, we evaluate our forecasts of 2020-21, published on 6 February 2020. The report covers the economy, social security and our Land and Buildings Transaction Tax (LBTT), and Scottish Landfill Tax (SLfT) forecasts.

Figure 1: Summary of February 2020 forecast errors

Forecast	Forecast (£ million)	Outturn (£ million)	Error (£ million)	Relative Error (%)
Economy				
GDP growth [1]				-10.6
Fully devolved taxes total, of which:	757	624	-134	-18
Land and Buildings Transaction Tax	641	517	-124	-19
Scottish Landfill Tax	116	106	-10	-8
Devolved social security total, of which:	3,435	3,535	100	3
Attendance Allowance	532	528	-5	-1
Carer's Allowance	292	296	5	2
Disability Living Allowance	715	722	7	1
Personal Independence Payment	1,583	1,626	43	3
Other payments [2]	313	363	50	16

Source: Scottish Fiscal Commission

Figures may not sum because of rounding. Sources specific to each forecast are provided in the relevant chapters.

[1] The error for the GDP growth forecast is expressed in percentage points rather than as a relative error and refers to calendar year 2020.

[2] Other payments are Best Start Foods, Best Start Grant, Carer's Allowance Supplement, Discretionary Housing Payments, Child Winter Heating Assistance, Fair Start Scotland, Funeral Support Payment, Industrial Injuries Disablement Scheme, Scottish Child Payment, Scottish Welfare Fund, Self-Isolation Support Grant and Severe Disablement Allowance.

2 Figure 1 summarises the errors for the forecasts evaluated in this report. The tax and economy errors are large and negative as our forecasts overestimated GDP growth and tax revenues, while for social security the errors are generally positive as we underestimated spending. COVID-19 has contributed significantly to the forecast errors in all three areas.

Our forecasts and COVID-19

3 COVID-19 has had an unprecedented and significant effect across all aspects of our society. As well as the economic effects which have been felt by many, we also see effects on tax revenues and social security payments. Data providers have also faced challenges operating during the pandemic, with data collection and dissemination significantly affected, but have responded well by taking steps to maintain the frequency of the statistics they produce and, in many cases, increasing their monitoring of the economy and society.

4 When we published our forecast in February 2020, we noted the coronavirus as a potential risk to global trade but at that stage we could not have foreseen the full extent of the COVID-19 pandemic and the public health response. Because our February 2020 forecasts did not account for the effects of COVID-19, some of our forecast errors for 2020-21 are particularly large.

5 As an example, in February 2020 we forecast the Scottish economy would grow by 1.0 per cent in 2020. The latest data show that COVID-19 and the associated public health restrictions led to the Scottish economy shrinking by 9.6 per cent in 2020, a forecast error of -10.6 percentage points, several times greater than our largest previous GDP forecast error.

6 Ultimately, we evaluate our forecasts with the aim of reducing our average forecast error by learning lessons from previous errors. However, the shock caused by COVID-19 is so unusual that it is hard to draw out useful lessons for the future. Shocks of this kind are a risk we can never fully control for in our forecast.

7 To counter the negative effects of COVID-19 and the associated public health restrictions, the Scottish Government introduced several new tax and social security policies over the course of 2020. These policies reduced tax revenues and increased social security spending and, because they were announced during the year, these new policies further affected our forecast errors.

8 Over half of the error in our social security forecast can be attributed to the Scottish Government's COVID-19 response, through extra funding for the Scottish Welfare Fund, Discretionary Housing Payments and Fair Start Scotland, and the introduction of the Coronavirus Carer's Allowance Supplement and Self-Isolation Support Grant.

9 Our forecast error for LBTT can also be partly attributed to temporary policies introduced in response to COVID-19, with an extension to the Additional Dwelling Supplement (ADS) repayment period and increase in the nil rate threshold, both introduced after we produced our February 2020 forecast.

10 COVID-19 has also affected the data we use and how we understand what is happening in society. In particular, understanding changes in the labour market has been difficult since the outbreak of the pandemic, and we've seen a marked divergence in different measures of labour market activity. This is in part because of the UK Government's employment support schemes and how different concepts of employment are used in different measures of the labour market. This has made evaluating our forecasts of employment and earnings challenging.

11 More generally, the economic data we rely on have been more uncertain and prone to revision than normal. This may mean our understanding of the effects of COVID-19 on the economy continues to change, and the scale or our forecast errors may also change as data are revised. The full effect of COVID-19 on the Scottish economy may take some time to emerge.

The devolution process and Brexit continue

12 While COVID-19 has dominated 2020 and 2021, it is important not to lose sight of other important issues for Scotland.

13 The bulk of social security devolution was completed in 2020-21 but assistance for winter heating and cold weather are still to be devolved. The Department for Work and Pensions continues to administer some payments on behalf of the Scottish Government, and the Scottish Government's plans for new disability payments to replace the current UK-wide payments are likely to lead to higher spending. As we noted in our previous Forecast Evaluation Report, the introduction of new payments is typically associated with higher forecast errors as there are no or limited historical data on which to base our forecasts.

14 Another important topic in 2020 has been Brexit and the ongoing uncertainty around the outcome of trade negotiations between the UK and EU, ahead of the end of the transition period on

1 January 2021. The UK and EU agreed a post-Brexit trade and security deal on 24 December 2020 but some issues with the practical implementation of the new UK-EU border arrangements continued during 2021, such as in relation to the Northern Ireland Protocol and trade disruptions for food exporters. Beyond 2021, the post-Brexit change in UK immigration rules and the generally less close economic relations with the EU will have long-term implications, especially for migration and trade. We cannot disentangle the contribution of Brexit to our GDP forecast error for 2020 which is driven almost entirely by COVID-19.

Effect on funding for the Scottish Budget

15 Our forecasts were used to determine how much the Scottish Government would raise in devolved tax revenue and spend on devolved social security when the 2020-21 Scottish Budget was set in February 2020. Devolved tax revenues turned out to be £134 million lower than expected in 2020-21. Social security spending was £100 million higher than expected in 2020-21. As set out in Figure 2, the total effect of these errors on the 2020-21 Scottish Budget was -£234 million.

Figure 2: Effect of SFC forecast errors on the Scottish Budget

Forecast	Change in forecast
Fully devolved taxes	-134
Social security	-100
Total	-234

Source: Scottish Fiscal Commission
Figures may not sum because of rounding. Figures are displayed as positive or negative to reflect the effect on the Scottish Budget.

16 We expect the reduction in tax revenue and higher level of spending to be offset, at least in part, by corresponding changes in Block Grant Adjustments (BGAs). Outturn information used to calculate final BGAs is not yet available. Once these are available we will discuss the effect of the final BGAs on the Scottish Budget in our Fiscal Update publication.

Chapter 1 Introduction

Background

1.1 This report provides an evaluation of the Commission's recent forecasts. We publish our forecast evaluation report to:

- Provide transparency about our forecasts
- Help others to understand the limitations and likely degree of accuracy of our forecasts
- Learn lessons to improve our forecasts
- Aid understanding of the effect of our forecast errors on the Scottish Budget, including through reconciliations.

What is forecast error?

1.2 Forecast error is typically defined as the difference between the forecast of a particular variable, such as income tax, and its actual value, as subsequently revealed by outturn data. Relative forecast error is the forecast error as a fraction of the forecast value.

Definition of forecast error
Error = Outturn - Forecast
Definition of relative forecast error
Error = (Outturn - Forecast) / Forecast

1.3 Forecast errors are inevitable and do not necessarily mean that the forecasting method was flawed. The future cannot be known with certainty, and sometimes a sound forecasting method can produce a large forecast error because of unexpected changes in the world, with the COVID-19 pandemic being a perfect example of this.

1.4 To help users understand what represents a reasonable forecast error, where possible we provide comparisons based on the OBR's forecasting record as they produce forecasts of a similar range of variables.

1.5 Our aim is to reduce our average forecast error by learning lessons from previous forecasts. Forecasts can differ from outturn for many reasons, including:

- **Data revisions:** Sometimes, the data on which we base our forecasts are revised, or new data are released that were not previously available, and this can change our understanding of historical data and hence our judgement on future trends.
- **Modelling errors:** We rely on a large number of models to create our forecasts. These generally rely on identifying trends in historical data, and use a combination of the historical

patterns and some theory to predict how these trends will change over time. Sometimes, we may incorrectly identify historical trends, or misjudge how a trend might change in the future.

- **Incorrect judgements:** Forecasting relies on a large number of judgements. This is often done when there is limited information or evidence on which to base a forecasting decision. There are often events that we know will happen in the future that will affect our forecasts, but for which we have limited information on the exact effects. An example of this was Brexit, which was still being negotiated at the time of our February 2020 forecast. We have to use a mixture of modelling and judgement to allow for these events, but may still incorrectly predict the effect that the event will have.

- **Unexpected events:** Some events simply cannot be predicted in advance, and we cannot control for them, the COVID-19 pandemic being the obvious example.

- **Analytical mistakes and human error:** While we see simplicity as an asset in our models, some are necessarily large and complicated, such as our income tax model which projects income tax records of thousands of individual taxpayers. With such models some relationships can be incorrectly specified (analytical error) and, in addition, there can be coding errors and incorrect cell referencing (human error).

1.6 Where possible, we have tried to understand which categories have contributed to our forecast errors. However, in many cases our forecast errors will be a result of several overlapping reasons. We may not always be able to disentangle how different factors have contributed to our overall forecast error. Nevertheless, attempting to identify the sources of forecast error is an important first step in making improvements and understanding what actions to take.

1.7 For example, if we see modelling errors, we would try to develop a better model. If the error was because of analytical mistakes, we would review our internal quality assurance processes.

1.8 We also compare the errors to measures of our historical performance. In some areas, we don't have a long forecasting record – particularly in social security where several new payments were launched last year, and where this year sees the devolution of other payments to Scotland. Our use of the terms 'average error' and 'average absolute error' are best illustrated by example: a forecast with errors of +1 per cent and -1 per cent over the last two years would have an average error of 0 per cent, but average absolute error of 1 per cent.

