Scottish Fiscal Commission

Scotland's Economic and Fiscal Forecasts

August 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.

COVID-19 continues to have a profound effect on the economy and the Scottish Budget. However, the economic outlook has improved significantly since we published our previous forecasts in January 2021, and this is reflected across our tax and social security forecasts. Despite the improvements in the economic outlook, significant uncertainties and risks remain about how the pandemic may continue to develop. This in turn means our forecasts are subject to greater uncertainty than in a typical year.

Our forecasts represent the collective view of the four Commissioners of the Scottish Fiscal Commission who take full responsibility for them. We are very grateful to the staff of the Commission for their ongoing hard work and dedication in producing these forecasts.

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 as well as the Scottish Commission on Social Security for their constructive challenge of our judgments and for ensuring that we considered all the available evidence.

Dame Susan Rice DBE

Professor Francis Breedon

Professor Alasdair Smith

Professor David Ulph

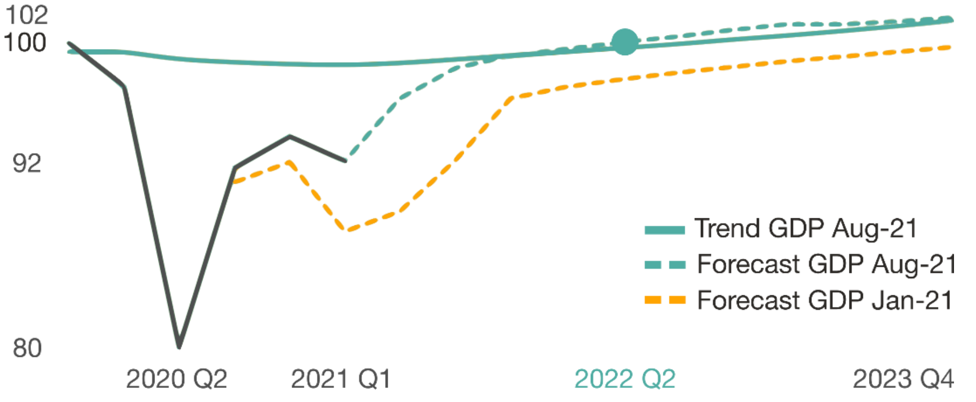
26 August 2021

Economy

Since January 2021, the public health and economic outlook has significantly improved. With COVID-19 restrictions being lifted at a faster pace than anticipated, the economy has recovered more rapidly.

We now expect GDP to reach its pre-COVID level in 2022 Q2, almost two years earlier than we forecast in January 2021.

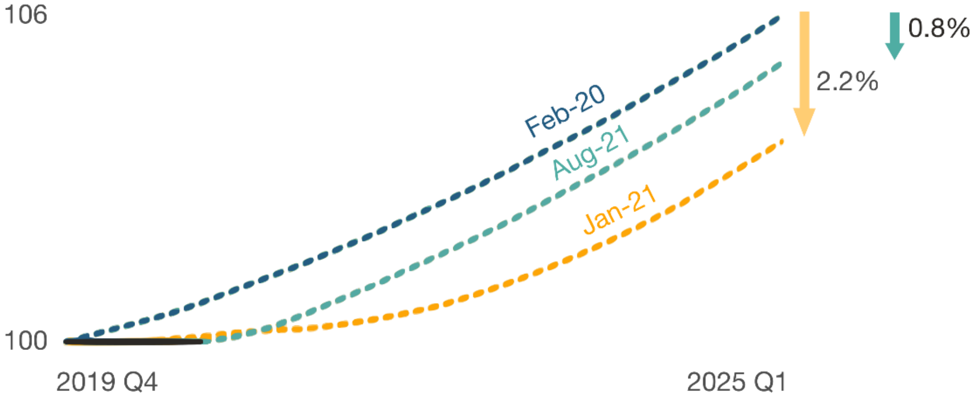
GDP returns to pre-pandemic levels in 2022 Q2



In light of the speed of economic recovery, we have reduced our estimate of COVID-related scarring to trend productivity to 0.8 per cent, compared to 2.2 per cent which we estimated in January 2021.

As a result, trend GDP in 2025 Q1 is 2 per cent lower than our pre-pandemic February 2020 forecast, down from 3 per cent.

Productivity scarring reduced to 0.8%

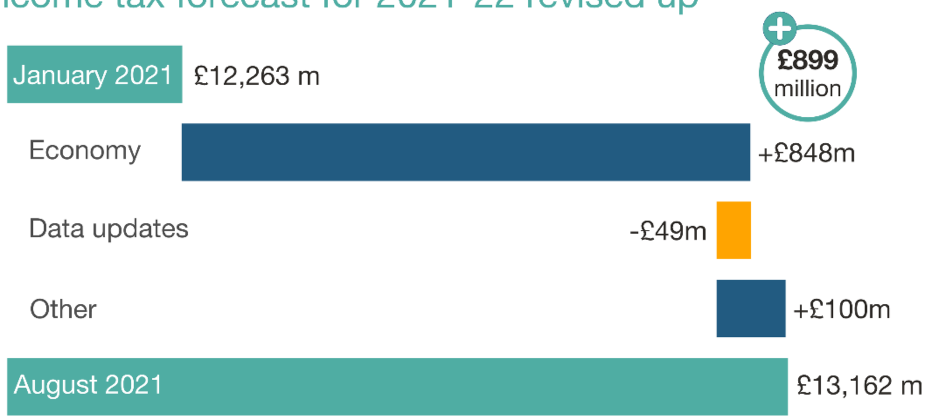


Devolved Taxes

Our income tax forecast for 2021-22 has increased by £899 million compared to our previous forecast, primarily because of the improved economic outlook.

The forecast includes the latest 2019-20 income tax outturn data, and timely RTI tax data up to and including 2020-21.

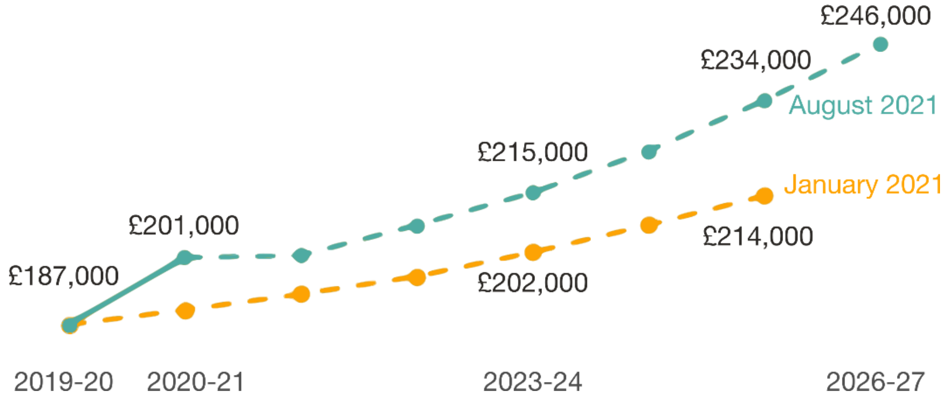
Income tax forecast for 2021-22 revised up



In 2020-21 the average Scottish house price was above £200,000 for the first time. We expect prices to stabilise in 2021-22, and grow in all years after that, driven by our higher forecast of incomes.

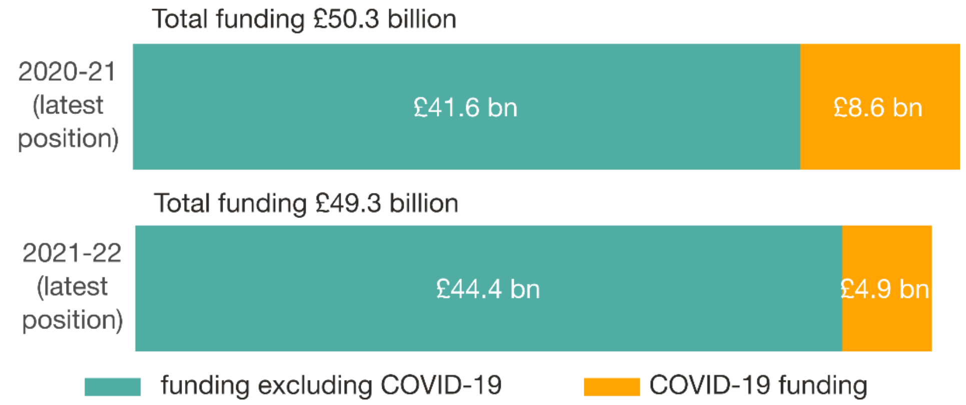
By 2025-26, we expect average house prices will be £20,000 higher than we forecast in January, raising an additional £72 million of LBTT revenue.

House price forecast revised up in line with income



Fiscal Overview

COVID-19 funding

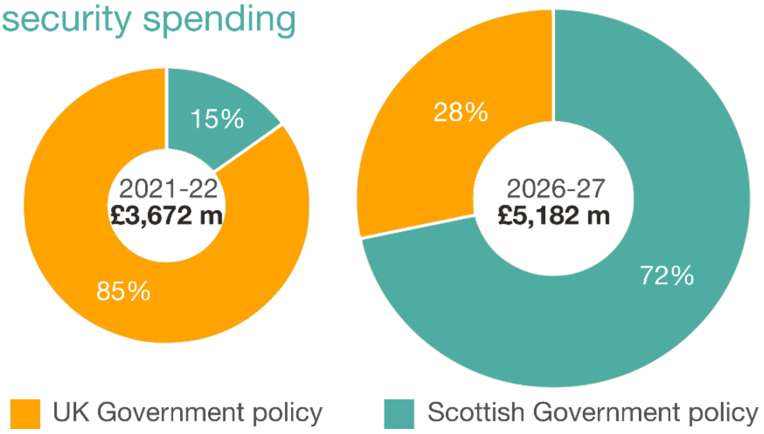


COVID-19 funding has formed an important part of both last and this year's Budgets.

Final COVID-19 funding will be confirmed in early 2022, large increases or decreases late in the financial year may create difficulties for the Scottish Government managing the Scottish Budget.

Social Security

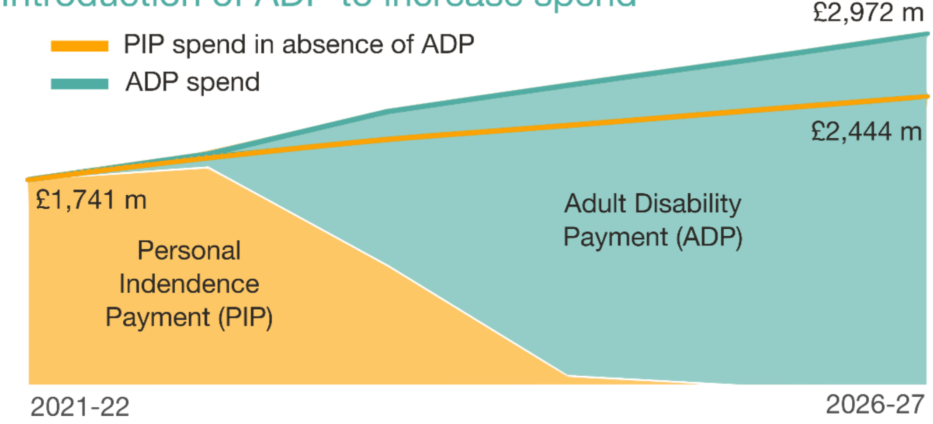
Social security spending



In 2021-22, most Scottish Government social security spending, over £3 billion, is administered by the Department for Work and Pensions based on UK Government policy.

With the introduction of new disability payments, 72 per cent of forecast spending in 2026-27 is based on Scottish Government policy.

Introduction of ADP to increase spend



The Scottish Government's new Adult Disability Payment (ADP) replaces Personal Independence Payment (PIP) from summer 2022.

We expect spending on ADP to be £0.5 billion higher than PIP in 2026-27 because of changes to the application and review processes as well as how the payment is delivered.

Introduction of ADP increases caseloads (2026-27)

By 2026-27, we expect that the introduction of ADP will increase the caseload by an additional 70,000 clients on top of the 400,000 people who would have received PIP in the absence of ADP.

An increase in the number of people receiving ADP leads to 10,000 more people qualifying to claim CA in Scotland by 2026-27.

Fiscal Overview

Fiscal Overview	2020-21	2021-22	£ million
COVID-19 funding **(latest position)**	8,600	4,877	COVID-19 funding has played an important part in last and this year's Scottish Budgets.

Economy

Economy	2021-22	2022-23	2023-24	2026-27	% growth
GDP	10.5	2.4	1.0	1.7	GDP rebounds in 2021-22, mainly driven by household consumption, then stabilises.
Trend Productivity	0.6	1.1	1.3	1.8	Growth revised up in the near term, in line with our assumption of lower long-term scarring from COVID.
Nominal Earnings	5.1	3.8	3.3	3.5	Growth revised up because of the improved economic outlook and higher inflation.
Employment	1.0	0.5	0.3	0.0	Grows in 2021-22, after falling last year. With Government support coming to an end, the labour market outlook remains uncertain.

Tax

Tax	2021-22	2022-23	2023-24	2026-27	£ million
Income Tax	13,162	14,069	14,845	17,348	Income tax revenues revised up across the forecast period because of higher average nominal earnings growth.
Non-Domestic Rates	2,073	2,927	3,280	3,435	Policy to support businesses reduces revenue in 2021-22 with growth in later years driven by upward revisions to our inflation forecast.
LBTT	653	694	733	886	Upward revisions because of house price growth and a faster recovery in the non-residential market.
Scottish Landfill Tax	113	105	90	18	Upward revisions in line with higher than expected outturn data in 2020-21 and the improved economic outlook.

Social Security

Social Security	2021-22	2022-23	2023-24	2026-27	£ million
All devolved social security assistance	3,672	3,945	4,436	5,182	Inclusion of the new Adult Disability Payment increases spending; as well as revisions to our inflation forecast.

Policy announcements

Policy announcements	2021-22	2022-23	2023-24	2026-27	£ million
Total additional cost of Adult Disability Payment		35	236	568	Includes the additional spend on the replacement of Personal Indepedence Payment and additional spend on Carer's Allowance.

Contents

Summary

1 The success of the COVID-19 vaccination programme has weakened the links between case numbers, hospitalisations and deaths and has led to a shift in the public health approach of both the UK and Scottish Governments. Formal restrictions have eased significantly and we now appear to be moving in to the recovery phase from the pandemic. In our forecast, we assume there are no future waves of rapidly rising COVID-19 deaths and hospitalisations, though cases may rise again significantly for periods. With deaths and hospitalisations remaining low, public health restrictions remain minimal. Overall, this leads to a more positive outlook for the economy compared to our January 2021 forecasts.

2 The pathway out of the COVID-19 pandemic is unlikely to be completely smooth. We expect it will take time for households and businesses to adjust to a new normal, so economic activity will remain lower than pre-pandemic until 2022. It is, however, not yet clear how individuals and businesses will respond to the easing of restrictions while COVID-19 remains prevalent. There are also ongoing international supply pressures which combined with domestic recruitment challenges present risks to our forecasts. The downside risk remains of new public health restrictions being imposed if the vaccines become less effective at preventing hospitalisations and deaths through vaccine escaping variants of the virus emerging or a general reduction in the effectiveness of vaccines that is not countered by a booster programme.

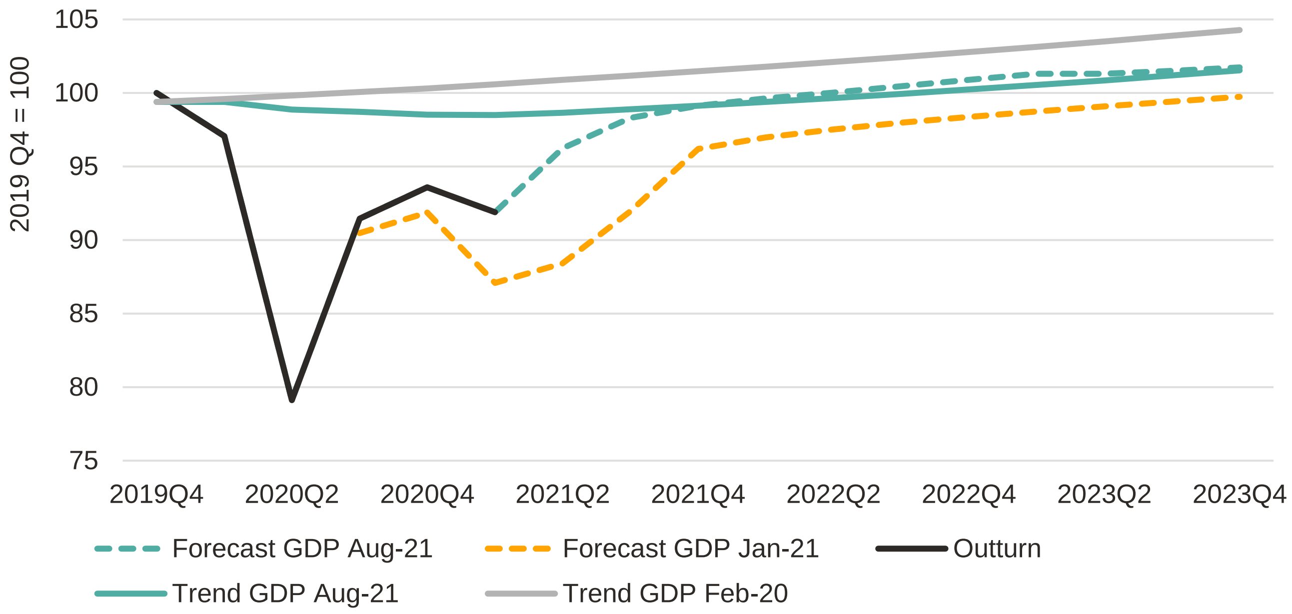
3 In this report, we discuss our latest official forecasts of the Scottish economy, tax and social security spending, as well as the Scottish Budget.

The economic outlook

4 Figure 1 summarises our latest Gross Domestic Product (GDP) forecast relative to our February 2020 and January 2021 forecasts. When we published our last forecast in January 2021, GDP was still considerably below its pre-crisis level. Two weeks before we closed our forecast, a new lockdown was announced in Scotland to control rising COVID-19 cases following the emergence of the Alpha variant of the virus. We expected GDP to fall in 2021 Q1 by around 5 per cent, followed by a gradual recovery in economic activity.

5 Since January 2021, the public health and economic situations have improved. There is good evidence now that the vaccines have been very effective in suppressing deaths and serious illness allowing for a faster pace in lifting restrictions. There are also indications that the economy has recovered more quickly than we envisaged in January. There was a smaller fall in education activity than we forecast because of the phased reopening of schools in February and March, and the swift vaccine rollout contributed to output growth in the health sector.

Figure 1: Trend and forecast Scottish GDP



Source: Scottish Fiscal Commission, Scottish Government (2021) GDP Quarterly National Accounts: 2021 Quarter 1 (January to March) (link).

6 The continuing pace of the wider recovery so far this year has led us to revise up our expectations for Scotland's GDP growth in the near term.

7 Our forecast for 2021-22 as a whole is for growth of 10.5 per cent, mainly fuelled by household consumption, as it reverts to pre-pandemic levels with the removal of restrictions and higher-income consumers start to spend savings accumulated during the pandemic. There may be a partially offsetting effect from changes in consumer behaviour as some people may be hesitant about resuming their pre-pandemic spending habits. We now expect GDP to reach its pre-COVID-19 level in 2022 Q2, almost two years earlier than we forecast previously.

8 We had previously expected there to be a significant degree of 'scarring', long-term economic damage, from the effects of the pandemic, but the speed of economic recovery following the 2021 reopening has made us more optimistic. We have lowered our estimate of the permanent economic damage from COVID-19 to 2 per cent of long-run GDP, down from 3 per cent in our January 2021 forecast. Reduced productivity has been our major source of scarring; but we now expect productivity in 2025 Q1 to be 0.8 per cent lower than the pre-pandemic February 2020 forecast, rather than the 2.2 per cent we estimated in January 2021.

9 Throughout the pandemic, the labour market has performed better than might have been expected, in part because of the success of job support schemes and business support schemes. We now expect the unemployment rate to peak at 5.4 per cent in 2021 Q4 after the furlough scheme expires on 30 September 2021, compared with 7.6 per cent in 2021 Q2 in our January 2021 forecast. Significant uncertainties about the labour market remain because it is unclear how the labour market and businesses will respond when the exceptional level of Government support comes to an end.

10 Another feature of the Scottish and UK economies in 2021 has been rising inflation. International supply pressures as well as domestic recruitment difficulties both appear to be contributing to rising prices. Box 1 explains how we have captured this higher inflation in our forecasts and the effect that it has.

Box 1: How inflation affects our forecasts

We normally base our inflation forecast on the Office for Budget Responsibility's (OBR) forecast. In March 2021, the OBR forecast Consumer Price Index (CPI) inflation for 2021 of 1.5 per cent, but inflation since March has been a lot stronger than expected earlier this year. We have therefore aligned our inflation projections for 2021 and 2022 with those published in the Bank of England's August 2021 Monetary Policy Report. In that report the Bank of England expected annual UK CPI inflation to be 4.0 per cent in 2021 Q4 and 2022 Q1, decreasing to 2.5 per cent at the end of next year.[1]

Higher inflation means that many of the nominal values in our forecast, for example earnings, household consumption and house prices, have been revised up significantly. However, the increase in these values in real terms, that is after adjusting for inflation, is far less.

Because of the improving economic outlook, we have revised up our forecast of real earnings growth in 2021-22 from 1.2 per cent in our January 2021 forecast to 1.9 per cent in our latest forecast. With inflation peaking at 4.0 per cent, we forecast nominal earnings growth of 5.1 per cent in 2021-22, significantly higher than our forecast of 2.5 per cent in January.

Higher nominal values across our economy forecast feed through to many of our tax and social security forecasts. For example, we now forecast nominal house prices to rise by 3.1 per cent in 2022-23, driven in part by higher nominal earnings which increases our Land and Buildings Transaction Tax forecast.

In addition, higher inflation directly affects many tax thresholds and social security payment rates. For example most social security payments are increased each year by September CPI inflation from the previous year. We now expect CPI in September 2021 to be 2.7 per cent, higher than the 1.4 per cent forecast in January 2021. This has increased our forecasts of social security spending in 2022-23 by £45 million, and by 2025 26 our forecasts are £125 million higher than we forecast in January because of inflation.

11 Population and demographic change is an important feature behind many of our forecasts. Birth rates in Scotland have been falling for some time, and the repercussions of COVID-19 have likely reduced them further. In addition, Brexit is expected to reduce migration. Overall, we now expect the Scottish population to decline over the coming years. Box 2 provides an overview of our latest population projections.

Box 2: Scotland's population

Over the next five years we expect the Scottish population to decline by 15,000.

A falling number of births is the main driver of the overall change in the level of the population. We expect the number of births and the size of the child population to continue to fall, reducing spending on some social security payments.

We project the Scottish population aged 16-64, who make up the majority of the labour force, to fall by around 60,000 people between 2020 and 2026, an average fall of 10,000 people per year. After a drop in migration in 2020 and 2021, we expect net migration to slowly increase but, following the UK exit from

[1] Bank of England (2021) Monetary Policy Report – August 2021 (link)

the European Union, we expect migration to be lower than pre 2019-20 levels in every year of our forecast. This reduction in the working-age population affects our economic and fiscal forecasts.

We now anticipate that the labour force will decline in size slightly over the forecast period, both because of the reduction in the working age population and the fact that a higher fraction of this group will become economically inactive for a variety of reasons: retirement, younger people choosing to remain in education for longer, and those not participating in the labour force for example because of caring responsibilities, disability or ill health. This will act as a curb on growth on the total size of the Scottish economy. In the longer term, the Scottish working age population shrinking faster than the total population is also expected to act as a drag on GDP per capita.

The population aged over 65 is projected to continue to increase by over 110,000 between 2020 and 2026 reflecting the aging population. The aging population is expected to lead to increased spending on social security payments related to ill-health and disability.

Tax

12 Many of our tax forecasts have been revised up significantly since our January 2021 forecast, both because of the improved economic outlook and rising inflation. Our income tax forecast for 2021-22 has been revised up by around £0.9 billion.

13 Funding for the Scottish Budget related to income tax depends on the comparison of our Scottish income tax revenue forecasts to forecasts of the income tax Block Grant Adjustment (BGA), based on forecasts by the OBR. However, OBR forecasts were last updated in March 2021, and there have been significant changes to the outlook for the Scottish and UK economies since then, with both economies forecast to grow more quickly.

14 Following upwards revisions to our forecasts, our latest forecast of income tax revenue for 2021-22 is around £1.3 billion higher than the latest available estimate of the 2021-22 BGA based on the OBR March 2021 forecast. This large difference is the result of significant changes in the economic outlook between when the OBR made their March 2021 forecast and now. This timing mismatch between the component forecasts means the estimated £1.3 billion net funding position is artificially high and does not reflect the likely true net funding position for 2021-22.

15 There is no evidence of a significant divergence in Scottish and UK economic performance that would support such a high net funding position. We expect that the updated OBR forecasts due to be published on 27 October will reduce the gap between the BGA and our forecast of income tax revenues. Subsequently we expect the net funding position for income tax to return to a level similar to previous years. Importantly, these updated forecasts have no direct effect on the Scottish Budget as the 2021-22 figures remain fixed from January 2021.

16 In March we wrote to the Finance and Constitution Committee to explain how the OBR and the Commission would provide additional information in future reports that will help explain income tax forecast differences and effects on the net tax position.[2] We have provided a new set of tables in Chapter 4 that compare our latest income tax forecast to the OBR's latest forecast. These will be updated iteratively and published by us and the OBR each time we publish a new set of forecasts.

[2] Scottish Fiscal Commission (2021) Letter to Finance and Constitution Committee – 3 March 2021 (link)

17 The improved economic outlook has also affected devolved tax revenues. Our Land and Buildings Transaction Tax forecast is revised upwards in all years, because of higher house prices and a faster recovery in the non-residential property market. Similarly, stronger outturn data and revisions to the economy forecast have led to upward revisions to our Scottish Landfill Tax forecast. Non-domestic rates revenue is reduced in 2021-22 following the Scottish Government's decision to extend the retail, hospitality, leisure and aviation relief for the full financial year, but from 2023-24 onwards our revised inflation forecast increases revenue compared to our January forecast.

Fiscal Overview

18 Since the start of the pandemic in March 2020, funding for COVID-19 has played an important role in the Scottish Budget, accounting for 17 per cent of the 2020-21 Scottish Budget and 10 per cent of the 2021-22 Scottish Budget so far.

19 In 2020-21, the UK Government guaranteed the level of funding the Scottish Government would receive, removing the risk of funding being reduced later in the year. The guarantee was increased several times through the year, and it did provide the Scottish Government with more certainty to plan its budget. In addition, when the UK Government announced £1.2 billion of additional funding in February 2021 with only a few weeks of the fiscal year remaining, HM Treasury allowed the Scottish Government to defer the funding into 2021-22.

20 This year there is no such guarantee and currently no arrangement for deferring funding. The Scottish Government is required to maintain a balanced budget, matching its spending to available funding each year with limited capacity in the Scotland Reserve to move funding between years. The latest estimate of COVID-19 funding in 2021-22 is £4.9 billion, and the final level of funding will not be confirmed until the UK Government's Supplementary Estimates in early 2022. Large changes in COVID-19 funding late in the financial year may create difficulties for the Scottish Government's management of its budget. These difficulties may be more significant than in 2020-21 if the guarantees and flexibilities of last year are not available.

21 The overall funding outlook of the Scottish Budget depends not only on our forecasts of tax revenue and social security spending, but also on the corresponding funding changes for the BGAs. The latest estimates of the BGAs are based on the OBR's forecasts published in March 2021. Since then, the outlook for the Scottish and UK economies has changed significantly and this means any comparison between our forecasts and the BGAs will not reflect the likely true position. When we publish our next forecasts, alongside the Scottish Budget, we will be able to comment on these comparisons to assess the outlook for the funding of the Scottish Government.

Social Security Spending

22 Overall, we forecast devolved social security spending will increase from £3.7 billion in 2021-22 to £5.2 billion in 2026-27, as more people receive social security support each year and payment amounts are uprated by inflation.

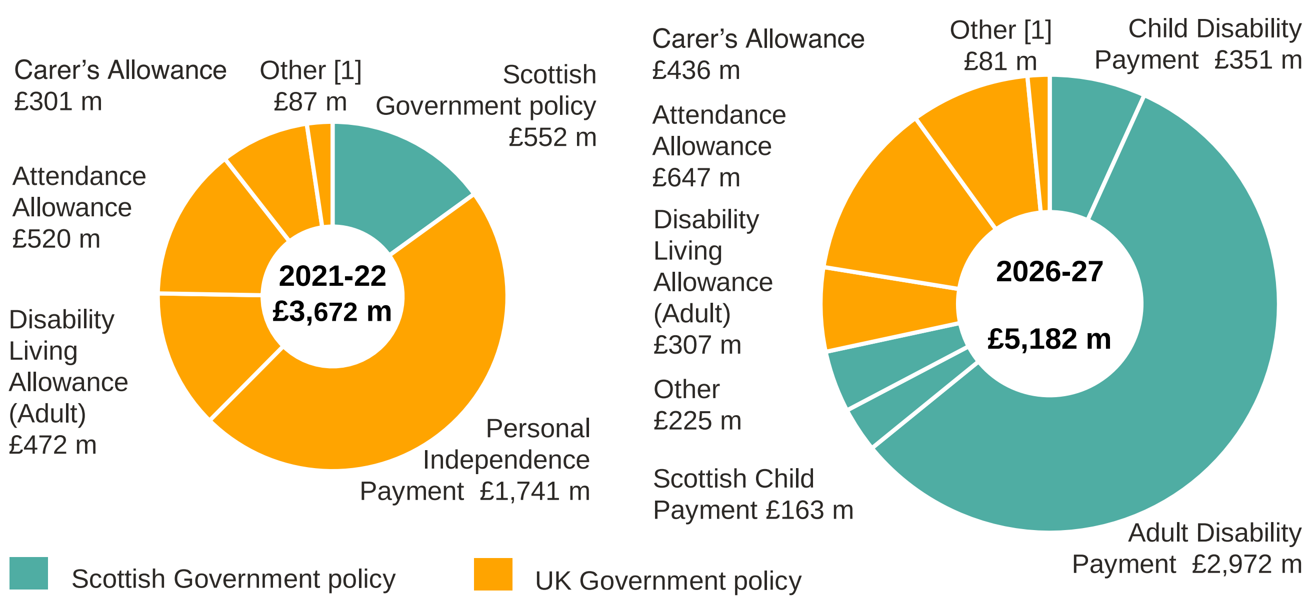
23 In these forecasts, we have produced our first estimate of spending on the new Adult Disability Payment (ADP), due to replace the Personal Independence Payment (PIP) nationally from summer 2022.[3] PIP and ADP provide financial assistance to contribute towards the increased costs incurred by an individual because of a disability or long-term health condition. We estimate that, by 2026-27,

[3] A small pilot scheme will launch in spring 2022.

spending on ADP will be £0.5 billion higher than what would have been spent on PIP with total spending reaching £3.0 billion in 2026-27.

24 Figure 2 shows how much more devolved social security spending in Scotland is going to be based on Scottish Government policy over the next few years. In 2021-22 most social security spending, over £3 billion, is administered by the Department for Work and Pensions (DWP) under agency agreements with the Scottish Government. By 2026-27, we expect 72 per cent of spending to be based on Scottish Government policy. When the Scottish Government announces details of the replacements for the remaining payments still administered by DWP, we will incorporate the changes in our forecasts and this percentage will rise further.

