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# Fiscal Framework Outturn Report

SG/2019/141  
September 2019

## Contents

1.	Introduction .....	3
2.	Tax – Overview of revenues, BGA and net budget position.....	5
3.	Income Tax.....	7
4.	Fully Devolved Taxes .....	10
5.	Fines, Forfeitures, and Fixed Penalties .....	13
6.	Proceeds of Crime.....	15
7.	Social Security.....	17
8.	Overall Reconciliation Requirement for the 2020-21 Budget.....	21
9.	Borrowing.....	22
10.	Scotland Reserve.....	26
11.	Sources of data and publication timetable.....	28

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**Foreword by the Cabinet  
Secretary for Finance, Economy  
and Fair Work**



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I am pleased to be able to present the second annual Fiscal Framework Outturn Report. As Cabinet Secretary for Finance, I am committed to fulfilling my responsibility to help Parliament and others provide effective scrutiny of Scotland's finances.

As with last year's report, this document provides information on the reconciliation process for Income Tax, Land and Buildings Transaction Tax and Scottish Landfill Tax, as well as operation of the Scotland Reserve and our borrowing powers.

As we continue to implement the powers devolved under the Scotland Act 2016, this report will expand to support Parliament's scrutiny of Scotland's finances. This year's report therefore also provides information on the Budget impact of Carer's Allowance, Discretionary Housing Payments, and Best Start Grants for the first time, as well as Fines, Forfeitures and Fixed Penalties and Proceeds of Crime.

Subsequent outturn reports will expand to encompass all the powers devolved under the Scotland Act 2016 as they are introduced, in keeping with our commitment to transparency and accessibility.

A handwritten signature in black ink, appearing to read "Derek Mackay".

DEREK MACKAY MSP

## 1. Introduction

1.1 This is the second Fiscal Framework Outturn Report published by the Scottish Government. It forms part of a revised budget process, as recommended by the final report of the Budget Process Review Group.

1.2 In keeping with the recommendations of the Group, it contains the following information:

- Outturn data for Scottish tax revenues (including comparison of outturn with forecast)
- Calculation of outturn Block Grant Adjustments (BGAs) and comparison with forecast
- Net effect on budget (revenue/expenditure minus BGA) for each tax relative to forecast
- Implications of reconciliation for subsequent financial year
- Commentary on latest available interim outturn data on income tax.
- Payments into the Reserve and withdrawals from the Reserve (with explanations for reasons for withdrawal or source of surplus)
- Balance of Scottish Reserve at the start and end of the previous financial year
- Borrowing undertaken during the past financial year, and assessment of how far Government remains below its various different borrowing limits
- Implications of borrowing in terms of estimated profile of future repayments

1.3 This publication follows on from *Scotland's Fiscal Outlook: The Scottish Government's Five Year Financial Strategy*<sup>1</sup>, published in May, which includes updated forecast reconciliations for tax and social security powers, and the *Fiscal Framework Data Update* published in July<sup>2</sup>, which includes outturn data for 2017-18 income tax. In addition, since the publication of those documents more data has become available, including outturn for devolved taxes for 2018-19. This is in addition to data on outturn BGAs and expenditure for some Social Security benefits which, like income tax reconciliation figures, are being published for the first time.

1.4 This year's Outturn Report also includes outturn for Fines, Forfeitures, and Fixed Penalty Notices and revenues seized as Proceeds of Crime, both of which are also being included for the first time.

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<sup>1</sup><https://www.gov.scot/publications/scotlands-fiscal-outlook-scottish-governments-medium-term-financial-strategy-2019/>

<sup>2</sup> <https://www.gov.scot/publications/fiscal-framework-data-update/>

1.5 In summary, the following points are relevant for 2020-21 budget considerations:

- The total reconciliation required in the 2020-21 Budget will be -£207 million. This figure includes reconciliations for 2017-18 Income Tax revenue and BGA and the final reconciliations of the 2018-19 BGAs for Land and Building Transaction Tax, Scottish Landfill Tax, Carer's Allowance and Fines, Forfeitures, and Fixed Penalties.
- The closing balance of the Scotland Reserve in 2019-20 is £233.5 million, on the basis of planned drawdowns outlined at provisional outturn 2019.
- Under current plans, the Scottish Government's capital debt will be £1.66 billion by the end of 2019-20, well within its overall £3 billion limit. No resource borrowing has been undertaken.