1.9 For the first time we have published comprehensive forecast performance charts providing the full forecast history of the main forecasts included in this publication compared to the outturn data. These charts are available in the Supplementary Tables published on our website to accompany each chapter.[1]

[1] Scottish Fiscal Commission (2021) Forecast Evaluation Report – July 2021 (link)

Chapter 2
Economy

Introduction

2.1 In this chapter we evaluate our February 2020 economy forecast for the year 2020. As discussed below, our Gross Domestic Product (GDP) forecast error is exceptionally large and dominated by COVID-19. It is still too early to make a more general assessment of the total effect of COVID-19 on the economy and we will return to this in our next forecast on 26 August 2021.

2.2 While we aim to reduce our average forecast error by learning lessons from previous errors, an economic shock that was largely caused by the government selectively shutting down and re-opening sectors of the economy in response to a rapidly changing public health crisis is so unusual that it is hard to see what lessons we can usefully draw.

GDP

Headline forecast error

2.3 In this section we focus on evaluating our February 2020 forecast of GDP growth for 2020, as shown in Figure 2.1.

Figure 2.1: Headline evaluation – February 2020 forecast of GDP growth in 2020

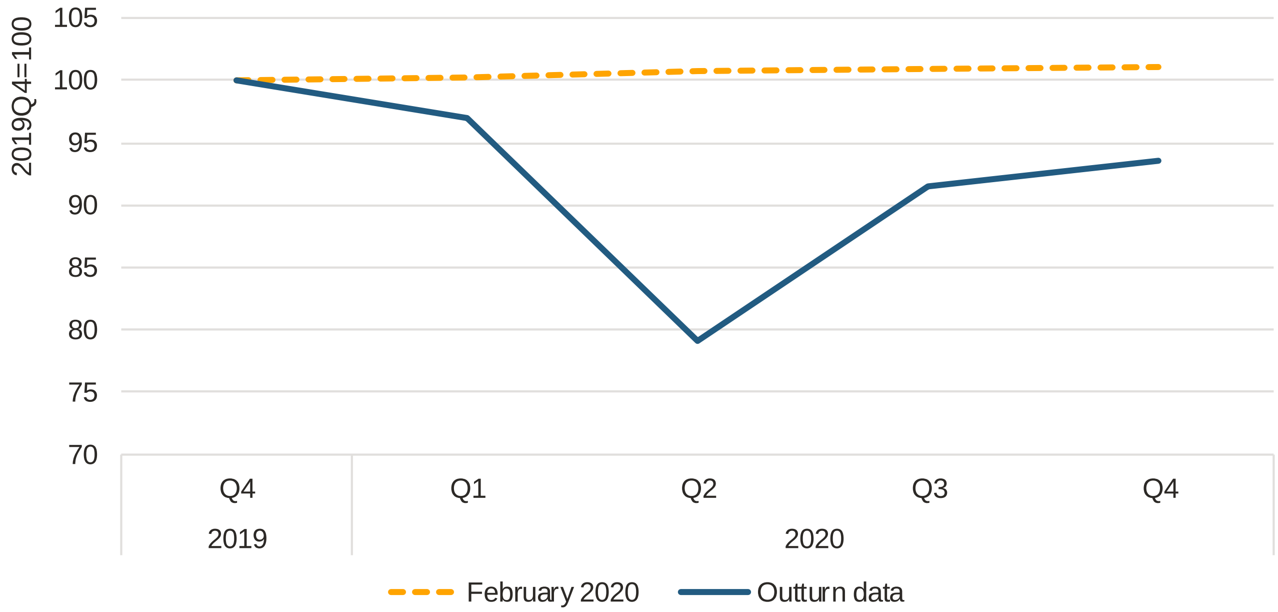
Per cent	Forecast	Outturn	Error [1]
	1.0	-9.6	-10.6
Historical average absolute error from HM Treasury and OBR [2]			
Average absolute error			1.2

Source: Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link), Scottish Government (2021) GDP quarterly national accounts: 2020 quarter 4 (October-December) (link), OBR (2021) Historical official forecasts database (link).
Figures may not sum because of rounding.
[1] Error is expressed in percentage points.
[2] Average absolute error since 1983. Average absolute error since the creation of the OBR in 2010 is 1.1 percentage points.

2.4 In February 2020 we forecast GDP growth in Scotland of 1.0 per cent for the calendar year 2020. We made this forecast before the onset of the COVID-19 pandemic and the announcement of public health restrictions for the economy and wider society.

2.5 The latest outturn estimates show a fall in GDP of -9.6 per cent for 2020, an unusually high forecast error of -10.6 percentage points, driven almost entirely by the COVID-19 lockdowns.

Figure 2.2: February 2020 GDP forecast and outturn



Source: Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link), Scottish Government (2021) GDP quarterly national accounts: 2020 quarter 4 (October-December) (link).

2.6 The greatest divergence from our February 2020 forecast occurred in the Q2 2020 when the first lockdown took hold and GDP fell to 20.9 per cent below pre-pandemic levels. Recovery in the third and fourth quarters closed some of this divergence, with GDP 6.4 per cent below pre-pandemic levels by the end of the year.

Understanding our forecast error

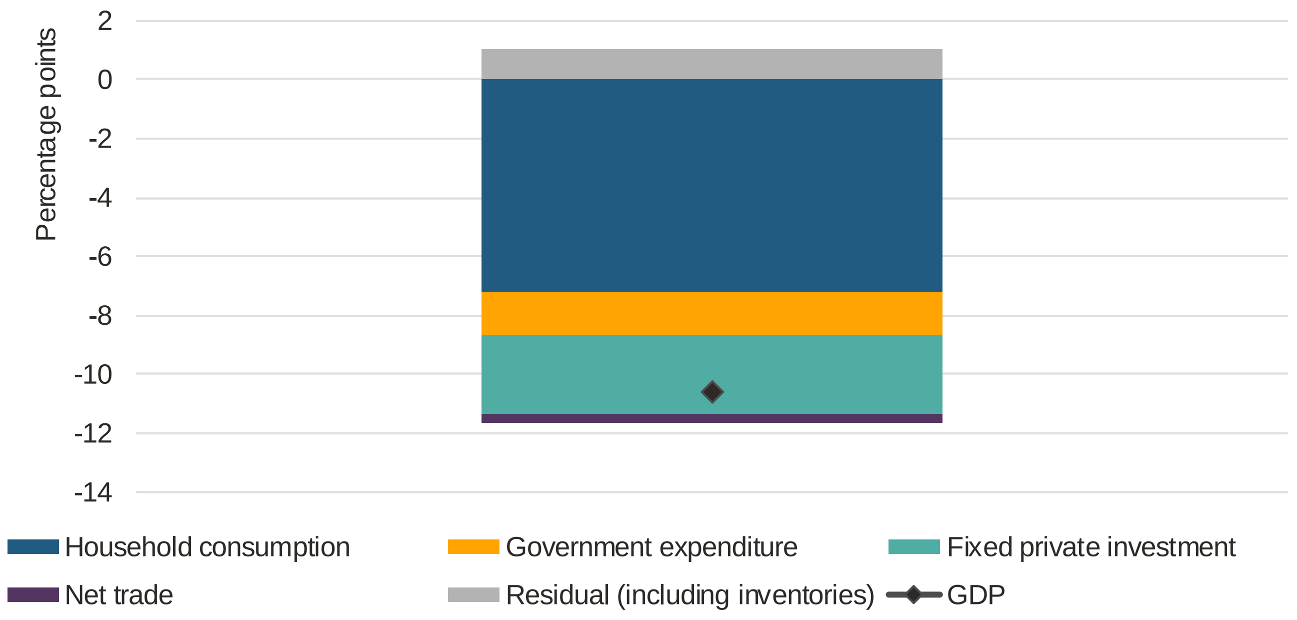
2.7 When we closed our forecast in January 2020 there was some news coverage of a virus circulating in the Chinese city of Wuhan and the surrounding area. We noted the coronavirus as a potential risk to global trade.[2] At that time it was not part of our central forecasting judgement that the situation would evolve into the COVID-19 pandemic that would shut down large parts of the Scottish, and global, economy in March 2020.

2.8 Figure 2.3 shows our 2020 GDP forecast error for our February 2020 forecasts by components of expenditure. The greatest source of error in our GDP forecast for 2020 is household consumption.

2.9 During the pandemic, jobs and incomes were to a large extent protected by the Coronavirus Job Retention Scheme (CJRS) and Self Employment Income Support Scheme (SEISS) and by the uplift to Universal Credit. Consumption fell sharply because COVID-related restrictions limited social activity by closing down large parts of the economy including retail and hospitality, significantly reducing households' opportunity to spend their income. The fall in consumption was not matched by a similar fall in income, resulting in the household savings ratio doubling from 9.3 per cent in 2019 to 18.8 per cent in 2020.[3]

[2] Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link)
[3] Scottish Government (2021) GDP quarterly national accounts: 2020 quarter 4 (October-December) (link)

Figure 2.3: Decomposition of February 2020 GDP forecast error for 2020



Source: Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link), Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link), Scottish Government (2021) GDP quarterly national accounts: 2020 quarter 4 (October-December) (link).

2.10 Private investment in fixed assets also took a hit as many businesses focussed on survival and staff retention in the wake of the pandemic. Our forecast error for fixed private investment is -2.7 percentage points.

2.11 The restrictions placed on the economy and society affected trade, with exports 11.2 per cent lower and imports 9.4 per cent lower in 2020 than they were in 2019. Our forecast error for net trade is small at -0.3 percentage points. This is because exports and imports were similarly suppressed, so the effect on net trade was fairly neutral.

2.12 General Government spending in nominal terms increased by 12.6 per cent to £48.6 billion over 2020 as unprecedented government intervention was implemented to support jobs and the economy. Despite increased spending, real-terms government output was down 4.3 per cent on 2019 because of the effect on health and education of NHS procedures being paused and schools being closed. Our forecast error for Government expenditure is -1.4 percentage points.

2.13 Overall, our GDP forecast error is exceptionally large and dominated by the COVID-19 pandemic – an event that could not be fully predicted and accounted for in advance. This makes it difficult to draw out general conclusions and lessons about our forecast accuracy.

Labour market

Headline forecast errors

2.14 Figure 2.4 shows the errors in the most important determinants from our economy forecast – employment and earnings. These errors are significantly smaller than the GDP forecast error discussed in the previous section.

2.15 The CJRS and SEISS have largely, though not completely, protected the labour market from the economic consequences of the pandemic. As a result, while GDP fell sharply in 2020 because of lockdown restrictions, this effect was not mirrored to the same extent in the employment and earnings data for 2020.