Figure 2: Social security spending in 2021-22 and 2026-27



Source: Scottish Fiscal Commission
Scottish Government policy includes Best Start Foods, the three payments of Best Start Grant, Carer's Allowance Supplement, Child Winter Heating Assistance, Funeral Support Payment, Discretionary Housing Payments, Fair Start Scotland, Self-Isolation Support Grant and Scottish Welfare Fund. Child Disability Payment is included as being costed on Scottish Government policy in 2021-22; however this includes spending on the UK Government Disability Living Allowance (Child).
[1] Includes Industrial Injures Disablement Scheme and Severe Disablement Allowance

25 New policies are always harder to forecast: it is inherently more difficult to predict how many people will be eligible and claim the payments, since we have very limited information on which to base our forecasts. In the past, reforms of major disability payments have cost more than initially expected. The introduction of Disability Living Allowance in 1992, which PIP subsequently replaced, was intended to extend eligibility and therefore spending was expected to increase, but the OBR has noted that it rose by much more than originally expected. PIP was launched in 2013, and was expected to cut costs by 20 per cent by 2015-16, but was costing 15 to 20 per cent more by 2017-18.[4] The OBR's Welfare Trends Report in 2019 concluded that "PIP, a reform intended to reduce spending has actually increased it".

26 Although the Scottish Government are not changing the overall structure of ADP, compared to PIP, there are changes to the processes for applying, award reviews and appeals and how the payment is promoted. Social Security Scotland has developed its own social security Charter and intends to promote a positive view of social security. We expect operational changes in delivery of the

[4] OBR (2019) Welfare Trend Report – January 2019 (link)

payment.[5] Our view is that these changes will increase the number of people receiving payment, and the average amount they receive.

27 There is very limited information on which to base our estimates of the additional costs of ADP. Although we have considered evidence from UK disability payments and new payments introduced in Scotland, the lack of comparability means that this information is of limited use, so our forecasts inevitably rely on a significant element of judgement. To estimate the additional spending, we have considered the effects of the changes made on a range of areas: how many successful applications are received; how average payments may change; how long clients have between award reviews; the outcome of award reviews; the new Short Term Assistance payments for those who challenge a reduced or disallowed award; and, new rules for those with a terminal illnesses. We expect the most significant increases in spending to occur because we expect more successful applications with higher average awards under ADP than under PIP. We also expect the new light touch review process to result in fewer clients having their award disallowed and therefore more people remaining on the caseload. Clients currently receiving PIP will gradually be transferred to Social Security Scotland and ADP from September 2022.

Figure 3: Costing of Adult Disability Payment

£ million	2022-23	2023-24	2024-25	2025-26	2026-27
Total additional cost of ADP	**35**	**236**	**363**	**462**	**568**
Policy cost to ADP	34	226	341	431	529
Carer's Allowance spending [1]	1	11	22	31	40

Source: Scottish Fiscal Commission

Figures may not sum because of rounding.

[1] Additional cost to Carer's Allowance and Carer's Allowance supplement because of the introduction of Adult Disability Payment.

28 We also expect spending on Carer's Allowance to increase as more people become eligible through the larger ADP caseload. These changes will have long-term spending consequences, since awards are made on an on-going basis and all successful applications will have to be paid. This is unlike other resource spending commitments where budgets are set a year or more ahead. The Scottish Government receives funding from the UK Government based approximately on what would have been spent on PIP in Scotland, so the additional costs of ADP will need to be met from elsewhere in the Scottish Budget. The Scottish Government will either need to reallocate funding from other areas to cover social security or raise additional revenues through taxes.

29 As we receive information from Social Security Scotland on ADP our forecasts will increasingly be based on data which reflects new Scottish Government policy rather than assumptions about how many people successfully apply and how much they receive on average. We therefore expect the uncertainty in our forecasts to decrease once the payment has launched.

30 The Scottish Government has commitments to increase social security spending in other areas. The SNP manifesto included a commitment to double Scottish Child Payment (SCP). We currently expect spending on SCP to reach £163 million in 2026-27, and the cost of the manifesto commitment is not included in our forecast. As SCP is not replacing any existing payment, its costs must be met entirely from the Scottish Budget. Other Scottish Government commitments, which are also not part of our forecast, include replacing Carer's Allowance, Attendance Allowance, Industrial Injuries Disablement Scheme, Cold Weather Payments and Winter Fuel Payments with new

[5] Social Security Scotland: Our Charter (link)

Scottish payments. In 2020-21 spending on these five payments was over £1 billion. We expect many of these changes will increase spending on social security, which may put further pressure on the resource budget.

Chapter 1 Introduction

What is in this report?

1.1 This report presents the official and independent economic and fiscal forecasts created by the Scottish Fiscal Commission and published on 26 August 2021.

1.2 In addition to our forecasts, we set out what has changed since the Scottish Budget in January 2021. We provide an overview of the main assumptions and judgements made as part of the forecast process. Given the context in which it is produced, in this particular report we also detail our assumptions about the COVID-19 pandemic and its effect on the economy, tax revenues and social security spending.

1.3 The report contains the following chapters:

Summary	Our economic and fiscal forecasts, the fiscal overview and the main stories from this round of forecasts.
Fiscal Overview	Discusses the main fiscal changes since our last forecasts. This includes UK Government funding for COVID-19 and new social security payments. We also assess the Scottish Government's planned borrowing and use of the Scotland Reserve.
Economy	Our five-year forecasts for the Scottish economy, including the underlying judgements.
Tax	Our forecasts of devolved tax revenue.
Social Security	Our forecast of devolved social security spending.
Annex A: Policy Costings	Our estimates of how much any new policies will cost or raise, and how the Commission has arrived at that estimate.
Annex B: Policy Recostings	Our revised estimates of policies previously costed. Recostings may be required because of new outturn data or revisions to assumptions and judgements.
Annex C: Materiality	Our approach to handling policies which have a very small fiscal effect.

1.4 Some additional information such as comparisons to OBR forecasts and sensitivity analyses are in our supplementary tables, available for download from our website. If there is any information you are looking for that is not in this report or the supplementary tables, please get in touch with us at info@fiscalcommission.scot.

1.5 We usually publish two forecasts a year – one in May to accompany the Scottish Government's Medium Term Financial Strategy (MTFS) and one in December to accompany the Scottish Budget. Our usual May forecast did not take place because of the Scottish Parliament election. Following a recommendation from the Finance and Constitution Committee we committed to publishing our next forecast in August 2021.[6]

1.6 Throughout this report, we compare our latest August 2021 forecasts to those we published in January 2021, with the 2021-22 Scottish Budget. We expect to publish our next forecasts to accompany the 2022-23 Scottish Budget.

[6] Finance and Constitution Committee (2021) Report on Scottish Government Budget 2021-22 (link)

The process behind creating our forecasts this year

1.7 These are our first forecasts which do not accompany a Scottish Government fiscal event. We have continued to follow our typical ten week period ahead of publication and started work on our forecasts in mid-June. Throughout this period, our interaction with the Scottish Government has been guided by our Protocol for engagement.[7]

1.8 The Commission has had several rounds of meetings to discuss our forecasts. Attendees have included the Scottish Government, Revenue Scotland, Social Security Scotland and the Office for Budget Responsibility. In accordance with the Protocol, more detail of timings and attendees is published on our website.[8] We have also separately discussed our Adult Disability Payment forecast with the Scottish Commission on Social Security.

1.9 To finalise our forecasts ready for publication, we need a cut-off date for incorporating new data and information into the forecasts. Our data cut-off was 6 August 2021. No new data or information available after 6 August 2021 were included in our forecasts.

1.10 Headline dates of interest are:

23 March	Dame Susan Rice wrote a letter to the Finance and Constitution Committee confirming the Commission would publish its next forecasts on Thursday 26 August at 9:30 am.[9]
6 August	Deadline for inclusion of new data in the forecasts. Closure of economy forecasts. Deadline for the Scottish Government to provide the Commission with any final policy measures to be included in the forecasts.
17 August	The Commission presented the Scottish Government with final forecasts.
23 August	The Commission's near-final report was shared with the Scottish Government.
24 August	Call between Dame Susan Rice, Chair of the Commission and Cabinet Secretary for Finance.
25 August	A pre-release version of the Commission's report was shared with the Cabinet Secretary for Finance and the Economy, Cabinet Secretary for Social Justice, Housing and Local Government, and the Minister for Social Security and Local Government.
26 August	Scotland's Economic and Fiscal Forecasts – August 2021 published.

COVID-19

1.11 The economy, tax revenues and social security spending have all been affected by the economic and social restrictions imposed by the Scottish Government because of COVID-19, which in turn has affected our forecasts. Although the outlook for COVID-19 has improved with the vaccine rollout, we expect the pandemic to continue to affect economic activity in Scotland and the UK. Our central assumptions are summarised in Figure 1.1.

[7] Protocol for engagement between the Scottish Fiscal Commission and the Scottish Government Version 4.0 – September 2020 (link)
[8] Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – August 2021 (link)
[9] Letter from Dame Susan Rice to the Finance and Constitution Committee Convener 23 March 2021 (link)

Figure 1.1: Central COVID-19 assumptions

	Assumption
1. Third-wave	• Elevated case numbers in Scotland and UK starting in June 2021. Case numbers began to reduce in July but have started to rise again in August. We anticipate that there may be further increases as schools, universities and colleges return. • The vaccine programme means deaths and hospitalisations remain low throughout the third wave compared to previous waves.
2. Subsequent waves	• The vaccine programme means any future increases in cases do not result in significantly elevated numbers of hospitalisations or deaths and therefore the required public health responses have a minimal effect on economic activity.
3. Vaccinations	• By the time of publication over 90 per cent of the Scottish adult population have received their first dose and over 80 per cent have received their second dose.[10] • Vaccines continue to be rolled out targeting harder to reach groups and are now extended to 16 and 17 year olds. Joint Committee on Vaccination and Immunisation initial advice recommends a further round of boosters for the over 50s and other vulnerable groups in the autumn. • Vaccines continue to be effective against any new variants of the virus, even if effectiveness is reduced relative to existing variants. Any signifcant waning of the vaccines' effectivness over time in individuals is countered by booster vaccinations.
4. National and regional restrictions	• All of Scotland moved to level 0 on 19 July with some restrictions in place, particularly for the hospitality and leisure industries. The majority of remaining restrictions were lifted on 9 August. • With the success of vaccines, restrictions remain minimal from 9 August onwards. COVID-19 begins to be managed more like a normal virus within the UK and Scotland, although there are requirements for self-isolation and some restrictions on international travel.
5. Job protection schemes and business support	• The latest job protection schemes are in place until the end of September 2021 – with the Coronavirus Job Retention Scheme being tapered over the summer. • No further job protection schemes are introduced beyond those already announced. • The existing business support schemes are being phased out in line with restrictions. • The Self-isolation Support Grant will continue to be paid during 2021-22 and individuals required to self-isolate.
6. International outlook	• The virus will continue to be prevalent in other countries around the world for some time. This may continue to affect supply chains and foreign tourism, both inbound and outbound, with the long-term effects continuing post 2021 Q4.

Source: Scottish Fiscal Commission

[10] Public Health Scotland COVID-19 Daily Dashboard accessed 23 August 2021 (link)

Upside and downside risks to the forecast

1.12 Our central case rests on broad-brush assumptions about the outlook for the pandemic. However, there is significant uncertainty, and our central case allows for a reasonable degree of variation in these factors.

1.13 A materially different pathway of COVID-19 and restrictions would mean the outlook for the economy, taxes and social security spending could be significantly different from our forecasts. Given our forecasts are based on the continued success of the vaccination programme with the reduced rates of hospitalisation and death from COVID-19, we view the risks to our forecasts to be downside risks.

1.14 There are significant downside risks which would have negative economic consequences, require additional public spending by the Scottish and UK Governments as well as reducing tax revenues and increasing social security spending. We consider the risks most likely to emerge in the following situations:

- An unexpectedly severe fourth wave of cases unrelated to a new variant occurs. The Scottish Government may consider the need to re-introduce restrictions for a short time, restricting economic activity and reducing GDP over the period in which the wave occurs.

- A new variant of COVID-19 emerges that current vaccines are significantly less effective against. The Scottish Government may need to introduce strict restrictions limiting social and economic activity for a longer period of time.

Chapter 2
Fiscal overview

Introduction

2.1 The Scottish Government set out its spending plans for 2021-22 in the Scottish Budget document which was presented to the Scottish Parliament on 28 January 2021. These plans are set by the Scottish Government and are adjusted through the year at formal Budget Revisions. We show how those spending plans are funded, and how the level of funding has changed through the year.

2.2 COVID-19 funding again plays a significant role in the Scottish Budget this year, adding extra volatility, and we discuss how borrowing and the Scotland Reserve can be used to manage this. We expect social security spending to increase, which may put pressure on resource funding in the medium to long term.

2.3 We have also separately published a Fiscal Update which sets out detailed changes to last and this year's Scottish Budgets, 2020-21 and 2021-22.[11]

Resource

Resource funding

2.4 Resource makes up most of the funding in the Scottish Budget and is for spending on current costs such as: public sector wages, spending on goods and services, grants and subsidies.

2.5 Figure 2.1 sets out changes to resource funding in 2021-22 since our previous two Fiscal Updates.[12] The first of these was published alongside the introduction of the Scottish Budget Bill on 28 January 2021 and the second was published on 9 March 2021, to incorporate changes from the UK Budget and the Scottish Budget Bill passing through Parliament to become an Act.

[11] Scottish Fiscal Commission (2021) Fiscal Update – August 2021 (link)
[12] Scottish Fiscal Commission (2021) Fiscal Update – March 2021 (link), Scottish Fiscal Commission (2021) Fiscal Update – January 2021 (link).

Figure 2.1: Changes to 2021-22 resource funding

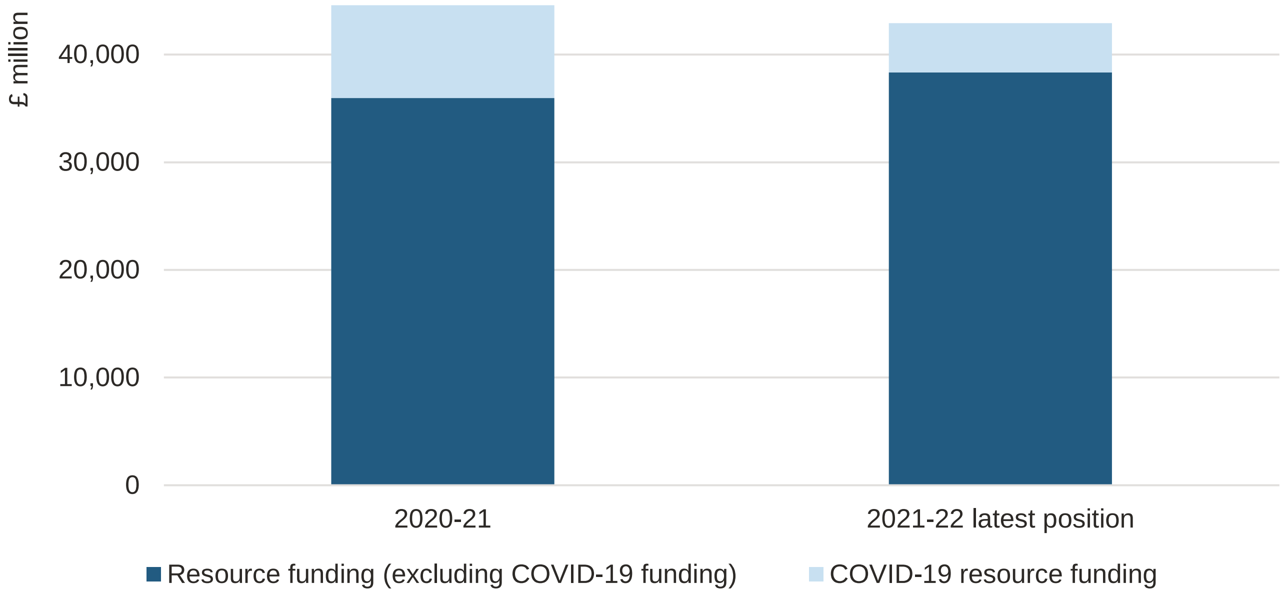
£ million	28 January 2021	Changes up to 9 March 2021	Changes since 9 March 2021	Latest position
Barnett-determined block grant	30,923	0	0	30,923
Non-Barnett funding	756	-40	0	716
Non-COVID Barnett funding	0	+9	+25	34
COVID-19 funding [1]	1,828	+1,580	+1,175	4,583
SFC tax forecasts [2]	12,937	0	+92	13,029
Tax and non-tax BGAs	-12,430	0	0	-12,430
Social security BGAs	3,310	0	0	3,310
Final reconciliations	-319	0	0	-319
Resource borrowing	319	0	0	319
Resource reserve drawdown	231	0	+168	399
Other	246	0	+25	271
NDR distributable amount	2,631	-541	0	2,090
Total resource funding	40,431	+1,008	+1,485	42,924

Source: Scottish Fiscal Commission
Figures may not sum to totals because of rounding.
[1] Changes to COVID-19 funding since 9 March 2021 includes £1,000 million which was allocated at the UK Government's Main Estimates and the Scottish Government's estimated £175 million funding based on further UK Government funding announcements.
[2] The £92 million increase is made up of a £67 million increase for Land and Buildings Transaction Tax and a £25 million increase for Scottish Landfill Tax.

COVID-19 funding

2.6 The biggest change to the 2021-22 Scottish Budget since the Budget Bill was passed in March is increased COVID-19 funding. Since the start of the pandemic in March 2020, funding for COVID-19 has played an important role in the Scottish Budget, making up 19 per cent of the 2020-21 resource Budget and 11 per cent of the 2021-22 resource Budget so far. Figure 2.2 below illustrates total resource funding for the 2020-21 and 2021-22 Scottish Budgets, highlighting the portion made up of funding from COVID-19.

Figure 2.2: Resource funding for 2020-21 and 2021-22 Scottish Budgets



Source: Scottish Fiscal Commission
The comparison between 2020-21 and 2021-22 is in nominal terms.

2.7 COVID-19 funding is allocated through the Barnett formula. It is generated when the UK Government allocates funding to departments for spending on COVID-19 for areas which are devolved to the Scottish Government.

2.8 Barnett funding, and therefore COVID-19 funding, is subject to change if the UK Government adjusts its spending plans. These changes could occur if the UK Government spends more or less than expected, or diverts funding from underspends elsewhere. Final levels of funding, and in particular COVID-19 funding, for the Scottish Government will only be confirmed when the UK Government publishes its Supplementary Estimates in February 2022 at the end of the financial year.

2.9 In 2020-21 the UK Government provided the Scottish Government with a guaranteed minimum level of COVID-19 funding, which meant it would not be reduced if UK Government funding changed. The guarantee was initially set in July 2020 but was increased several times through the year, as the UK Government's COVID-19 funding increased. The guarantee removed the risk that funding would be reduced later in the year, which allowed the Scottish Government to plan its COVID-19 response.

2.10 There is no guarantee in place for 2021-22, so COVID-19 funding could be increased or decreased through the year, until the UK Government publishes its Supplementary Estimates in February 2022. Although these arrangements are typical for Barnett funding, the scale and volatility of COVID-19 funding makes this uncertainty more difficult to manage.

2.11 Large increases or decreases in COVID-19 funding late in the financial year may create difficulties for the Scottish Government not only in planning its COVID-19 policies but also for managing the Scottish Budget as the fiscal framework limits how much funding can be transferred between years through the Scotland Reserve.

2.12 In last year's Budget an additional £1.2 billion of funding was allocated near the end of the financial year, in February. HM Treasury allowed the Scottish Government to defer this funding into 2021-22.

Had this deferral not been offered, this funding could not have been transferred into the following year using the Scotland Reserve because it would have breached the limit.[13]

Social security reforms

2.13 Following the Scotland Act 2016 the Scottish Government has launched a number of new social security payments to replace previous UK Government payments which were administered by the Department for Work and Pensions (DWP). In previous publications we noted that as new payments have launched in Scotland, these typically have higher levels of spending than the payments they replaced, because the Scottish Government has a policy intention to make the new payments easier to access with more accessible application routes, more support for applicants and wider promotion. In several cases, such as the Best Start Grant, eligibility for the payments has also been expanded. The Scottish Government has also launched a completely new payment, the Scottish Child Payment, which did not replace an existing UK payment.

2.14 While a number of payments continue to be administered by DWP on behalf of the Scottish Government, our forecasts now include Adult Disability Payment (ADP), which the Scottish Government plans to launch nationally in summer 2022. ADP will be the largest payment administered by Social Security Scotland and will replace Personal Independence Payment (PIP). We estimate that, by 2026-27, spending on ADP will be £529 million higher than would have been spent on PIP with total spending reaching £3.0 billion in 2026-27. Over time we expect the additional costs of ADP to increase relative to PIP, as we expect more people to receive the payment, with longer average durations and higher average awards. We also expect spending on Carer's Allowance to increase by £40 million in 2026-27 as more people become eligible through the larger ADP caseload.

2.15 The changes being made through ADP will have long-term spending consequences. We assume that the introduction of ADP will result in increases in the caseload and average payment award, which will increase spending in all future years. More information on ADP can be found in **Annex A**. Unlike other resource spending commitments where budgets are set a year or more ahead, spending on social security is largely demand led and all future eligible applications will have to be paid. The Scottish Government receives funding from the UK Government based approximately on what would have been spent on PIP in Scotland, so the additional costs of ADP will need to be met from elsewhere in the Scottish Budget. The Scottish Government will either need to reallocate funding from other areas to cover social security, or raise additional revenues through taxes.

2.16 There is a very high degree of uncertainty around the additional level of spending on ADP. Although the qualifying criteria for ADP are broadly unchanged from PIP, this is a new payment, and we have very limited information on which to base our forecasts. How the payment will be promoted, delivered and administered is very different from the current system. New payments are always harder to forecast as it is inherently more difficult to predict how many people will be eligible and claim the payments.

2.17 The risks to the Budget in the year ADP is launched, 2022-23, are fairly low: most spending will be on existing clients and even with a spike in applications at the start we expect spending to only increase only by £34 million in 2022-23. Any difference between spending and the forecasts used to set the 2022-23 Scottish Budget can be managed using resource borrowing powers. We will review our forecasts once the payment has launched and we have the first data on application numbers,

[13] The Scotland Reserve has a total limit of £700 million. We discuss this more fully later in the Chapter.

success rates, award levels and the outcomes of award review processes run by Social Security Scotland.

2.18 We expect the changes being made to ADP will result in additional clients receiving payment, at higher rates and for longer than under the current PIP system. Over time the additional spending increases, with the additional spending on ADP increasing to £0.5 billion in 2026-27.[14] This presents a pressure on the Scottish Budget which grows over time; we expect spending to be greater than funding received and this difference will need to be managed within the Scottish Budget.

2.19 The Scottish Government has further commitments to increase social security spending in other areas. The SNP manifesto included a commitment to double the Scottish Child Payment (SCP). We currently expect spending on the SCP to reach £163 million in 2026-27, and the cost of the manifesto commitment is not included in our forecast. As SCP is not replacing any existing payment, its costs must be met entirely from the Scottish Budget. Other commitments include replacing Carer's Allowance, Attendance Allowance, the Industrial Injuries Disablement Scheme, Cold Weather Payments and Winter Fuel Payments with new Scottish payments. In 2020-21 spending on these five payments was over £1 billion. We expect many of these changes will increase spending on social security, which may put pressure on other parts of the resource Budget.

Funding related to devolved taxes and social security spending

2.20 Under normal circumstances Block Grant Adjustments (BGAs) can be compared to tax revenues or social security spending to illustrate funding or spending pressures on the Scottish Budget. Because of differences in timing between the OBR forecasts used for the BGAs and our latest forecasts, at this time the comparison does not present an accurate picture of the net funding position for the Scottish Budget.

2.21 The latest BGAs are based on the OBR's March 2021 forecasts. Since then there have been significant changes to the outlook for the Scottish and UK economies, with both economies forecast to grow more quickly, changes to the inflation forecasts and new income tax outturn information. This means any comparison between our forecasts and the BGAs will not reflect the likely true position. We discuss differences between BGAs and revenue or spending in more detail in the Tax and Social Security Chapters.

2.22 The OBR will publish updated forecasts on 27 October 2021 and we expect the BGAs based on these forecasts to be more comparable to our current forecasts. We will produce our next forecasts alongside the Scottish Budget – at this time we will compare our forecasts to the BGAs and describe any funding implications.

Resource reserve

2.23 The Scottish Government is required to maintain a broadly balanced budget, matching its spending to available funding each year. As the Scottish Government cannot overspend its budget, outturn spending must come in below the allocated budget and this results in underspends, as a normal outcome of budget management. The Scottish Government therefore needs to have provision to transfer unspent funds from one financial year to the next. The Scotland Reserve was introduced in 2017-18 as the mechanism to allow the Scottish Government to save any underspends, build up funds and draw them down in future years.

[14] The total cost of ADP includes additional spending on Carer's Allowance. In 2026-27 the additional spending on ADP is forecast to be £529 million and additional spending on Carer's Allowance is forecast to be £40 million.

2.24 The Scotland Reserve has a total limit of £700 million, which includes resource and capital funds. There are no restrictions on how the reserve is split between resource and capital nor on payments into the reserve, up to the £700 million limit. Under normal circumstances, a maximum of £250 million resource funding can be drawn down in one year, but when a Scotland-specific economic shock is triggered, as it was by our economy forecast in January 2021, the drawdown limit is waived for three years. The Scottish Government's planned use of the resource reserve in 2020-21 and 2021-22 is shown in Figure 2.3.

Figure 2.3: Historic and planned use of the resource reserve

£ million	2019-20	2020-21	2021-22
Opening balance	381	217	421
Drawdowns	-249	-171	-399
Additions	85	374	
Closing balance	217	421	22

Source: Scottish Fiscal Commission

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

2.25 Making up 19 per cent of the resource Budget last year and 11 per cent this year, large allocations of COVID-19 funding make underspends more difficult to manage. In 2021-22 £4.6 billion of resource COVID-19 funding has been allocated.[15] This funding is still subject to change, based on UK Government spending allocations, until the UK Government's Supplementary Estimates, which are usually published in February, so the Scottish Government may need to manage large changes to funding late in the financial year.

2.26 In 2020-21 the Scottish Government was allocated £1.2 billion in COVID-19 funding at the end of the financial year, in February. HM Treasury allowed the Scottish Government to defer this funding into 2021-22. Had this deferral not been offered, this funding could not have been transferred into the following year using the Scotland Reserve because it would have breached the limit.

2.27 The limits of the Scotland Reserve are fixed in cash terms while the Scottish Budget continues to increase. The overall £700 million limit was equivalent to 2.3 per cent of funding in 2017-18 when it was introduced, dropping to 1.6 per cent of funding in 2021-22.[16] The ability of the Scotland Reserve to manage underspends is therefore reducing in real terms over time.

Resource Borrowing

2.28 The Scottish Government can borrow to manage tax and social security forecast errors. Under normal circumstances, borrowing is limited to £300 million per year and £1,750 million in total. As a Scotland-specific economic shock has been triggered, the annual borrowing limit has been increased to £600 million for 2021-22 to 2023-24 inclusive. Resource borrowing is available for the combined effect of all negative forecast errors.

[15] Total COVID-19 funding in 2021-22 is £4.9 billion, which is made up of £4.6 billion resource and £0.3 billion capital.

[16] These compare the £700 million limit to: "total DEL" funding set out in the 2017-18 Draft Budget, excluding non-cash elements which amounts to £30,400 million and "Total Scottish Government Funding" set out in the 2021-22 Scottish Budget, excluding non-cash elements, which amounts to £42,980 million. Scottish Government (2016) Scotland's Budget: Draft Budget 2017-18 (link), Scottish Government (2021) Scottish Budget 2021 to 2022 (link).

2.29 The Scottish Government plans to borrow to manage income tax reconciliations.[17] Figure 2.4 below sets out historic and planned borrowing with plans based on our latest estimate of income tax reconciliations.

Figure 2.4: Historic and planned resource borrowing

£ million	2020-21	2021-22	2022-23	2023-24	2024-25
Borrowing – central scenario	207	319	34	0	0
Total debt	207	505	467	358	246

Source: Scottish Fiscal Commission
The central scenario assumes no borrowing for 2023-24 and 2024-25 as the income tax reconciliations are expected to be positive. Shaded cells refer to outturn available at time of publication.

2.30 In our January 2021 SEFF we presented analysis of income tax reconciliations.[18] We highlighted the risk that resource borrowing powers are unlikely to be sufficient to manage income tax reconciliations in full. Our analysis suggested around 3 in 10 years the £300 million limit will be exceeded and around 1 in 10 years the limit of £600 million will be exceeded.

2.31 Debt from resource borrowing as shown in Figure 2.4 is well below the overall £1,750 million cap. Given there is a requirement for resource borrowing to be repaid within 3 and 5 years, it would be difficult for the Scottish Government to build debt up to the level where it would reach the limit. Even if the Scottish Government chose to borrow the maximum of the annual limits (assuming forecast errors occurred to allow this), which would be £600 million for three years from 2021-22 then £300 million from 2024-25 onwards, the debt stock would reach a maximum of £1,665 million in 2023-24 then fall thereafter as the annual limits returned to normal.

Resource Assessment

2.32 The Scottish Government is planning to use its resource borrowing powers to manage income tax reconciliations.[19] With the current estimate of future reconciliations, the debt stock would reach a maximum of £505 million in 2021-22, well below the £1,750 million limit.

2.33 We've highlighted the significant uncertainty generated by COVID-19 funding, including the potential for large underspends. As the drawdown limits for the Scotland Reserve have been removed, the Scottish Government is able to carry more funding between years. The £700 million aggregate limit of the reserve remains in place, limiting how funding can be built up to manage future risks and how much can be carried between years. The Scottish Government brought the level of the reserve down to £182 million in 2020-21, allowing space for £449 million in underspends to be carried into 2021-22. The Scottish Government is planning to reduce the balance of the reserve again in 2021-22 to £32 million, allowing space for future underspends.

2.34 Resource borrowing could also be adjusted towards the end of each year, if capacity exists within the limits, to help manage a balanced Budget. Borrowing could be reduced below the planned £319 million to reduce the size of resource underspends, or increased to provide additional funding, provided forecast errors occurred to allow this.

2.35 Adult Disability Payment will launch in summer 2022 and we attach a significant degree of uncertainty to our forecast of the additional spending on ADP. The Scottish Government will be able to borrow to manage any differences between our forecast and the amount spent in 2022-23. Over

[17] Scottish Government (2021) Scotland's Fiscal Outlook: The Scottish Government's Medium-Term Financial Strategy (link)
[18] Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal forecasts – January 2021 (link)
[19] Scottish Government (2021) Scotland's Fiscal Outlook: The Scottish Government's Medium-Term Financial Strategy (link)

time our forecasts should become more accurate as data on spending on the new payment emerges, and the Scottish Government will not be able to use resource borrowing to manage the permanent differences between spending and funding which we expect to develop.

2.36 The Scottish Government is managing its Budget with increased uncertainty caused by COVID-19 funding, and we consider the borrowing plans to be reasonable.