### **Terminology used in this document**

1.6 The Scottish Government must rely on forecasts when setting each Budget, and the UK Government also relies on forecasts when determining BGAs. When information about actual revenues and expenditure becomes available – known as ‘outturn data’ – subsequent Budgets are adjusted to account for the difference between forecast and outturn data. This process is known as ‘reconciliation’, and can involve additions or reductions to Scotland’s Block Grant.

1.7 Because this data becomes available for different taxes and social security benefits at different times, reconciliations are made throughout the budget cycle. A full explanation of the reconciliation process, Block Grant Adjustments, and the calculation of Scotland’s Block Grant can be found in the Technical Note on the Fiscal Framework.<sup>3</sup>

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<sup>3</sup> <https://www.gov.scot/publications/fiscal-framework-factsheet/pages/technical-note/>

## 2. Tax – Overview of revenues, BGA and net budget position

2.1 This section provides an overview of the latest information (outturn or forecast) available regarding revenues and BGAs for income tax and the fully devolved taxes – Land and Building Transaction Tax (LBTT) and the Scottish Landfill Tax (SLfT).

2.2 Table 1 includes outturn data for Scottish income tax and fully devolved taxes for 2017-18, and for 2018-19 for fully devolved taxes. It also shows the most recent forecasts and the net effect on the Budget of the differences between BGAs and revenues.

**TABLE 1: LATEST DATA ON TAX REVENUES AND BLOCK GRANT ADJUSTMENTS, 2017-18 TO 2024-25**

		Outturn		Forecast					
£ million		2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Income Tax	Revenue	10,916	11,486	11,703	12,332	12,831	13,374	13,985	14,613
	BGA <sup>1</sup>	11,013	11,665	11,709	12,380	12,825	13,300	13,805	N/A
	Net effect on Budget	-97	-179	-5	-48	6	74	180	N/A
LBTT	Revenue	557	557	616	655	691	724	759	794
	BGA <sup>1</sup>	584	549	535	568	611	651	705	N/A
	Net effect on Budget	-27	7	81	88	80	73	54	N/A
SLfT	Revenue	148	143	109	87	12	14	15	15
	BGA <sup>1</sup>	113	105	92	86	92	84	72	N/A
	Net effect on Budget	35	37	17	1	-80	-71	-57	N/A
TOTAL	Revenue	11,621	12,185	12,429	13,075	13,534	14,112	14,758	15,421
	BGA <sup>1</sup>	11,710	12,318	12,336	13,034	13,528	14,035	14,582	N/A
	Net effect on Budget	-89	-133	93	41	7	77	176	N/A

Note 1: The BGAs shown in this and subsequent tables are calculated using the Indexed Per Capita (IPC) indexation method. This method in practice determines the BGAs applied to the budget.

Figures in this and subsequent tables may not sum due to rounding.

2.3 Revenue forecasts in this table are taken from the latest version of the Scottish Fiscal Commission's (SFC) *Scotland's Economic and Fiscal*

*Forecasts*, published on 30 May.<sup>4</sup> BGAs are based on forecasts of equivalent UK Government tax revenue prepared by the Office for Budget Responsibility (OBR). Revenue outturn is provided for Income Tax by HMRC, and for LBTT and SLfT by Revenue Scotland. This report uses provisional 2018-19 outturn revenue data for the fully devolved taxes. The final revenue data will be published as part of Revenue Scotland's Annual Reports and Accounts in October 2019.

2.4 The forecasts for income tax revenues and BGAs for 2018-19 and 2019-20 above do not have any immediate impact on the Scottish Budget, as they do not represent outturn data that will be used as the basis for reconciliations. The forecasts from 2020-21 provide an indication of the level of revenues that the SFC anticipates, but these figures will not be used to set the 2020-21 Budget in December 2019, as that will make use of the next set of forecasts that the SFC produces in December.