Figure 2.4: February 2020 forecast error in growth rates of main economic determinants for 2020

Per cent	Determinant	Forecast	Outturn [1]	Error [2]
SFC February 2020 (Scotland)	Employment (RTI-based)	-0.3	-2.4	-2.1
	Average earnings	3.0	2.5	-0.6
	Total earnings	2.7	0.2	-2.5
OBR March 2020 (UK)	Employment (LFS-based)	0.5	-0.5	-1.0
	Average earnings	3.3	1.1	-2.2
	Total earnings	3.6	1.7	-2.0

Source: Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link), Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link), OBR (2021) Historical official forecasts database (link).

Figures may not sum because of rounding.

[1] Outturn data as available at last forecast. Average earnings are equal to total earnings divided by employees, where employees are equal to total employment less self-employed.

[2] Error is expressed in percentage points.

Understanding our forecast error for employment

2.16 Measuring changes in the labour market has been difficult since the outbreak of the pandemic. The two main sources of employment data – Pay As You Earn (PAYE) Real Time Information (RTI) and the Labour Force Survey (LFS) – have been diverging since Q2 2020, with RTI suggesting a larger employment fall than the LFS in Scotland and the UK. RTI suggests an employment fall in Scotland of -2.4 per cent for 2020, based on data available at our last forecast, compared to a fall of -1.0 per cent from the LFS.[4,5]

2.17 The RTI and LFS relate to different concepts of employment: RTI is based on administrative data from the payroll tax system and is a measure of paid employment; the LFS is based on individuals' self-reported data and counts all workers reporting themselves as employed as part of the total employment figures. We use RTI as outturn employment measure mainly because of its links with income tax RTI data, as paid employment is what we are interested in forecasting as an economic determinant of income tax. We also expect RTI to be more reliable than the LFS in the current circumstances as it does not depend on people's perceptions of their employment status, which may not be fully clear while furlough schemes are in place.

2.18 In February 2020 we forecast employment growth in Scotland of -0.3 per cent in 2020. Our employment forecast error, taking RTI as outturn measure, is -2.1 percentage points. Using the LFS, the OBR has a smaller employment forecast error for the UK of -1.0 percentage points.

2.19 According to analysis from the ONS, part of the divergence between RTI and LFS is explained by people regarding themselves as employed but not currently being paid, who are included in the LFS but not in the RTI.[6] Another issue affecting the LFS since the start of the pandemic is that survey

[4] ONS (2021) HI11 Regional labour market: Headline indicators for Scotland – May 2021 (link)

[5] LFS includes both employees and self-employed, RTI includes employees only. We do not have such split in our macro forecasting model so we implicitly assume the same change, based on RTI data, for both employees and self-employed.

[6] ONS (2020) Comparison of labour market data sources (link)

responses have continued to be grossed up to pre-COVID population projections, which results in LFS employment levels being overestimated.

2.20 In articles published on 17 May and 8 July 2021, the ONS described a new LFS weighting methodology using updated population weights based on RTI, aimed at better reflecting changes in international migration following the pandemic.[7] The new weights are to be applied to labour market estimates from 2020 onwards, with the first set of revised estimates to be released on 15 July 2021. Indicative estimates published on 8 July suggest that the new weighting methodology removes some of the divergence in employment levels between LFS and RTI.

2.21 In contrast to level estimates, rate estimates remained robust to the grossing issue, so the reweighting has a smaller effect on rates. For example, the ONS indicative estimates show the unemployment rate in the period October to December 2020 is unchanged at 4.5 per cent in Scotland, and revised up from 5.1 to 5.2 per cent in the UK. These are still moderate rates of unemployment given the scale of the economic shock. The true extent of any damage to the labour market should become more evident from LFS, as well as RTI, data once the furlough schemes are removed on 30 September 2021.

Understanding our forecast error for average earnings

2.22 In February 2020 we forecast average earnings growth in Scotland of 3.0 per cent for 2020. The latest outturn estimate shows growth of 2.5 per cent, a forecast error of -0.6 percentage points. Taking account of the employment forecast error of -2.1 percentage points, we have a forecast error for total earnings of -2.5 percentage points. The OBR has a smaller overestimate of UK total earnings growth, mostly accounted for by an overestimate of average earnings growth.

2.23 Average earnings have been relatively resilient to the pandemic. Employees who were furloughed under the CJRS and not working any hours have continued to be paid up to 80 per cent of the salary. Similarly, SEISS grants were paid to eligible self-employed individuals, who may otherwise have had significantly lower or no trading income. After a negative shock in Q2 2020, when the economy was put into lockdown and the proportion of furloughed workforce was at its highest, average earnings bounced back in Q3 and have since continued to grow, so that in 2020 they were 2.5 per cent above their previous year's level.

2.24 Underlying pay growth in 2020 is likely to have been lower than headline estimates suggest, as average earnings growth was boosted by a fall in the number of employees in lower-paid jobs. At UK level, the ONS estimates that compositional effects contributed almost half of average earnings growth at the end of 2020.[8]

2.25 The disruption to the economy and labour market during the pandemic means that labour productivity data, measured as GDP divided by the total number of hours worked, will also be challenging to interpret. In addition, compositional effects – the loss of jobs in the labour-intensive, lower-productivity sectors which were hardest hit by the crisis – are likely to affect the labour productivity data. Both of these factors increase uncertainty about current levels and the outlook for productivity in Scotland. In the longer term, we expect there will be some scarring effects to the level

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[7] ONS (2021) Labour Force Survey weighting methodology (link), ONS (2021) Impact of reweighting on Labour Force Survey key indicators, UK: 2020 (link), ONS (2021) Impact of reweighting on Labour Force Survey key indicators, UK countries: 2020 (link).

[8] ONS (2021) Labour market overview, UK: April 2021 (link)

of productivity from the pandemic.[9] We will return to our productivity modelling and update our projections as appropriate at out next forecasts.

Conclusions

2.26 When we made our economy forecast in February 2020, we noted the coronavirus as a potential risk to global trade but the full extent of the COVID-19 pandemic and the associated public health response could not have been foreseen. Given how unpredictable the evolution of COVID-19 has been, with a new lockdown introduced around two weeks before closing our January 2021 forecast, it is likely that our GDP forecast from last January will also be associated with a somewhat large error. Our aim is to reduce our average forecast error by learning lessons from previous forecasts, but shocks of this kind are a risk we can never fully predict and account for in advance in our forecast.

2.27 The economic and labour market data on which these forecasts are based are also more uncertain and prone to revisions than normal, so that the full effects of COVID-19 on the Scottish economy and in particular on the labour market may take some time to emerge.

[9] Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link)

Chapter 3
Devolved taxes

Introduction

3.1 In this chapter we evaluate our February 2020 forecasts of Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT) for 2020-21. We will publish evaluations of our 2019-20 income tax forecast and our 2020-21 Non-Domestic Rates (NDR) forecast on 26 August 2021.[10]

3.2 Figure 3.1 compares our February 2020 forecasts of 2020-21 revenue to the provisional outturn. Total revenue was £624 million, which is £134 million or 18 per cent lower than our £757 million forecast. COVID-19 has been a major cause of our forecast errors.

Figure 3.1: Summary of devolved tax forecast errors

	Forecast (£ million)	Outturn (£ million)	Error (£ million)	Relative Error (%)
Land and Buildings Transaction Tax	641	517	-124	-19
Scottish Landfill Tax	116	106	-10	-8
Total devolved taxes	757	624	-134	-18
OBR average absolute error [1]				
Property Transaction Taxes				8
Landfill Taxes				8

Source: Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link), Revenue Scotland (2021) Provisional Outturn Data 2020-21 (link), OBR (2021) Historical official forecasts database (link).
Figures may not sum because of rounding.
Outturn figures are provisional and still subject to audit.
[1] The OBR average is based on the average one-year ahead forecast error over the period 2011-12 to 2019-20.

[10] We are publishing these evaluations later because of the later availability of outturn data. HMRC has confirmed publication of the 2019-20 income tax outturn data for 22 July 2021.

Land and Buildings Transactions Tax

Figure 3.2: Headline evaluation – LBTT February 2020 forecast of 2020-21

	Forecast (£ million)	Outturn (£ million)	Error (£ million)	Relative Error (%)
Residential LBTT	303	260	-43	-14
Additional Dwelling Supplement	129	115	-14	-11
Non-residential LBTT	209	143	-67	-32
Total LBTT	641	517	-124	-19
OBR average absolute error [1]				8

Source: Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link), Revenue Scotland (2021) Provisional Outturn Data 2020-21 (link).
Figures may not sum because of rounding.
Outturn figures are provisional and still subject to audit.
[1] The OBR average is based on the average one-year ahead forecast error for property transaction taxes over the period 201-12 to 2019-20.

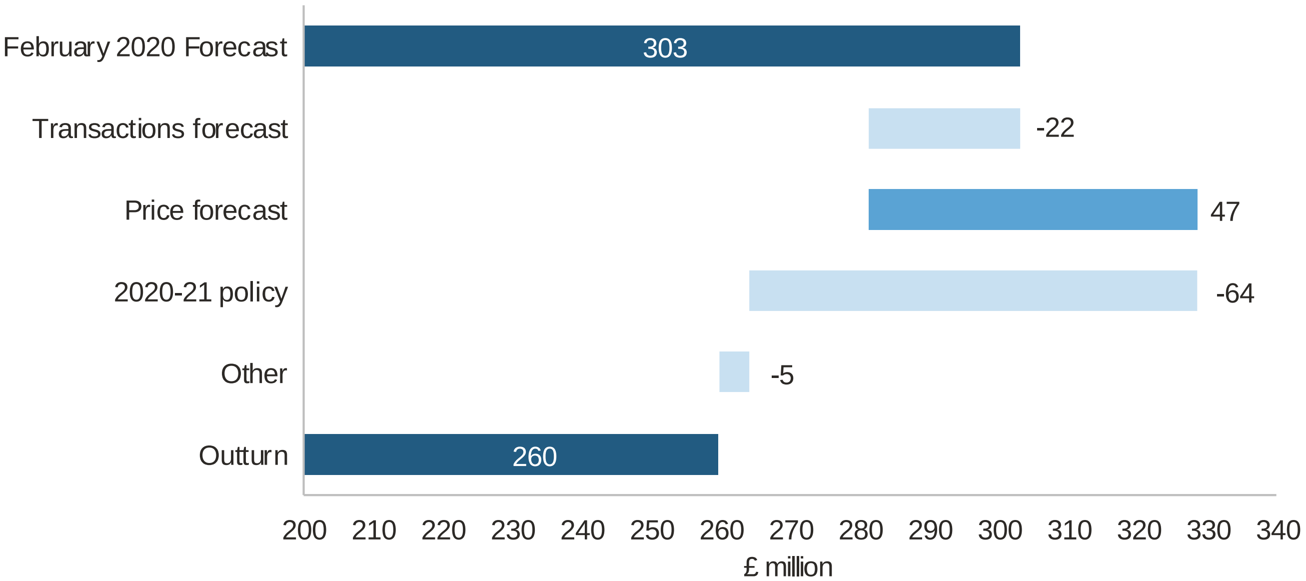
3.3 For total LBTT revenues, our February 2020 forecast of 2020-21 was £641 million. The outturn figure was £517 million. This results in a forecast error of £124 million, or 19 per cent. This is significantly higher than our own average forecast error to date, and the OBR's average absolute one-year ahead forecast error of 8 per cent.