Capital

Capital funding

2.37 Capital funding accounts for a smaller part of the Scottish Budget than resource funding and is split into two subsections: capital (excluding financial transactions) and financial transactions. Capital (excluding financial transactions) is used for long-term investment such as hospitals, roads and research and development. Financial transactions can be used to make loans to, or equity investments in, private sector entities. Financial transactions must be repaid to the UK Government.

2.38 Capital funding has increased since our March Fiscal Update, largely because of an increase in non-Barnett funding.

Figure 2.5: Changes to 2021-22 capital funding

£ million		28 January 2021	Changes up to 9 March 2021	Changes since 9 March 2021	Latest position
Capital (excluding financial transactions)	Barnett-determined block grant	4,973	0	0	4,973
	Non-Barnett funding [1]	0	0	+188	188
	Non-COVID Barnett funding	0	0	+34	34
	COVID-19 funding	0	+237	0	237
	Capital borrowing	450	0	0	450
	Capital reserve drawdown	0	0	0	0
	Other	0	0	0	0
Financial transactions	Barnett-determined block grant	208	0	0	208
	Non-COVID Barnett funding	0	0	0	0
	COVID-19 funding	0	+42	+16	57
	Financial transaction reserve drawdown	200	0	0	200
	Other	0	0	0	0
Total	Total	5,831	+278	+237	6,347

Source: Scottish Fiscal Commission
Figures may not sum because of rounding.
[1] Non-Barnett funding includes £75 million of reprofiled Network Rail funding and £113 million of city deal funding.

Capital reserve

2.39 The capital part of the Scotland Reserve covers both capital and financial transactions, and can be used to carry underspends between years and support capital spending plans. Under normal circumstances an annual drawdown limit of £100 million applies, except in the case of a Scotland-specific economic shock when it is removed. Our January 2021 forecast triggered this shock, which means the drawdown limit is removed from 2021-22 to 2023-24 inclusive. The Reserve is subject to an overall £700 million limit for both resource and capital.

2.40 The Scottish Government is planning to use the relaxed rules to draw down £200 million in financial transactions in 2021-22. Figure 2.6 sets out the previous and planned use of the capital and financial transaction reserve.

Figure 2.6: Historic and planned use of the capital and financial transaction reserve

£ million		2019-20	2020-21	2021-22
Capital (excluding financial transactions)	Opening balance	65	80	8
	Drawdowns	-60	-80	0
	Additions	74	8	
	Closing balance	80	8	8
Financial transactions	Opening balance	159	136	203
	Drawdowns	-120	0	-200
	Additions	97	67	
	Closing balance	136	203	3

Source: Scottish Fiscal Commission
Figures may not sum because of rounding. Shaded cells refer to outturn available at time of publication.

Capital Borrowing

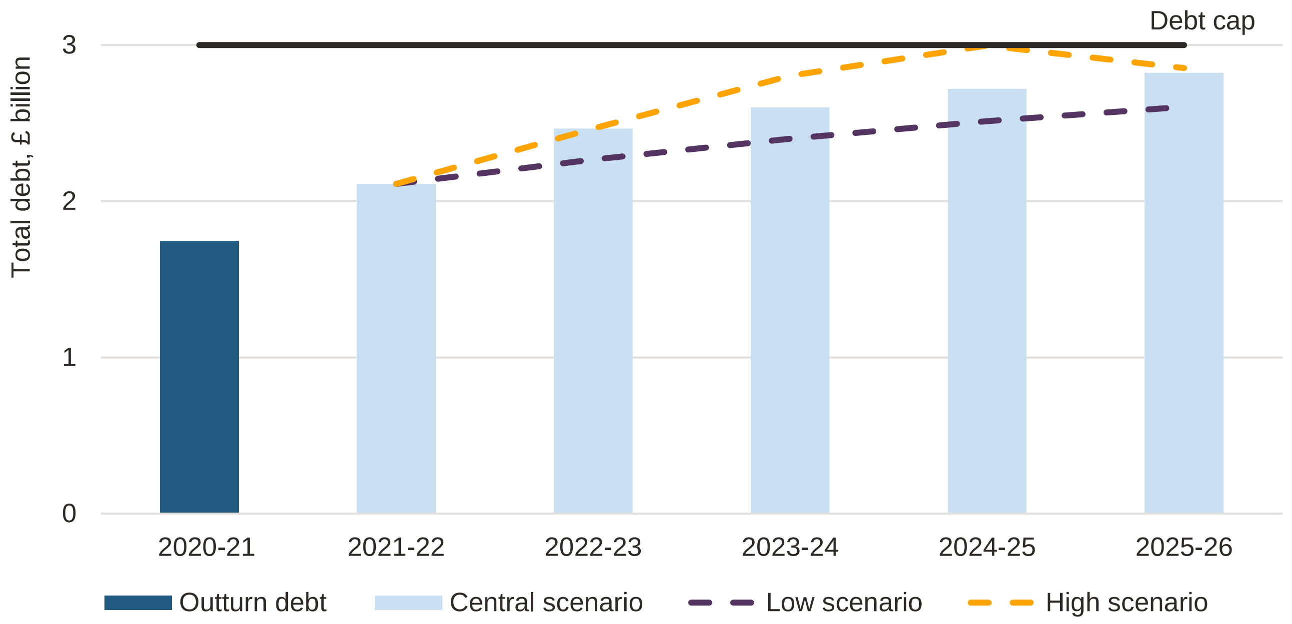
2.41 The Scottish Government can borrow for capital spending up to a maximum of £450 million each year with a total limit of £3 billion.

2.42 In its 2021 Medium Term Financial Strategy, the Scottish Government set out its self-imposed principles for capital borrowing.[20] These principles apply until 2025-26 and include: borrowing between £250 million and £450 million each year and ensuring a £300 million reserve is remaining at the end of this period, in 2026-27. The Scottish Government borrowed less than this commitment in 2020-21, when it borrowed £200 million. The 2020-21 borrowing took total debt to £1.7 billion.

2.43 We set out three scenarios below, for future borrowing. The high, low and central scenarios adhere to the principles as set out in the 2021 Medium Term Financial Strategy. Under the high scenario we assume the maximum £450 million is borrowed each year until 2024-25 when the debt cap is reached, then very limited borrowing from 2024-25 onwards to ensure the reserve of £300 million is available in 2026-27. The central scenario is based on Scottish Government projections, which assumes £450 million for 2021-22 and 2022-23, dropping to £250 million for the years beyond. The low scenario assumes £250 million is borrowed each year.

[20] Scottish Government (2021) Scotland's Fiscal Outlook – The Scottish Government's Medium-Term Financial Strategy (link)

Figure 2.7: High, low and central capital borrowing scenarios



Source: Scottish Fiscal Commission

2.44 The Scottish Government is planning to borrow £450 million in 2021-22. The Government's planned borrowing is included in the allocation of funding for the Scottish Budget, but can be adjusted until the actual borrowing occurs at the end of the year. The funding is therefore available to the Scottish Government to use, and can be reduced if not required. This flexibility means borrowing can be used to help manage underspends. Borrowing can be reduced to either manage capital underspends, or remove capital funding from the Scotland Reserve, creating more space for resource funding.

2.45 Capital borrowing of £450 million has been included in each Scottish Budget since it was introduced in 2017-18 while outturn borrowing is typically lower.

Figure 2.8: Capital borrowing in the Budget compared to outturn

£ million	2017-18	2018-19	2019-20	2020-21
Capital borrowing in the Scottish Budget	450	450	450	450
Outturn borrowing	450	250	405	200

Source: Scottish Fiscal Commission, Scottish Government (2020) Scottish Budget 2020-21 (link).

Capital assessment

2.46 The Scottish Government is managing its Budget with increased uncertainty caused by COVID-19 funding over the course of 2020-21 and 2021-22. Although the response to COVID-19 has largely consisted of resource funding and spending, capital borrowing and the capital reserve are important tools in managing the Scottish Budget by helping to reduce underspends and maintain a balanced Budget.

2.47 The Scotland Reserve is primarily used to carry underspends between financial years. As the total limit of the reserve is not split between resource and capital, allowing the balance of the capital reserve to rise too high may limit the level of resource underspend which can be carried between financial years. The Scottish Government has reduced the balance of capital in the Scotland Reserve, drawing down £80 million in capital in 2020-21 and it plans to draw down £200 million of financial transactions in 2021-22. Reducing capital in the reserve helped keep the overall balance below the £700 million limit and allowed £374 million of resource underspend to be transferred between years.

2.48 The Scottish Government borrowed £200 million in 2020-21, taking total debt to £1.7 billion. Borrowing plans for 2021-22 are £450 million, but this is likely to be reduced later in the year, based on evidence from previous years, as shown in Figure 2.8. Planning to borrow the maximum allows the Scottish Government to use borrowing to manage any capital underspend as reducing borrowing at the end of the year removes surplus capital funding from the Scottish Budget. In the scenario where the maximum of £450 million is borrowed from 2021-22 onwards, total debt will reach the £3 billion cap by 2024-25.

2.49 We assess the Scottish Government's capital borrowing plans to be reasonable. The Scottish Government has used capital borrowing and the reserve to manage COVID-19 funding in 2020-21 and the plans to borrow the maximum and bring down the reserve will help it to do the same in 2021-22.

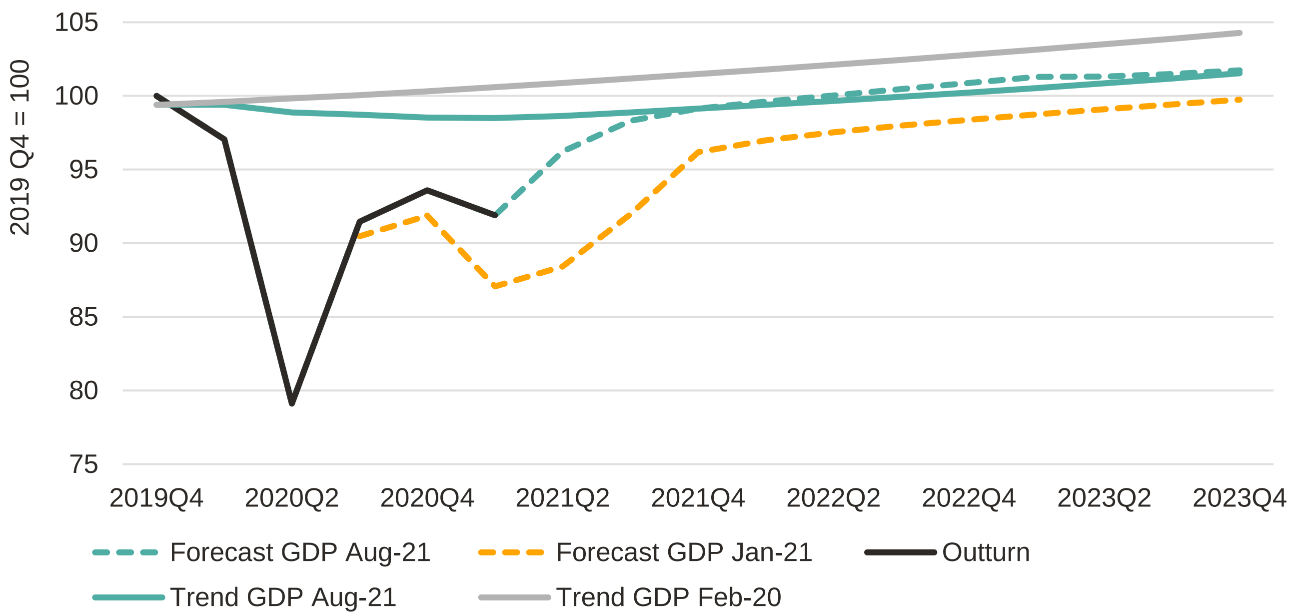
Chapter 3
Economy

Forecast summary

3.1 We published our last forecast in January 2021 when Gross Domestic Product (GDP) was still considerably below its pre-crisis level. Two weeks before we closed our forecast, a new lockdown was announced in Scotland to control rising COVID-19 cases following the emergence of the Alpha variant of the virus. Since then, the public health and economic situations have improved, as the vaccination programme has enabled a faster pace of lifting restrictions and a more rapid economic recovery. In light of this, we have revised up our expectations for Scotland's GDP growth in both the short and long term. Figure 3.1 summarises our latest GDP forecast relative to the February 2020 and January 2021 forecasts.

3.2 Chapter 1 provides a discussion of our central COVID-19 case and underlying assumptions. We assume that with the success of vaccines at weakening the link between case numbers, hospitalisations and deaths, restrictions will remain minimal from 9 August onwards.

Figure 3.1: Trend and forecast Scottish GDP



Source: Scottish Fiscal Commission, Scottish Government (2021) GDP Quarterly National Accounts: 2021 Quarter 1 (January to March) (link).

3.3 In January 2021, we expected GDP to fall in 2021 Q1 by around 5 per cent, a much smaller fall than during the first lockdown but larger than the outturn estimate of -1.8 per cent. This difference is mostly explained by two factors: a smaller fall in education activity than we forecast, because of the phased reopening of schools in February and March; and the swift vaccine rollout contributing to output growth in the health sector.

3.4 Although the Q1 economic effects of the vaccine rollout were largely confined to the direct effects on the health sector, wider economic effects were seen in Q2. In January we had predicted a gradual reopening during the second quarter of 2021, with economic activity remaining broadly flat, followed by a significant lifting of restrictions in Q3. With the rapid rollout and success of the vaccine programme, restrictions were lifted more quickly than anticipated in Q2, allowing for more economic recovery. Because of the significant unlocking and the bounce-back in activity in recent months, we now expect GDP to reach its pre-COVID level in 2022 Q2, almost two years earlier than we forecast previously.

3.5 Our forecast for 2021-22 as a whole is for growth of 10.5 per cent, mainly fuelled by rising household consumption. First, we expect consumption to increase towards pre-COVID norms as restrictions on social activity are removed; second and in addition, consumption could be greater than pre-COVID norms for a short period of time as higher-income consumers start to spend savings accumulated during the pandemic. In contrast, lower-income households – which have been most adversely 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 they may spend more cautiously in order to restore their finances. Some people may also be hesitant about resuming their pre-pandemic spending habits, somewhat tempering how rapidly consumption might rise.

3.6 Figure 3.2 presents further detail on our economy forecast.

Figure 3.2: Headline economy forecasts, growth rates unless otherwise specified

Per cent	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
GDP								
January 2021	-0.4	-12.4	7.5	5.1	1.5	1.7	1.7	
August 2021	-0.3	-10.3	10.5	2.4	1.0	1.2	1.6	1.7
Trend productivity								
January 2021	0.0	0.1	0.2	0.5	1.0	1.3	1.6	
August 2021	0.0	0.0	0.6	1.1	1.3	1.4	1.6	1.8
Average nominal earnings								
January 2021	4.2	2.1	2.5	2.6	2.8	3.1	3.3	
August 2021	4.2	2.7	5.1	3.8	3.3	3.2	3.4	3.5
Average real earnings								
January 2021	2.6	2.5	1.2	0.9	0.9	1.1	1.3	
August 2021	2.6	2.7	1.9	1.0	1.1	1.3	1.4	1.5
Employment								
January 2021	-0.4	-2.8	-0.7	1.5	0.7	0.3	0.1	
August 2021	-0.4	-3.1	1.0	0.5	0.3	0.1	0.0	0.0
Unemployment rate								
January 2021	3.8	6.6	7.1	5.6	4.9	4.6	4.5	
August 2021	3.8	4.6	5.0	4.8	4.5	4.5	4.4	4.4

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link).
Shaded cells refer to outturn available at time of publication.

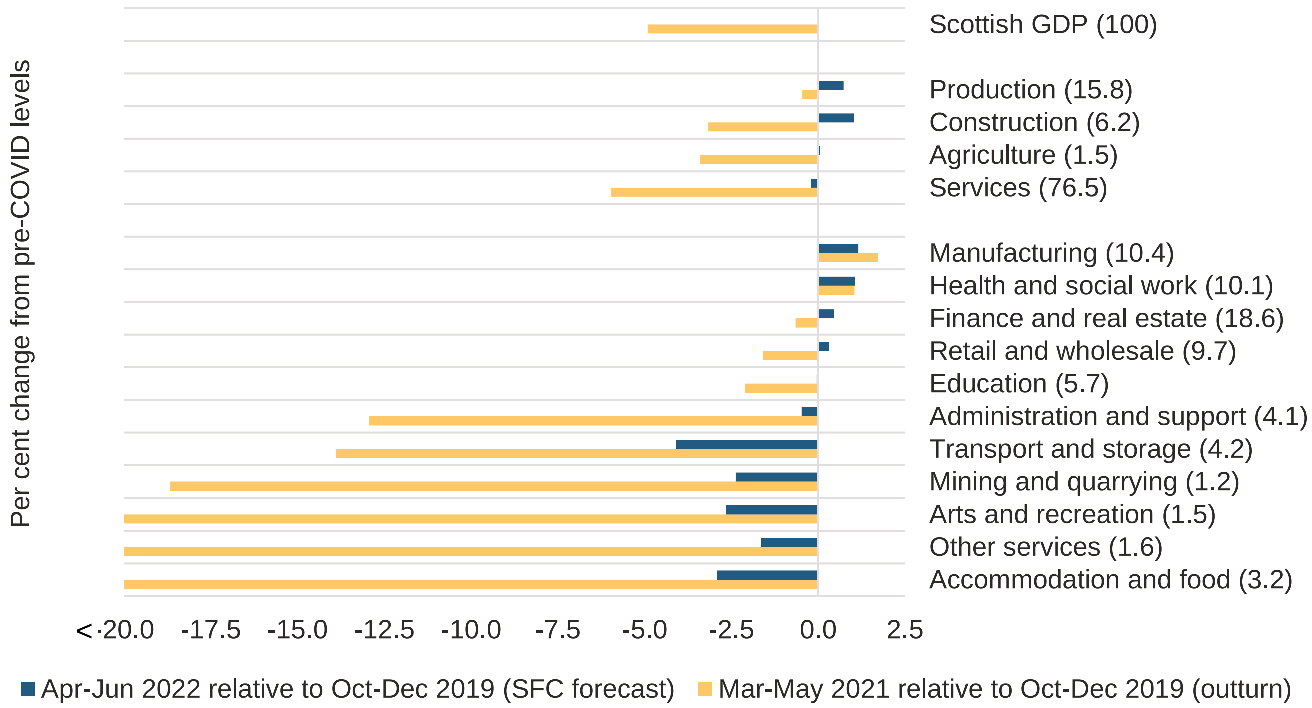
3.7 We had previously expected there to be a significant degree of 'scarring', long-term economic damage, from the effects of the pandemic, but the speed of economic recovery following the 2021 reopening has made us more optimistic. We have lowered our estimate of the permanent economic damage from COVID-19 to 2 per cent of long-run GDP, down from 3 per cent in our January 2021 forecast. Reduced productivity has been our major source of scarring; but we now expect the level of productivity in 2025 Q1 to be 0.8 per cent lower than our pre-pandemic February 2020 forecast, rather than the 2.2 per cent we estimated in January 2021.

3.8 We normally use the OBR's forecast of inflation in our economy forecast. In March 2021, the OBR forecast CPI inflation for 2021 of 1.5 per cent, but inflation since March has been a lot stronger than expected earlier this year. We have therefore aligned our inflation projections for 2021 and 2022 with those published in the Bank of England's August 2021 Monetary Policy Report. The Bank of England now expects annual UK CPI inflation to be 4.0 per cent in 2021 Q4 and 2022 Q1, decreasing to 2.5 per cent at the end of next year.[21]

3.9 Throughout the pandemic, the labour market has performed better than might have been expected, in part because of the success of job support schemes and business support schemes. We now expect the unemployment rate to peak at 5.4 per cent in 2021 Q4 after the furlough scheme expires on 30 September 2021, compared with 7.6 per cent in 2021 Q2 in our January 2021 forecast. Significant uncertainties about the labour market remain because it is unclear how the labour market and businesses will respond when the exceptional level of Government support comes to an end.

3.10 A feature of the COVID-19 economic crisis is that some sectors are disproportionately affected, with hospitality and leisure being the most exposed. It is possible that the economic recovery will also have an asymmetric nature, with the reopening or catching-up of the sectors which were hardest hit by the shock also driving the recovery. Figure 3.3 shows an illustrative shape of Scottish GDP recovery across sectors. On average over 2022 Q2, when we expect Scottish GDP to have returned to its pre-crisis level, the hardest-hit sectors may have regained much of the lost output, although they may still be below pre-COVID levels. This may especially be the case for the transport sector, affected by lower levels of commuting by public transport and lower international travel.

Figure 3.3: GDP change from pre-COVID levels, Scotland and illustrative sectoral breakdowns with relative weights as percentages of GDP shown in brackets



Source: Scottish Fiscal Commission, Scottish Government (2021) GDP Monthly Estimate: May 2021 (link).
For reasons of space, the figure covers a selection of sectors within production and services. There is cut-off at -20 per cent.

[21] Bank of England (2021) Monetary Policy Report – August 2021 (link)

3.11 Our forecasts in January 2021 resulted in the triggering of a Scotland-specific economic shock in 2021-22, which provides the Scottish Government with enhanced borrowing and Scotland Reserve powers for the financial year in which the shock is triggered plus the following two financial years. The conditions for a shock are no longer present in the comparison of our August 2021 GDP forecast to the OBR's March 2021 GDP forecast, but the relaxation of limits will still apply to financial years 2021-22 to 2023-24. Further details can be found in Chapter 2.

3.12 Figure 3.4 shows how our forecast of GDP growth in calendar years compares to other available forecasts. It is broadly in line with the latest forecast from the Fraser of Allander Institute (FAI) for Scotland and, among the range of UK forecasts, the one from the National Institute of Economic and Social Research (NIESR).

Figure 3.4: Forecast comparison, GDP growth rates in calendar years

Per cent	2021	2022	2023	2024	2025	2026
Scotland						
SFC Aug 2021	6.7	4.0	1.2	1.0	1.6	1.7
FAI June 2021	5.9	3.5				
UK						
NIESR Aug 2021	6.8	5.3	2.4	2.1	1.8	
BoE Aug 2021	7.4	5.9	1.4			
HMT average of forecasters July 2021	7.1	5.4				
OBR March 2021	4.0	7.3	1.7	1.6	1.7	

Source: Scottish Fiscal Commission, Fraser of Allander Institute (2021) FAI Economic Commentary, 2021 Q2 (link), NIESR (2021) UK Economic Outlook – Summer 2021 (link), Bank of England (2021) Monetary Policy Reports (link), HM Treasury (2021) Forecasts for the UK economy: July 2021 (link), Office for Budget Responsibility (2021) Economic and Fiscal Outlook – March 2021 (link).

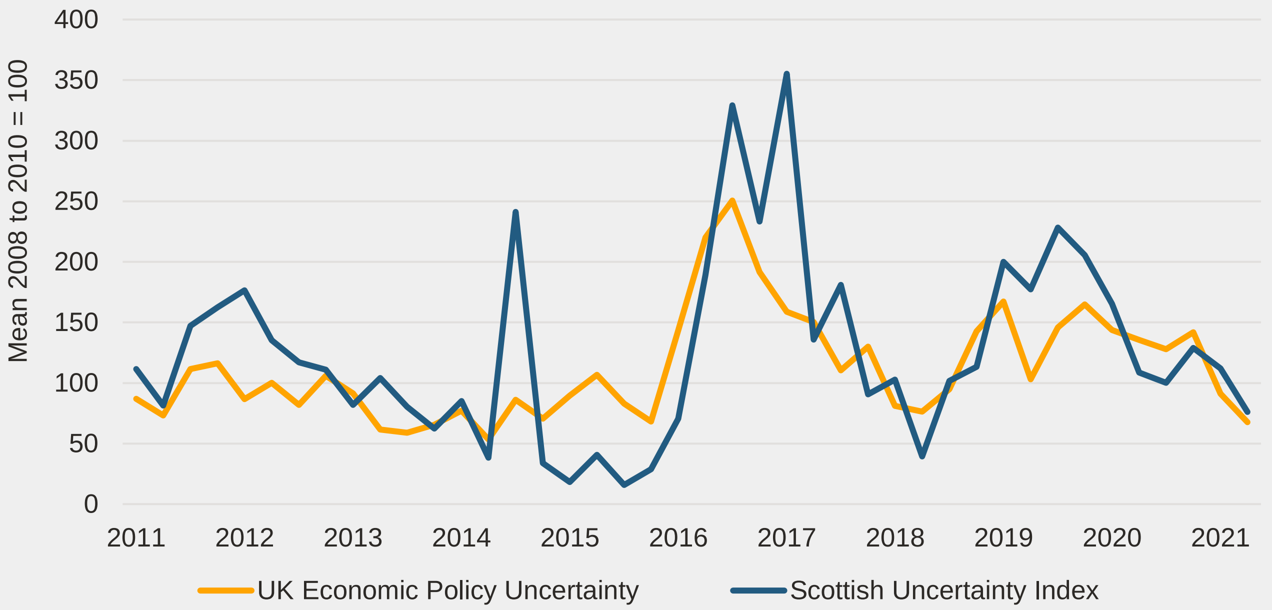
3.13 Our economy forecasts were finalised on 6 August 2021, so no new data or information received after this date were incorporated into the forecasts.

Box 3.1: Uncertainty indicators

Economic policy uncertainty measures are now widely used in economic research and forecasting and have been shown to have a meaningful relationship with economic growth.

We are interested in understanding the level of uncertainty in Scotland, and in particular when this might differ to the UK. One potential source of information is newspaper stories. Media stories will usually reflect the interests and concerns of both households and businesses and, with most news being online, it is possible to collect data relatively easily. An example of this type of indicator is the Economic Policy Uncertainty Index (EPU). This is calculated for several countries including the UK, and we investigated the possibility of constructing a similar index for Scotland – a Scottish Uncertainty Index (SUCI). We used Factiva, a business intelligence tool provided by Dow Jones, to carry out searches for particular phrases in the Scottish press relating to economic uncertainty. We then constructed an index from these results which covers the period 2008 to date. We are currently in the process of calibrating this indicator to historic economic events. In time, and in common with forecasters such as the Bank of England, we intend to incorporate this new indicator into our forecasts.

Figure 3.5: Comparison of UK Economic Policy Uncertainty and Scottish Uncertainty Index



Source: Scottish Fiscal Commission, Dow-Jones Factiva, 'Measuring Economic Policy Uncertainty' by Scott Baker, Nicholas Bloom and Steven J. Davis (link).
UK Economic Policy Uncertainty reindexed to match Scottish Uncertainty Index (mean 2008 to 2010 = 100).

Figure 3.5 shows a comparison between EPU for the UK and SUCI. The indices show a close relationship but there are periods when the two are different, for example around the Scottish Independence vote in September 2014, the UK general election in May 2015, and the Scottish index remaining higher for longer after the EU referendum in 2016. These differences indicate the value of assessing uncertainty within Scotland as well as at the UK level.

We will continue to monitor the level of uncertainty in Scotland and consider how this might affect our economy forecasts.

Main judgements

Figure 3.6: Economy forecast main judgements

Issue	January 2021	August 2021
1. Spare capacity	Significant spare capacity in economy at start of forecast period, -9.9 per cent of trend GDP in 2020-21	Spare capacity is -9.8 per cent of trend GDP in 2020-21, reducing to -0.7 per cent in 2021-22 followed by a temporary period of excess demand
2. Trend productivity	Level in 2025 Q1 is 2.2 per cent lower compared to February 2020	Growth revised up from 0.2 per cent to 0.6 per cent in 2021-22 and from 0.5 per cent to 1.1 per cent in 2022-23. Level in 2025 Q1 is 0.8 per cent lower compared to February 2020
3. Long-run unemployment rate	From 5.5 per cent in 2020 Q2 gradually moving to 4.4 per cent in 2023 Q1	4.4 per cent over the forecast period
4. Nominal average annual earnings	Using Real Time Information earnings for 2020 Q3. Growth increasing from 2.5 per cent in 2021-22 to 3.3 per cent in 2025-26	Growth revised up from 2.5 per cent to 5.1 per cent in 2021-22 and from 2.6 per cent to 3.8 per cent in 2022-23, mainly in line with the latest outturn data, higher productivity growth, and higher inflation. Higher overall forecast also reflecting public sector pay uplifts agreed since our last forecast
5. Population projections	Bespoke projections adjusted for COVID-19. For migration, we assume zero net international migration in the year to mid-2021, transitioning to zero per cent net EU migration from mid-2022	Projections of population and migration in the year to June 2020 updated for mid-2020 outturn estimates No change to migration assumptions
6. Forecasts of the UK	Based on OBR UK November 2020 forecast	Based on OBR UK March 2021 forecast UK inflation forecast for 2021 and 2022 based on the Bank of England expectations
7. Oil and gas	Neutral impact of UK Continental Shelf activity on onshore economy over the forecast	No change
8. Savings ratio	High savings ratio in 2020-21, declining gradually over forecast period	Broadly unchanged
9. Second round effects	No material effect of any Scottish Government policy changes on economic growth	No change

Source: Scottish Fiscal Commission

GDP and expenditure components

3.14 Overall, household consumption was suppressed in 2020-21 as a result of the COVID-19 restrictions on social activity. While there was a significant boost to the online economy, the move online did not offset the spending that would have occurred in physical settings such as hospitality and in-store retail. Household consumption fluctuated in tandem with the severity of restrictions, falling sharply in 2020 Q2 during the first lockdown and partially bouncing back as restrictions were eased. We expect household consumption to return to pre-pandemic levels in the fourth quarter of 2021, and to grow in line with household income thereafter.

3.15 Jobs and incomes were largely protected by the furlough scheme so when consumption fell the savings ratio jumped up to 28 per cent. We expect the savings ratio to decline rapidly to 8 per cent in the fourth quarter of 2021, before levelling out to around 6 per cent on average over the rest of the forecast period.

3.16 Last year was a highly uncertain time for businesses, with many focussing their resources on staff retention and business survival. Consequently, business investment fell by 25 per cent in 2020-21. In the short term, the super-deduction measure announced in the UK Budget 2021 is expected to spur growth in business investment as companies bring forward investment spending. After this stimulus period ends in March 2023, business investment is expected to fall temporarily, before returning to growth and making small positive contributions to GDP over the rest of the forecast.