## Taxes yet to be introduced

2.5 Some tax and social security powers devolved in the Scotland Act 2016 are yet to be implemented. In terms of taxes, these are assigned VAT, Air Passenger Duty and the Aggregates Levy.

**Assigned VAT** - The Fiscal Framework agreed that VAT assignment will be implemented following agreement between the two governments on a suitable assignment methodology. A one-year transitional period began in April 2019, during which the assigned VAT will be forecast and calculated, but with no impact on the Scottish Government's Budget. Discussions between the two governments continue over implementation in April 2020.

**Air Passenger Duty** - Air Departure Tax (ADT), replacing Air Passenger Duty (APD), is fully devolved to Scotland. Its introduction has been deferred until a resolution is found for flights departing from the Highlands and Islands with the UK Government continuing to apply APD in Scotland in the interim.

**Aggregates Levy** - Ongoing legal issues in relation to the UK Levy which had delayed the implementation of this power were recently resolved. The timetable for devolving the tax is dependent on the outcomes of the UK Government review of the UK Levy.

2.6 Information relating to these taxes will be included in future Outturn Reports, following their implementation.

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<sup>4</sup> <http://www.fiscalcommission.scot/publications/scotlands-economic-and-fiscal-forecasts/scotlands-economic-and-fiscal-forecasts-may-2019/>

### 3. Income Tax

3.1 For Scottish income tax, outturn data is available around 16 months after the end of the financial year, and a single reconciliation is applied to the Budget three years after that financial year.

3.2 Outturn data for income tax for 2017-18 was published by HMRC on 18 July 2019 and the reconciliation will be applied to the 2020-21 Budget. This data, together with the net effect on the Budget, is shown in table 2.

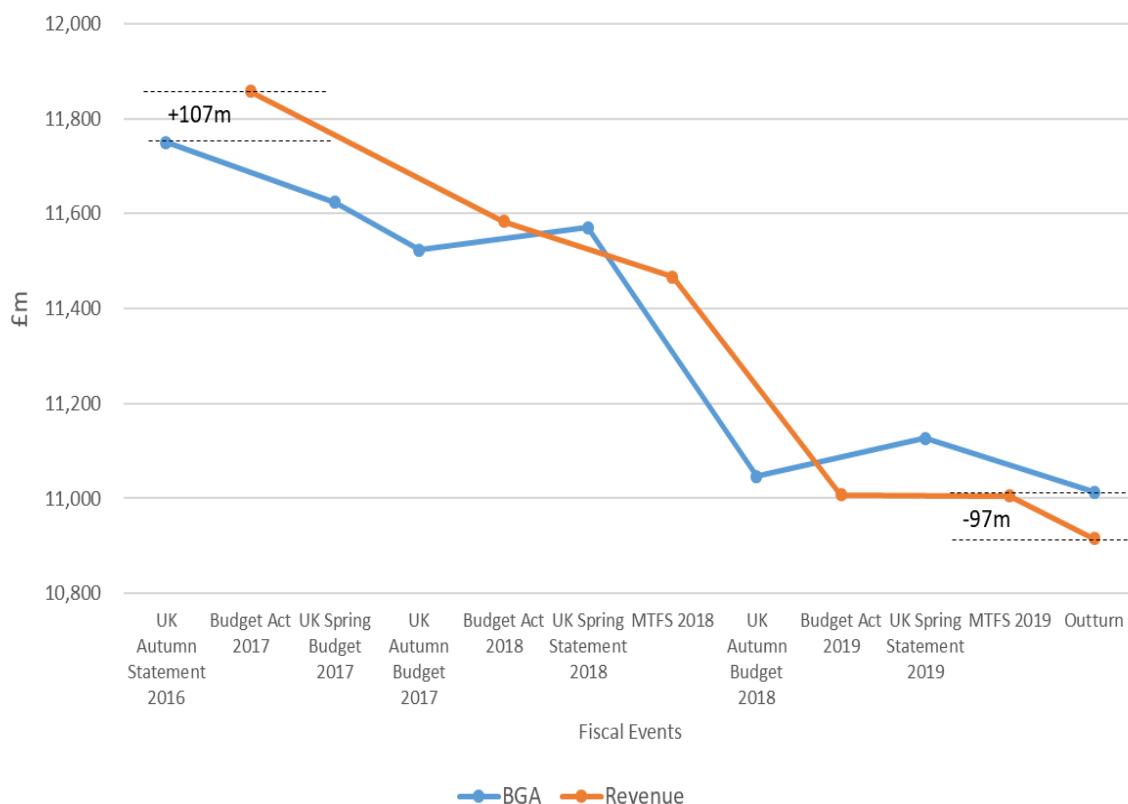
**TABLE 2: INCOME TAX BUDGET POSITION FOR 2017-18 COMPARED WITH FORECASTS (£ MILLION)**