3.4 The vast majority of this forecast error derives from the COVID-19 pandemic. The most significant parts of the error are the effects of the temporary rise in the residential LBTT nil rate band, and the reduced demand for non-residential property because of the pandemic.

Residential LBTT

3.5 Our forecast error for residential LBTT was £43 million, or 14 per cent of our forecast. The components of this error are shown in Figure 3.3.

Figure 3.3: Decomposition of February 2020 residential LBTT forecast error for 2020-21



Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link), Revenue Scotland (2021) Provisional Outturn Data 2020-21 (link).

3.6 During 2020 the average house price grew by more than we expected in our February 2020 forecast. There are a number of factors that could have contributed to faster than expected average price growth, including a surge in demand once housing market restrictions were eased, shifts in demand for different types of properties, and policy measures to support the housing market.

3.7 In July 2020, the Scottish Government introduced a new higher starting threshold of £250,000 for LBTT, to encourage property market activity after the first lockdown ended. This policy was introduced five months after publication of our February 2020 forecast. Based on our February 2020 baseline forecast we originally estimated the policy would cost £37 million in 2020-21.[11] Using the latest available data and our standard models, we have estimated that the policy reduced LBTT revenues by £64 million in 2020-21. The higher cost is because of the higher than expected average price growth. Although more higher value transactions contributes to LBTT tax revenue, it also means a greater reduction in tax revenues as a result of the LBTT tax relief than expected.

3.8 In forecasting the effect on tax revenues of LBTT policies we use a standard set of elasticities to capture behavioural responses.[12] The introduction of the £250,000 starting threshold during the COVID-19 pandemic may have had a different effect on prices and transactions than suggested by our standard behavioural framework. However, it is not possible to directly observe the effect of behavioural responses in practice, and they can only be estimated through detailed evaluation that is beyond the scope of this report. Some of our prices and transactions forecast error in Figure 3.3 may have been driven by behavioural responses to the starting threshold policy, but it is not possible at this stage to say to what extent.

Box 3.1: Forestalling in response to the end of the nil rate band policy

Forestalling of property transactions occurs when a tax rise is pre-announced, with property transactions brought forwards to benefit from a lower tax bill.

When the 2020-21 nil rate band rise to £250,000 was introduced on 15 July 2020, it was announced as a temporary measure that would end on 31 March 2021. Because of the end of the policy resulting in a tax rise of up to £2,100 on 1 April 2021, we expect there to have been forestalling in response to the end of the policy.

We estimate the effect of forestalling by comparing daily transactions data between February and April 2021 to the same period in 2019. We don't compare to 2020 because of the effects of the lockdown introduced at the end of March 2020. Between February and April 2021, there were an average of 350 more transactions than on the same week in 2019. In the three weeks after the policy ended, there were 2,100 fewer transactions in 2021. We would have expected to see a rise in 800 transactions over the same period. By subtracting this expected rise from the actual fall in transactions, we estimate that 2,900 transactions were forestalled, with property purchases being brought forward into March to benefit from the lower rate of LBTT.

We estimate that this will have reduced LBTT revenues in April 2021 by £4 million but, because of the LBTT tax cut, will not have significantly raised revenues in 2020-21. We will continue to analyse this behaviour as more data become available, and will provide an update on what this means for LBTT revenues in 2021-22 in our next forecast report.

[11] Scottish Fiscal Commission (2020) Supplementary Costing – Increased starting threshold for residential LBTT – July 2020 (link)
[12] Scottish Fiscal Commission (2021) How we forecast devolved taxes – May 2021 (link)

3.9 Another significant source of error is our transactions forecast, contributing £22 million to our forecast error. The outturn shows that transactions fell by 5.8 per cent in 2020-21, significantly lower than our forecast of growth of 1.2 per cent. When we produced the February 2020 forecast, there were no published plans for the housing market restrictions which would take place between March and June 2020. This lockdown reduced transactions by 66 per cent relative to the same period in 2019. Although this reduction was offset by growth in transactions later on in the year, overall transactions were below 2019-20.

3.10 Although we overestimated transactions growth, we underestimated house price growth. We forecast growth of 1.7 per cent, while the outturn data shows that prices grew by 7.5 per cent in 2020-21. This offsets the error in our transaction forecast; if we had correctly forecast house prices our residential LBTT forecast would have been £47 million higher. Because LBTT is a progressive tax, any change in house prices can lead to more than proportional changes in revenues, and a price forecast error of this size leads to a significant error in our LBTT forecast.

3.11 The remainder of our forecast error is caused by a number of factors, including changes in the distribution of LBTT transactions and errors in our reliefs forecast. Together, these effects account for a £5 million overestimate of 2020-21 revenues.

Additional Dwelling Supplement

3.12 Our forecast error for the Additional Dwelling Supplement (ADS) was £14 million, or 11 per cent. ADS is split into two components – gross ADS and repayments. Gross ADS is paid on any purchase of an additional residential property, which can be reclaimed if a buyer's first property is sold within 18 months. Figure 3.4 sets out our forecast error for each component of ADS.

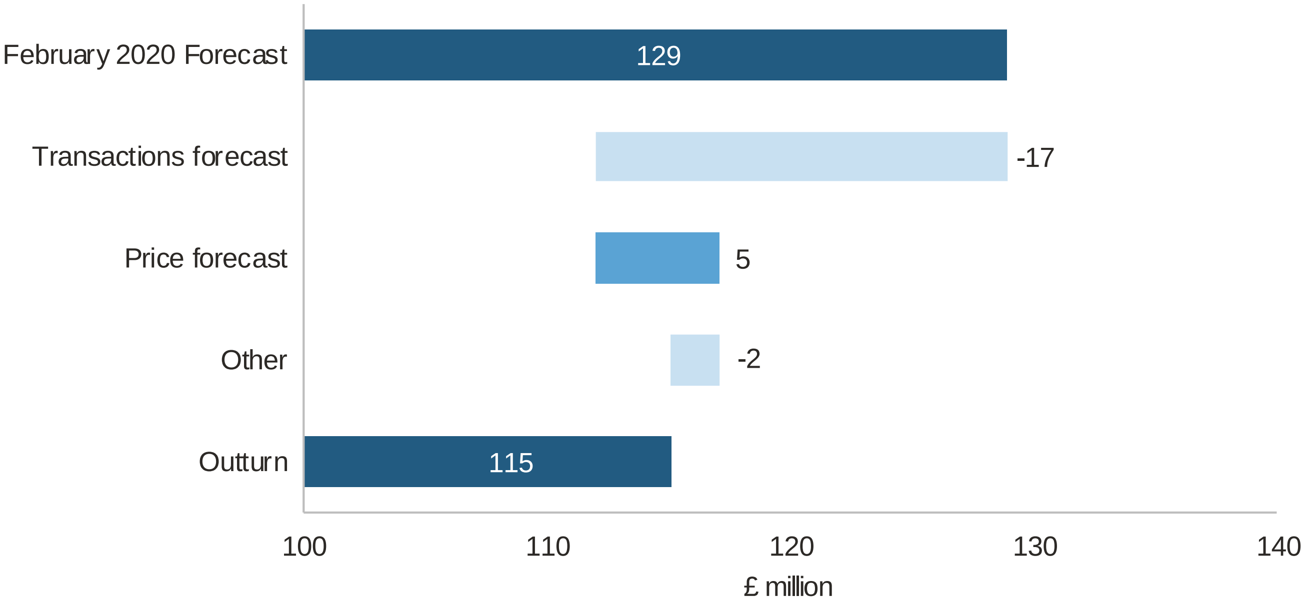
Figure 3.4: Components of February 2020 ADS forecast error for 2020-21

	Forecast (£ million)	Outturn (£ million)	Error (£ million)	Relative Error (%)
Gross ADS	171	159	-12	-7
ADS repayments	42	44	2	4
Net ADS	129	115	-14	-11

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link), Revenue Scotland (2021) Provisional Outturn Data 2020-21 (link).
Figures may not sum because of rounding.
Outturn figures are provisional and still subject to audit.

3.13 The majority of our ADS forecast error is caused by errors in our forecast of gross ADS. Despite the large error in our gross ADS forecast, our ADS repayments forecast was very close to the outturn. Figure 3.5 sets out the errors in our net ADS forecast.

Figure 3.5: Decomposition of February 2020 net ADS forecast error for 2020-21



Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link), Revenue Scotland (2021) Provisional Outturn Data 2020-21 (link).

3.14 The vast majority of the ADS forecast error is because of our overestimate of transactions growth in 2020-21. Because we did not yet know that there would be housing market restrictions in response to the COVID-19 pandemic, we could not predict this in our forecast of transactions. ADS transactions in 2020-21 were 8 per cent below 2019-20, while we had forecast growth of 1.2 per cent. This contributes £17 million of the forecast error.

3.15 Similar to residential LBTT, the error in the transactions forecast is partially offset by our underestimate of price growth. The average price of an ADS liable transaction grew by 4.5 per cent in 2020-21, higher than our forecast of 1.7 per cent.