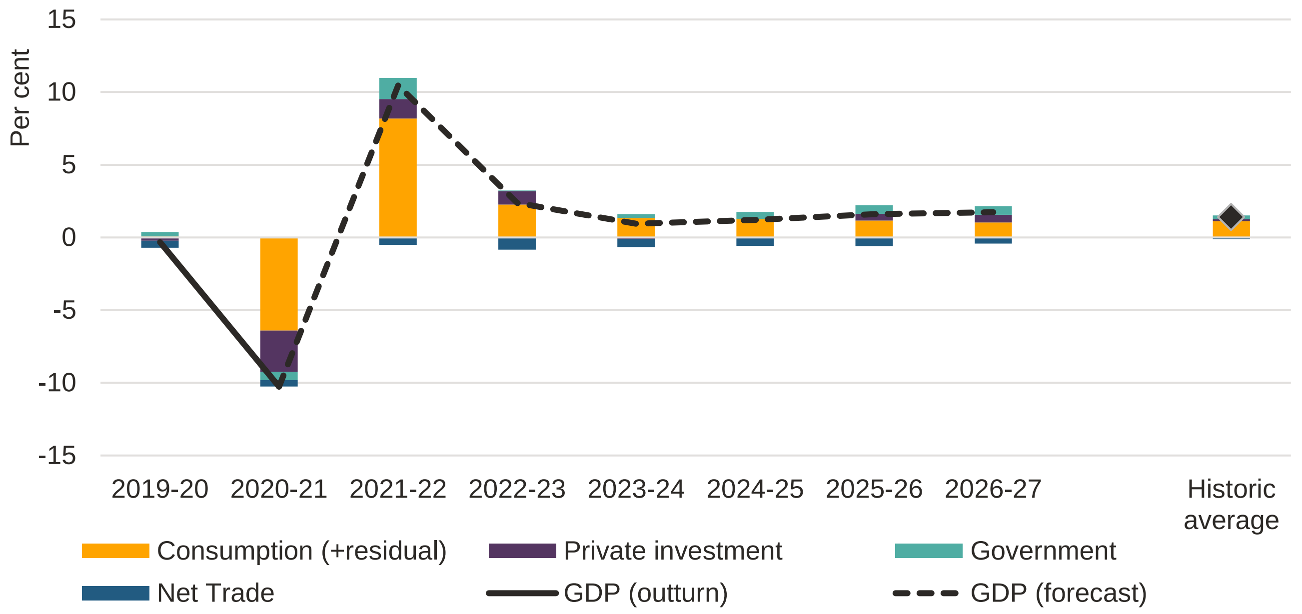
3.17 Disruption to trade caused by the pandemic affected both exports and imports in 2020-21. In the coming years, we expect net trade to diminish GDP growth. In part, this is because we expect trade frictions to affect exports more than imports, particularly in 2021-22 and 2022-23 while the new trading relationship with the EU is in its infancy. The recovery from the pandemic is also expected to boost imports, with the import-intensive nature of the increase in household consumption and business investment putting downward pressure on net trade in the medium term.

3.18 There was a high level of government intervention in response to the pandemic, so nominal government consumption expenditure increased by around 17 per cent in 2020-21. In contrast, real government consumption expenditure declined in 2020-21, as hospitals and schools had to limit their activity to curb the spread of the virus and adapt their services to suit the pandemic environment. We expect real government consumption to return to growth in 2021-22, and to contribute positively to GDP over the rest of the forecast.

3.19 Our forecast of Scottish Government expenditure is mainly driven by the latest Scottish Government spending plans. For UK Government and local authority spending in Scotland, we use OBR forecasts from March 2021. Further details on Scottish Government funding are provided in Chapter 2.

3.20 The contributions of each of the components to growth in GDP are shown in Figure 3.7.

Figure 3.7: Contributions by component of expenditure to growth in GDP



Source: Scottish Fiscal Commission, Scottish Government (2021) GDP Quarterly National Accounts: 2021 Quarter 1 (January to March) (link).
Historical average is based on growth from 1999-00 to 2018-19.

Oil and gas

3.21 The pandemic and the associated restrictions meant that worldwide oil demand fell in 2020 to its lowest level in 25 years.[22] In an environment of low demand and steady supply, oil prices declined, with direct and indirect effects felt throughout the supply chain. HMRC Real Time Information data show that, between February and December 2020, Aberdeen City and Aberdeenshire suffered the largest loss of employee jobs than any other region in Scotland. As a result, total earnings growth in North East Scotland also underperformed relative to that of other regions.[23]

3.22 During 2021, as global economies reopened and demand picked up, the oil price recovered. This has yet to fully feed through to a labour market recovery in North East Scotland, with total earnings growth since February 2020 still lagging behind that of other regions and employee jobs also remaining well below pre-pandemic level. However, the data provide evidence of some catching-up in total earnings since the start of this year.

3.23 Over the medium run, the focus of the oil and gas supply chain continues to be on operational efficiency while firms adapt their services to meet the needs of companies diversifying into renewables. We continue to monitor changes in the sector and any implications for our forecast. Our current judgement is for the oil and gas sector to remain broadly neutral to growth in the onshore economy over our five-year forecast horizon.

Inflation

3.24 The outlook for inflation has changed significantly since our January 2021 forecast. While demand is rising at a fast pace as the economy reopens, supply is constrained in some sectors because of supply chain issues and labour shortages. A temporary period of excess demand, as companies face difficulties finding raw materials and hiring staff, will raise the rate of inflation.

[22] Oil and Gas UK (2021) Business Outlook Report (link)
[23] ONS (2021) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted – August 2021 (link)

3.25 Higher prices are mostly a result of import price inflation driven by factors such as quickly recovering global demand, a large international shift in consumer spending from services to goods pushing up goods price inflation, and supply shortages of some manufactured components such as semiconductors. These global cost pressures are resulting in higher energy and commodity prices and higher input costs for firms. It is a global phenomenon, with the US, Eurozone and other economies also experiencing rising inflation, and is generally expected to be temporary.

3.26 The imbalance between demand and supply also reflects domestic factors, particularly frictions in the labour market. Vacancies are now above pre-COVID levels which is at odds with unemployment being higher than pre-crisis levels and some workers remaining on furlough. One explanation is that the large number of businesses reopening at the same time, and recruiting additional staff after bringing back those on furlough, has created bottlenecks and hiring difficulties.

3.27 Mismatch across sectors and firms in the skills offered by people looking for work or still furloughed and those required to fill new jobs means that, even if there is enough labour supply in total, it will take time to reallocate workers across the economy. Sectoral and regional differences in recovery may exacerbate mismatches – with tourism-related parts of the economy such as hospitality and rural areas, which have seen a relatively stronger economic rebound, being particularly affected by recruitment pressures.

3.28 The furlough scheme and rising inactivity have also reduced candidate availability. Furloughed workers may be reluctant to leave their current employers and change jobs if they are uncertain about job security as they would lose eligibility. All these factors are leading to higher starting salaries in the private sector, adding to firms' wage costs and inflationary pressures. These effects are likely to fade as the economy normalises, but may be more persistent to the extent that they reflect a permanent change in people's job preferences or a permanent loss of migrant workers.[24]

Long-run outlook

3.29 The evidence of the speed of economic recovery, resulting from the relaxation of COVID-19 restrictions, has led us to revise up our assumption for trend GDP. This lowers our estimate of permanent economic damage from COVID-19, known as 'scarring'. In our previous January 2021 forecast we expected the economy to be 3 per cent smaller in 2025 Q1 than in our February 2020 forecast. We've now reduced this scarring assumption to 2 per cent in our latest forecasts.

Figure 3.8: Scarring assumptions of selected organisations

Per cent	Scarring estimate	
	Previous	Most recent
SFC (Jan 2021 and Aug 2021)	-3	-2
NIESR UK (Feb 2021 and Aug 2021)	-4	-2
BoE UK (May 2021 and Aug 2021)	-1.25	-1
OBR UK (Nov 2020 and March 2021)	-3	-3

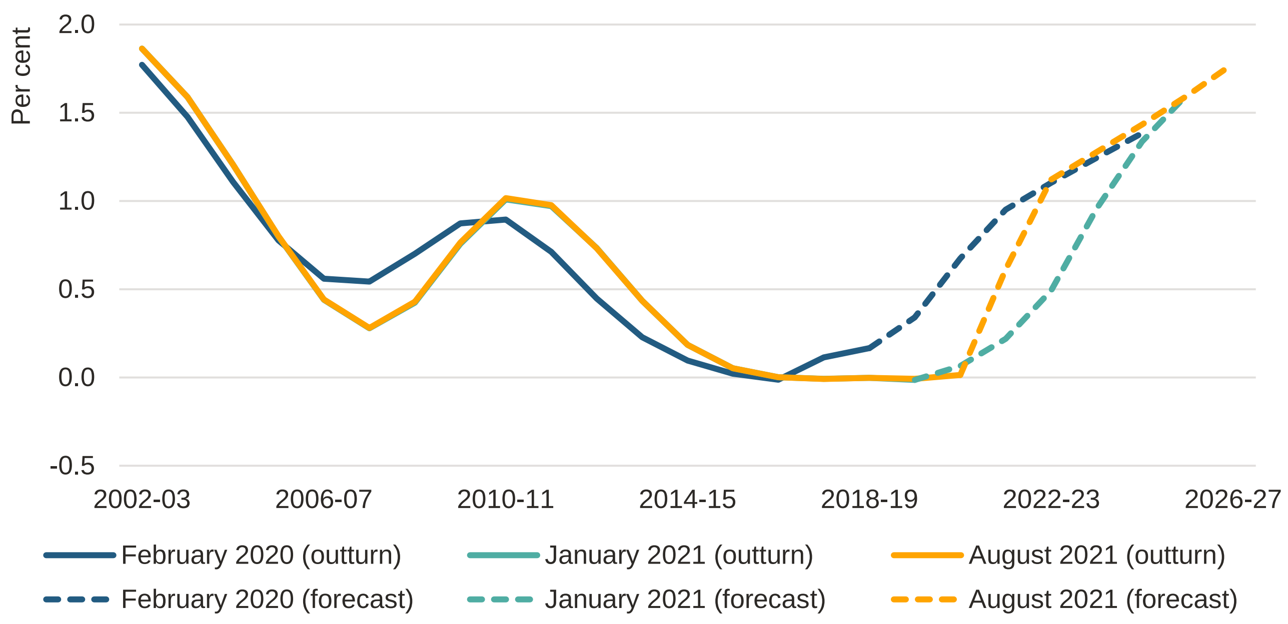
Source: Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link), NIESR (2021) UK Economic Outlook – Summer 2021 (link), Bank of England (2021) Monetary Policy Reports (link), Office for Budget Responsibility (2021) Economic and Fiscal Outlook – March 2021 (link), Office for Budget Responsibility (2020) Economic and Fiscal Outlook – November 2020 (link).

[24] Bank of England (2021) Monetary Policy Report – August 2021 (link)

3.30 We now expect faster trend productivity growth over the second half of 2021 than we assumed previously, reflecting the progress in economic recovery so far and the technological and operational advancements made during the pandemic. As a result of this upward revision, we now expect the level of productivity in 2025 Q1 to be 0.8 per cent lower than our February 2020 forecast, compared to 2.2 per cent which we estimated in January 2021.

3.31 A permanent loss of productivity may occur because of prolonged unemployment, disruptions to education and training, and investment in physical capital declining over the course of the pandemic. There are, however, channels that could be supportive of future productivity. Investment in intangibles, such as research and development, has held up better during the crisis. In addition, it can be argued that the acceleration towards digitalisation precipitated by the move to home working has increased the potential for knowledge spillovers, an important driver of productivity growth.[25]

Figure 3.9: Trend productivity growth, outturn and forecast



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

3.32 Our long-run view of unemployment and labour force participation is largely unchanged since our January 2021 forecast. We have retained our long-run unemployment rate assumption of 4.4 per cent, a judgement which contributes 0.4 percentage points to our estimate of COVID-related scarring.

3.33 We have also maintained the lowering of participation rate projections for people aged 16 to 24, which accounts for 0.7 percentage points of our estimate of COVID-related scarring. As we highlighted in our previous report, younger people are typically at risk in times of downturn, partly because they are more junior and inexperienced, but also because they are more likely to be employed in sectors that make use of flexible employment such as retail, hospitality and leisure.[26] For some, long-term employability may be reduced by unemployment early in their working lives, so even when the economy revives their employment outcomes do not. Others however may postpone entry to the labour market for studying and upskilling, while waiting for job prospects to become more favourable, with positive long-term effects on their future employability.

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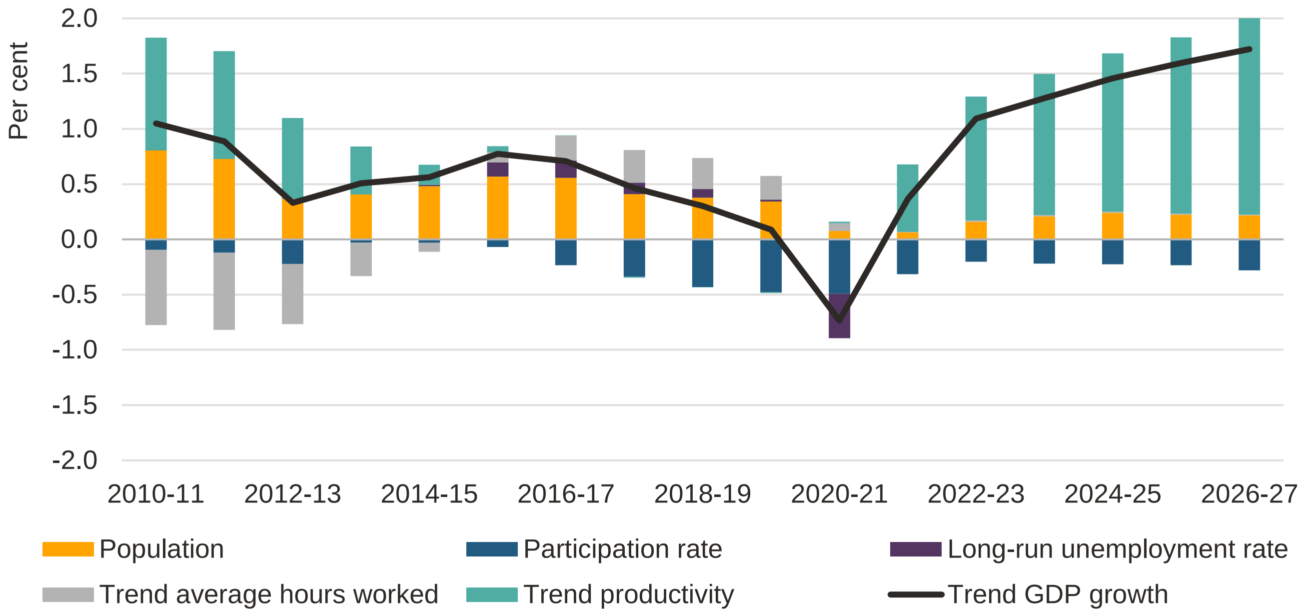
[25] Bank of England (2021) Will the pandemic "scar" the economy? (link)
[26] Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link)

3.34 Growth in trend GDP is driven by productivity gains in the coming years, with productivity making up the vast majority of trend GDP growth at the end of the forecast, as shown in Figures 3.10 and 3.11.

Figure 3.10: Trend GDP growth and contribution of components, 2010-11 to 2026-27



Source: Scottish Fiscal Commission

Figure 3.11: Trend GDP growth and contribution of components, 2019-20 to 2026-27

Per cent	Trend GDP growth	16+ population	16+ participation rate	Long-run unemployment rate	Trend average hours worked	Trend productivity
2019-20	0.1	0.3	-0.5	0.0	0.2	0.0
2020-21	-0.7	0.1	-0.5	-0.4	0.1	0.0
2021-22	0.4	0.1	-0.3	0.0	0.0	0.6
2022-23	1.1	0.2	-0.2	0.0	0.0	1.1
2023-24	1.3	0.2	-0.2	0.0	0.0	1.3
2024-25	1.5	0.2	-0.2	0.0	0.0	1.4
2025-26	1.6	0.2	-0.2	0.0	0.0	1.6
2026-27	1.7	0.2	-0.3	0.0	0.0	1.8

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

Spare capacity in the economy

3.35 As the pandemic normalises, it is expected that pent-up demand unwinds over the next couple of years. We expect a positive output gap to open up over the short term, coinciding with a temporary period of above-target inflation as predicted by the Bank of England.

3.36 The unemployment rate is expected to gradually return to its trend as the labour market adapts to meet the demands of the post-pandemic economy.

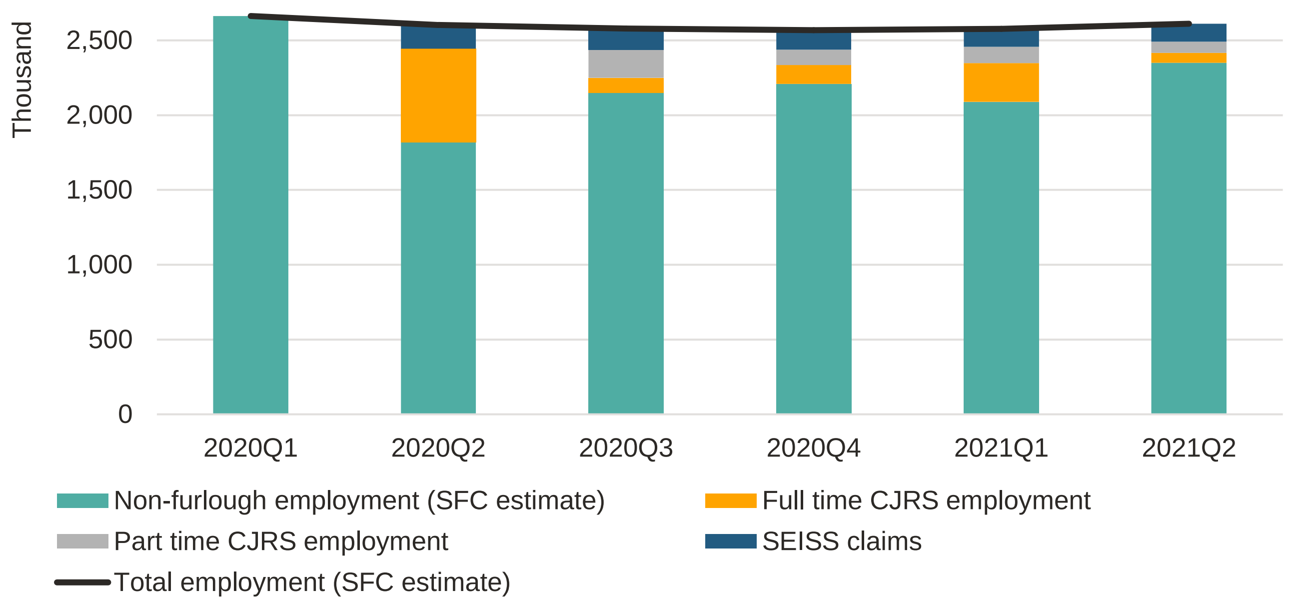
Labour market

Unemployment

3.37 The unemployment rate in Scotland and the UK has remained relatively stable in 2020 despite the sharp fall in GDP. Primarily, this is because the UK Government's furlough scheme, due to end on 30 September 2021, has softened the effect of COVID-19 restrictions on the labour market. In part, it is also because the fall in employment over the last year has been reflected more in rising inactivity and less in unemployment, as restrictions made it difficult to search for work and businesses withdrew opportunities as a result of the uncertainty of the pandemic.

3.38 As restrictions were significantly lifted in recent months, furlough take-up has dropped – with 6 per cent of eligible workforce (or 141,500 employees) still furloughed in Scotland on 30 June 2021, compared to around 30 per cent at the height of the pandemic. As shown in Figure 3.12, much of this decline has been among the full-time furloughed, which is an encouraging sign as they tend to be at higher risk of not being reabsorbed into employment compared to the partially furloughed.

Figure 3.12: Employment, Coronavirus Job Retention Scheme (CJRS) take-up, and Self-Employment Support Scheme (SEISS) take-up in Scotland



Source: Scottish Fiscal Commission, ONS (2021) HI11 Regional labour market: Headline indicators for Scotland – July 2021 (link), ONS (2021) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted – July 2021 (link), HMRC (2021) HMRC coronavirus (COVID-19) statistics (link).
CJRS quarterly figures are as at end of middle month (claims up to 31 May 2020 from June 2020 release, all other daily claims from 29 July 2021 release). SEISS quarterly figures are total claims for each grant (fourth grant from 1 July 2021 release, other grants from Feb 2021 release and supplementaries). Data on fifth grant not yet available. Unknown region excluded.

3.39 Despite the further reduction in overall CJRS take-up to 6 per cent, there are sectors where furlough rates are still significantly above this average. These are accommodation and food services (22 per cent), arts, entertainment and recreation (21 per cent), and other service activities (16 per cent).[27] Analysis of HMRC figures for May for the UK, broken down by detailed sectors, highlights that the decline in furlough rates in May was not uniform across the economy, and that there are 'stalling' sub-sectors still heavily reliant on furlough such as hotels, creative activities and

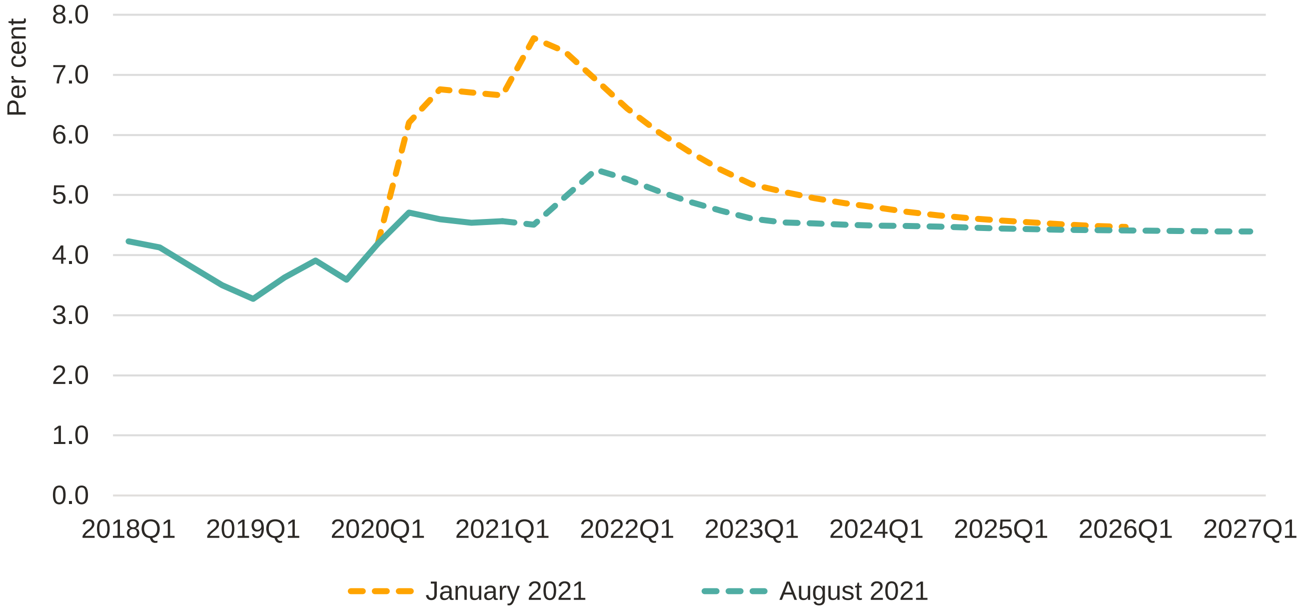
[27] HMRC (2021) Coronavirus Job Retention Scheme statistics: 29 July 2021 (link)

travel industries.[28] This suggests that workers in these parts of the economy are more likely to become unemployed once furlough ends.

3.40 HMRC figures by age groups for the UK also show that furlough rates for younger workers have fallen rapidly while, for the first time, take-up is now highest among older workers. A new Resolution Foundation survey for the UK indicates that people aged 55 to 64 still on furlough in May are nearly twice as likely to have been furloughed for at least six consecutive months compared to those aged 18 to 24, suggesting that older workers are at most risk of becoming unemployed when CJRS expires while younger people are more likely to return to work.[29] Risks to youth unemployment remain as furlough is still high in many tourism and travel sectors, which employ large numbers of younger workers and are likely to be affected by ongoing international travel restrictions for some time.

3.41 We expect the unemployment rate to peak at 5.4 per cent in 2021 Q4 as some people still on furlough when the scheme ends may be made redundant because of business closures, reduced demand, or labour market frictions not dissipating immediately. Some of the increase in the unemployment rate in the second half of 2021 is also because of people who had stopped looking for work re-joining the labour market and moving from inactivity to unemployment.

Figure 3.13: Unemployment rate, outturn and forecast



Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link).

Employment

3.42 The Labour Force Survey (LFS) shows employment figures remaining relatively stable while Pay As You Earn (PAYE) Real Time Information (RTI) indicates a decrease in paid employment during the pandemic. RTI suggests an employment fall in Scotland of -3.6 per cent between 2020 Q1 and Q4 compared to a fall of -1.1 per cent over the same period from the LFS. Taking 2020 Q1 as a baseline, this means 64,000 fewer workers in employment in 2020 Q4 based on RTI compared to estimates from LFS, a gap which has been narrowing since the start of 2021 as the number of payrolled employees started to recover. We discuss these issues in detail in Box 3.2.

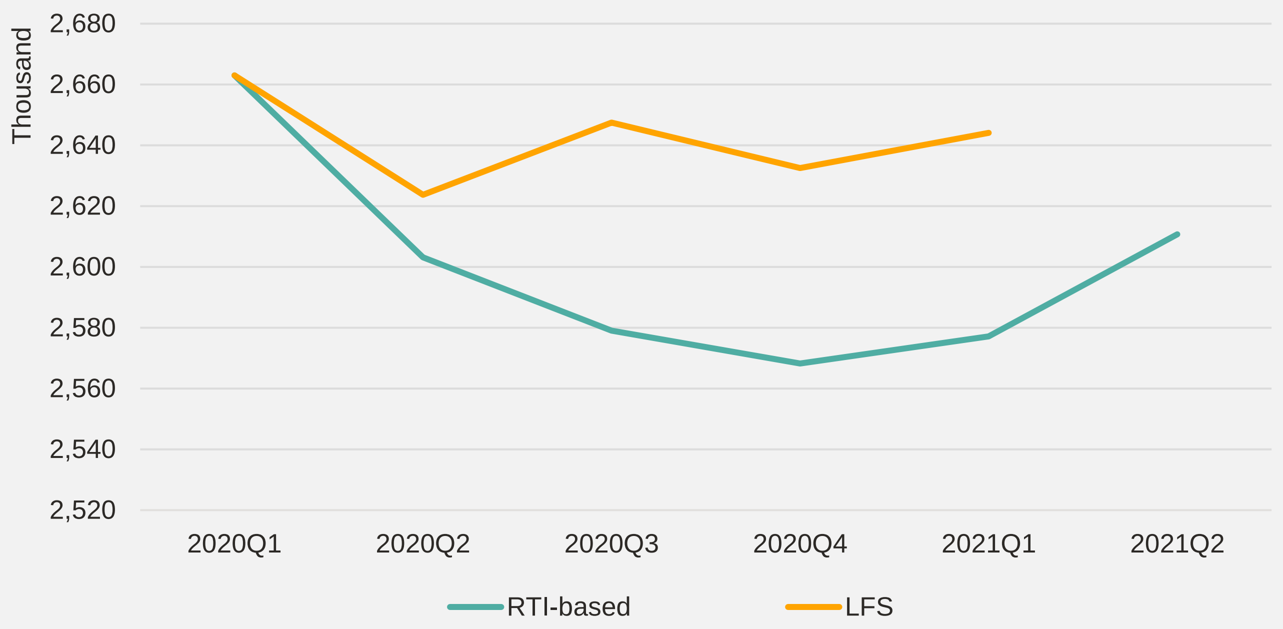
[28] Resolution Foundation (2021) The beginning of the end (link)
[29] Resolution Foundation (2021) The Living Standards Audit 2021 (link)

Box 3.2: Employment data issues

Measuring changes in the labour market has been difficult since the outbreak of the pandemic. The two main sources of employment data – PAYE RTI and the LFS – have shown diverging trends since 2020 Q2 in both Scotland and the UK.

We forecast RTI-based total employment as shown in Figure 3.14. This is different from LFS total employment in the short term but our long-run employment trend is consistent with LFS. For comparison, we provide LFS-based labour market forecasts in the economy supplementary tables accompanying this report.

Figure 3.14: Total employment, RTI-based and LFS



Source: Scottish Fiscal Commission, ONS (2021) HI11 Regional labour market: Headline indicators for Scotland – July 2021 (link), ONS (2021) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted – July 2021 (link).

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. There are also differences in coverage: RTI is mainly a measure of payrolled employees, including people both with an employee job and who are self-employed (regardless of which is their main job); the LFS captures both employees and the self-employed. Both sources include the furloughed workforce.[30]

The LFS has been affected by response bias and grossing issues because of the challenges with survey data collection and estimation caused by the pandemic. The ONS believes that RTI has been the best single indicator of the labour market during the pandemic.[31] We use RTI as our outturn employment measure also because of its links with income tax RTI data.

The ONS has made adjustments to the LFS, including applying updated population weights based on RTI from 2020 Q1 onwards, to ensure the statistics remain representative of the population as a whole and to

[30] ONS (2020) Comparison of labour market data sources (link)
[31] ONS (2021) Painting the full picture: what our statistics tell us about the labour market (link)

better reflect changes in international migration following the pandemic.[32] These improvements have not fully revised away the gap between LFS and RTI. Possible explanations are that:

- Individuals temporarily away from work who report having jobs but are not receiving pay through payroll, such as workers in casual and insecure jobs, are included in the LFS but not in the RTI.
- Some LFS measurement issues may still be present. Survey responses in 2019 are still grossed up to 2018-based population projections and not yet aligned to mid-2019 population estimates. This may distort the overall level of employment including post-COVID trends.

We expect the two sources to re-align as workers' perception of their employment status becomes clearer once furlough ends or as data used in estimation are fully updated.

The ONS has also reported a record fall in LFS self-employment coinciding with people reclassifying themselves as employees even though they have not changed jobs. As the categorisation is self-defined, it is possible that furlough has influenced respondents' views of their employment status. Government legislation around off-payroll working (IR35) may play a role too. The ONS has stated that more work is required to understand the self-employed group and has urged caution in interpreting the LFS split between employees and self-employed.[33] We do not have such a split in our macro forecasting model so we implicitly assume the same change, based on RTI, for both employees (almost 90 per cent of total employment) and self-employed.

Earnings

3.43 Average nominal earnings growth has been revised up since our January 2021 forecast, especially in 2021-22 and 2022-23. The main reason is higher wage inflation in the private sector because of the mismatch between the available labour force and the jobs on offer.[34] There are also upward pressures from: compositional effects, with the loss of lower-paid jobs boosting average pay; higher productivity growth than previously assumed; public sector pay uplifts agreed since January. In addition, outturn data have been above expectations, with average earnings growing in 2020-21 by more than we thought, so that our earnings forecast now starts from a higher level.

3.44 Overall, our forecasts of real average earnings growth are revised up as a result of these upside factors, but with offsetting effects in the short to medium term because of higher inflation.

Figure 3.15: Nominal and real average earnings growth

Per cent	Forecast	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Nominal	Jan 2021	2.1	2.5	2.6	2.8	3.1	3.3	
	Aug 2021	2.7	5.1	3.8	3.3	3.2	3.4	3.5
Real	Jan 2021	2.5	1.2	0.9	0.9	1.1	1.3	
	Aug 2021	2.7	1.9	1.0	1.1	1.3	1.4	1.5

Source: Scottish Fiscal Commission
Shaded cells refer to outturn available at time of publication.

[32] ONS (2021) Carry that weight: Reducing the effects of COVID-19 on the Labour Force Survey (link)
[33] ONS (2020) Comparison of labour market data sources (link)
[34] Royal Bank of Scotland (2021) Royal Bank of Scotland Report on Jobs – July 2021 (link)

Chapter 4
Tax

Overview

4.1 In this chapter we present our tax forecasts, and discuss the effect they have on the 2021-22 Scottish Budget. Our tax forecasts are summarised in Figure 4.1, with a summary of the changes from the previous January 2021 forecast in Figure 4.2.[35] In addition to our main forecasts, we also provide illustrative forecasts for the Scottish share of Air Passenger Duty, Scottish VAT Assignment and the Scottish share of Aggregates Levy. Details of these forecasts can be found at the end of this Chapter.