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2017	11,857	11,750	107
Outturn	10,916	11,013	-97
Outturn against forecast	-941	-737	-204

3.3 This translates into a £204 million negative reconciliation requirement that will be applied to the 2020-21 Budget (see section 8 for a full breakdown of reconciliations for 2020-21). This is the first time a reconciliation for income tax will be applied.

3.4 The following chart demonstrates how the forecasts for both revenue and BGAs for income tax in 2017-18 have changed over time, at successive fiscal events in Scotland and the rest of the UK.

## CHANGES IN THE FORECASTS OF INCOME TAX REVENUE AND BGA FOR 2017-18



2017-18 income tax was forecast to have a positive net effect on Scotland's finances as of the 2017-18 Budget, with revenues exceeding the BGA by £107m. However, the net impact was ultimately negative, with outturn revenue £97m below BGA. This translates into a £204 million negative reconciliation requirement that will be applied to the 2020-21 Budget.

The forecasts of income tax revenue and BGA used in the 2017-18 Scottish Budget were drawn up using an estimate of the 2016-17 baseline, which underpinned the whole series of revenue and BGAs. When outturn figures for 2016-17 became available, this baseline was revised downwards by just over £800m. The sizeable baseline revision, coupled with forecast error, meant that the outturn BGA was £737m below and outturn revenue was £941m below the forecasts that were used to set the 2017-18 Budget.

3.5 The outturn data for income tax for 2018-19 will be available in summer 2020, with a reconciliation to outturn being applied to the 2021-22 Budget. Table 3 shows the latest forecast of the size of the potential reconciliation.

**TABLE 3: FORECAST INCOME TAX RECONCILIATION TO 2021-22 BUDGET (£ MILLION)**

2018-19 INCOME TAX	Revenues	BGA	Net effect on Budget	Forecast Reconciliation
Forecast as of Budget 2018-19	12,177	11,749	+428	
Latest forecast	11,486	11,665	-179	
Change	-692	-84		-608

3.6 Outturn data for 2019-20 will be available in summer 2021, with reconciliation to the 2022-23 Budget. Table 4 shows the latest forecasts of the reconciliation requirement.

**TABLE 4: FORECAST INCOME TAX RECONCILIATION TO 2022-23 BUDGET (£ MILLION)**

2019-20 INCOME TAX	Revenues	BGA	Net effect on Budget	Forecast Reconciliation
Forecast as of Budget 2019-20	11,684	11,501	+182	
Latest forecast	11,703	11,709	-5	
Change	+20	+208		-188

3.7 Income tax outturn data is available online at <https://www.gov.uk/government/statistics/scottish-income-tax-outturn-statistics>

## 4. Fully Devolved Taxes

4.1 This section focuses on the operation of the fully devolved taxes (LBTT and SLfT). It sets out forecasts, outturn and reconciliations for 2018-19, along with the potential reconciliations required for the 2019-20 Budget. This report uses provisional 2018-19 outturn revenue data for the fully devolved taxes. The final revenue data will be published as part of Revenue Scotland's Annual Accounts in October 2019.

4.2 Revenue Scotland manages and collects LBTT and SLfT and these revenue streams feed in to the Scottish Budget as they are collected. This means reconciliations for revenue are not necessary. The Scottish Government manages any variance between forecast and actual revenues as part of its in-year budget management process.