3.16 There were two policy changes which were introduced after we published our forecast in response to the COVID-19 pandemic which will have affected ADS revenues. The first was an extension to the period in which a taxpayer needs to sell their previous residence in order to claim ADS repayment, if they had bought their second property between 24 September 2018 and 24 March 2020.[13] The second was the temporary rise in the nil rate band on residential LBTT, which will have led to behavioural responses which also affected ADS revenues.[14]

3.17 We have not included these policies in our analysis here, because we do not currently have data on any ADS repayments which may have been affected by the repayment period extension, and because the behavioural response to the nil rate band rise will only affect prices and the number of transactions for ADS. As with residential LBTT, we will be able to do more detailed analysis of how these policies affected ADS revenues once more data are available.

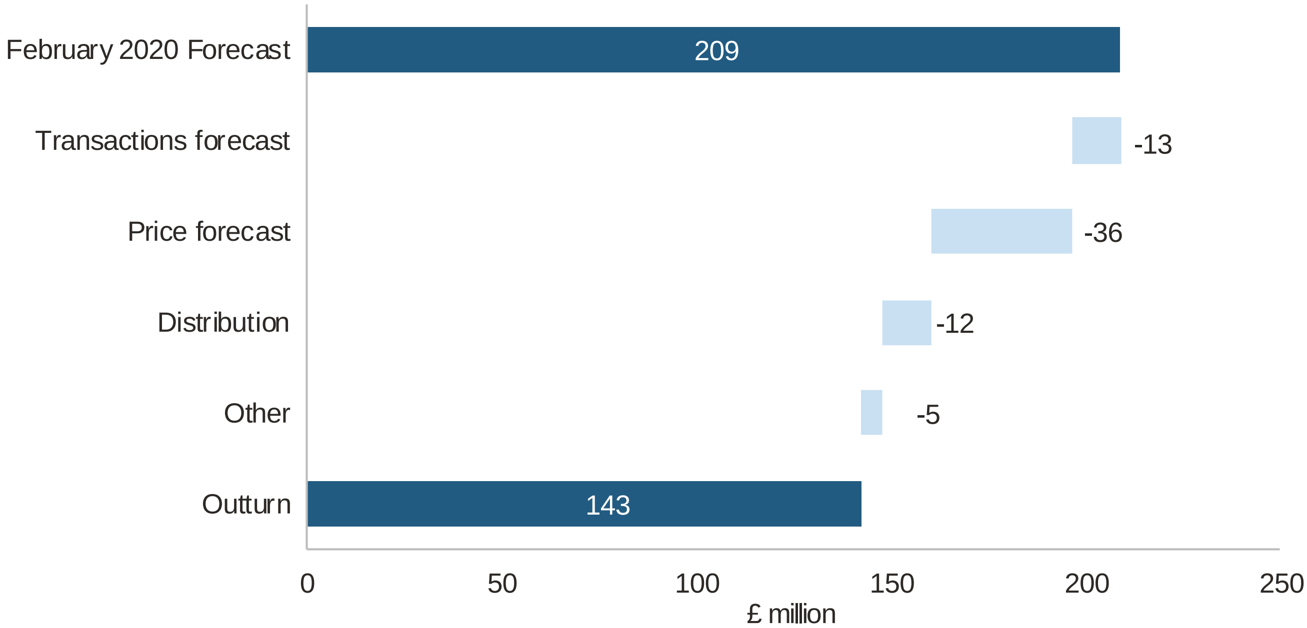
3.18 Other sources of our error include slight differences in the distribution, and slightly higher ADS repayments than we forecast. Each of these errors is about £1 million in size.

[13] Scottish Fiscal Commission (2020) Supplementary Costings Update: Coronavirus (Scotland)(No. 2) Bill – 20 May 2020 (link)
[14] Scottish Fiscal Commission (2020) Supplementary Costing – Increased starting threshold for residential LBTT – 15 July 2020 (link)

Non-residential LBTT

3.19 Our forecast error for non-residential LBTT was £67 million, or 32 per cent of the forecast. Figure 3.6 shows the breakdown of our non-residential LBTT forecast error for 2020-21.

Figure 3.6: Decomposition of February 2020 non-residential LBTT forecast error for 2020-21



Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link), Revenue Scotland (2021) Provisional Outturn Data 2020-21 (link).

3.20 The majority of our non-residential LBTT forecast error was due to prices being lower than we forecast. We forecast that the average non-residential price would grow by 2 per cent in 2020-21, when in reality it fell by 14 per cent for conveyances, and 4 per cent for leases. This accounts for just over half of our total forecast error.

3.21 Similarly, although we forecast that non-residential transactions would grow by 1 per cent in 2020-21, transactions fell by 5 per cent for conveyances and 30 per cent for leases. Because non-residential LBTT is largely determined by a relatively small number of transactions the very top of the distribution, the forecast is less sensitive to changes in the number of transactions than it is to changes in prices.

3.22 The third largest component of our forecast error is due to differences between the actual distribution of transactions and our forecast. Because non-residential LBTT is largely driven by a small number of transactions at the very top of the distribution, even small differences in the distribution can lead to relatively large forecast errors. Transactions worth over £10 million contribute, on average, 44 per cent of non-residential LBTT revenues. We had forecast 110 transactions in this range, whereas the outturn data show that there was 70. We estimate that these differences contributed to £12 million of our over-estimate.

3.23 The remaining £5 million of our forecast error is caused by a number of smaller factors. These include errors in our estimate of 2019-20 revenues, differences in the claims of reliefs, and potentially under-estimates of the behavioural response to the policy change to add a higher tax rate to non-residential leases.

Conclusions

3.24 As we noted in the September 2020 Forecast Evaluation Report, there is a limited forecast history for LBTT. On top of this, the effects of the COVID-19 pandemic led to significant changes in property markets, and significant policy responses to the pandemic. These make it hard to reach firm conclusions about our 2020-21 forecast error.

3.25 The majority of our residential LBTT and ADS forecast errors were due to policies which were only announced in response to the COVID-19 pandemic. Similarly, the majority of our non-residential LBTT forecast error was due to lower demand for commercial properties. For our next forecast, we will need to consider the changes in property markets following the end of the policy changes and planned easing of restrictions, and adjust our modelling approaches accordingly.

Scottish Landfill Tax

3.26 Figure 3.7 compares the 2020-21 provisional outturn data for SLfT with our February 2020 forecast for 2020-21.

Figure 3.7: Headline evaluation – SLfT February 2020 forecast of 2020-21

	Forecast (£ million)	Outturn (£ million)	Error (£ million)	Relative Error (%)
	116	106	-10	-8
OBR average absolute error [1]				
				8

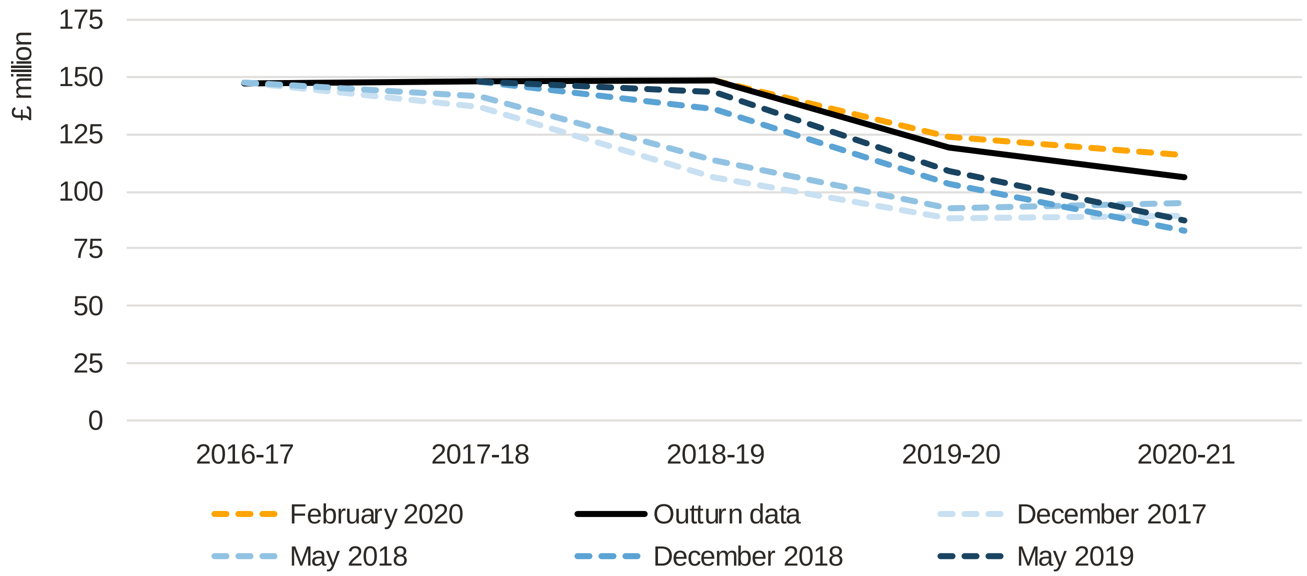
Source: Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link), Revenue Scotland (2021) Provisional Outturn Data 2020-21 (link), OBR (2021) Historical official forecasts database (link).
Figures may not sum because of rounding.
Outturn figures are provisional and still subject to audit.
[1] The OBR average is based on the average one-year ahead forecast error over the period 2010-11 to 2019-20.

3.27 SLfT revenue for 2020-21 was £106 million, 8 per cent lower than our forecast figure of £116 million. Our forecast error for SLfT is similar to the OBR's average absolute one-year-ahead forecast error of 8 per cent for UK landfill taxes, and slightly smaller than our previous years' forecast errors for SLfT.[15]

3.28 Our forecast error for 2020-21 year is negative, with outturn lower than forecast. In previous forecast evaluations we have reported positive forecast errors, largely a result of overestimating the quantity of waste that would be incinerated and so diverted away from landfill. This year we overestimated the amount of waste that would be landfilled. This happened mainly because restrictions applied during the COVID-19 pandemic led to less waste being sent to landfill than expected, particularly during the first quarter of 2020-21. Figure 3.8 shows how our historical SLfT forecasts compare to the outturn data.

[15] The OBR's forecast covers UK Government landfill tax, Scottish landfill tax and Welsh landfill disposals tax.