Figure 4.1: Summary of tax forecasts

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Income tax	11,938	13,162	14,069	14,845	15,660	16556	17,348
Non-Domestic Rates	1,816	2,073	2,927	3,280	3,285	3,263	3,435
Land and Buildings Transaction Tax	517	653	694	733	777	829	886
Of which: Residential	375	459	493	525	561	604	652
Non-residential	143	194	201	208	216	225	235
Scottish Landfill Tax	106	113	105	90	92	77	18
Total	14,378	16,001	17,795	18,948	19,814	20,724	21,687

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

Figure 4.2: Summary of changes to our tax forecasts since January 2021

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Income tax	88	899	1,162	1,364	1,580	1,838
Non-Domestic Rates	-32	-606	-3	56	54	47
Land and Buildings Transaction Tax	0	67	64	69	76	89
Of which: Residential	15	52	47	51	59	71
Non-residential	-14	15	17	18	17	18
Scottish Landfill Tax	11	25	19	18	19	15
Total	68	384	1,242	1,507	1,729	1,990

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

4.2 The forecast for total tax revenue reflects our expectation that the Scottish economy will gradually recover from the COVID-19 pandemic. Income tax remains the largest source of devolved tax revenue and the most significant influence on Scotland's net tax position. We expect that the share

[35] For Non-Domestic Rates we compare to our supplementary costing published in March 2021: Scottish Fiscal Commission (2021) Supplementary Costings – Non-Domestic Rates Measures and Self-Isolation Support Grant – March 2021 (link)

of income tax in overall devolved tax revenue will decrease from 83 per cent in 2020-21 to 80 per cent by 2026-27, as Non-Domestic Rates (NDR) revenue returns to more typical levels from 2022-23 following the end of the Retail Hospitality, Leisure and Aviation (RHLA) relief.

4.3 Our economy forecasts play a key role in setting our tax forecasts so all of our tax forecasts use the broad-brush assumptions about the future impact of COVID-19 set out in **Figure 1.1** in Chapter 1. Direct effects include policy changes in response to the pandemic, like RHLA relief for NDR, as well as other factors like outturn data from 2020-21 and early 2021-22.

Tax forecasts and the Scottish Budget

4.4 Our tax forecasts are used to inform just one component of funding for the Scottish Budget, alongside funding from the UK Government, and Scottish Government borrowing and cash management decisions. A detailed explanation of how funding is calculated can be found in our recent "Funding for the Scottish Budget" paper.[36]

4.5 NDR is managed through a separate process. There is no corresponding BGA, instead the Scottish Government receives funding through the Block Grant if the UK Government increases spending on business rates in England. We describe in more detail below how this funding is managed in the Scottish Budget.

4.6 Alongside these forecasts, we have published a Fiscal Update that provides a detailed breakdown of how the 2021-22 Scottish Budget has changed since it was introduced in January 2021, including the effect of revised tax forecasts.[37]

Changes in the net position of our tax forecasts

4.7 Comparing the BGAs with our revenue forecasts can illustrate how much more or less funding the Scottish Government will have available, now that the tax is devolved. In current circumstances, any comparison should be made with caution as the BGAs are based on the OBR's March 2021 economy and fiscal assumptions while our forecasts consider more up to date information.

4.8 A variety of different factors affect the net position including policy, assumptions, and modelling approaches. We can compare the forecast net 2021-22 position of the taxes between our January 2021 forecast and our latest forecast. Figure 4.3 highlights the evolution of the net position of our tax forecasts.

[36] Scottish Fiscal Commission (2021) Funding for the Scottish Budget (link)
[37] Scottish Fiscal Commission (2021) Fiscal Update – August 2021 (link)

Figure 4.3: Change in net position of taxes for 2021-22

£ million		Income tax	LBTT	SLfT
	BGA	-11,788	-515	-95
January 2021	Scottish revenue	12,263	586	88
	Difference	475	71	-7
	BGA	-11,836	-522	-95
August 2021	Scottish revenue	13,162	653	113
	Difference	1,326	131	18
	BGA	-48	-7	0
Change	Scottish revenue	899	67	25
	Difference	851	60	25

Source: Scottish Fiscal Commission

4.9 The net position for all taxes has increased, primarily because of increases to our forecasts from January 2021. For LBTT, this change is driven by higher house price growth in 2020-21 than we had forecast in January. Including these data in our forecast increases total LBTT in 2021-22 by £67 million, but this has not yet been accounted for in the BGA, leading to a net position of £131 million, up from £71 million in January. Similarly for SLfT, stronger than expected data in the second half of 2020-21 has increased our forecast for 2021-22 but the latest BGA does not yet account for these data. This leads to a net position of £18 million, up from -£7 million in January. The income tax net position is discussed in detail in the section below.

4.10 Changes to the net position for fully devolved taxes (LBTT and SLfT) need to be managed by the Scottish Government during the year. Income tax remains fixed for the year based on the forecasts and BGA from January 2021. Once income tax outturn for 2021-22 is released, expected in summer 2023, a reconciliation will be made to correct for differences between the budget setting forecasts and outturn. The reconciliation will be applied to the 2024-25 Scottish Budget.

The income tax net position

4.11 Funding for the Scottish Budget related to income tax depends on the comparison of our Scottish income tax revenue forecasts to forecasts of the income tax BGA, based on forecasts by the OBR. However, OBR forecasts have not been updated since March 2021, and there have been significant changes to the outlook for the Scottish and UK economies since then, with both economies forecast to grow more quickly.

4.12 Our latest forecast of income tax revenue for 2021-22 is around £1.3 billion higher than the latest available estimate of the 2021-22 BGA based on the OBR March 2021 forecast. This large difference is the result of significant changes in the economic outlook since the OBR made their March 2021 forecast. This timing mismatch between the forecasts means the estimated £1.3 billion net funding position is artificially high and does not reflect the likely true net funding position for 2021-22.

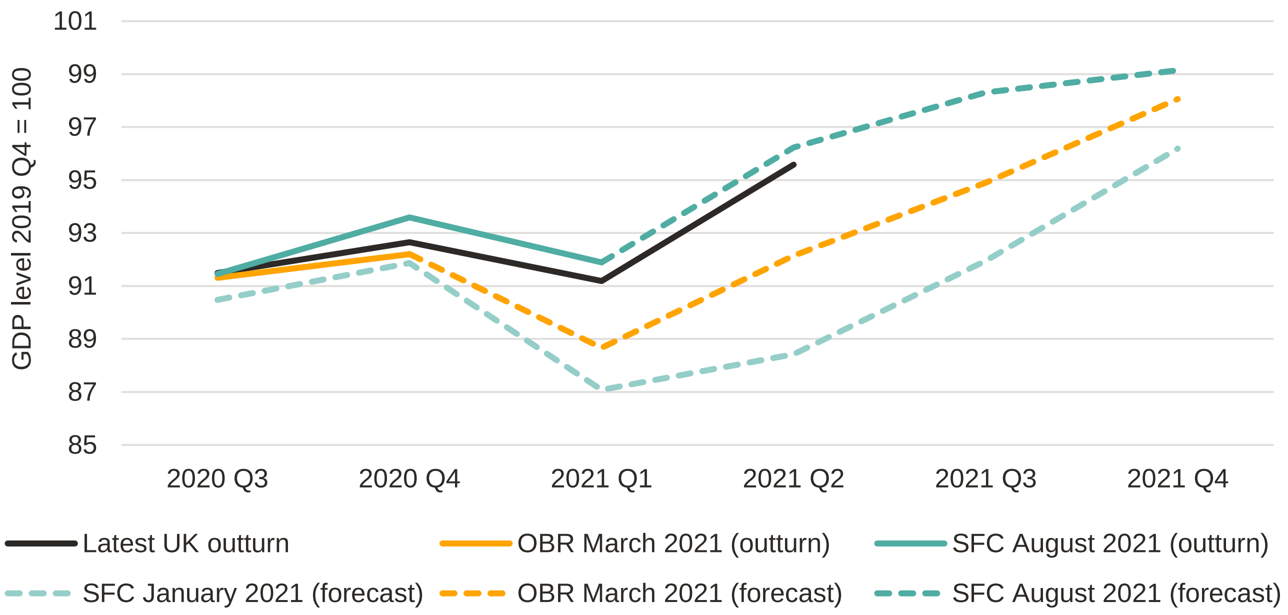
4.13 There is no evidence of a significant divergence in Scottish and UK economic performance that would support such a high net funding position. We expect that the updated OBR forecasts due to be published on 27 October, which will include the latest outturn data, will reduce the gap between the BGA and our forecast of income tax revenues and the net funding position for income tax will return to be more in line with previous years. A more detailed explanation of this issue is set out below. Importantly, these latest forecasts have no direct effect on the 2021-22 Scottish Budget as the income tax funding remains fixed from January 2021. The funding position will be updated once outturn data are released, expected Summer 2023, and the update will be applied to the 2024-25 Scottish Budget.

Changes to economy forecasts

4.14 Figure 4.4 shows our latest forecasts of GDP and compares them to January 2021. It also compares the March 2021 OBR GDP forecasts for the UK to the latest available outturn data. In January we expected the 2020 Q4 and 2021 Q1 COVID-19 lockdowns to reduce economic activity in 2021 Q1 and Q2, though not by as much as in the first lockdown. We then expected the economy to recover gradually, with the economy returning to pre-COVID-19 levels by 2024 Q1. The OBR's March 2021 forecast was similar to our January forecast, albeit with slightly faster GDP growth in the UK.

4.15 The public health and economic situations have significantly improved since the start of the year: the lockdown at the start of the year did not have as large an effect on the economy as we anticipated; the successful vaccination programme has enabled a faster pace of lifting restrictions; and overall outturn data for Scotland and the UK show the economy recovering more rapidly than expected. In line with many other forecasters, this has led us to revise up our expectations for economic growth and we now expect the Scottish economy to return to pre-COVID-19 levels by 2022 Q2. Given the significant improvement in outturn UK GDP, we would expect the OBR to revise up their economy forecasts in October. Importantly, Figure 4.4 also shows the Scottish and UK economies moving very closely in line with each other, as shown by the solid teal and black lines.

Figure 4.4: Scottish and UK economic recovery, forecasts of GDP relative to pre-COVID-levels



Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link), OBR (2021) Economic and Fiscal Outlook – March 2021 (link).

4.16 This stronger than expected economic recovery has led to upward revisions to our forecasts of earnings. As well as a stronger than expected economic recovery, inflation has been rising since the start of the year. When the OBR made their March 2021 forecast, they expected inflation to remain below the 2 per cent target throughout the forecast period, with CPI inflation of 1.5 per cent in 2021. The latest inflation report from the Bank of England now suggests inflation will reach 4.0 per cent by the end of 2021, with inflation remaining above target in 2022.[38] As a result of stronger inflation, we

[38] Bank of England (2021) Monetary Policy Report – August 2021 (link)

expect faster growth in nominal earnings, over and above the effect of the stronger economic recovery.

4.17 Overall, we now expect total nominal earnings to grow by 5.9 per cent in 2021-22. This compares to just 1.8 per cent in our January 2021 forecast and 2.0 per cent in the OBR's March 2021 forecast.

4.18 The latest RTI pay data published by the ONS show strong pay growth in both Scotland and the UK. Comparing March to May 2021 with the same period last year, aggregate pay in Scotland has grown by 5.7 per cent, alongside 7.1 per cent in the UK.

4.19 In aggregate, upward revisions to our economy, employment and earnings forecasts have led to an upward revision of £848 million to our income tax forecast in 2021-22.

The income tax net position

4.20 Figure 4.5 shows estimates of the net position for income tax given our latest income tax forecasts and the latest available BGA, based on the OBR's March 2021 forecast. These figures have no direct effect on the Scottish Budget as income tax funding for the 2021-22 Scottish Budget remains fixed from January 2021. The funding position will be updated once outturn data are released, expected Summer 2023, and the update will be applied to the 2024-25 Scottish Budget.

Figure 4.5: Income tax forecasts, BGAs and latest estimate of the net position

£ million	2019-20	2020-21	2021-22	2022-23
Income tax revenue	11,833	11,938	13,162	14,069
BGA	-11,685	-11,762	-11,836	-12,616
Net position	148	176	1,326	1,453

Source: Scottish Fiscal Commission
Shaded cells refer to provisional outturn available at time of publication.

4.21 The latest estimate of the net position in 2021-22 and 2022-23 is exceptionally high – at around £1.3 billion. We think £1.3 billion is artificially high, and mostly the result of a forecasting timing mismatch that stems from comparing our latest forecast to OBR's March forecast, which does not include the latest developments in the economy.

4.22 As shown in the previous section, the UK economy and earnings are growing at least as quickly as in Scotland, and so there is no reason to expect the income tax net position to be so large. Once updated OBR forecasts are available in October, we would expect the estimated net position to be more in line with values in previous years.

4.23 Importantly, our forecasts only have a real effect on funding for the Scottish budget when the Scottish budget is set and following the publication of final outturn data. The 2021-22 outturn data will be available in summer 2023. We expect that when the 2022-23 Scottish Budget is set later this financial year, our forecasts and the OBR's forecasts will be more comparable.

Reconciliations

4.24 We can also derive illustrative estimates of future income tax reconciliations by comparing our latest forecasts to the OBR's. However, for the 2021-22 financial year, this exercise suffers from the same timing comparability issue as estimates of the net funding position. Outturn and illustrative estimates of reconciliation are shown in Figure 4.6.

Figure 4.6: Outturn and illustrative estimates of income tax reconciliations

Collection year Applies to Budget for	2017-18 2020-21	2018-19 2021-22	2019-20 2022-23	2020-21 2023-24	2021-22 2024-25
Reconciliation (£ million)	-204	-309	-34	130	851

Source: Scottish Fiscal Commission
Shaded cells refer to outturn available at time of publication. The £34 million reconciliation related to the 2019-20 collection year is provisional.

4.25 We have now had three years of outturn data for income tax with three confirmed income tax reconciliations. For the 2022-23 Scottish Budget, a provisional reconciliation of -£34 million will be applied to correct for differences between forecasts and outturns related to the 2019-20 Scottish Budget. Our forecast and the OBR's forecast of 2020-21 remain reasonably comparable as we both based estimates in our latest forecasts on partial outturn data. While we expect the 2020-21 reconciliation to be less affected by the timing issue, these are still inherently uncertain as they are driven by two sets of forecast errors. The latest BGAs and forecasts indicate a £130 million reconciliation will be applied in 2023-24.

4.26 Our estimate of the reconciliation for 2021-22 is significantly affected by the forecast timing comparability issue. Given this, we do not think it's likely that the reconciliation will be as large as £851 million, and this is likely to be revised significantly downwards once updated OBR forecasts are available that are more comparable to our own latest forecasts.

Non-Domestic Rates

4.27 NDR operates from a separate account, called the Non-Domestic Rating Account or NDR pool. This shows how NDR is ring-fenced, remaining separate from the rest of the Scottish Budget, and all revenues collected are ultimately paid back to local authorities. The balance of the Non-Domestic Rating Account depends on both the contributable amount (the amount transferred by local authorities to the Scottish Government) and the distributable amount (the amount paid to local authorities by the Scottish Government), as well as changes from previous years. Full details on how NDR funding works can be found in our recent "Funding for the Scottish Budget" paper.[39] Box 4.1 provides our latest estimate of the balance of the NDR pool in 2021-22.

[39] Scottish Fiscal Commission (2021) Funding for the Scottish Budget (link)

Box 4.1 Latest estimate of the balance of the Non-Domestic Rating Account

When the Scottish Government initially set the distributable amount in January 2021, our projection of the pool balance was -£75 million by the end of 2021-22, with the Government aiming to bring the account back into balance by 2022-23. The distributable amount was revised following an NDR policy change at the time of the Budget Bill but the amount was set so that the balance on the pool did not change at that time. Figure 4.7 shows our updated estimate of the pool balance based on the latest information.

Figure 4.7: Illustrative projected balance of the Non-Domestic Rating Account

£ million	2018-19	2019-20	2020-21	2021-22
Provisional contributable amount (A)	2,883	2,890	1,916	2,062
Net effect of prior year adjustments (B)	-82	-36	-137	-100
Distributable amount (C)	2,636	2,853	1,868	2,090
Annual balance (D) (A + B – C)	165	1	-89	-128
Cumulative balance (E) (E from previous year + D)	24	25	-64	-192

Source: Scottish Fiscal Commission, Scottish Government.
Figures may not sum because of rounding. Shaded cells refer to outturn at the time of publication.
The projected balance is provisional because at time of publication, we do not have the audited NDR income figures for 2020-21; it is based on the provisional outturn figures provided on the Notified returns. The presentation differs slightly to that in the published audit of the NDR Rating Account, mainly because of the presentation of line B – 'net effect of prior year adjustments'.

The projected balance of the pool now stands at -£192 million by the end of 2021-22. There are several factors contributing to this change:

- Local authorities' audited returns for 2019-20 were £9 million lower than their notified returns reducing the 2020-21 balance by £9 million through the prior year adjustment line.
- Local authorities' notified returns for 2020-21 were £32 million lower than our estimate of NDR revenue (based on local authorities' mid-year estimates) reducing the 2021-22 balance by £32 million through the prior year adjustment line.
- Local authorities' estimate of the provisional contributable amount was £77 million lower than our estimate of NDR revenue in 2021-22, reducing the 2021-22 balance by a further £77 million.

The final balance of the pool in 2021-22 will depend on the final revenue for 2020-21 reported by local authorities in their audited returns. This will affect the prior year adjustment line. In previous years the audited returns have been quite similar to the notified returns with the average annual difference between the notified outturn and the final audited figures between 2010-11 and 2019-20 being £2 million. Any difference between local authorities' estimate of the contributable amount in 2021-22 and the final audited revenue in 2022-23 will affect the balance in 2022-23 as a prior year adjustment.

Income Tax

Forecast

Figure 4.8: Forecast revenue for non-savings non-dividend income tax

£ million	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	11,833	11,938	13,162	14,069	14,845	15,660	16,556	17,348

Source: Scottish Fiscal Commission, HMRC (2021) Scottish Income Tax Outturn Statistics: 2019 to 2020 (link)
Shaded cells refer to provisional outturn available at time of publication.

4.28 Income tax is partially devolved. The UK Government is responsible for setting the personal allowance, defining the income tax base and setting or changing income tax reliefs. Power to set the rates and bands that apply to the non-savings and non-dividend (NSND) income of Scottish taxpayers rests with the Scottish Parliament. Her Majesty's Revenue and Customs (HMRC) is responsible for administering Scottish Income tax on behalf of the Scottish Government

4.29 NSND income tax is paid on all income other than from savings and dividends so the main sources of NSND income are employment income, pension income, income from property and profits for the self-employed.

Changes since January 2021

4.30 Changes to our forecast since January 2021 are shown in Figure 4.9. Our forecast has increased significantly from 2020-21 to 2025-26, by around £7 billion in total. This is primarily as a result of the upward revisions to the economy earnings forecast, which is discussed in detail in Chapter 3.

2019-20 income tax outturn data

4.31 The provisional income tax outturn statistics published by HMRC in July 2021 showed Scottish NSND income tax revenues were £11,833 million in 2019-20, £6 million below our January 2021 forecast.[40] After accounting for other modelling changes in 2019-20, aligning to the latest outturn data decreases our forecast by £46 million in 2025-26. Our August 2021 Forecast Evaluation Report – published alongside this report - sets out more detailed analysis of the 2019-20 outturn data.[41]

[40] Although these statistics meet the usual standard of Official Statistics, they will not be formally signed off until the National Audit Office (NAO) has completed their annual audit of the HMRC Trust Statement. This is expected to be completed by October 2021 which is when the final adjustments to the Scottish Government's block grant will be confirmed.
[41] Scottish Fiscal Commission (2021) Forecast Evaluation Report – August 2021 (link)

Figure 4.9: Change in NSND income tax revenue since January 2021

£ million	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
January 2021	11,838	11,850	12,263	12,907	13,481	14,080	14,718
2019-20 outturn data	-6	-31	-30	-37	-41	-45	-46
Economy earnings	0	85	711	1,025	1,182	1,258	1,328
Economy employment	0	-37	137	27	-22	-51	-69
PUT data	0	47	75	81	94	97	102
UK policy measures	0	38	12	141	315	488	684
Final RTI alignment	0	-75	-95	-102	-108	-115	-124
CPI	0	0	0	-67	-152	-176	-183
Other	0	62	89	94	97	123	146
August 2021	11,833	11,938	13,162	14,069	14,845	15,660	16,556
Total change	-6	88	899	1,162	1,364	1,580	1,838

Source: Scottish Fiscal Commission, HMRC (2021) Scottish Income Tax Outturn Statistics: 2019 to 2020 (link).
Shaded cells refer to provisional outturn available at time of publication.
Figures may not sum because of rounding.

UK policy measures

4.32 In the March 2021 UK Budget, the Chancellor announced that the UK-wide income tax personal allowance and the UK higher rate threshold would be frozen for four years from 2022-23 to 2025-26, rather than increasing in line with inflation. The personal allowance change has a direct effect on our income tax forecast, increasing income tax revenues as more income is brought into taxation. The effect of this grows over the forecast period, increasing income tax revenues by £534 million in 2025-26. The change to the UK higher rate threshold indirectly affects our forecast through our separate tax-induced migration modelling. In addition to these two new policy measures we have also revised the methodology for historic UK policy costings to better align to the 2019-20 income tax outturn data. Figure 4.10 details the breakdown of these changes.

Figure 4.10: Breakdown of UK policy measures

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Personal allowance freeze	0	0	108	243	384	534
UK higher rate threshold freeze	0	0	3	8	14	21
Historic policy costings	38	12	31	63	90	129
Total UK policy measures	38	12	141	315	488	684

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

Other Data updates

4.33 We have applied a number of other updates to our model. Our forecasting model includes HMRC's 2018-19 Public Use Tape (PUT) survey level dataset. The survey dataset is then aligned to the aggregate 2019-20 income tax outturn statistics. This has resulted in a small upwards revision to the forecast of between £47 million and £102 million.

4.34 Our underpinning CPI inflation forecast has also been revised up since January. In Chapter 3 we discuss the effect of higher inflation on our forecasts of earnings. In addition, for the income tax forecast, higher CPI means thresholds increase at a faster rate, reducing income tax revenue. We expect the effect of CPI on income tax bands and thresholds to reduce our forecast by between £67 million in 2022-23 to £183 million in 2025-26.

4.35 We continue to align our forecast to HMRC's latest RTI data. At the time our forecast was being produced we had access to RTI information up to and including May 2021. Given that there were only two months of RTI available for the 2021-22 tax year, we only align to the 2020-21 full year RTI data.

Forecast uncertainty

4.36 The income tax forecast has been affected by the economic and social restrictions imposed to control COVID-19. There have been policy responses which affect income tax made by both the UK and Scottish Government including the job retention schemes. We have made assumptions and judgements about the impact of COVID-19 based on our central COVID-19 scenario. Further information on our main COVID-19 assumptions can be found in Chapter 1.

Comparison to OBR forecast

4.37 In March 2021 we wrote to the Finance and Constitution Committee to explain how the OBR and SFC would provide additional information in future reports that will help explain income tax forecast differences and effects on the net tax position.[42]

4.38 We have coordinated with the OBR to publish a standard set of income tax comparison tables, which will be updated and published each time we publish a new set of forecasts. Figures 4.11 to 4.13 below compare our latest August 2021 forecast to the OBR's March 2021 forecast. When the OBR publish their October 2021 forecast, they will publish an updated set of these tables comparing their latest forecast to our current August 2021 forecast. We are keen to make these tables as useful as possible and will continue to develop them for future reports, and we welcome any feedback on them.

[42] Scottish Fiscal Commission (2021) Letter to Finance and Constitution Committee – 3 March 2021 (link)

Figure 4.11: Forecast drivers comparison between OBR and SFC (growth rates)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Income tax revenue						
OBR [1]	1.6	0.7	6.7	3.8	7.4	5.9
SFC [2]	0.9	10.3	6.9	5.5	5.5	5.7
Employment						
OBR	-1.2	-0.7	0.6	1.2	0.8	0.4
SFC	-3.1	1.0	0.5	0.3	0.1	0.0
Average nominal earnings						
OBR	0.7	2.4	2.5	2.1	3.1	3.5
SFC	2.7	5.1	3.8	3.3	3.2	3.4
Total nominal earnings [3]						
OBR	0.9	2.0	2.9	3.0	3.6	3.6
SFC	0.0	5.9	4.4	3.6	3.3	3.5

Source: Scottish Fiscal Commission, OBR.
[1] UK NSND excluding SIT and WRIT
[2] Scottish NSND income tax
[3] For OBR row, this refers to OBR's Wages and Salaries series.

Figure 4.12: Forecast drivers comparison between OBR and SFC (cumulative growth paths, 2019-20 = 100)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Income tax revenue							
OBR [1]	100	102	102	109	113	122	129
SFC [2]	100	101	111	119	125	132	140
Employment							
OBR	100	99	98	99	100	101	101
SFC	100	97	98	98	99	99	99
Average nominal earnings							
OBR	100	101	103	106	108	111	115
SFC	100	103	108	112	116	120	124
Total nominal earnings [3]							
OBR	100	101	103	106	109	113	117
SFC	100	100	106	111	115	118	122

Source: Scottish Fiscal Commission, OBR.
[1] UK NSND excluding SIT and WRIT
[2] Scottish NSND income tax
[3] For OBR row, this refers to OBR's Wages and Salaries series.

Figure 4.13: Change between SFC and OBR Scottish and rUK income tax forecast

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
OBR							
UK NSND forecast (£ million) [1]	161,058	163,629	164,792	175,819	182,485	195,901	207,405
Change since previous forecast (£ million)	161	1,263	724	4,546	3,446	7,820	10,338
Of which (% of forecast):							
Modelling and Outturn alignment	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Forecast and other changes	-0.1	0.5	-1.0	1.3	0.4	0.0	-0.3
rUK policy changes	0.0	0.1	1.3	1.2	1.4	3.9	5.1
SFC							
Scottish IT forecast	11,833	11,938	13,162	14,069	14,845	15,660	16,556
Change since previous forecast (£ million)	-6	88	899	1,162	1,364	1,580	1,838
Of which (% of forecast):							
Modelling and Outturn alignment	0.0	-0.9	-0.9	-1.0	-1.0	-1.0	-1.0
Forecast and other changes	0.0	1.9	7.9	10.2	12.3	14.2	16.3
Scottish policy changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Scottish Fiscal Commission, OBR.
[1] UK NSND excluding SIT and WRIT
Figures may not sum because of rounding.

4.39 As discussed in the income tax summary there has been a significant improvement in the outlook for the Scottish and UK economies since the OBR published their last forecast in March 2021. We now forecast total income growing 5.9 per cent in Scotland in 2021-22, compared to the OBR's forecast of 2.0 per cent in the UK back in March. This drives a large difference in our forecast of income tax revenues, with revenues forecast to grow 10.3 per cent in Scotland compared to 0.7 per cent in the UK according to the OBR's forecast.

4.40 This forecast timing mismatch, and the significant changes in economic outlook since the last OBR forecast was published, drives a large difference between our forecasts, and is the dominant factor in this comparison. In future reports, when our and the OBR's forecasts are more directly comparable, these tables should allow us to understand other factors contributing to differences between our forecasts.

Non-Domestic Rates

Forecast

Figure 4.14: Forecast revenue for Non-Domestic Rates

£ million	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	2,753	1,816	2,073	2,927	3,280	3,285	3,263	3,435

Source: Scottish Fiscal Commission, Scottish Government (2021) Non-domestic rates income statistics (link)
Shaded cells refer to provisional outturn available at time of publication.

4.41 Non-Domestic Rates (NDR), also known as business rates, are payable by the occupiers of non-domestic properties. For 2021-22, the tax is forecast to raise £2,073 million.

Changes since January 2021

Figure 4.15: Change in Non-Domestic Rates revenue since January 2021

£ million	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
January 2021	2,761	1,848	2,680	2,930	3,224	3,231	3,216
Data updates	-9	-32	-45	-6	48	50	41
Modelling change			-3	4	9	4	6
Policy recosting			-558	0	0	0	0
August 2021	2,753	1,816	2,073	2,927	3,280	3,285	3,263
Change since January 2021	-9	-32	-606	-3	56	54	47

Source: Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link), Scottish Government (2021) Non-domestic rates income statistics (link).
Shaded cells refer to provisional outturn available at time of publication. Figures may not sum because of rounding.

4.42 The largest change in our forecast since January 2021 comes from our supplementary costing published alongside stage 2 of the Budget Bill in March 2021, accounting for £541 million of the £558 million policy recosting shown above.[43] This chapter discusses the other changes to the forecast since January 2021.

Data updates

4.43 We have included a number of data updates in our model. The most important of these are:

- councils' audited returns, replacing the notified returns, for 2019-20
- councils' notified returns, replacing the mid-year estimates, for 2020-21
- rateable values of non-domestic properties as at 1 April 2021, from the valuation roll
- revaluation appeals data for the final two quarters of 2020-21
- the latest inflation forecast

[43] Scottish Fiscal Commission (2021) Supplementary Costings – Non-Domestic Rates Measures and Self-Isolation Support Grant – March 2021 (link)

4.44 Much of the most recent data has lowered our forecast since January 2021. The audited returns for 2019-20 were £9 million lower than the notified returns, while for 2020-21 the notified returns were £96 million lower than the corresponding mid-year estimates.[44] The change in the notified returns was largely driven by an increase in write-offs and bad debts, as well as an increase in the cost of the Retail, Hospitality, Leisure and Aviation (RHLA) relief. These issues are discussed further in the sections on modelling changes and policy recostings, respectively.

4.45 Growth in the tax base in 2020-21, calculated using valuation roll data at 1 April 2021 and the latest revaluation appeals data, was also lower than forecast in January. Combining the lower base data with the lower forecast growth leads to reduced revenue in each year of the forecast: £27 million lower in 2021-22 and £34 million lower in 2022-23, reaching £48 million lower by 2025-26.

4.46 Losses from revaluation appeals in 2020-21 were smaller than we forecast in January, based on data from the first two quarters of the year, because of the significant reduction in the number of appeals resolved since the start of the pandemic. We expect that these losses will be realised in 2021-22 and 2022-23 instead. Overall, the change in our forecast of appeals losses raises the forecast for 2020-21 by £24 million and lowers it in 2021-22 and 2022-23 by £13 million and £12 million respectively.

4.47 The most recent inflation forecast raises the forecast by £35 million in 2022-23 and by between £87 and £93 million in subsequent years.

4.48 Included in the data updates is a reduction to the 2021-22 forecast of £7 million for rates bills that we are aware have been deferred, although there may be other cases of which we are not aware. We assume that this will be paid over 2022-23 and 2023-24, increasing the forecast for those years by £4 million and £2 million, respectively.[45] We have also adjusted the figure for retentions from the Business Rates Incentivisation Scheme based on the latest information from the Scottish Government which increases the forecast for 2021-22 by £2 million.

Modelling changes

4.49 One of the causes of the lower notified figure for 2020-21 was an increase in write-offs and bad debts. Our forecast of these figures is based on a rolling average of the last three years of data. Including the 2020-21 figures in this calculation increases bad debts and write-offs throughout the forecast period, by £12 million in 2022-23 and up to £16 million in subsequent years. We consider it likely these will return to more typical levels over the next few years. Therefore, we have made an adjustment to the modelling to dampen the effect of the higher levels from 2022-23 onwards. This adds back £6 million to the forecast in 2022-23 and up to £10 million in subsequent years.