4.3 The BGAs for these taxes are reconciled in two stages. The first stage is an in-year reconciliation which takes place within the same financial year, on the basis of updated OBR forecasts for the UK Autumn Budget. Outturn data becomes available in the autumn following the end of each financial year. Using these outturn figures, a final reconciliation is applied to the Block Grant in the financial year two years after the original BGA was applied.

4.4 Thus, for LBTT and SLfT in 2018-19, an in-year reconciliation was made in 2018-19 following the 2018 UK Autumn Budget. A final reconciliation will be applied to the 2020-21 Scottish Budget on the basis of outturn figures which became available in autumn 2019.

### **LBTT**

4.5 Table 5 shows the net effect on budget for LBTT for 2018-19, and compares outturn to forecasts.

**TABLE 5: 2018-19 LBTT OUTTURN COMPARED WITH FORECASTS (£ MILLION)**

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2018	588	600	-12
Outturn	557	549	+7
Outturn against forecast	-32	-51	+19

4.6 A negative BGA reconciliation of £3 million will be applied in 2020-21, as shown in table 6. £54 million was added in the in-year reconciliation but the outturn in table 5 shows that the ultimate reconciliation only amounts to £51 million, leaving a final reconciliation of £3 million.

**TABLE 6: LBTT 2018-19 BGA RECONCILIATION (£ MILLION)**

Forecast BGA - UK Autumn Budget 2017	600
Forecast BGA - UK Autumn Budget 2018	546
In-year reconciliation applied to 2018-19 Block Grant	+54
Outturn BGA	549
Final Reconciliation applied to 2020-21 Block Grant	-3

4.7 Table 7 compares the forecasts used to set the 2019-20 Budget with the latest forecasts of revenue and BGA for 2019-20 LBTT. The difference between the two BGA figures gives some indication of the scale of the in-year BGA reconciliation that will be applied, though the actual reconciliation will be based on a more up-to-date forecast prepared at the UK Autumn Budget.

**TABLE 7: FORECAST COMPARISON OF 2019-20 LBTT (£ MILLION)**

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2019	643	567	+76
Latest Forecast as of MTFS 2019	616	535	+81
Change	-27	-32	+5

## SLfT

4.8 Table 8 shows the net effect on budget for SLfT for 2018-19, and compares outturn to forecasts.

**TABLE 8: 2018-19 SLfT OUTTURN COMPARED WITH FORECASTS (£ MILLION)**

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2018	106	94	+12
Outturn	143	105	+37
Outturn against forecast	+36	+11	+25

4.9 A negative reconciliation requirement of £2 million will be applied to the 2020-21 Budget. A breakdown of the reconciliation process at different stages is given in table 9. £9 million was taken off the Scottish budget as the in-year reconciliation with a further negative reconciliation of £2 million to be applied to the 2020-21 Budget.

**TABLE 9: SLFT 2018-19 BGA RECONCILIATION (£ MILLION)**

Forecast BGA - UK Autumn Budget 2017	94
Forecast BGA - UK Autumn Budget 2018	104
In-year reconciliation applied to 2018-19 Block Grant	-9
Outturn BGA	105
Final Reconciliation applied to 2020-21 Block Grant	-2

Figures may not sum due to rounding.

4.10 Table 10 compares forecasts of the net effect on Budget for SLfT in 2019-20. Forecasts of BGAs will be updated at the 2019 UK Autumn Budget, when the in-year BGA reconciliation will take place. As with the LBTT 2019-20 forecast (table 7) these figures are indicative only, because the in-year BGA reconciliation will be based on a subsequent forecast which is not yet available.

**TABLE 10: FORECAST COMPARISON OF 2019-20 SLFT (£ MILLION)**

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2019	104	91	+13
Latest Forecast as of MTFS 2019	109	92	+17
Change	+6	+1	+5

Figures may not sum due to rounding.

## 5. Fines, Forfeitures, and Fixed Penalties

5.1 This section contains the latest outturn, forecasts and reconciliations available for fines, forfeitures, and fixed penalties (FFFPs).

5.2 Revenue from FFFPs are paid into the Scottish Consolidated Fund after being collected by the Scottish Courts and Tribunals Service. No reconciliation takes place, as the Scottish Government deals with any variation between forecast and receipts through in-year budget management.