Figure 3.8: SLfT forecast performance chart

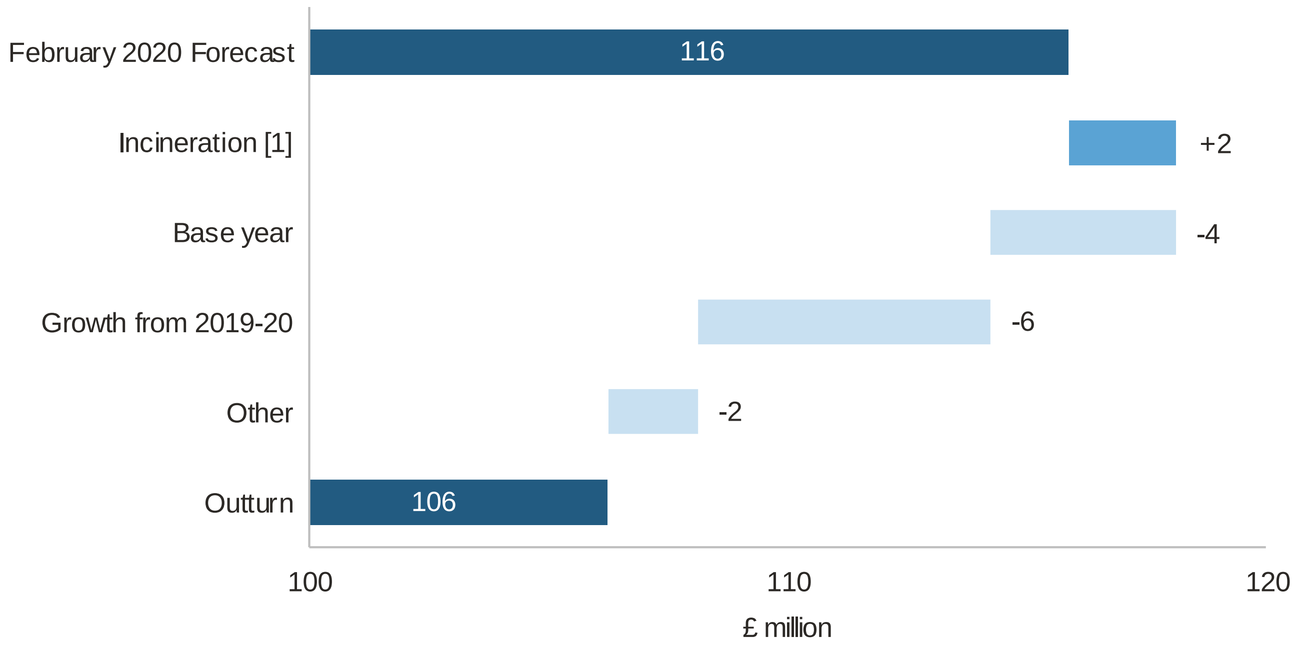


Source: Scottish Fiscal Commission, Revenue Scotland (2021) Provisional Outturn Data 2020-21 (link), Revenue Scotland (2020) Annual Report and Accounts (link).

Understanding our forecast error

3.29 Figure 3.9 shows the main sources of error in our February 2020 forecasts of SLfT revenue for 2020-21.

Figure 3.9: Decomposition of February 2020 SLfT forecast error for 2020-21



Source: Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link), Revenue Scotland (2021) Provisional Outturn Data 2020-21 (link).
[1] Incineration data are estimated based on information provided by SEPA as the actual outturn figures are not available.

3.30 The largest single source of error was our forecast of growth in household and business waste from 2019-20. Based on the most recent figures for household and business waste from the Scottish Environmental Protection Agency (SEPA) and our forecast of household consumption, we estimated that waste produced (net of recycling) would fall by 0.5 per cent in 2020-21 compared to 2019-20. While we don't have outturn data on waste generation for 2020-21, we can estimate it based on

Revenue Scotland data for waste landfilled and our estimate of the latest incineration figures. This indicates that waste generation fell by around 4 per cent in 2020-21, compared to our 2019-20 baseline. Information from SEPA suggests that waste generation was particularly affected during the first quarter of 2020-21, with significant reductions in commercial and construction waste only partially offset by a moderate increase in household waste. Overall waste generation returned to more typical levels later in the year.

3.31 The remaining £4 million forecast error comes from a combination of factors. The most significant of these was our in-year forecast 2019-20. At the time of producing our forecast, we had data for the first two quarters of 2019-20 which we scaled up to produce a forecast for the full financial year. The outturn data show that the first two quarters of 2019-20 accounted for a slightly higher than usual share of the full year, leading to an overestimate of the full 2019-20 financial year.[16]

3.32 Our incineration forecast, which had been consistently overestimated in previous years, slightly underestimated the amount of waste incinerated in 2020-21. Information from SEPA and the Scottish Government indicates that incineration was largely unaffected by COVID-19 restrictions. A reduction in business waste being incinerated, a result of temporary business closures from COVID-19 restrictions, was largely offset by an increase in the incineration of household waste.

Conclusions

3.33 Our February 2020 forecast error is mainly the result of restrictions put in place to tackle the COVID-19 pandemic. The amount of waste generated was lower than forecast, particularly in the first quarter of 2020-21 when many businesses were forced to close. Incineration was largely unaffected by these restrictions so this ultimately led to less waste going to landfill.

3.34 Other areas of our forecast performed reasonably well. In particular, our incineration forecast appears to have been more accurate than in previous years though there is still some uncertainty around this as SEPA has been unable to provide incineration figures for 2020-21 because of on-going systems issues following a cyber-attack at the end of 2020. We will continue to work with SEPA to ensure we have the most accurate and up-to-date information for our next forecasts. We also identified a minor error in our in-year forecast calculation which was corrected for our next forecast and we will continue to develop our quality assurance procedures to minimise the possibility of errors in future forecasts.

[16] This was slightly exacerbated by an error in the calculation which incorrectly placed additional weight on these first two quarters.

Chapter 4
Social security

Introduction

4.1 This is the third time we have evaluated our social security forecasts. The main comparison is of 2020-21 provisional outturn against our February 2020 forecasts, which informed the 2020-21 Scottish Budget. We also assess the supplementary policy costings that we have produced since February 2020.

4.2 Our forecasts which informed the 2020-21 Scottish Budget were finalised in January 2020 and took no account of COVID-19. In this report we show how the pandemic has affected social security spending and contributed to our forecast errors. In the interests of transparency we have tried to assess what part of our errors are attributable to the effects that the pandemic itself and the COVID-19 policies introduced by the Scottish Government had on our models and assumptions as the pandemic developed. This should not be interpreted as a comprehensive assessment of the precise change in social security spending occurring because of COVID-19.

4.3 The devolution of disability payments from April 2020 meant that spending within our social security forecast remit rose from £460 million in 2019-20 to over £3.5 billion in 2020-21.

4.4 As in last year's report we have used a shorter format which explains the main reasons for forecast error and tries to draw the appropriate lessons in the context of the social security forecast as a whole. Given the larger scale of the newly devolved disability payments and the effect of the COVID-19 pandemic, this means that some factors that would have been important in previous years are not discussed this time, but a record of all our previous forecasts and detailed decompositions of the individual error for each payment are included in the supplementary tables published on our website.

4.5 We also discuss the scope of our devolved social security forecast, setting out how it relates to other figures for social security spending that are quoted elsewhere, and which of the various additional support and funding provided for low income families during the pandemic are included in our measure of social security spending.

Summary

4.6 Across our full remit, which includes some elements that are not part of the Scottish Government's social security portfolio, spending was £3,535 million. This is £100 million, or 3 per cent higher than our £3,435 million forecast. Half of this difference is due to Scottish Government policy decisions in response to the COVID-19 pandemic.

4.7 Figure 4.1 shows the forecast, outturn and error for each payment, presented in four categories. Firstly the disability and carer payments funded by Block Grant Adjustments, most of which were newly devolved in April 2020. These have continued to be administered by the Department for Work and Pensions (DWP) through 2020-21, and we have data on past trends in Scotland. None of our individual forecast errors for these payments exceeded 3 per cent, while our forecast error for all these payments combined was within 2 per cent.

4.8 The second group are the low income payments that had been launched by Social Security Scotland before 2020-21. In last year's report these payments were new and had relatively large errors. This year, although the errors are fairly small in cash terms, we again have some large relative errors which can mainly be attributed to higher deaths and higher claimant count unemployment resulting from the pandemic.

4.9 The third group are the new payments planned to launch during 2020-21 which were included in our February 2020 forecast. Spending on these was lower than forecast as launches were delayed in response to the pandemic.

4.10 Finally, spending on other payments not falling into the above categories was around a third higher than our forecast, but this was almost entirely due to direct extra spending decisions by the Scottish Government in response to the pandemic.

Figure 4.1: Summary of social security forecast errors

	Forecast (£ million)	Outturn (£ million)	Error (£ million)	Relative Error (%)
Payments funded by Block Grant Adjustment				
Personal Independence Payment	1,583	1,626	43	3
Disability Living Allowance [1] [2]	715	722	7	1
Attendance Allowance	532	528	-5	-1
Carer's Allowance	292	296	5	2
Industrial Injuries Disablement Scheme	80	83	2	3
Severe Disablement Allowance	7	7	0	0
Sub-total for BGA payments	3,210	3,262	53	2
Low income payments launched before 2020-21				
Best Start Grant	18	18	0	2
Best Start Foods [3]	9	12	3	33
Funeral Support Payments	9	11	2	20
Sub-total for low income payments	36	41	5	15
New payments included in forecast and launched in 2020-21 [2]				
Scottish Child Payment	21	6	-15	-71
Child Winter Heating Assistance [4]	3	3	0	-14
Sub-total for new payments	24	9	-16	-64
Other payments				
Carer's Allowance Supplement	39	59	20	51
Discretionary Housing Payments	73	81	9	12
Scottish Welfare Fund	36	58	22	62
Fair Start Scotland	18	21	3	16
Self-Isolation Support Grant	0	4	4	N/A
Sub-total for other payments	165	223	58	35
Total Social Security	3,435	3,535	100	3

Source: Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts - February 2020 (link), Scottish Government (2021) Scottish Welfare Fund, Self-Isolation Support Grant and Discretionary Housing Payments: monthly data (link), Social Security Scotland, Scottish Government.

Figures may not sum because of rounding.

Outturn figures are provisional and still subject to audit.

[1] Our original forecast had separate lines for DLA Adult and DLA Child but the expenditure data and the Block Grant Adjustment treat DLA as a single payment.

[2] We also expected the new Child Disability Payment to launch in 2020. The forecast and outturn for this are included in the Disability Living Allowance figures.