4.50 We have refined our forecast for backdated reliefs. Previously, this only considered backdated Small Business Bonus Scheme (SBBS) relief and backdated reliefs for sports clubs and charities. Based on the most recent data, we have added a forecast for backdated Business Growth Accelerator (BGAc) and backdated other reliefs. The forecast for backdated other reliefs is simply an average of the two available data points. The forecast for backdated BGAc assumes that the first few years of the forecast are higher as ratepayer awareness of this relatively new relief increases but eventually the amounts of backdated BGAc will be proportionally similar to the amounts of backdated SBBS

[44] The notified returns reduce revenue for 2020-21 by £32 million, rather than £96 million, as we adjusted the mid-year estimates when including them in our forecast. This includes the effect of lower appeals losses, discussed in paragraph 4.46.
[45] The reduction in 2021-22 is entirely offset by the increase in 2022-23 and 2023-24; the apparent difference when summing the values is due to rounding.

relief. This change reduces the forecast by £3 million in 2021-22, £2 million in 2022-23 and £1 million per year thereafter.

Policy recosting

4.51 Our costing of the RHLA relief for 2021-22 used data from the Billing System to identify properties receiving the relief in 2020-21. We assumed that the same businesses would claim the relief in 2021-22 with the exception of those who had committed to refunding to Scottish Government an amount equivalent to the relief they received in 2020-21. As the total relief accounted for on the Billing System was lower than the amount reported by councils in their mid-year estimates, we scaled the costing up to the mid-year estimate. Finally, an adjustment was made to account for the fact that some recipients of RHLA relief would have received another relief if RHLA relief had not been available. This was based on the amount of relief we estimated to have been displaced from other reliefs to RHLA relief in 2020-21.

4.52 We have made two changes to the costing in this forecast. First, we have scaled the costing to the figure reported in the notified returns (£941 million) rather than the mid-year estimate (£927 million). This increases the cost of RHLA relief by £14 million. The second change improved the way we accounted for the displacement from other reliefs to RHLA relief which increases the cost of RHLA relief by £3 million. Overall, our recosting of RHLA relief lowers the NDR forecast by £17 million in 2021-22.

Forecast uncertainty

4.53 In our previous SEFF we highlighted the large number of Material Change of Circumstance (MCC) appeals that had been lodged with assessors since the pandemic as a significant source of uncertainty in our forecast. On 25 March 2021 the UK Government committed to ruling out COVID-19 appeals on non-domestic properties in England and announced a new Business Rates relief fund of £1.5 billion for businesses affected by COVID-19 outside the retail, hospitality, and leisure sectors.[46] The Scottish Government has also confirmed its intention to rule out COVID-19 appeals and to pass on business support consequentials to help Scottish businesses through the recovery period. However, it is not yet known what form this support will take. The Scottish Government will set out its legislative plans on MCC appeals after the summer.[47]

4.54 The pandemic continues to add uncertainty to our forecast as we try to interpret the data covering this period. The RHLA relief has had a significant effect on revenues in 2020-21 and will do so again in 2021-22, despite take-up potentially being lower in 2021-22 as the relief is application based and not automatically applied as it was in 2020-21. The data for 2020-21 suggest that some ratepayers have received RHLA relief in place of another relief and we expect this to happen again in 2021-22. This makes it more difficult to understand the underlying trend in individual reliefs. We also need to make judgements about how trends we have observed in other areas of the forecast that have been affected by the pandemic, such as growth in the tax base, bad debts and write-offs, will continue in the future, as well as considering areas where we have limited data, such as deferrals of NDR bills.

[46] HM Treasury (2021) Business rates relief boosted with new £1.5 billion pot (link)
[47] Scottish Parliament (2021) Written questions and answers – ref. S6W-00997 (link)

Land and Buildings Transaction Tax

Forecast

Figure 4.16: Forecast revenue for Land and Buildings Transaction Tax

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Residential	375	459	493	525	561	604	652
Non-residential	143	194	201	208	216	225	235
Total LBTT	517	653	694	733	777	829	886

Source: Scottish Fiscal Commission, Revenue Scotland (2021) Provisional Outturn Data 2020-21 (link).
Figures may not sum because of rounding. Shaded cells refer to outturn at time of publication.
LBTT revenue is net of repayments, excludes penalties and interest and also excludes revenue losses.

4.55 Land and Buildings Transaction Tax (LBTT) is payable on transactions of residential and non-residential properties and land. Included in our residential LBTT forecast, Additional Dwelling Supplement (ADS) is an LBTT supplement on purchases of additional residential properties, such as second homes or buy-to-let properties.

Residential LBTT

Figure 4.17: Forecast revenue for residential LBTT

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Residential LBTT (excluding ADS)	260	338	360	385	417	455	497
Additional Dwelling Supplement	115	121	133	140	144	149	155
Total residential LBTT	375	459	493	525	561	604	652

Source: Scottish Fiscal Commission, Revenue Scotland (2021) Provisional Outturn Data 2020-21 (link).
Figures may not sum because of rounding. Shaded cells refer to outturn at time of publication.
LBTT revenue is net of repayments, excludes penalties and interest and also excludes revenue losses.

Changes since January 2021

Figure 4.18: Change in total residential LBTT forecast since January 2021

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
January 2021	360	408	446	474	502	533
Prices		27	37	44	55	72
Transactions		11	7	4	2	1
Data updates	15	14	3	4	4	4
Other		0	0	-1	-3	-6
August 2021	375	459	493	525	561	604
Changes since January 2021	15	52	47	51	59	71

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link), Revenue Scotland (2021) Provisional Outturn Data 2020-21 (link).
Figures may not sum because of rounding. Shaded cells refer to outturn at time of publication.
LBTT revenue is net of repayments, excludes penalties and interest and also excludes revenue losses. Tables showing the change in Residential LBTT (excluding ADS) and ADS can be found in Supplementary Tables S4.8 and S4.9.

4.56 In January 2021, we noted that Revenue Scotland data had shown more transactions in the top two bands of LBTT in 2020-21 than in previous years.[48] At that time, we assumed that this was a temporary effect because of increased activity in the housing market and the rise in the nil rate band.

4.57 Monthly data from Revenue Scotland and Registers of Scotland since January 2021 show that this effect was larger than we predicted in January, and has continued in 2021-22. There has been both a significant increase in the average purchase price, and a higher share of transactions in the top two bands of LBTT.[49]

4.58 A number of factors have driven these changes in the housing market. These include higher demand in the second half of 2020-21 as housing market restrictions eased, the effects of the 2020-21 nil rate band rise policy, and changes in the type and location of residential properties being purchased. We don't know the exact size of each of these effects, but recent data from Revenue Scotland suggest that this change in the housing market has continued into the first quarter of 2021-22.

4.59 We are forecasting that the high demand will ease slightly in 2021-22, with slower price growth as the housing market eases. After 2021-22, the increase in our price forecast is caused by faster growth in incomes. This will increase LBTT revenues both because of the higher prices across the distribution, and a higher share of transactions in the top two bands of LBTT.

4.60 This increase in house prices has made the most significant contribution to the change in our residential LBTT forecast. Similarly, our transactions forecast is now slightly higher because of 2021-22 data showing stronger growth in transactions than we predicted back in January. This latter effect gets smaller after 2021-22, because we have not changed our view on the medium-term trend in transactions.

4.61 We currently have data up to May 2021 which suggest that the forestalling effect in response to the nil rate band rise is smaller than we expected back in January 2021. In January, we forecast a reduction of £10 million due to forestalling, whereas the data suggest a reduction of £4 million. Accounting for this lower than expected forestalling raises our forecast in 2021-22, but does not affect future years.

4.62 In line with the latest prices and transactions forecast, we have revised up our ADS forecast. Our assumptions about the share of transactions which pay ADS and the share of ADS revenues which are repaid have not changed since January 2021. Although we have seen higher ADS repayments in 2020-21, we believe that this was driven by lockdown restrictions leading to fewer purchases of second homes. We do not expect these changes to continue beyond 2020-21.

4.63 Other changes after 2021-22 include updates to align future years to the 2021 data, and minor updates to our model since January 2021. The data updates increase our forecast by £5 million from 2021-22 onwards, while the other changes increase our forecast by an average of £1 million.[50]

[48] Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link).
[49] Revenue Scotland (2021) Monthly LBTT Statistics June 2021 (link), Registers of Scotland (2021) Monthly house price statistics – June 2021 (link).
[50] The other changes include a correction for a data adjustment in the January 2021 ADS forecast that should have been removed at that time. Correcting for that shifts the forecast down by £1 million from 2021-22 onwards.

Non-residential LBTT

Figure 4.19: Forecast revenue for non-residential LBTT

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	143	194	201	208	216	225	235

Source: Scottish Fiscal Commission, Revenue Scotland (2021) Provisional Outturn Data 2020-21 (link).
Shaded cells refer to outturn available at time of publication.
LBTT revenue is net of repayments, excludes penalties and interest and also excludes revenue losses.

Changes since January 2021

Figure 4.20: Change in non-residential LBTT forecast since January 2021

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
January 2021	157	178	184	190	199	207
Prices		5	5	7	7	7
Transactions		11	11	11	10	10
Data updates	-14	-2	-2	-2	-2	-2
Model updates		1	2	2	2	2
August 2021	143	194	201	208	216	225
Change since January 2021	-14	15	17	18	17	18

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link), Revenue Scotland (2021) Provisional Outturn Data 2020-21 (link).
Figures may not sum because of rounding. Shaded cells refer to outturn available at time of publication.
LBTT revenue is net of repayments, excludes penalties and interest and also excludes revenue losses.

4.64 The main change in the non-residential LBTT forecast comes from upwards revisions to our GDP forecast. As we noted in our recent paper on how we forecast devolved taxes, we grow our forecast of non-residential transactions and prices in line with the GDP forecast.[51] This is because of the volatility of commercial property market, with a small number of very high value transactions accounting for the majority of LBTT revenues. The upward revision to both our real GDP and inflation forecasts lead to a rise in the non-residential LBTT forecast in all years.

4.65 March 2021 LBTT data show the commercial property market returning to average pre-pandemic levels, while June 2021 non-residential LBTT receipts were the fifth highest monthly total since LBTT was devolved in 2015-16.[52] These recent data supports the upward revisions to our price and transactions forecasts, as the commercial property market is growing faster than we forecast in January.

4.66 Despite the strong data in recent months, our forecast is still lower than our pre-pandemic forecasts. Non-residential LBTT is highly volatile so, although we have revised our forecasts up based on data in 2021-22 so far, we do not know at this point the extent of any recovery in the commercial property market in future years. We will continue to examine the data as more are released, and will provide an update on this analysis in our report to accompany the 2022-23 Scottish Budget.

[51] Scottish Fiscal Commission (2021) How we forecast devolved taxes (link)
[52] Revenue Scotland (2021) Monthly LBTT Statistics June 2021 (link)

Forecast uncertainty

4.67 As discussed above, we expect the large increase in house prices in 2020-21 to persist into future years, and do not predict a fall in the average house price in any year of the forecast. If house prices instead return to their pre-pandemic levels, residential LBTT revenues will be lower than forecast in all years. Because the price growth in 2020-21 was far larger than we have seen in recent years, it’s difficult to judge whether this is a permanent rise in the average house price, or simply driven by changes in the housing market because of the pandemic. This is the most significant source of uncertainty in our forecast.

4.68 We believe that the commercial property market is recovering more strongly than we expected in January 2021. However, non-residential LBTT revenues are highly volatile, and the data we have so far for 2021-22 may not be representative of the whole year because of the way the pandemic has changed use of non-residential property. Our non-residential LBTT forecast is uncertain, and may change significantly once more data are available.

Scottish Landfill Tax

Forecast

Figure 4.21: Forecast revenue for Scottish Landfill Tax

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	106	113	105	90	92	77	18

Source: Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link), Revenue Scotland (2021) Provisional Outturn Data 2020-21 (link).
Shaded cells refer to provisional outturn available at the time of publication.
SLfT revenue is net of repayments, excludes penalties and interest and also excludes revenue losses.

4.69 We expect SLfT to raise £113 million in 2021-22. As in previous forecasts, we anticipate that SLfT revenue will fall over time as incineration capacity and recycling rates in Scotland increase.

Changes since January 2021

Figure 4.22: Change in SLfT forecast since January 2021

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
January 2021	95	88	86	72	74	61
Data updates	11	25	19	18	19	15
August 2021	106	113	105	90	92	77

Source: Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – January 2021 (link), Revenue Scotland (2021) Provisional Outturn Data 2020-21 (link).
Figures may not sum because of rounding. Shaded cells refer to provisional outturn available at the time of publication.
SLfT revenue is net of repayments, excludes penalties and interest and also excludes revenue losses.

4.70 The outturn data from Revenue Scotland for the final two quarters of 2020-21 were higher than we forecast based on the first two quarters of data available at the time of our January forecast. Including the 2020-21 figures increases revenue in each year of the forecast, by up to £15 million. Incorporating the latest forecasts for household consumption and GDP also increases forecast revenue, by £11 million in 2021-22 and by £2 to £3 million in subsequent years.

4.71 In previous forecasts, the timings of both the Biodegradable Municipal Waste (BMW) ban and new incineration capacity becoming operational have had important effects on our forecast, as more waste is diverted away from landfill. There have been no updates to these since our last forecast.

Forecast uncertainty

4.72 The timing of new incineration capacity and the BMW ban are still the main sources of forecast uncertainty. We continue to monitor information on the development of waste infrastructure and progress towards the ban and we will factor any changes into our future forecasts.

4.73 Following a cyber-attack in late 2020, the Scottish Environmental Protection Agency (SEPA) has been unable to provide outturn incineration data for 2020-21.[53] Following discussion with SEPA and the Scottish Government, we are confident the assumptions in our incineration forecast are reasonable. However, the missing data add a small degree of uncertainty to the forecast.

[53] SEPA (2021) Cyber attack (link)

Illustrative forecasts

Scottish share of UK Air Passenger Duty

Figure 4.23: Forecast revenue for the Scottish share of UK Air Passenger Duty

£ million	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	273	25	56	157	271	282	297	311

Source: Scottish Fiscal Commission
Figure in shaded cell not classed as outturn data. It is an estimate of the Scottish share of APD revenues.

4.74 Air Departure Tax (ADT) is a tax paid on eligible passengers on flights departing from UK airports. It was due to replace UK Air Passenger Duty (APD) in Scotland from April 2018. The introduction of ADT has been deferred until the state-aid issue raised in relation to the Highlands and Islands exemption has been resolved.[54] We produce an illustrative forecast of the Scottish share of UK APD. Detail on our approach to forecasting the Scottish share of APD can be found in our "How we forecast devolved taxes" publication.[55]

4.75 The forecast has been revised downwards since January 2021 because the fall in air passenger numbers during the pandemic has been larger than we expected in January. Inclusion of the latest data reduces our forecast by £75 million in 2020-21 and £88 million in 2021-22. More detail can be found in Supplementary Table S4.19.

VAT Assignment

Figure 4.24: Forecast revenue for Scottish VAT Assignment

£ million	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	5,596	5,512	4,931	5,755	6,341	6,638	6,924	7,188	7,449

Source: Scottish Fiscal Commission, HM Treasury, HMRC and Scottish Government.
Shaded cells refer to outturn available at time of publication. Outturn in this context refers to a provisional estimate of the Scottish share of VAT applied to outturn UK VAT receipts.

4.76 The Scotland Act 2016 stated that half of VAT raised in Scotland will be assigned to the Scottish Government.[56] The UK and Scottish Governments initially agreed to implement VAT assignment from 2019-20 but this has been delayed and a revised date for implementation has not been set.

4.77 We will continue to produce illustrative forecasts of VAT assignment to help users understand the potential change. We published a paper on our approach to creating forecasts of assigned VAT in September 2018.[57] Our forecast for 2021-22 has been revised up by £509 million compared to our January 2021 forecast. This is mainly because of the upward revision to our economy forecasts, caused by the faster recovery from the COVID-19 pandemic than we expected in January. More information can be found in Supplementary Table S4.20.

[54] Scottish Government (2021) Scottish Budget 2021 to 2022 (link)
[55] Scottish Fiscal Commission (2021) How we forecast devolved taxes (link)
[56] Scotland Act 2016 Part 2 Section 16 (link). The Scotland Act 2016 legislated to assign 10 pence of the standard rate and 2.5 pence of the reduced rate to the Scottish Budget. This represented half of the VAT rates at that time. Changes to VAT rates during the COVID pandemic mean this is no longer the case. HMRC (2020) VAT: reduced rate for hospitality, holiday accommodation and attractions (link). However, as our forecast is illustrative we continue to apply the 50 per cent approach.
[57] Scottish Fiscal Commission (2018) Approach to forecasting VAT assignment (link)

Scottish share of UK Aggregates Levy

Figure 4.25: Forecast revenue for Scottish share of UK Aggregates Levy

£ million	2019-20 [1]	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	57	53	54	55	56	57	58	59

Source: Scottish Fiscal Commission, Scottish Government (2020) Government Expenditure and Revenue Scotland 2019-20 (link).
Figure in shaded cell not classed as outturn data. It is an estimate of the Scottish share of UK Aggregates Levy revenues.
[1] We have aligned our forecast to the Government Expenditure and Revenue Scotland (GERS) 2019-20 estimate of Aggregates Levy revenues in Scotland. Because of our data cut-off on 6 August 2021, we have not accounted for the GERS 2020-21 figures released on 18 August 2021.

4.78 The UK Aggregates Levy is a tax which applies to the commercial exploitation of crushed rock, sand and gravel, including in Scotland. The Scotland Act (2016) gives the Scottish Parliament powers over the Aggregates Levy, but devolution was initially delayed due to an ongoing court case and subsequently by the UK review of the levy.[58] In 2021, the Scottish Government announced that devolution of the Aggregates Levy would be for the next Scottish Parliament.[59] Now the sixth Scottish Parliament is in session, we are producing an illustrative forecast of the Aggregates Levy for the first time.

4.79 HMRC data up to 2020-21 show that activity in the aggregates industry has been below its 2019-20 level, and we expect that this will continue in future years. We assume that the market will grow in line with its average growth rate since 2015, which means that the Aggregates Levy will not return to its 2019-20 level until 2024-25.

[58] Scotland Act 2016 Part 2 Section 18 (link)
[59] Scottish Government (2021) Scottish Budget 2021 to 2022 (link)

Chapter 5
Social security

Overview

5.1 In this chapter, we provide forecasts of devolved social security spending. These cover in-year updates to our forecasts of spending in 2021-22 and the following five years. For the first time, we have included an estimate of spending on the Scottish Government's new Adult Disability Payment (ADP), due to launch nationally in summer 2022. We estimate spending on ADP will reach £3 billion by 2026-27, £529 million more than spending on the payment being replaced, Personal Independence Payment (PIP).

5.2 We forecast devolved social security spending to increase from £3.5 billion in 2020-21 to £5.2 billion in 2026-27, as more people receive social security support each year and as payment amounts increase with inflation; we refer to the latter as uprating. This forecast includes spending on the new Child Disability Payment (CDP) and ADP, but does not include any changes in spending arising from the Scottish replacement payments launched beyond 2022 such as the replacement payment for Attendance Allowance (AA) and Carer's Allowance.

5.3 Our forecasts exclude two smaller payments administered by Social Security Scotland. The Young Carer Grant is excluded from our forecasts on grounds of materiality and Job Start Payment which is paid under devolved Employment and Training Act powers which are outside our remit. We provide illustrative forecasts of spending on Cold Weather Payments and Winter Fuel Payments at the end of this chapter, as these payments have not yet been devolved.

5.4 Figure 5.1 summarises our social security forecasts. The social security payments which were previously part of the Social Security and Older People portfolio, together with Discretionary Housing Payments, are now captured within the wider Social Justice, Housing and Local Government portfolio. Best Start Foods (BSF) is currently captured within the Health and Social Care portfolio; and Fair Start Scotland is captured within the Finance and Economy portfolio.

Figure 5.1: Summary of social security spending forecasts within Scottish Government portfolios

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Social Justice, Housing and Local Government [1]	3,502	3,631	3,910	4,412	4,674	4,916	5,172
Health and Social Care [2]	12	14	13	12	11	10	9
Finance and Economy [3]	21	27	22	11	4	0	0
Total social security spending	3,535	3,672	3,945	4,436	4,689	4,927	5,182

Source: Scottish Fiscal Commission, Social Security Scotland, Scottish Government

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

[1] Social Justice, Housing and Local Government portfolio includes all social security payments that were previously captured within the Social Security and Older People portfolio. It also includes Discretionary Housing Payments which continues to be managed by Housing.

[2] Health and Social care portfolio includes spending for Best Start Foods.

[3] Finance and Economy portfolio includes Fair Start Scotland spending.

5.5 Our forecast of total social security spending in 2021-22 has increased by £59 million since the Scottish Budget was set in January 2021. Our forecast of spending in 2025-26 has increased by £678 million. The inclusion of the new ADP in our forecasts accounts for most of the change over the five year horizon. Revisions to our inflation forecast also increase spending; by 2025-26 our forecast is £125 million higher than in January because of inflation.

Figure 5.2: Change in total social security spending forecasts since January 2021

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
January 2021	3,495	3,614	3,810	4,020	4,129	4,249
August 2021	3,535	3,672	3,945	4,436	4,689	4,927
Change since January 2021	40	59	136	415	560	678
Of which:						
Additional cost of ADP [1]			35	236	363	462
Inflation			45	112	120	125
Other	40	59	56	66	77	91

Source: Scottish Fiscal Commission, Social Security Scotland, Scottish Government
Shaded cells refer to provisional outturn available at time of publication. Figures may not sum because of rounding
[1] This includes additional spending on Adult Disability Payment, and the additional cost to Carer's Allowance and Carer's Allowance Supplement because of the introduction of ADP.

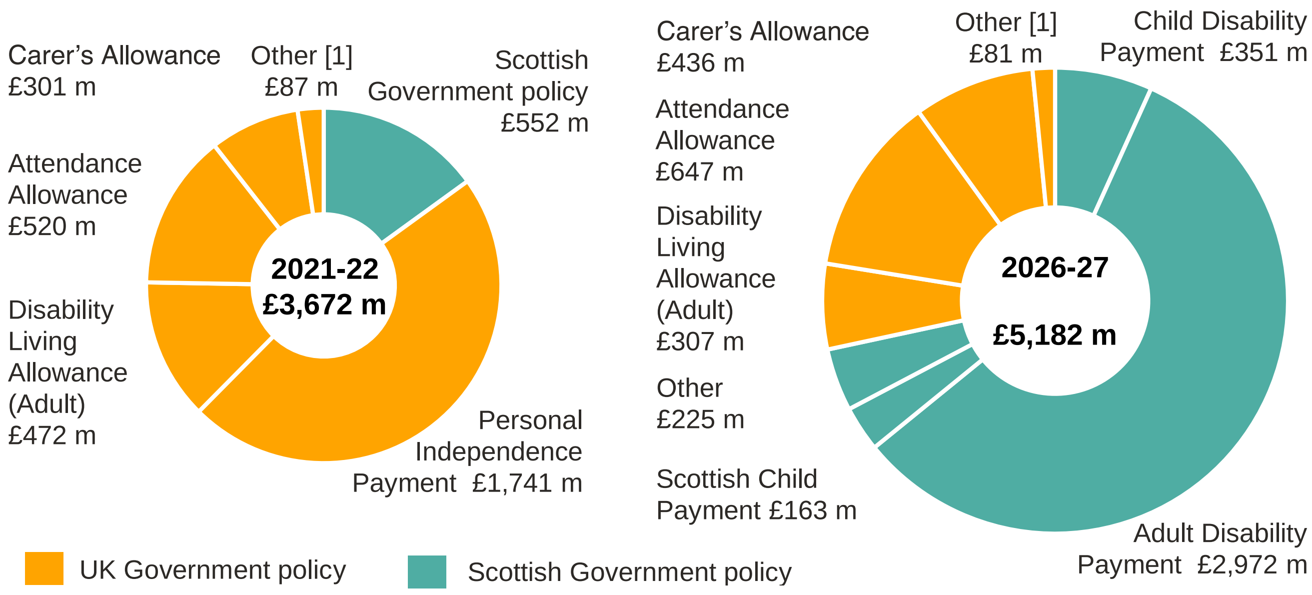
Forecasts

5.6 In this section, we provide more detail on our spending forecasts, along with our forecast of how many people we expect to receive payments, which we refer to as the caseload. We also show the changes in our spending forecasts since our previous forecasts published in January 2021.

Spending forecasts

5.7 For 2021-22 most social security spending, over £3 billion, is administered by the Department for Work and Pensions (DWP) under agency agreements with the Scottish Government. PIP is the most significant payment with an expected spend of £1.7 billion. Figure 5.3 shows how much more devolved social security spending in Scotland is going to be based on Scottish Government policy over the next few years.

Figure 5.3: Social security spending in 2021-22 and 2026-27



Source: Scottish Fiscal Commission
Scottish Government policy includes Best Start Foods, the three payments of Best Start Grant, Carer's Allowance Supplement, Child Winter Heating Assistance, Funeral Support Payment, Discretionary Housing Payments, Fair Start Scotland, Self-Isolation Support Grant and Scottish Welfare Fund. Child Disability Payment is included as being costed on Scottish Government policy in 2021-22, however this includes spending on the UK Government Disability Living Allowance (Child). This figure does not include Cold Weather Payment and Winter Fuel Payment; these have not yet been devolved.
[1] "Other" Includes Industrial Injures Disablement Scheme and Severe Disablement Allowance

5.8 By 2026-27 Social Security Scotland will administer more payments directly, for example with the introduction of ADP. Our current forecasts assume 72 per cent of spending in 2026-27 will be based on Scottish Government policy. As the Scottish Government announces details of the replacements for the remaining payments still administered by DWP, we will incorporate the changes in our forecasts and this percentage will increase further.

Box 5.1: Our approach to producing social security forecasts

Payments already launched

A number of social security payments have already been launched by the Scottish Government and we produce forecasts based on Scottish Government policy:

- Social Security Scotland is making payments for Scottish Child Payment, the three payments of Best Start Grant, Best Start Foods, Carer's Allowance Supplement, Child Winter Heating Assistance and Funeral Support Payment.[60]
- The Scottish Welfare Fund, Discretionary Housing Payments and the Self-Isolation Support Grant are administered by local authorities. Our forecasts for these only show Scottish Government spending.
- Fair Start Scotland is delivered by external providers contracted by the Scottish Government.

New payments

We are currently forecasting two new payments which have not yet fully launched. We have based these forecasts on Scottish Government policy:

- Child Disability Payment (CDP) will fully launch in autumn 2021. A small pilot scheme for CDP launched in July 2021 for new applications in three local authorities.[61][62]
- Adult Disability Payment (ADP) will fully launch in summer 2022.[63]

Payments still to launch

The Scottish Government plans to launch a number of new payments in the future to replace existing UK Government payments such as Attendance Allowance and Carer's Allowance.[64] Currently we do not have sufficient detail of the policy and operational changes that the Scottish Government wants to introduce so we do not forecast spending on the new payments. Our forecasts are based on existing UK Government policy. When the Scottish Government announces its policy intent, we will incorporate these changes into future published forecasts.

Once they are included, we expect spending to increase, given Ministerial announcements and policy position papers published to date. We expect the new payments to have more accessible application routes, have more support for applicants and be more widely promoted.

[60] Social Security Scotland is also making payments for Young Carer Grant and Job Start Payment. We do not produce forecasts for Young Carer Grant because we estimate spending is immaterial, please see Annex C for our materiality policies, and Job Start Payment is not part of our legislative scope.

[61] Social Security Scotland (2021) Child Disability Payment pilot opens for new applications (link)

[62] CDP pilot started on 26 July 2021. We have not forecast the cost of the CDP pilot because its cost is below our materially threshold.

[63] Scottish Government (2021) Adult Disability Payment: consultation analysis (link)

[64] We separately provide illustrative forecasts of spending on Cold Weather Payments and Winter Fuel Payments, as these payments have not yet been devolved.

5.9 In Figure 5.4 we show outturn spending for 2020-21, our estimate of spending for the current financial year (2021-22), and a five year forecast for each payment.

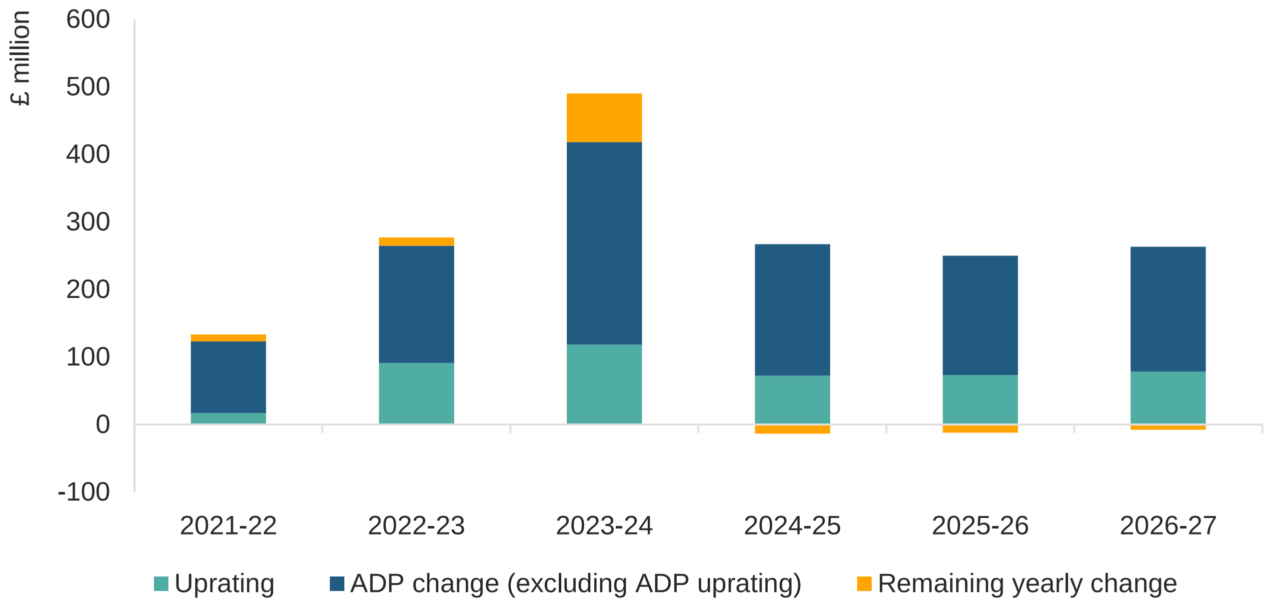
Figure 5.4: Social security spending forecasts

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Administered by Social Security Scotland:							
Adult Disability Payment [1]	1,626	1,741	1,958	2,313	2,541	2,752	2,972
Best Start Foods [2]	12	14	13	12	11	10	9
Best Start Grant	18	18	17	17	17	17	17
Carer's Allowance Supplement	59	61	43	47	51	55	58
Child Disability Payment [3]	208	227	264	299	319	335	351
Child Winter Heating Assistance	3	3	3	4	4	4	4
Funeral Support Payment	11	12	12	12	13	13	14
Scottish Child Payment	6	55	90	165	163	163	163
Administered by DWP:							
Attendance Allowance	528	520	559	585	603	625	647
Carer's Allowance	296	301	322	359	387	411	436
Disability Living Allowance (Adult)	514	472	439	408	374	340	307
Industrial Injuries Disablement Scheme	83	80	80	80	79	78	76
Severe Disablement Allowance	7	7	6	6	5	5	4
Administered by local authorities and other bodies:							
Discretionary Housing Payments	81	80	81	82	83	84	88
Fair Start Scotland	21	27	22	11	4	0	0
Self-Isolation Support Grant	4	19					
Scottish Welfare Fund	58	36	36	36	36	36	36
Total spending	3,535	3,672	3,945	4,436	4,689	4,927	5,182

Source: Scottish Fiscal Commission, Social Security Scotland, Scottish Government.
Shaded cells refer to provisional outturn available at time of publication. Figures may not sum because of rounding.
[1] Adult Disability Payment includes spending on the UK Government Personal Independence Payment until all existing clients are receiving ADP. We assume that this transfer will be completed by the end of 2024-25.
[2] Best Start Foods for 2020-21 includes spending on the UK Government Healthy Start Vouchers.
[3] Child Disability Payment includes spending on the UK Government Disability Living Allowance (Child) until all clients are receiving the new payment. We assume that this transfer will be completed by the end of 2022-23.