5.3 As with the fully devolved taxes and income tax, there is a corresponding deduction of Scotland's Block Grant by way of a BGA. This is initially calculated based on forecast growth of equivalent UK Government revenues retained by the Ministry of Justice.

5.4 Unlike the devolved taxes, there is only one round of reconciliation. Outturn data becomes available three months after the end of the financial year to which the original BGA applies, and the reconciliation is applied to the Block Grant for the financial year thereafter (i.e. two years after the year to which the expenditure relates).

5.5 This report uses provisional 2018-19 outturn revenue data. The final revenue data will be published as part of Scotland Government's Consolidated Accounts.

5.6 Table 11 shows the net effect on the Budget for 2018-19 FFFP BGA and revenue, comparing outturn data with forecasts for the same.

**TABLE 11: FFFP NET BUDGET EFFECT FOR 2018-19 COMPARED WITH FORECASTS (£ MILLION)**

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2018	25	24	+1
Outturn	20	25	-5
Outturn against forecast	-5	0	-6

Figures may not sum due to rounding

5.7 An -£3 million block grant reconciliation was applied for the FFFP forecast at the UK government's Budget in 2018, a final £2 million reconciliation will be applied to the block grant in 2020-21 to reflect final outturn. This will be the only in-year reconciliation applied to FFFP block grant adjustments.

5.8 Table 12 compares forecasts of the net effect on the Budget for FFFF in 2019-20. When outturn data for the BGA becomes available in the next financial year, a reconciliation will be applied in 2021-22, meaning that these figures are indicative only.

**TABLE 12: FORECAST FFFF BUDGET POSITION FOR 2019-20 (£ MILLION)**

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2019	25	27	-2
Latest Forecast as of MTFS 2019	25	27	-2
Change	0	0	0

## 6. Proceeds of Crime

6.1 Revenue seized under the Proceeds of Crime Act 2002 is also subject to a BGA. The basis on which this is carried out is currently a subject of dispute between the Scottish and UK Governments.

6.2 Prior to devolution, the Scottish Government had an agreement with the UK Government whereby it retained all sums from Proceeds of Crime (PoC) under an administrative cap of £30 million. This cap was never breached whilst it was in force, so the UK Government never received any revenue raised in Scotland prior to devolution in 2017-18.

6.3 The no detriment principle set out by the Smith Commission is clear that neither government's budget should be larger or smaller simply as a result of the devolution of powers. Despite this, the UK Government has made a Block Grant Adjustment of £4m per year for PoC since 2017-18. This means that the Scottish Government's budget is now £4m worse off a year and the UK Government's budget is £4m larger as a result of devolution. This contravenes the no detriment principle.

6.4 This BGA remains under active discussion through the Joint Exchequer Committee. The BGA remains at £4m while the dispute remains unresolved.

6.5 This report uses provisional 2018-19 outturn revenue data. The final revenue data will be published as part of Scotland Government's Consolidated Accounts in October 2019.

6.6 Table 13 shows the net effect on budget for 2018-19, comparing outturn data for revenues and BGAs with forecasts for the same.

**TABLE 13: POC BUDGET POSITION FOR 2018-19 COMPARED WITH FORECASTS (£ MILLION)**

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2018	5	4	+1
Outturn	5	4	+1
Outturn against forecast	0	0	+1

6.7 No reconciliation takes place while the BGA remains the subject of dispute between the Scottish and UK Governments.

6.8 Table 14 compares forecasts of the net budget position for PoC in 2019-20. As with 2018-19, this is not expected to lead to a reconciliation.

**TABLE 14: FORECAST POC BUDGET POSITION FOR 2019-20 (£ MILLION)**

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2019	5	4	+1
Latest Forecast as of MTFS 2019	5	4	+1
Change	0	0	0

## 7. Social Security

7.1 This section contains the latest outturn and forecasts available on expenditure and BGAs for Social Security benefits from 2018-19 onwards, and the net effect on the Scottish Budget.

7.2 For social security benefits, forecasts are of spending rather than revenues and Block Grant Adjustments are additions rather than deductions. Otherwise, the process of reconciling forecasts to outturn data functions in the same way as for the fully devolved taxes.