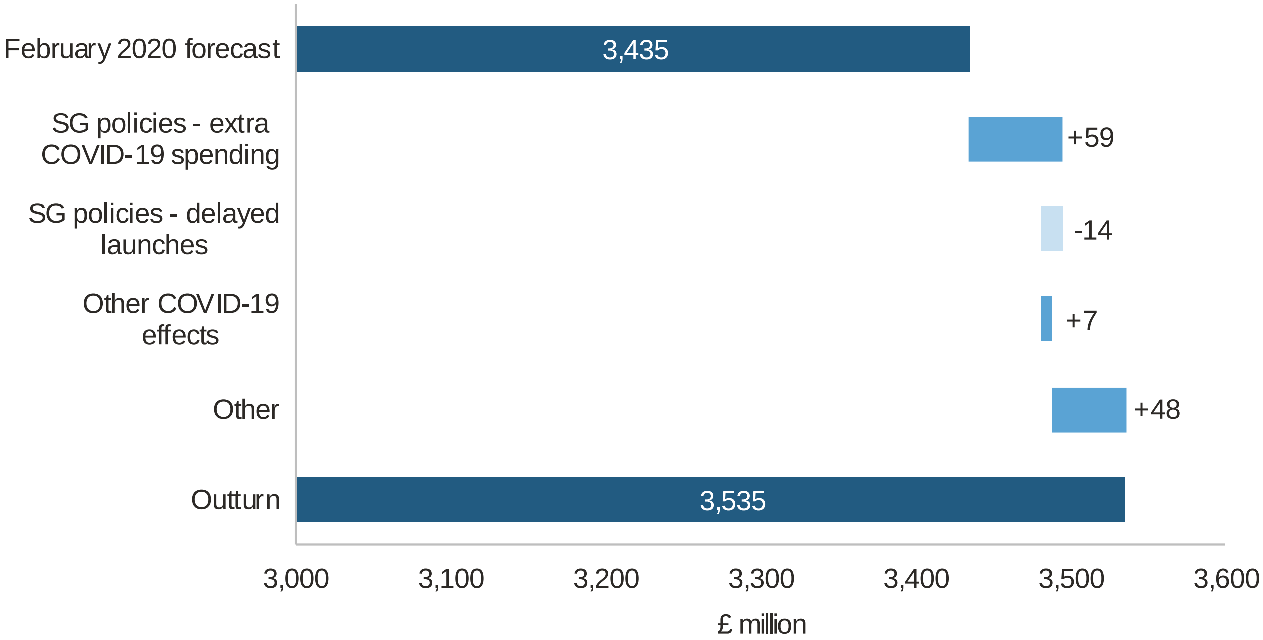
[3] Best Start Foods includes a small amount of spending on the predecessor Healthy Start Vouchers scheme.

[4] In our February 2020 forecast Child Winter Heating Assistance was presented as part of the Child Disability Payment costing.

Understanding our forecast error

4.11 Figure 4.2 illustrates the major sources of error in our February 2020 forecast of 2020-21 spending.

Figure 4.2: Decomposition of February 2020 social security forecast error for 2020-21



Source: Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts - February 2020 (link), Scottish Fiscal Commission, Scottish Government.

Scottish Government policies

4.12 Over half of the total forecast error can be directly accounted for by extra spending by the Scottish Government in response to the COVID-19 pandemic. This includes additional funding for the Scottish Welfare Fund (£22 million), Discretionary Housing Payments (£8 million), the Coronavirus Carer's Allowance Supplement (£19 million), 'Costs Plus' funding arrangements for Fair Start Scotland providers (£5 million) and the Self-Isolation Support Grant (£4 million).[17]

4.13 This extra spending is partly offset by delays to the launches of new payments. Launch of the Scottish Child Payment was delayed from before Christmas 2020 until mid-February 2021, reducing spending by £12 million, and Child Disability Payment was postponed until 2021-22.[18] Disabled children continue to receive Disability Living Allowance so this delay only removes around £2 million of additional spending that we had expected to be driven by the application process for the new payment. We are treating these delays, announced in April 2020, as being part of the pandemic policy response, though it is possible that even without the pandemic some payments may have been launched at different times than we had assumed in our forecast.[19]

Other COVID-19 effects

4.14 The pandemic also affects spending through routes that are outside Scottish Government control. These effects work in both directions but overall have slightly increased spending above what we forecast.

[17] The Scottish Government originally announced an extra £45 million for the Scottish Welfare Fund (link), but £20 million was redirected to a more flexible funding package for councils (link) and £3 million was moved to Discretionary Housing Payments.
[18] In our February 2020 publication this was referred to as Disability Assistance for Children and Young People (DACYP)
[19] Scottish Government (2020) Coronavirus (COVID-19) - update on devolved benefits: Cabinet Secretary speech (link)

4.15 DWP has made various operational and policy changes in response to the pandemic. For example the temporary suspension of both disability award reviews and referrals of benefit overpayments have increased spending on Personal Independence Payment and Carer's Allowance respectively.

4.16 The first lockdown in 2020 appears to have led to a reduction in new applications for Personal Independence Payment, offsetting the higher spending due to the suspension of award reviews.

4.17 We based our forecasts on the '50 per cent EU migration' scenario from the 2018-based population projections produced by the Office for National Statistics. The total population of Scotland in mid-2020 was in line with this projection, with higher net migration between 2018 and 2020 offset by fewer births and higher mortality. There have been around 8,000 excess deaths in 2020-21, which has increased spending on Funeral Support Payments, and reduced spending on payments for pensioners, particularly Attendance Allowance.

4.18 The lower than expected number of births contributed to lower spending on payments for young children. Overall differences in the population did not make a material contribution to our total social security error.

4.19 Our forecast models did not have explicit inputs from our economy model, but our assumptions on eligibility for low income payments were consistent with unemployment remaining low throughout 2020-21 in line with the February 2020 economy forecast. Unemployment has increased and more families are receiving Universal Credit or Tax Credits. This has increased eligibility for Best Start Grant, Best Start Foods, Scottish Child Payment, Funeral Support Payments and Discretionary Housing Payments. We treat this as being primarily a pandemic effect.

Other effects

4.20 The remaining error which we don't attribute to the pandemic is £48 million, or 1.4 per cent of the total forecast. This is mainly driven by higher spending on Personal Independence Payment. Spending on PIP in Scotland increased over and above what would be suggested by caseload and average award statistics. It is likely that this is partly due to one-off accounting effects which will only apply in the first year of devolved spending. This higher PIP spending is partly offset by lower spending on payments for young children due to a lower birth rate and a lower initial caseload for Scottish Child Payment.

Payment rates

4.21 At the time of our forecast we knew the Scottish Government's intended rates for the new payments being launched in 2020 and that uprating in April 2020 would be informed by the September 2019 CPI inflation figure of 1.7 per cent, so there was no error associated with payment rates or inflation forecasts.

Performance of our January 2021 forecast

4.22 Normally we would expect to have produced two more forecasts since the February 2020 one that we are evaluating, but as there was no Medium Term Financial Strategy event in 2020, this year there has only been the 2021-22 Scottish Budget forecast, published in January 2021. By the time we produced the January 2021 forecast we had monthly financial data up to November 2020 for most payments and were aware of all policy changes affecting 2020-21 except for the February 2021 expansion of eligibility for the Self-Isolation Support Grant.

4.23 For most payments our January 2021 forecast of 2020-21 spending was more accurate, and the overall error was only £40 million (1 per cent), compared to £100 million (3 per cent) for our February 2020 forecast.

Performance of our supplementary costings

4.24 We produced several supplementary costings during the year in response to Scottish Government legislation and policy changes. These are evaluated in Figure 4.3. Most of our costings were close to outturn, with only the September 2020 Scottish Child Payment costing having a large error.

Figure 4.3: Performance of supplementary costings produced during 2020-21

	Costing (£ million)	Outturn (£ million)	Error (£ million)	Relative Error (%)
Coronavirus Carer's Allowance Supplement	19.2	19.3	0.1	1
Child Winter Heating Assistance	2.9	2.8	-0.1	-3
Scottish Child Payment	11.0	6.1	-4.9	-45
Self-Isolation Support Grant – January	5.0	4.4	-0.6	-13
Self-Isolation Support Grant – March	4.2	4.4	0.1	3

Source: Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link), Scottish Fiscal Commission (2020) Supplementary Costings – Coronavirus (Scotland)(No. 2) Bill – May 2020 (link), Scottish Fiscal Commission (2020) Supplementary Costing – Child Winter Heating Assistance – August 2020 (link), Scottish Fiscal Commission (2020) Supplementary Costing – Scottish Child Payment (link), Scottish Fiscal Commission (2021) Supplementary Costings – Non-Domestic Rates Measures and Self-Isolation Support Grant – March 2021 (link), Scottish Government (2021) Carer's Allowance Supplement, October eligibility date 2020 (link), Scottish Government (2021) Scottish Welfare Fund, Self-Isolation Support Grant and Discretionary Housing Payments: monthly data (link), Social Security Scotland.

4.25 In May 2020 the Scottish Government announced an extra Coronavirus Carer's Allowance Supplement to be paid in June 2020. We published a costing to accompany the legislation and this proved to be very close to the actual spending on the extra payment.

4.26 Our February 2020 forecast included the new Child Winter Heating Assistance as part of our costing of the planned launch of the new Child Disability Payment.[20] The Child Disability Payment was delayed until 2021 but in August the Scottish Government legislated to introduce Child Winter Heating Assistance as a separate payment in winter 2020-21. Our supplementary costing was within 3 per cent of the actual spending and was more accurate than our February 2020 forecast.

4.27 In September 2020 the Scottish Government laid secondary legislation to implement the new Scottish Child Payment. We had included Scottish Child Payment in our February 2020 forecast, but decided to produce an updated supplementary costing to accompany the legislation as the launch date had been delayed and the Universal Credit caseload had increased substantially over the summer. At the time we published the forecast in September the furlough schemes were due to end and we expected unemployment to rise in the second half of 2020-21. With the extension of the furlough schemes unemployment was lower than expected reducing the number of people eligible. In addition initial take-up rates appear to have been lower than the 80 per cent we had assumed in the costing, all leading to spending of only £6 million, 45 per cent below our £11 million costing.

4.28 The Self-Isolation Support Grant was launched in October 2020 offering £500 to people asked to self-isolate but unable to work from home. We did not produce a costing at that point as there was

[20] This was referred to as Disability Assistance for Children and Young People (DACYP) in the February 2020 forecast.

no legislation involved.[21] We did produce a costing in our January 2021 forecast, which proved to be around £1 million higher than outturn.