5.10 Social security spending increases over time because we expect more people to receive support, and most payment amounts are uprated to increase each year with inflation. In Figure 5.5, we show how much of the growth in social security spending is related to uprating. In January 2021, we assumed payment rates would increase by 1.4 per cent and 1.6 per cent in 2021-22 and 2022-23 respectively. We have revised up our inflation forecast based on the latest available data, resulting in a significant increase in uprating of the payment rates. Our forecasts are based on a 2.7 per cent increase in the payment rates in April 2022 and a 3.3 per cent increase in April 2023.

Figure 5.5: Annual growth in social security spending (year on year growth)



Source: Scottish Fiscal Commission

5.11 We expect the growth in social security spending in later years to be higher than shown in Figure 5.5 once the Scottish Government launches the replacement payments for Attendance Allowance, Carer's Allowance and the Industrial Injuries Disablement Scheme, and as further payments are devolved. We provide more details in Box 5.1 and in the section on illustrative forecasts.

5.12 Scottish Child Payment (SCP) launched in February 2021 and will be rolled out to all eligible children under 16 by the end of 2022, so we see spending increasing significantly for this payment up to 2023-24. Our forecasts do not include the SNP manifesto commitment to double SCP, as we do not have enough information on the policy details.

Caseload forecasts

5.13 We expect the number of people receiving social security payments to increase over time. This assumption is largely data driven, based on increases in caseloads in recent years, but also considers the introduction of new policies.

5.14 Increases in caseloads in recent years are caused by demographic changes in Scotland; for example, we expect that an ageing population would increase caseloads for payments to support the pension age group such as Attendance Allowance. Another factor is the proportion of the population that receives social security support; an increasing proportion of the child and working-age population receives a disability payment so even if the population remains relatively stable, we would expect caseloads to increase.

5.15 The Scottish Government intends to introduce a set of measures to widen the application channels and provide more support to applicants for ADP. In addition, it will also introduce changes to policy and processes which will affect the number of people making successful applications for ADP and remaining on ADP following a review. By 2026-27, we expect that the introduction of ADP will increase the caseload by an additional 70,000 clients on top of the 400,000 people who would have received PIP in the absence of ADP. We provide details on how these estimates were produced and uncertainties associated with forecasting a new payment in Annex A.

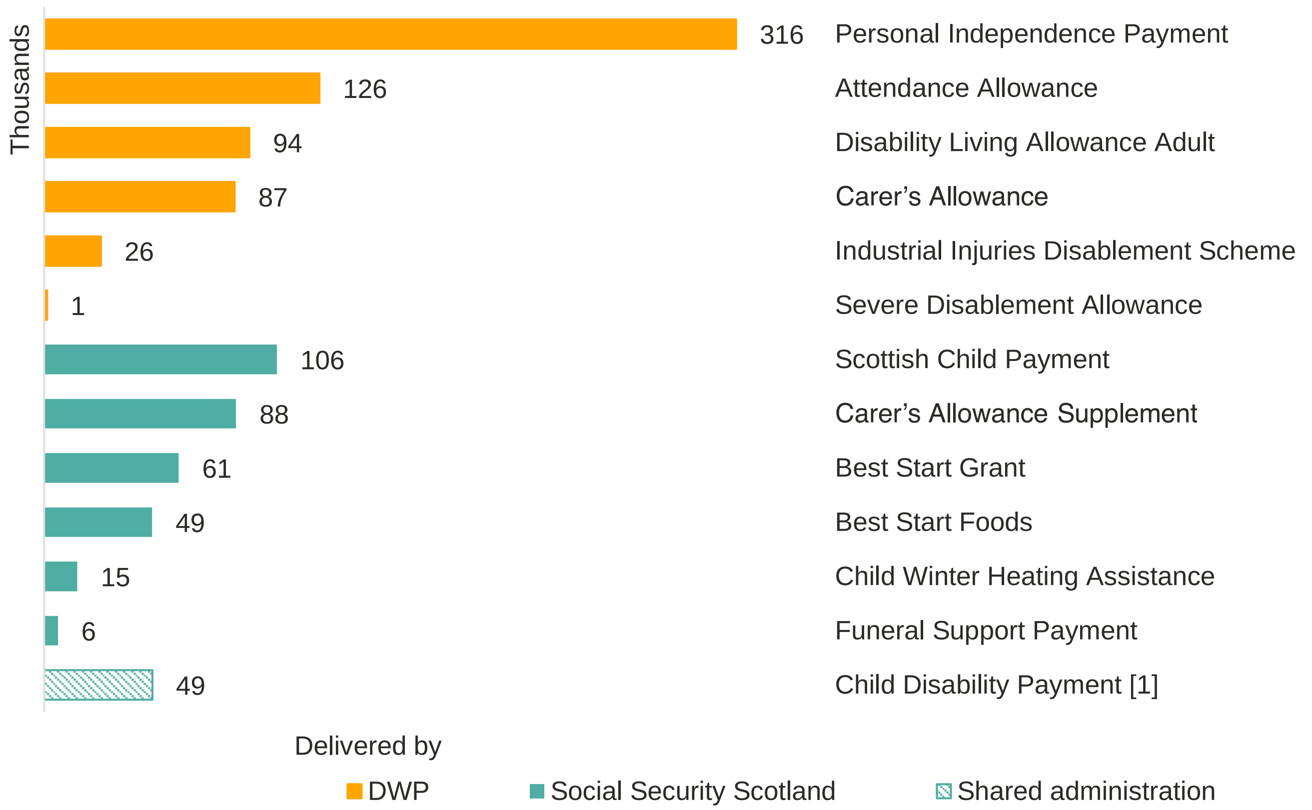
5.16 Our Carer's Allowance (CA) model is based on the caseload of qualifying benefits including PIP and its replacement, ADP. An increase in the number of people expected to receive disability payments under ADP leads to a forecast of 10,000 more people receiving CA in Scotland.

5.17 Although caseloads for the disability payments are expected to increase, there are a number of other payments where we expect the caseload to either remain broadly flat or even fall. The caseload for payments to families with children, such as the Best Start Grant, are affected by the size of the child population. We are forecasting the number of births and the child population to fall over the next five years, so the caseload for the Best Start Grant falls each year. The caseload for Scottish Child Payment increases by around 200,000 children from late 2022 following the expansion to children aged under 16 but then falls as the child population shrinks. More information can be found in Supplementary Table S5.1, published on our website.

5.18 We expect the caseload for Disability Living Allowance (Adult), Industrial Injuries Disablement Scheme and Severe Disablement Allowance to fall over the next five years. Disability Living Allowance (Adult) and Severe Disablement Allowance are closed to new applicants and there are very few new applicants to the Industrial Injuries Disablement Scheme with several of the underlying payments effectively closed to new applicants.

5.19 Figure 5.6 shows our forecast caseloads for 2021-22 for payments administered by DWP and Social Security Scotland. Our estimates for later years can be found in Supplementary Table S5.1. Note that people may receive more than one of these payments so it is not possible to sum these figures to give a total view of how many people are supported.

Figure 5.6: Social security caseload forecast for 2021-22



Source: Scottish Fiscal Commission

[1] Child Disability Payment includes clients on the UK Government Disability Living Allowance (Child).

Changes since January 2021

5.20 Since January 2021, our forecasts have been updated to incorporate the latest outturn data available, to revise our assumptions on future spending, and to account for the introduction of new policies. Figure 5.7 shows the change in spending forecasts for each of the social security payments.

Figure 5.7: Change in social security spending forecasts since January 2021, by payment

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
January 2021	3,495	3,614	3,810	4,020	4,129	4,249
August 2021	3,535	3,672	3,945	4,436	4,689	4,927
Change since January 2021	40	59	136	415	560	678
Of which:						
Adult Disability Payment [1]	52	71	151	397	533	647
Attendance Allowance	-6	-30	-9	2	4	6
Best Start Foods	0	2	3	3	3	2
Best Start Grant	-2	-1	-1	-1	0	0
Carer's Allowance	-2	-5	0	17	28	35
Carer's Allowance Supplement	-1	19	-1	1	3	4
Child Disability Payment [2]	0	-4	-5	-3	-7	-13
Child Winter Heating Assistance		0	0	0	0	0
Disability Living Allowance (Adult)	5	7	12	18	17	15
Discretionary Housing Payments	-2	-2	-2	-2	-2	-2
Fair Start Scotland	0	0	1	0	0	0
Funeral Support Payment	-1	1	1	1	1	1
Industrial Injuries Disablement Scheme	0	0	1	2	2	2
Scottish Child Payment	-3	-13	-15	-19	-20	-19
Scottish Welfare Fund						
Self-Isolation Support Grant	-1	13				
Severe Disablement Allowance	0	0	0	0	0	0

Source: Scottish Fiscal Commission

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

[1] Adult Disability Payment includes spending on the UK Government Personal Independence Payment until all existing clients are receiving ADP. We assume that this transfer will be completed by the end of 2024-25.

[2] Child Disability Payment includes spending on the UK Government Disability Living Allowance (Child) until all clients are receiving the new payment. We assume that this transfer will be completed by the end of 2022-23.

5.21 Figure 5.8 shows the main reasons our headline forecasts have changed since January 2021, split by data updates, modelling changes, assumption changes and policy changes. Detailed breakdowns for all payments are available in supplementary tables published on our website. The most significant change is our costing of ADP, the replacement for PIP. This change in ADP spending, which is presented in Figure 5.8 under 'Policy changes – Scottish Government' together with other policy changes, represents both the additional cost of ADP, and changes, such as inflation, to the underlying PIP baseline model.

Figure 5.8: Change in social security spending forecasts since January 2021

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
January 2021	3,495	3,614	3,810	4,020	4,129	4,249
Data updates	47	64	84	95	105	114
Modelling changes	-7	-2	-1	1	5	10
Assumptions – Inflation			45	112	120	125
Assumptions – Eligibility and take-up	-2	-9	-13	-20	-21	-19
Assumptions – Population	0	0	0	-1	-2	-3
Assumptions – Other	2	-23	-14	-8	-10	-12
Policy changes – Scottish Government	1	29	36	237	363	462
August 2021	3,535	3,672	3,945	4,436	4,689	4,927
Change since January 2021	40	59	136	415	560	678

Source: Scottish Fiscal Commission, Social Security Scotland, Scottish Government.
Shaded cells refer to provisional outturn available at time of publication. Figures may not sum because of rounding.

Data updates

5.22 Overall, as we have updated our forecasts for new data, spending has been revised upwards. This is largely because of increases in our baseline PIP forecast because of more successful applications. For some payments, such as AA and CDP, the data updates have reduced our forecast. We assume that the trends we have observed in individual forecasts will continue in the future, so across all the models, data updates have increased our spending forecast by £47 million in 2021-22 and £114 million by 2025-26

Modelling changes

5.23 We have made several changes to improve our baseline PIP model used to forecast ADP. We restructured the model to better reflect the current PIP policies, and to ensure the ADP model outputs can be used in our Carer's Allowance model. We also made changes to reflect the increasing number of people over State Pension Age and the rate at which these clients leave the caseload.

Assumption changes

Inflation

5.24 Our inflation forecast is used to uprate the weekly payment rates for future years. We have revised up our inflation forecast for 2021 and 2022 in line with the Bank of England's latest inflation estimates. A higher inflation forecast also increases the payment rates and spending forecast from 2022-23 onwards.

Eligibility and take-up

5.25 In our January 2021 forecast, we assumed that over half of children under 6 would be eligible for SCP in 2020-21, informed by Scottish Government's Policy Simulation Model analysis and our economy forecast. Universal Credit and Tax Credit data now suggest eligibility among young children is under 45 per cent, and that there was no significant increase associated with the lockdown in early 2021 as we had assumed in January. As a result, we have revised down our eligibility assumptions for SCP, which reduces spending across the forecast. Our take-up assumptions are similar to our January 2021 forecasts, with take-up rates assumed to be high and to increase over the forecast period for some payments. For some payments, our view of recent and current take-up has changed in light of updated estimates of eligibility.

5.26 More detail on our eligibility and take-up rate assumptions can be found in Supplementary Tables S5.5 and S5.6.

Population

5.27 We have updated our population forecast in line with the mid-2020 population and migration data published by National Records of Scotland on 25 June. Compared to our January 2021 forecast, total Scottish population is slightly lower and falls by an average of 3,000 people in every year of the forecast, with falling births being the main driver of this downward trend. We assume that the number of births is broadly flat each year until 2022 before resuming the same downward trend as assumed previously but starting at a lower level. For mortality, we use a low life-expectancy assumption, adjusted for the actual number of deaths in 2021.

Other assumptions

5.28 The other assumptions changes are mostly off-model adjustments, to account for external factors and policy changes that we know are not fully reflected in data. We manually adjust for these changes using other models or information provided by the OBR.

5.29 We have made changes to our estimates of PIP spending to reflect changes by DWP which increase the minimum award length to 18 months, changes to the application routes and other changes expected to increase spending. The combined effect of these decreases ADP spending by £5 million in 2021-22, and increases it by £4 million in 2023-24, £2 million in 2024-25 and £1 million in 2025-26.

5.30 For AA we have revised down our assumptions on the number of successful applications as we assume some of the drop in applications seen over the first and second lockdowns will not result in applications simply being delayed until later but that instead those eligible will no longer apply. This reduced our AA forecast by £12 million in 2021-22, and £8 million thereafter.

Policy changes

5.31 From summer 2022, ADP will replace the UK Government payment, PIP, nationally and will be delivered by Social Security Scotland. Although the effect on spending is highly uncertain, we expect spending will increase relative to what would have been spent on PIP in the absence of ADP. We expect the number of people receiving payment and the average amount they receive to increase. The introduction of ADP increases forecast ADP spending by £34 million in 2022-23, rising to £529 million by 2026-27. In addition, the increase in the number of people anticipated to receive disability payments under ADP is expected to result in more people qualifying to claim CA in Scotland. Based on our latest forecasts of the ADP caseload we estimate CA and Carer's Allowance Supplement (CAS) spending will increase by £40 million in 2026-27. More detail can be found in Annex A.

5.32 There are three other Scottish Government policy changes which also fall under this category: a higher CAS payment in December 2021, an increase in the weekly payment amount for Best Start Foods from £4.25 to £4.50, and an expansion in eligibility for the Self-Isolation Support Grant (SISG). We provide more details on these changes in the Scottish Government policy section.

5.33 Since our last forecast the UK Government has extended the Coronavirus Job Retention Scheme and the £20 uplift to the weekly value of Universal Credit and Tax Credits until the end of September 2021. These changes will have affected eligibility for payments such as the Best Start Grant and Scottish Child Payment (SCP) but we do not think there is a material effect on spending.

Comparison with Block Grant Adjustments

5.34 The largest social security payments are funded through Block Grant Adjustments (BGAs).[65] The BGAs are based on spending in Scotland before the payments were devolved, updated in line with changes in spending in England and Wales on the corresponding payments. More information on BGAs can be found in our recent Funding for the Scottish Budget paper.[66] Over 90 per cent of spending for 2020-21 is funded through BGAs. If the Scottish Government introduce policy changes which raise spending in Scotland and there is not a similar change to spending in England and Wales, on which BGA funding is based, then the additional costs must be met from within the Scottish Budget, for example by spending less on other areas or by raising revenue through taxes.

5.35 Several social security payments were devolved to the Scottish Government through the general Block Grant. There are no direct changes in funding based on changes in England and Wales and therefore no corresponding BGAs.[67] The Scottish Government has to manage any changes in spending during the year. In addition, the Scottish Government has introduced new payments which do not receive any funding from the UK Government.[68]

Figure 5.9: Comparison of social security spending forecast and BGAs

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Block Grant Adjustments	3,204	3,325	3,537	3,733	3,901	4,130
Spending on social security payments with BGAs [1]	3,262	3,348	3,628	4,050	4,307	4,545
Difference (BGAs less spending)	-59	-23	-91	-316	-406	-415

Source: Scottish Fiscal Commission, Scottish Government (link).
Shaded cells refer to provisional outturn available at time of publication. Figures may not sum because of rounding.
[1] Includes social security spending on Attendance Allowance, Carer's Allowance, Disability Living Allowance, Industrial Injuries Disablement Scheme and Severe Disablement Allowance as well as the costs for the new Child Disability Payment and Adult Disability Payment which will replace Disability Living Allowance (Child) and Personal Independence Payments respectively.

5.36 The differences shown in Figure 5.9 are calculated as the BGA less spending to show the effect on the Scottish Government's funding. The BGAs presented are the latest available, based on the OBR's March 2021 forecasts. Since March, there is new information on how spending and caseloads have changed and we have new forecasts for inflation, used to increase payments each year. This means the BGAs and our forecasts are calculated on different bases so any comparisons should be interpreted with caution.

[65] This includes Personal Independence Payment, Disability Living Allowance, Attendance Allowance, Carer's Allowance, Industrial Injuries Disablement Scheme and Severe Disablement Allowance.
[66] Scottish Fiscal Commission (2021) Funding for the Scottish Budget (link)
[67] Payments devolved through the general Block Grant and therefore included in the Barnett formula are Sure Start Maternity Grant (replaced by Best Start Grant Pregnancy and Baby payment), Funeral Payments (replaced by Funeral Support Payment), employability programmes (replaced by Fair Start Scotland), elements of the social fund (replaced by Scottish Welfare Fund), Healthy Start Vouchers (replaced by Best Start Foods), Discretionary Housing Payments and Self-Isolation Support Grant.
[68] New payments include Carer's Allowance Supplement, Scottish Child Payment, Child Winter Heating Assistance, Best Start Grant Early Learning Payment and Best Start Grant School Age Payment.

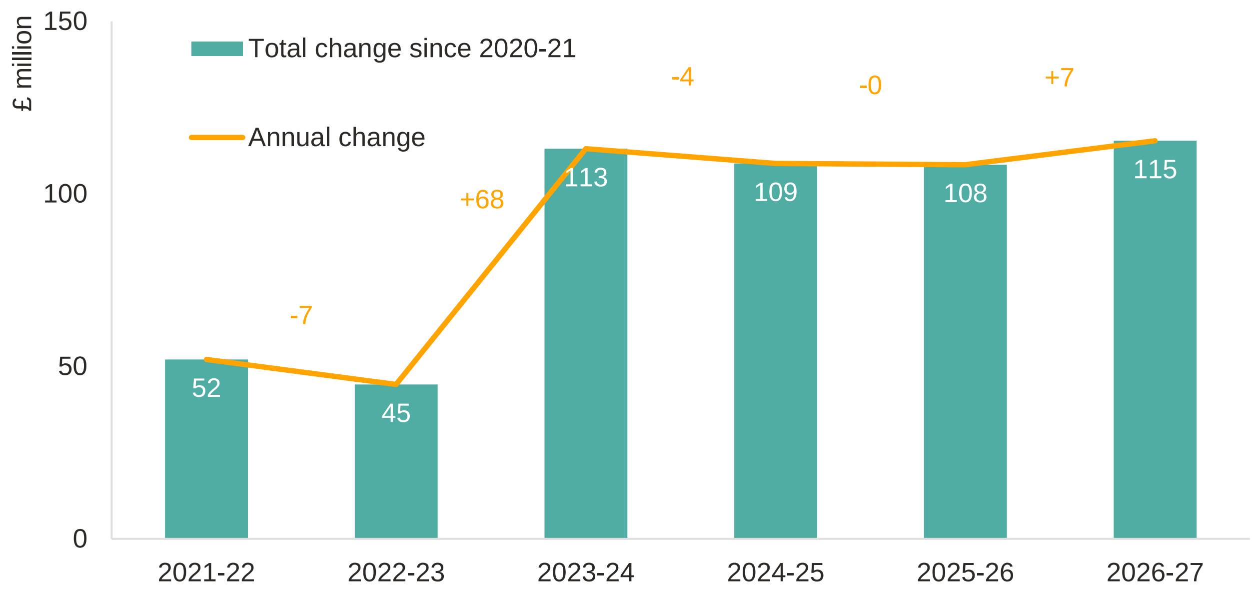
5.37 Any differences between our forecasts and the BGAs must be managed by the Scottish Government. Over the next five years, we expect spending on social security payments with BGAs to increase above the level of BGA funding; mainly because we expect spending on the new ADP to be higher than spending on PIP. Social security spending is largely demand-led; meaning everyone who is entitled to a payment and applies must be paid. Further discussion on the implications for the Scottish Budget of social security spending being higher than the funding received can be found in the **Fiscal Overview chapter**.

5.38 A comparison between the forecasts for the BGA and spending for each payment can be found in Supplementary Tables S5.11 and S5.13

Payments without a Block Grant Adjustment

5.39 The Scottish Government has introduced new payments that do not receive any funding from the UK Government.[69] There are no direct changes in funding from the UK Government to cover any increase in spending in these areas. The costs of these new payments must be met entirely from the Scottish Budget.

Figure 5.10: Growth in social security spending on payments without a BGA



Source: Scottish Fiscal Commission
Payments without a BGA are Best Start Foods, Best Start Grant, Carer's Allowance Supplement, Child Winter Heating Assistance, Discretionary Housing Payments, Fair Start Scotland, Funeral Support Payment, Scottish Child Payment, Self-Isolation Support Grant and Scottish Welfare Fund.

5.40 The roll-out of SCP to all children under 16 by the end 2022 increases spending by around £36 million in 2022-23 and by £112 million in 2023-24. In 2022-23, the increase in spending on SCP is partially offset by lower spending on the CAS, compared to 2021-22, because of the additional payment in 2021-22. Our forecast in 2021-22 also includes spending on the SISG of £19 million.

[69] New payments include Carer's Allowance Supplement, Scottish Child Payment, Child Winter Heating Assistance, Best Start Grant nursery payment and Best Start Grant school payment.

Scottish Government policy

5.41 Since January 2021, the Scottish Government has announced several policy changes, some in response to the COVID-19 pandemic and others which were included in the SNP manifesto. We have now incorporated into our forecast the Scottish Government's new ADP, due to launch nationally in summer 2022; further details can be found in Annex A. The Scottish Government has committed to making a one-off double payment of the CAS in December 2021. We estimated the cost of the CAS to accompany the legislation at £21.0 million and we have revised the estimate down slightly to £20.3 million, as shown in Annex B.

Figure 5.11: Scottish Government policy changes since January 2021

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Adult Disability Payment [1]			35	236	363	462	568
Best Start Foods		1	1	1	1	1	0
Carer's Allowance Supplement [2]		20					
Self-Isolation Support Grant	1	8					
Total policy change	1	29	36	237	363	462	568

Source: Scottish Fiscal Commission, Scottish Government.
[1] This contains the direct additional cost of the new policy on ADP, and the additional cost to Carer's Allowance and Carer's Allowance Supplement because of the introduction of ADP.
[2] The Carer's Allowance Supplement (Scotland) Bill was initially costed in June 2021. Scottish Fiscal Commission (2021) Supplementary Costing – Carer's Allowance Supplement (Scotland) Bill – June 2021 (link).

5.42 In March, we estimated that the extension to the SISG would increase spending in 2021-22 by £4.6 million. In light of the high number of COVID-19 cases in summer 2021, we have increased our estimate of the policy cost to £8 million, as shown in Annex B. The Scottish Government has also increased the BSF weekly rate; we estimate this change increases spending by £0.6 million in 2021-22, which is below our materiality threshold as discussed in Annex C.

Box 5.2: Scottish Government policy changes since January 2021

Policy changes previously forecast

Since January 2021, we have published two supplementary costings for social security. In February 2021 the Scottish Government announced an extension to eligibility for the SISG and in June 2021 the Scottish Government announced a one-off double payment of the CAS to be paid in December 2021.[70]

Policy changes included in this forecast

As well as the launch of ADP which we are forecasting for the first time, we have also included the increase in the BSF weekly payment which has increased by 25p to £4.50.

Future policy changes

[70] Scottish Fiscal Commission (2021) Supplementary Costing – Carer's Allowance Supplement (Scotland) Bill – June 2021 (link)
Scottish Fiscal Commission (2021) Supplementary Costings – Non-Domestic Rates Measures and Self-Isolation Support Grant – March 2021 (link)

The SNP manifesto included three social security commitments on which we do not yet have enough information to incorporate them into our forecasts: increasing SCP from £10 to £20 per week; replacing the current Cold Weather Payment with a guaranteed one-off payment each winter for eligible low-income households; and extending eligibility for BSF. There are currently no timescales for the introduction of these policy changes and therefore we do not include them in our forecasts. Once detailed information is available we will include these in our forecasts.[71]

5.43 The new Child Disability Payment (CDP) is due to launch nationally later this year, a small pilot is currently running in three local authorities.[72] We expect spending on CDP and DLA Child in 2021-22 to be £227 million.

Forecast uncertainty

5.44 Our recent Forecast Evaluation Report set out how our forecasts of spending in 2020-21 had been 3 per cent, or £100 million, higher than we forecasted in February 2020. Around half of this divergence can be attributed to the Scottish Government's introduction of policies to respond to the COVID-19 pandemic.[73]

5.45 Our latest forecasts contain our first estimates of spending on the new ADP. New policies are always harder to forecast as it is more difficult to predict how many people will be eligible and receive the payments as there is very limited information on which to base our forecasts. In the past, reforms of major disability payments have cost more than initially expected. The OBR has noted that the introduction of Disability Living Allowance in 1992 was intended to extend eligibility and although spending was expected to increase, it rose by considerably more than expected. The introduction of PIP in 2013, which was expected to cut costs by 20 per cent by 2015-16, was costing 15 to 20 per cent more by 2017-18. [74] The OBR's Welfare Trends Report in 2019 concluded that "PIP, a reform intended to reduce spending has actually increased it".

5.46 As the differences between ADP and PIP mainly apply to how the payments are delivered and the approach taken by Social Security Scotland, these are particularly difficult to model and inevitably our costing is based on a number of judgements. As well as considering the experiences of UK Government reforms to disability payments, we reviewed evidence from new payments launched by Social Security Scotland and existing data on PIP clients. We have also consulted with those involved with introducing the new payment and others with experience of forecasting similar policy changes.

5.47 The Commission is required to present a single set of forecasts for social security but, in reality, these represent a central point within a broad range of possible outcomes. The spending on ADP would vary if we altered some of our forecast assumptions. We conducted a sensitivity analysis on the main assumptions in our forecast in **Annex A**; a 50 per cent variation in our main assumptions could result in over £230 million variation on the ADP spending forecast by 2026-27. We attach a very high degree of uncertainty to these forecasts, so spending could reasonably be significantly higher or lower than we have estimated.

[71] Further information on how we include policies in our forecasts can be found in Scottish Fiscal Commission (2019) Approach to policy costings (link)
[72] CDP pilot started on 26 July 2021. We have not forecast the cost of the CDP pilot because its cost is below our materially threshold.
[73] Scottish Fiscal Commission (2021) Forecast Evaluation Report – July 2021 (link)
[74] OBR (2019) Welfare Trend Report – January 2019 (link)

5.48 Over time, the forecast uncertainty in our forecast should decrease. Once ADP has launched and we start to receive data from its operation we will be able to base forecasts on information on how the policy is operating in practice and so our future forecasts will become less dependent on judgements.

Illustrative Forecasts

5.49 We provide illustrative forecasts based on current UK Government policy for Cold Weather Payment (CWP) and Winter Fuel Payment (WFP). Responsibility for these payments has yet to be transferred to the Scottish Government and therefore these payments are not funded from within the Scottish Budget. DWP will continue to make these payments to people in Scotland for winter 2021-22.

Figure 5.12: Illustrative spending for Cold Weather Payment and Winter Fuel Payment

£ million	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Cold Weather Payment	15	15	15	15	15	15
Winter Fuel Payment	172	176	180	184	189	191

Source: Scottish Fiscal Commission

5.50 Our WFP spending forecast is £176 million in 2022-23. Spending on WFP increases over time because the population aged over State Pension age in Scotland is forecast to increase.

5.51 Our forecast of CWP spending is based on a historic average of the spending in previous years; the forecast is fixed to £15 million from 2021-22 onwards.

5.52 There is significant uncertainty on the level of spending because of the unpredictable nature of the weather. A simple approach, aligned with the funding arrangements in the fiscal framework, has been taken to forecast spending.[75]

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

Annex A

Policy costings

Introduction

A.1 This annex sets out the different steps and judgements taken to arrive at our costings of the Scottish Government's new policy proposals.

A.2 This section only provides costings for policy changes which we have not previously costed. Where we have previously provided a policy costing, any further changes will be captured in Annex B on policy recostings.

A.3 Annex C sets out our approach to handling policies with a very small fiscal impact that we do not consider to be material in cost.

New policy costings

A.4 Figure A.1 provides a summary of new policy costings included in our forecasts. In Figure A.1, negative figures represent lower tax revenue or higher social security spending and positive figures represent higher tax revenue or lower social security spending.

Figure A.1: Policy costings

£ million	2022-23	2023-24	2024-25	2025-26	2026-27
Adult Disability Payment:	-35	-236	-363	-462	-568
Of which:					
Additional ADP cost	-34	-226	-341	-431	-529
Carer's Allowance spending [1]	-1	-11	-22	-31	-40
Overall effect of new costings	-35	-236	-363	-462	-568

Source: Scottish Fiscal Commission

Figures may not sum because of rounding. Negative figures represent lower tax revenue or higher social security spending, and positive figures represent higher tax revenue or lower social security spending.

[1] Additional cost to Carer's Allowance and Carer's Allowance Supplement because of the introduction of Adult Disability Payment.

Adult Disability Payment

Title of measure

Introduction of Adult Disability Payment

Measure description

A.5 Adult Disability Payment (ADP) will replace Personal Independence Payment (PIP) nationally in Scotland from summer 2022. The new payment will continue providing financial assistance to contribute to the increased costs incurred by an individual because of a disability or long-term health condition.

A.6 The structure of ADP is aligned with PIP but there are differences in processes for applying, award reviews and appeals. There are changes in the delivery of the payment in terms of support available and the types of evidence used for decision making, as well as how the payment is advertised and promoted. There are also some changes in policy introduced through ADP such as the new Short Term Assistance and changes to the terminal illness definition.

A.7 Through these changes, the Scottish Government intends to make the application process smoother and maximise the take-up of the payment amongst those eligible, whilst reflecting the new Social Security Charter.[76] We expect these changes will increase the number of people receiving payment and the average amount they receive.

A.8 As the differences between ADP and PIP mainly apply to how the payments are delivered and the approach taken by Social Security Scotland, these are particularly difficult to model and inevitably our costing is based on a number of judgements. We have consulted with those involved with introducing the new payment and others with experience of forecasting similar policy changes. Once ADP has launched and we start to receive data from its operation we will be able to base forecasts on information on how the policy is operating in practice and so our future forecasts will become less dependent on judgements.

A.9 The details of the policy changes and how we have forecast spending are set out below. Full details on ADP can be found in the Scottish Government's policy paper, consultation document and draft legislation.[77]

The cost base

A.10 We use our PIP forecast model as a baseline, which is based on historic data on the caseload and average award payments.[78] It is not possible to estimate the size of the eligible population for payments related to disability and ill-health as the qualifying criteria are not easily observable in the population. Whilst there are some household surveys that provide evidence on reported disability prevalence, there are not any surveys that assess the likelihood of someone meeting the assessment criteria for PIP. Because we do not know the potential size of the eligible population for PIP or ADP, we also cannot calculate the proportion of the eligible population who are receiving the payment, the take-up rate, and those who are eligible and not currently receiving payment.

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[76] Social Security Scotland: Our Charter (link)
[77] Scottish Government (2020) Adult disability payment: consultation (link), Scottish Government (2019) Disability Assistance (link)
[78] Scottish Fiscal Commission (2021) How we forecast social security: disability and carer's payments (link)

Therefore we have to make a number of judgements, based on the evidence that is available, to forecast additional caseload.

A.11 To estimate future spending on ADP we use our PIP forecast model and then consider the effects on both caseload and spending in order to arrive at a total forecast for ADP. We consider the effects of the policy changes within several categories: new successful applications received, average payments received by clients, transfer of clients from the Department for Work and Pensions (DWP) to Social Security Scotland, award lengths, review processes, the new Short Term Assistance Payments and changes to the definition of terminal illness.

A.12 Office for National Statistics (ONS) population projections inform our assumptions on caseload and new applications, and National Records of Scotland (NRS) statistics on causes of death help inform our assumptions for terminal illness claims.

The costing

A.13 We expect the changes in current policy and processes to affect the number of people making successful applications to ADP and remaining on ADP following a review as well as the average amount they receive. These changes lead to additional spend on ADP of £34 million in 2022-23 and £529 million by the end of the forecast period in 2026-27.

A.14 Our Carer's Allowance (CA) model is based on the caseload of qualifying benefits, including PIP and ADP. We expect more people to receive disability payments under ADP, and in turn we expect this to result in more people qualifying to claim CA in Scotland. Based on our forecasts of the ADP caseload, we estimate CA and Carer's Allowance Supplement (CAS) spending will increase by £40 million in 2026-27. Having identified the implications of our ADP forecasts for CA and CAS, the rest of this annex focuses on how the changes discussed above have resulted in our forecast increase in both caseload and spending on ADP.

Figure A.2: Costing of the overall policy change to Adult Disability Payment

£ million	2022-23	2023-24	2024-25	2025-26	2026-27
Total additional cost of ADP	**35**	**236**	**363**	**462**	**568**
Policy cost to ADP	34	226	341	431	529
Carer's Allowance spending [1]	1	11	22	31	40

Source: Scottish Fiscal Commission

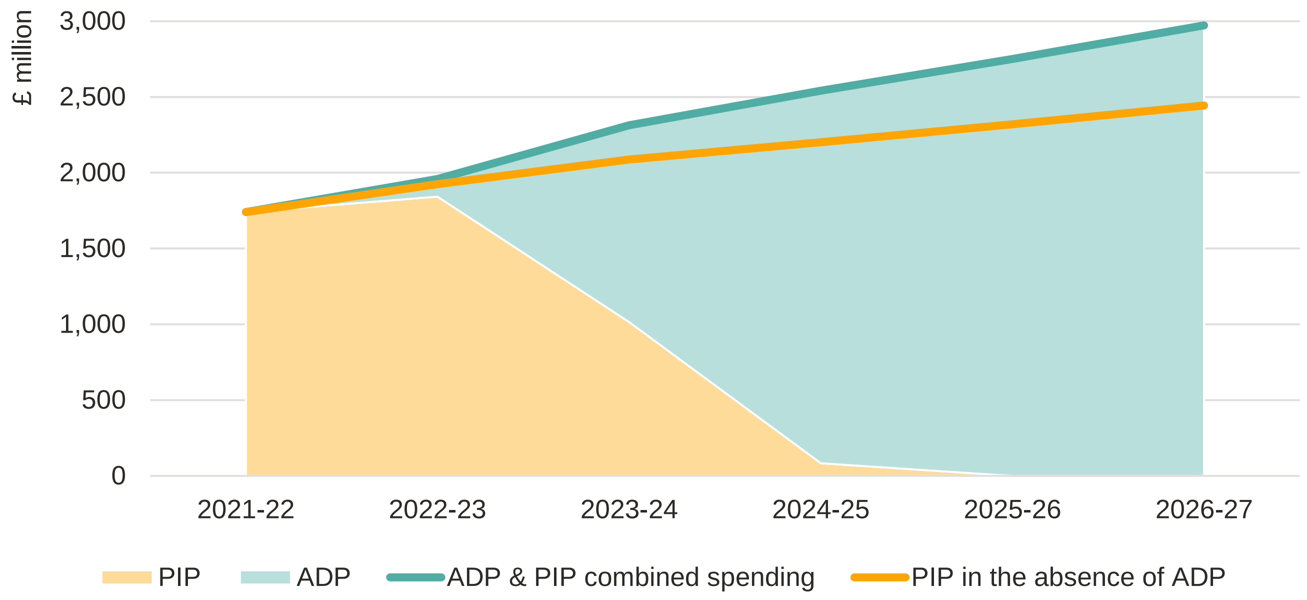
Figures may not sum because of rounding.

[1] Additional cost to Carer's Allowance and Carer's Allowance supplement because of the introduction of Adult Disability Payment.

A.15 Given the Scottish Government's commitment to launch ADP nationally in summer 2022, we assume that ADP is fully launched in September 2022. At this point new claims in Scotland will stop being accepted into PIP by DWP and clients will instead apply to Social Security Scotland for ADP. The Scottish Government will run a pilot from spring 2022; this has not been included in our costing as the scale of the pilot is currently unclear and we assume it will not have a material effect on our forecast.

A.16 Once ADP has fully launched people receiving PIP will gradually be transferred from the DWP system to Social Security Scotland. Following discussions with the Scottish Government we have assumed that this transfer begins in September 2022 and finishes by the end of 2024-25. Figure A.3 shows the split of spending between PIP and ADP.

Figure A.3: PIP and ADP spending breakdown



Source: Scottish Fiscal Commission

A.17 Our ADP forecast represents a 22 per cent increase in spending in 2026-27 compared to our baseline forecast for PIP if it had continued without any policy changes.

A.18 Figure A.4 shows the forecast additional spending for ADP for each category of effect we have considered. We show the spending on top of what social security spending would have been if PIP had continued unchanged. This additional spend includes the Scottish Government's policy changes to ADP and the transition from PIP, so increases over time as more clients are receiving ADP.

Figure A.4: Adult Disability Payment overall policy costing

£ million	2022-23	2023-24	2024-25	2025-26	2026-27
Policy cost to ADP	**34**	**226**	**341**	**431**	**529**
Of which:					
Additional successful applications	8	45	84	125	164
Initial spike in applications	10	77	93	88	83
Average payment	7	48	75	91	106
Change of circumstances	1	5	8	8	9
Length between awards	0	0	2	10	27
Award review process	0	5	25	59	95
Repeat applications	0	0	-1	-5	-10
New determinations and Short Term Assistance	1	8	13	12	10
Terminally Ill	8	38	42	43	44
Carer's Allowance spending [1]	**1**	**11**	**22**	**31**	**40**
Total additional cost of ADP	**35**	**236**	**363**	**462**	**568**

Source: Scottish Fiscal Commission
Figures may not sum because of rounding.
[1] Additional cost to Carer's Allowance and Carer's Allowance Supplement because of the introduction of Adult Disability Payment.

Additional successful applications

A.19 We expect there to be an increase in successful applications to ADP. The Scottish Government will introduce a set of measures to widen the application channels and provide more support to applicants. We anticipate that the proposed changes to the application process will increase the number of applications submitted compared to PIP.

A.20 After a client submits an application for ADP, a decision is made as to whether or not the person meets the eligibility criteria and, if they do, what type and rate of assistance they are entitled to.[79] This is known as the determination process. The new system is designed to be a smoother process for clients, with changes to Social Security Scotland's approach to collecting evidence and making decisions. Clients will be able to access help from someone who knows the system throughout the process, the requirement for face-to-face physical assessments for all clients has been removed, and clients will be able to provide less formal evidence, for example from a carer or relative. Social Security Scotland staff will act in accordance with the Social Security Charter and we expect to see differences in how staff operate compared to DWP.[80]

A.21 Additionally, there will be some subtle changes to the eligibility criteria that may widen eligibility, such as the introduction of the description 'not minimal or fleeting' to describe the proportion of time that eligibility criteria are satisfied. We think these changes are less restrictive and give more scope for judgment to the decision maker; we therefore expect an increase in the percentage of successful applications compared to PIP.

A.22 As we expect there to be a higher number of applications and a greater proportion of these applications to be successful, we anticipate that there will be a higher steady state level of successful applications to ADP compared to PIP.

A.23 We have considered a range of evidence in making a judgment on the size of the increase in successful applications to ADP compared to PIP. As the new processes are directed at removing existing barriers to entry and increasing take-up rates, we analysed a range of devolved Scottish Government payments, including the launch of Best Start Foods, as well as the effect on take-up of campaigns to support Attendance Allowance clients in the 2000s, and the increase in successful applications in the DLA to PIP transition. In particular, the marked increase in successful applications to PIP compared to DLA Working Age suggests that there was not only an increase in the number of applications to PIP, but also an increase in the proportion of applications that were successful. The OBR's Welfare Trends Report in 2019 noted that "The cost of the 'extra costs' disability benefits system has risen significantly over time, and both major reforms to the system – the introduction of DLA in 1992 and of PIP in 2013 – have ended up costing much more than expected." The OBR also conclude that "with PIP, a reform intended to reduce spending has actually increased it."[81]

A.24 After considering all of this evidence we have made a judgement that the changes to the application and determination process will increase the number of applications by 10 per cent, and also increase the success rate of applications to ADP by 10 per cent compared to PIP. This leads to an overall increase in the number of successful applications by 21 per cent in the long term, increasing the caseload for ADP and the level of spending.

Initial spike in applications

A.25 Social Security Scotland and the Scottish Government plan to have a tailored communication campaign when ADP launches. We anticipate that the promotional activity and the new application

[79] ADP has two parts, the daily living component and mobility component. Both can be paid at standard or enhanced rates.
[80] Social Security Scotland: Our Charter (link)
[81] OBR (2019) Welfare Trends Report – January 2019 (link)

system discussed above will increase the number of applications submitted to ADP following its launch.

A.26 In the short term, we expect a spike in the number of applications. The Scottish Government will use targeted communications activity when the payment launches to inform those who may be eligible about ADP. In addition there is a group of potentially eligible individuals who have previously either received or applied for DWP disability payments but are not currently receiving a payment. We use evidence on the size of this group to estimate the scale of this spike. This group includes people who unsuccessfully applied, lost their PIP award or previously received DLA and were unsuccessful when reassessed for PIP. Based on this information we assume an additional 57,000 applications will be made to ADP in the first 18 months, with nearly 20,000 of these being successful.

A.27 We assume that the success rate of people applying in this initial spike is lower than the overall success rate of applications to PIP and ADP. This group of people includes those who were previously disallowed after receiving PIP or who applied to PIP and were unsuccessful.

Payment award

A.28 The payment rates for ADP and PIP are the same and the ADP eligibility criteria are broadly similar to PIP. ADP will have the same payment rates as PIP and broadly similar eligibility criteria, but we expect that the changes to evidence collection and decision making will mean that Social Security Scotland will on average make higher awards to new applicants

A.29 To estimate how much higher average payment amounts could be, we considered how clients could receive higher rates for the different components of ADP. We assume 25 per cent of clients who would have received a nil award under PIP will now receive the standard rate under ADP, and we assume 15 per cent of those who would have received a standard award under PIP will now receive an enhanced award under ADP. The overall effect of these assumptions is an 8 per cent increase in the average award for clients on ADP. This is in part because applicants will be better informed and able to provide more rounded evidence, and in part an expected difference in organisational culture between decision makers in DWP and Social Security Scotland.

A.30 An 8 per cent increase in the average ADP award does not translate to the ADP average award being 8 per cent higher than for PIP straight away. Without any change in our assumed average award, the ADP average award is lower than for PIP because we assume a higher proportion of clients on ADP are new clients, who have a lower average award.

A.31 To inform our judgment, we considered evidence from the DLA to PIP transition, where 43 per cent of clients had their award increased by an average of 19 per cent. We estimate that approximately half of this increase was because of a change in the payment rates and the removal of the lower rate of care for PIP, and that the remaining increase in the average payment award resulted from the launch of PIP.

A.32 This increase in the average payment award will apply to new clients who go through a determination and existing clients who go through a light-touch award review.

Case transfer and change of circumstances

A.33 The majority of the clients will be directly transferred from PIP through a managed transfer; these clients will not be reassessed and will continue receiving the same payment award as they received on PIP. Therefore, the transfer of these clients onto ADP should not cause any additional cost.

A.34 For those who are currently receiving DLA or PIP, if they perceive that they could receive a higher payment on ADP, they may report a change in their condition which will trigger an award review and transfer to ADP. An increase in the number of change of circumstances requests from PIP will result in higher spending. Currently a very small proportion of clients apply for a change of circumstance, 0.3 per cent of the caseload each month. We have assumed this increases to 0.5 per cent because people have an incentive to apply for higher awards and because they perceive that the system will be more supportive to clients.

A.35 We also apply this increase to the success rate of applications by clients who request a change of circumstances in PIP, as they will also go through a determination process carried out by Social Security Scotland.[82]

Length of time between awards and award review process

A.36 ADP introduces a set of measures that will affect the time between reviews and the award review process. These measures aim to reduce the number of reviews a client goes through, and replace the current face-to-face assessment with a scheduled 'light touch' review that will mainly rely on people self-reporting a change in their condition. This also includes new awards which will be made on a rolling basis. If there is no likelihood of change, award reviews will be set 5 to 10 years apart.

Length of time between awards

A.37 We estimate these changes will increase the initial award length and the length of time between award reviews by 85 per cent. This assumption is based on analysis conducted on the initial award length of people currently receiving PIP in which we factor in their likelihood of improvement and a new ADP award length based on their condition.

A.38 The current PIP minimum award length is 18 months, so we will not start to see any effect of award length increasing until spring 2024, 18 months after ADP is launched. As more clients start having their award reviewed the average length between awards will start increasing. We assumed a gradual increase in the award length up to the end of the forecast period.

Award review process

A.39 We expect that the introduction of rolling awards and light-touch reviews will increase the number of people who remain on ADP when their award is reviewed.

A.40 In the current system, 9 per cent of PIP clients lose their entitlement prior to an award review because they fail to attend their assessment or do not submit their form in time. Because of the new rolling award system under ADP, we assume that this will not happen to a material number of clients in ADP.

A.41 Additionally, we use evidence on the disallowance rate of clients reporting a change of circumstance in PIP to support our judgements on the decrease of the disallowance rate. These show that people are more likely to have their award maintained or increased if they self-report a change in their condition.

A.42 Overall, we assume these changes will decrease the number of people who lose their award; we estimate that the disallowance rate at award review will decrease from 19.5 per cent to 5.4 per cent.

Repeat applications

A.43 Increasing the length of time between award reviews and reducing the percentage of clients who have an award review aims to remove unnecessary reviews and give clients their entitlement without having to challenge the decisions, or, if disallowed, having to reapply for the payment. As we

[82] Analysis conducted on unpublished DWP repeat application statistics.

expect fewer clients to be disallowed at review, there will be fewer clients who reapply to ADP following a review.

A.44 We use information on repeat applications to PIP to model the effect that reducing the number of people being disallowed at award review (from 19.5 per cent to 5.4 per cent) will have on the number of applications to ADP.[83] We estimate that by 2026-27 increasing the award length and reducing the disallowance rate will reduce the monthly inflows into the caseload by 2 per cent.

New determinations and Short Term Assistance

A.45 As part of ADP, the Scottish Government is introducing a Short-Term Assistance (STA) payment. This payment protects people whose award has been reduced or disallowed when challenging a decision. If a client does not agree with the outcome of the award review, they can request a new determination, and the outcome of the award review will be reconsidered. If they still do not agree with the new determination outcome they can appeal to the Courts. The client will continue receiving STA payments throughout the challenge process regardless of the outcome, and the client will not have to repay this if they lose their appeal. The main difference with the current DWP system is that a client on PIP only receives a backdated payment if their challenge was successful.

A.46 We assume that 90 per cent of people whose awards are reduced or disallowed will challenge Social Security Scotland's decision, as they will have a financial incentive to request a new determination. However, we make a judgement that the percentage of decisions that are changed at both the internal review process and at the tribunal stage will be lower than under the current DWP system.

A.47 Overall we expect an increase in the number of clients challenging their awards, and a knock-on effect on ADP spending, as more people will remain in the caseload.

Terminally ill definition

A.48 The qualification criteria for receiving disability payments under 'special rules' because of a terminal illness are changing. The biggest change is that the requirement of having a prognosis of only 6 months to live is being removed. We assume that widening the terminally ill definition will result in a higher number of qualifying people who will receive higher payments for longer.

A.49 Based on NRS statistics on causes of death, we estimate the number of people who die from a terminal illness and could therefore qualify under the new terminally ill definition. We assume that 60 per cent of people who die from a terminal illness receive special rules under ADP.

A.50 As the 6 month prognosis restriction will be removed, these clients are also expected to receive payments for longer. The Scottish Government conducted a Delphi analysis where a panel of medical professionals were asked a range of questions about the impact of the change in the terminal illness definition.[84] Using this evidence as a basis for our judgements, we assume that there will be, on average, a 62.5 per cent increase in the length of time a client receives special rules payment for ADP compared to PIP.

A.51 As well as additional new special rules clients, we assume that there will be some clients currently receiving PIP under normal rules who become eligible for ADP special rules payments.

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[83] Analysis conducted on unpublished DWP repeat application statistics.
[84] Scottish Government (2021) Estimating the Impact of the New Definition of Terminal Illness for Disability Assistance in Scotland – August 2021 (link)

Uncertainties about the costing

A.52 We attach a high degree of uncertainty to our estimate of the additional spending on Adult Disability Payment. Although there is information on PIP, the payment being replaced, ADP is a new payment being delivered by a new organisation. As we noted in our 2020 Forecast Evaluation Report, forecast errors are typically larger for newer payments where we have little or no data on which to base our forecasts.[85] Whilst we have tried to draw on evidence from the introduction of other new payments, these were not fully comparable to the introduction of ADP. So our costing is inevitably based on a number of assumptions and judgements. We have shared and discussed these with those involved with introducing the new payment and others with experience of forecasting similar policy changes and have listened carefully to their comments, for which we are very grateful.

A.53 If any of these assumptions turn out to be incorrect then there is a risk that our estimate of additional spending is too high or too low. As we start to build up data from the operation of ADP we will be able to ground future forecasts on a greater understanding of how the policy is actually operating and so our future forecast will become less dependent on judgements.

A.54 In this section we consider the assumptions which have the most significant effect on our forecast of additional spending, and how the additional ADP spending could change if these were 50 per cent higher or lower. As shown in Figure A.5, if all our main assumptions were 50 per cent lower, then spending would be £242 million lower than we currently expect in 2026-27. Alternatively if all our main assumptions were 50 per cent higher, then spending would be £234 million higher in 2026-27.

A.55 The Scottish Government has announced that it intends to introduce ADP nationally in summer 2022. In the absence of information on a specific start date, we have assumed it commences on 1 September. Any variation from the assumed start date will affect spending and the scale of the effect depends on the length of variation.

[85] Scottish Fiscal Commission (2020) Forecast Evaluation Report – September 2020 (link)

Figure A.5: Sensitivity analysis

£ million	2022-23	2023-24	2024-25	2025-26	2026-27
Policy cost to ADP	**34**	**226**	**341**	**431**	**529**
Initial spike in applications (20,000 additional successful applications)					
30,000	5	43	53	51	49
10,000	-5	-43	-53	-51	-49
Increase in additional successful applications (21 per cent increase)					
32%	4	25	49	72	95
11%	-4	-25	-49	-72	-95
Increase in payment award (8 per cent increase)					
12%	4	27	41	49	56
4%	-4	-26	-40	-48	-56
Increase in award length (85 per cent increase)					
127%		-0	-1	-1	-1
42%		0	1	2	2
Decrease in disallowance rate (72 per cent decrease)					
100% [1]	- 0	-0	6	19	34
36%	0	1	-8	-25	-44

Source: Scottish Fiscal Commission

[1] 100 per cent decrease in the disallowance rate results in a 0 per cent disallowance rate.

Annex B

Policy recostings

B.1 A policy recosting is a revised estimate of a policy that has been previously costed. There are two main reasons why we may recost previously announced or implemented policies.

- The outturn administrative data that includes the effects of the policy change are not yet available. For example, the 2020-21 income tax policy will not be present in the outturn data until summer 2022.
- We revise key judgments or assumptions relating to our previous policy costings – particularly in response to new evidence.

B.2 This Annex sets out the latest policy recostings and how they have changed from the previous costing. These comparisons are against the costings in the January 2021 forecast unless otherwise specified. Negative figures represent lower tax revenue or higher social security spending and positive figures represent higher tax revenue or lower social security spending.

Figure B.1: Latest policy recostings

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Income Tax							
2020-21 higher rate policy	51	57	59	61	64	68	72
NDR							
Retail, Hospitality, Leisure and Airports relief		-736					
Carer's Allowance Supplement							
Double payment in December 2021		-20					
Fair Start Scotland							
'Costs Plus' funding	-5.4	0.4					
Two year extension		-17	-18	-11	-4	0	
Self-isolation Support Grant							
Extension to eligibility	-1	-8					

Source: Scottish Fiscal Commission

Figure B.2: Change since last costing

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Income Tax						
2020-21 higher rate policy	3	7	8	7	7	8
NDR						
Retail, Hospitality, Leisure and Airports relief [1]		-17				
Carer's Allowance Supplement						
Double payment in December 2021 [2]		0.7				
Fair Start Scotland						
'Costs Plus' funding	0.3	0.4				
Two year extension		-0.2	-0.2	-0.4	-0.1	-0.0
Self-isolation Support Grant						
Extension to eligibility [1]	-0.1	-3.4				

Source: Scottish Fiscal Commission

[1] Change shown is since supplementary costing published in March 2021. Scottish Fiscal Commission (2021) Supplementary Costings – Non-Domestic Rates Measures and Self-Isolation Support Grant – March 2021 (link)

[2] Change shown is since supplementary costing published in June 2021. Scottish Fiscal Commission (2021) Supplementary Costing – Carer's Allowance Supplement (Scotland) Bill – June 2021 (link)

Annex C

Materiality

Introduction

C.1 The tax revenues devolved to Scotland will amount to £16 billion in 2021-22 increasing to £22 billion by 2026-27. Devolved social security spending equates to £3.7 billion in 2021-22, and reaches £5.2 billion by 2026-27. Some policies announced by the Scottish Government will have a very small effect relative to the size of the Scottish Budget.

C.2 The OECD review conducted in 2019 recommended that:

"As a new institution, the SFC has been under pressure to prove its capabilities in delivering its tax and benefit forecasts. As new areas were devolved, the SFC developed more detailed models for forecasting smaller tax and spending areas than peer IFIs might have done, given their relative fiscal immateriality. Now that it is more established, the SFC should dedicate greater resources to areas that are more important for the Scottish Budget."[86]

C.3 The Commission's approach to materiality was first introduced in our December 2018 Scotland's Economic and Fiscal Forecasts publication.[87] We reviewed our materiality policy and set out increased materiality thresholds in Annex C of our January 2021 SEFF publication.

C.4 We also consider materiality in our approach to error corrections, published in our statement of compliance with the Code of Practice for Statistics.[88] We categorise errors based on materiality and then use this categorisation to help us decide on an appropriate response.

Materiality policy

Negligible policies

C.5 The Commission has set thresholds under which policies will be deemed to be negligible and therefore will not be costed. The threshold for negligible policies is **£2 million**.

Small policies

C.6 For policies with a low estimated cost, a decision will be made whether to cost the policy or not. The threshold for small policies is **£5 million**.

C.7 Our decision as to whether or not to cost a small policy is unchanged from December 2018 and requires some, or all, of the following criteria to be met:

- high degree of confidence that the cost of the policy is low, even if there is a high degree of uncertainty as to the precise cost
- the cumulative changes being made do not push the policy above the materiality threshold

[86] OECD (2019) Independent Fiscal Institutions Review – Scottish Fiscal Commission (link)
[87] Scottish Fiscal Commission (2018) Scotland's Economic and Fiscal Forecasts – December 2018 (link)
[88] Scottish Fiscal Commission (2018) Statement of Voluntary Compliance with the Code of Practice for Statistics (link)

- limited risk of significant behavioural response of taxpayers to a change in the tax or social security recipients to changes in social security

C.8 In addition we also consider the level of political and media interest in the cost of the policy. We will next review our materiality policy ahead of the 2023-24 Scottish Budget.

Materiality decisions for August 2021

C.9 The Commission has decided not to cost the following policies for August 2021:

- The Scottish Government has introduced a pilot of Child Disability Payment that started on 26 July 2021, in advance of the full launch on 22 November 2021.[89] We estimate that the additional spending in the three pilot areas in advance of full launch is negligible and therefore have not included this in our forecast.

- From August 2021 the weekly rate for Best Start Foods has increased from £4.25 to £4.50.[90] We estimate that this will have an annual cost of around £0.6 million. This is now included in our forecast but is well below our materiality threshold so we did not produce a supplementary costing when this change was announced. We also estimate that the cost of the small increase to the Best Start Foods income thresholds that was implemented at the same time is negligible and have made no adjustment to the forecast for this.

Assessing cumulative materiality

C.10 One of the criteria in deciding whether or not to cost small policies is to check if the cumulative policy changes would be above our materiality threshold.

C.11 In Figure C.1 we show where we have applied our materiality policy, introduced in December 2018.

[89] Scottish Government (2021) Child Disability Payment pilot date announced (link)
[90] UK Government (2021) The Welfare Foods (Best Start Foods) (Scotland) Amendment Regulations 2021 (link)

Figure C.1: Policies not costed since December 2018

Policy	Description and reason not to cost	Timing of initial materiality decision
Non Domestic Rates – Local Authority Discretionary Sports Club Relief	A costing of £3 million was included in the Barclay Review of Non-Domestic Rates. We estimated that this policy change fell below our £5 million threshold for small policies.	Scotland's Economic and Fiscal Forecast January 2021
Non Domestic Rates – RV threshold for Fresh Start relief	The rateable value threshold for Fresh Start relief from non-domestic rates was increased from £65,000 to £95,000. We estimated that the change fell under our £2 million threshold.	Scotland's Economic and Fiscal Forecast January 2021
District Heating Networks relief	District heating networks installed on or after 1 April 2021 and that are powered by renewables, energy from waste or waste heat will receive 90 per cent relief, rather than 50 per cent. We estimated that this change fell below our £2 million threshold for negligible policies.	Scotland's Economic and Fiscal Forecast January 2021
Social Security Administration and Tribunal Membership (Scotland) Bill	This is a series of administrative changes for which we believe there will be no material implications on benefit spending.	In advance of the bill being introduced in April 2020
Non Domestic Rates – Reverse Vending Machine Relief	All Reverse Vending Machines will be eligible for 100 per cent relief and as such had no effect on NDR income.	Scotland's Economic and Fiscal Forecasts February 2020
The Revenue Scotland Tax Powers Act 2014 (Amendment) Regulations 2020	This is an administrative change for which we believe there will be no financial implications as a result.	Scotland's Economic and Fiscal Forecasts February 2020
Young Carer's Grant	A one-off annual payment for young carers in Scotland aged 16, 17 or 18 who meet certain conditions, with an estimated cost of less than £1 million each year.	Scotland's Economic and Fiscal Forecasts December 2018

Source: Scottish Fiscal Commission

There have also been a large number of Scottish Statutory Instruments for social security which have no material impact on benefit spending as they relate to administrative changes or bring into force sections of the Social Security (Scotland) Act 2018.

C.12 We will also keep under review the policies we have previously not costed to ensure that none of these are now above the thresholds.

Additional Information

Abbreviations

AA	Attendance Allowance
ADP	Adult Disability Payment
ADS	Additional Dwelling Supplement
ADT	Air Departure Tax
APD	Air Passenger Duty
BGA	Block Grant Adjustment
BGAc	Business Growth Accelerator
BoE	Bank of England
BMW	Biodegradable Municipal Waste
BSF	Best Start Foods
CA	Carer’s Allowance
CAS	Carer’s Allowance Supplement
CDP	Child Disability Payment
CJRS	Coronavirus Job Retention Scheme
COVID-19	Coronavirus
CPI	Consumer Price Index
CWP	Cold Weather Payment
DLA	Disability Living Allowance
DWP	Department for Work and Pensions
EU	European Union
EPU	Economic Policy Uncertainty Index
FAI	Fraser of Allander Institute
GDP	Gross Domestic Product
GERS	Government Expenditure and Revenue Scotland
HMRC	Her Majesty’s Revenue and Customs
HMT	Her Majesty’s Treasury
IFI	Independent Fiscal Institution
LBTT	Land and Buildings Transaction Tax
LFS	Labour Force Survey
MCC	Material Change of Circumstances
MTFS	Medium Term Financial Strategy
NDR	Non-Domestic Rates
NIESR	National Institute of Economic and Social Research
NRS	National Records of Scotland
NSND	Non-Savings and Non-Dividends
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Cooperation and Development
ONS	Office for National Statistics
PAYE	Pay As You Earn
PIP	Personal Independence Payment
PUT	Public Use Tape
RHLA	Retail, Hospitality, Leisure and Aviation relief
RTI	Real Time Information
SBBS	Small Business Bonus Scheme
SCP	Scottish Child Payment
SEFF	Scotland’s Economic and Fiscal Forecasts
SEISS	Self-Employment Income Support Scheme
SEPA	Scottish Environmental Protection Agency
SFC	Scottish Fiscal Commission
SISG	Self-Isolation Support Grant
SIT	Scottish Income Tax
SLfT	Scottish Landfill Tax
STA	Short Term Assistance

SUCI	Scottish Uncertainty Index
VAT	Value Added Tax
WFP	Winter Fuel Payment
WRIT	Welsh Rate of Income Tax

A full glossary of terms is available on our website:

https://www.fiscalcommission.scot/explainers/glossary/

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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).[91]

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.[92]

Correspondence and enquiries

We welcome comments from users about the content and format of our publications. If you have any feedback or general enquiries about this publication or the commission, please contact info@fiscalcommission.scot. Press enquiries should be sent to press@fiscalcommission.scot.

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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91 OECD (2014) Recommendation on Principles for Independent Fiscal Institutions (link)
92 Scottish Fiscal Commission (2018) Compliance with the Code of Practice for Official Statistics (link)

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