4.29 An expansion of SISG eligibility to include more low income workers who don't receive Universal Credit was announced in February and we produced an updated costing to accompany Stage 2 of the Budget Bill debate. The updated costing estimated lower spending for 2020-21 despite the widening of eligibility, as by that point we had more data showing spending in December and January was lower than we had expected. This updated costing proved to be close to actual outturn.

Comparison against OBR forecasts

4.30 The OBR only publishes comparable forecasts for the payments that are funded by Block Grant Adjustment. They will publish their forecast evaluation later in the year, so we don't know exactly how our forecasts for 2020-21 compare to theirs, but our aggregate error of 2 per cent for these payments is below the average error in corresponding OBR forecasts.

4.31 The OBR did have large relative errors in their forecasts of the early years of the rollout of Personal Independence Payment, and we will face similar risks with the launch of Adult Disability Payment.

Lessons for our next forecast

Sensitivity to unemployment is less than we expected

4.32 In our September costing of Scottish Child Payment we assumed a relatively large increase in eligibility for low income payments in light of increasing unemployment and a very large rise in claimant count unemployment and receipt of Universal Credit. Over the course of the year we saw that there was a relatively small increase in the number of families with children receiving Universal Credit. We think this is partly because the proportion of families receiving means-tested social security payments was already high, even against the recent background of very low unemployment rates, and partly because the sectors worst hit by the pandemic tend to include workers in lower income families who were already receiving in-work payments.

Birth rates have continued to fall

4.33 In last year's report we noted that births were falling. In our January 2021 forecast we reduced our forecast for births and the population of young children, but did not know how many births there had been during 2020 as registry offices had been closed for part of the year. We now know that births continued to fall through 2020 and into early 2021, and were lower than we had assumed in our January 2021 forecast. Some of the drop later in the year is likely to have been driven by the pandemic, but we can see that births were below our previous assumption even during the spring and summer of 2020. This did not have a material effect on spending in 2020-21 but lower birth rates would have a cumulative effect in our medium term forecasts. We will consider whether to further reduce our birth rate assumptions in our next forecast in August.

Lessons from our previous Forecast Evaluation Reports

4.34 In last year's report we discussed several issues which had led to error in our December 2018 forecast of 2019-20 spending.

[21] The Self-Isolation Support Grant uses the same legislative and delivery mechanism as Scottish Welfare Fund Crisis Grants and is specified through statutory guidance to councils (link)

- We noted that there is usually an underspend on the ‘other Discretionary Housing Payments’ budgets and considered reducing our forecast, but this year SG provided extra pandemic funding and allowed councils to collectively keep the underspend so this was not a factor for 2020-21.

- We noted that launch dates for new payments had led to forecast errors on new payments. Launches were again delayed relative to our assumptions for 2020-21 but we regard this as a pandemic effect rather than a systematic issue.

- We noted that year-end accounting adjustments had contributed to the error on some payments. We have subsequently changed the basis of our forecasts to exclude impairments. Year-end accruals for late payments continue to be a potential source of error, and this year have made a material contribution to the forecast error for Personal Independence Payment.

Forecast scope and outturn definitions

4.35 Various different figures for ‘social security spending’ are released at different times of the year and in different contexts. In this section we discuss how our forecast remit and the outturn figures we use relate to other statistics and statements from Social Security Scotland and the Scottish Government.

Our scope

4.36 The remit for our social security forecasts is wider than just the devolved payments administered by Social Security Scotland or run under agency agreement by DWP. Our remit is set out in the Scottish Fiscal Commission Act 2016 and currently covers any social security or employment support that operates under powers devolved in Part 3 of the Scotland Act 2016.[22,23]

4.37 Not all of this fell within the Scottish Government’s Social Security and Older People portfolio. Best Start Foods is administered by Social Security Scotland but the budget was contained within the Health and Sport portfolio, while the Fair Start Scotland employability service was part of the Finance, Economy and Fair Work portfolio. As new services or payments are announced or launched we will include them in our forecast if they fall within our remit and if annual spending is expected to be above our materiality threshold.

4.38 Our forecasts exclude two smaller payments administered by Social Security Scotland. The Young Carer Grant was launched in 2019 but has been excluded from our forecasts on grounds of materiality. Spending in 2020-21 was only £0.7 million, which is below our £1 million threshold for regarding a payment or policy as negligible, so we will continue to exclude it from our forecasts. Job Start Payment was launched in August 2020 and is paid under devolved Employment and Training Act powers which are outside our remit.

4.39 During 2020-21 the Scottish Government also provided significant additional funding to councils to support low income households through routes which do not fall within our remit. For example, a £100 COVID Hardship Payment for families who receive free school meals, and extra funding for Council Tax Reductions.[24] The only elements which were included in our remit for devolved social security expenditure were the additional £22 million for the Scottish Welfare Fund, £4 million on the Self-Isolation Support Grant and £8 million for Discretionary Housing Payments.

[22] Scottish Fiscal Commission Act 2016 (link)
[23] Scotland Act 2016 (link)
[24] Scottish Government (2020) Helping communities affected by COVID-19 (link), Scottish Government (2020) Extra funding to support low income families (link), Scottish Government (2021) Funding to tackle poverty and inequality (link).

Outturn definitions

Social Security Scotland Annual Report and Accounts

4.40 The Social Security Scotland Annual Report and Accounts will include outturn for all the payments they administer except Best Start Foods, and for the devolved payments which are still administered by DWP under agency agreement. We aim to use outturn consistent with these accounts, but they will not cover all the payments within our remit, and as only provisional figures are available at this point it is possible that there will be differences between the outturn quoted here and what is eventually published in the Annual Report and Accounts.

Social Security and Older People Portfolio

4.41 The Social Security and Older People Portfolio was a category within the 2020-21 Scottish Budget. It does not match exactly to our remit to forecast 'devolved social security', which is defined by reference to the devolved powers that the Scottish Government use to make the payments.

Scottish Government provisional outturn statement

4.42 On 17 June 2021, the Minister for Public Finance, Planning and Community Wealth made a statement to the Scottish Parliament setting out provisional outturn for the 2020-21 Scottish Budget.[25] This included spending of £3,373 million on Social Security Assistance compared to a budget of £3,328 million. This total has a slightly narrower scope than the portfolio and only includes payments within the scope of Social Security Scotland Annual Report and Accounts. The budget comparison was against the revised budget that was set by the spring revision in February 2021.[26] Our forecast includes a wider range of spending, and we are evaluating the February 2020 forecasts which informed the original 2020-21 Scottish Budget.

[25] Scottish Parliament (2021) Official Report 17 June 2021 (link)
[26] Scottish Government (2021) Spring Budget Revision: 2020-21 (link)

4.43 Figure 4.4 compares coverage of our forecasts against the different social security totals from the Scottish Government and Social Security Scotland.

Figure 4.4: Coverage of different social security totals

	SFC forecast	Social Security Portfolio	Social Security Scotland Accounts	Provisional Outturn 'Social Security Assistance'
Personal Independence Payment	✓	✓	✓	✓
Disability Living Allowance	✓	✓	✓	✓
Attendance Allowance	✓	✓	✓	✓
Carer's Allowance	✓	✓	✓	✓
Industrial Injuries Disablement Scheme	✓	✓	✓	✓
Severe Disablement Allowance	✓	✓	✓	✓
Best Start Grant	✓	✓	✓	✓
Best Start Foods	✓	-	-	-
Funeral Support Payments	✓	✓	✓	✓
Scottish Child Payment	✓	✓	✓	✓
Child Winter Heating Assistance	✓	✓	✓	✓
Carer's Allowance Supplement	✓	✓	✓	✓
Scottish Welfare Fund	✓	✓	-	-
Discretionary Housing Payments	✓	✓	-	-
Fair Start Scotland	✓	-	-	-
Self-Isolation Support Grant	✓	✓	-	-
Young Carer Grant	-	✓	✓	✓
Job Start Payment	-	✓	✓	✓

Source: Scottish Fiscal Commission

'Social Security Portfolio' is based on the coverage of the 'Social Security and Older People' portfolio in the February 2021 Spring budget revision. In the original 2020-21 Scottish Budget, Scottish Child Payment was part of the Communities and Local Government portfolio.

Social Security Scotland statistics

4.44 Social Security Scotland publishes regular statistics for Carer's Allowance, Carer's Allowance Supplement, Best Start Grant, Best Start Foods, Funeral Support Payments and Young Carer Grant. The spending figures included in the statistics attribute payments to the month or year in which the payment was actually received by the applicant, and do not include any accounting adjustments. The financial outturn included in the provisional outturn statement and in this report is based on a resource accounting treatment which usually attributes payments to the period for which the recipient was eligible. This means that someone who applied this March but wasn't paid until April would appear in the statistics for April 2021 but the same spending would appear in the 2020-21 accounts. For payments launched during the financial year this often means that the spending in the accounts is higher than in the statistics, since it includes an allowance for payments which were issued after the year-end, but does not have an offsetting adjustment at the start of the financial year. The supplementary tables include a comparison of spending figures from statistical publications against the financial data we are evaluating in this report.

Additional information

Abbreviations

ADS	Additional Dwelling Supplement
BGA	Block Grant Adjustment
CJRS	Coronavirus Job Retention Scheme
COVID-19	Coronavirus
CPI	Consumer Price Index
DAYCP	Disability Assistance for Children and Young People
DLA	Disability Living Allowance
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
LFS	Labour Force Survey
NDR	Non-Domestic Rates
OBR	Office for Budget Responsibility
ONS	Office for National Statistics
PAYE	Pay As You Earn
PIP	Personal Independence Payment
RTI	Real Time Information
SEISS	Self-Employment Income Support Scheme
SEPA	Scottish Environment Protection Agency
SFC	Scottish Fiscal Commission
SG	Scottish Government
SLfT	Scottish Landfill Tax
UK	United Kingdom

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).[27]

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 Statistics Authority's Code of Practice for Statistics. Further details and our statement of voluntary compliance can be found on our website.[28]

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:

Economy	Silvia Palombi	silvia.palombi@fiscalcommission.scot
Tax	Rupert Seggins	rupert.seggins@fiscalcommission.scot
Social security	Fran Forner	francisco.forner@fiscalcommission.scot

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

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