### Carer's Allowance

7.3 Carer's Allowance is currently the only social security benefit in operation that requires a Block Grant Adjustment. It was introduced during 2018-19 and therefore this is the first Fiscal Framework Outturn Report in which data on expenditure and BGAs appears.

7.4 Table 15 shows the SFC's latest expenditure forecast for Carer's Allowance and the Block Grant Adjustment estimates provided at the UK Spring Statement 2019.

**TABLE 15: FORECASTS OF CARER'S ALLOWANCE EXPENDITURE AND BLOCK GRANT ADJUSTMENTS (£ MILLION)**

		Outturn		SFC Forecast				
		2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Carer's Allowance	Expenditure	152	286	304	325	351	371	393
	BGA	157	287	304	325	355	385	N/A
	Net effect on Budget	5	1	0	0	4	14	N/A

7.5 There is no reconciliation required for Carer's Allowance expenditure, as the Scottish Government manages any variance between forecast and actual expenditure in year.

7.6 As with the fully devolved taxes, the BGAs for benefits are reconciled in two stages. An in-year reconciliation is made within the financial year at the UK Autumn Budget on the basis of the most recent OBR forecasts, and once outturn data is available in the following financial year, a final reconciliation is applied to the block grant for the financial year thereafter.

7.7 Table 16 shows the net budget position for Carer's Allowance for 2018-19.

**TABLE 16: CARER'S ALLOWANCE BUDGET POSITION FOR 2018-19 COMPARED WITH FORECASTS (£ MILLION)**

	Expenditure	BGA	Net effect on Budget
Forecast as of Budget Act 2018	157	157	0
Outturn	152	157	5
Outturn against forecast	-5	0	5

7.8 This translates into a reconciliation of less than £100k to be applied to the 2020-21 Budget. Table 17 shows the details of this reconciliation.

7.9 As Carer's Allowance was introduced in Scotland in mid-year, no interim reconciliation took place. In subsequent years, the BGA for Carer's Allowance will go through the full process of interim and final reconciliations. The 2018-19 figures for both expenditure and the BGA therefore reflect only a part of the expenditure of an 'average' year, and will likely differ significantly from subsequent years.

**TABLE 17: CARER'S ALLOWANCE 2018-19 BGA FINAL RECONCILIATION (£ MILLION)**

Forecast BGA - UK Autumn Budget 2018	157
Outturn BGA	157
Reconciliation to 2020-21 Budget	0

7.10 The latest forecast of the net effect on budget for 2019-20 Carer's Allowance is shown in table 18. Unlike the Carer's Allowance BGA for 2018-19, it will lead to both an in-year and final reconciliation, with the latter taking place in 2021-22. These figures are indicative only - as with the fully devolved taxes an updated BGA forecast will be prepared ahead of the UK Autumn Budget, which will form the basis for the in-year BGA reconciliation.

**TABLE 18: FORECAST CARER'S ALLOWANCE BUDGET POSITION FOR 2019-20 (£ MILLION)**

	Expenditure	BGA	Net effect on Budget
Forecast as of Budget Act 2019	283	290	+7
Latest Forecast as of MTFS 2019	286	287	+1
Change	+3	-3	-6

7.11 The Scottish Government has also committed to pay out the Carer's Allowance Supplement which is an extra payment from the Scottish Government to carers in Scotland who are receiving a full or partial Carer's Allowance payment. Data on expenditure on this benefit is available in the annual accounts of Social Security Scotland.

### Discretionary Housing Payments and Best Start Grant

7.12 Outturn expenditure for 2018-19 for the Best Start Grant and Discretionary Housing Payments (DHPs) are shown in table 19, together with Scottish Fiscal Commission forecasts of expenditure and Scottish Government spending plans on DHPs.

**TABLE 19: FORECASTS AND SPENDING PLANS FOR BEST START GRANT AND DISCRETIONARY HOUSING PAYMENT EXPENDITURE (£ MILLION)**

	Expenditure	SFC Forecast						
		2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Best Start Grant	Expenditure	4	21	16	16	17	17	18
DHPs – Bedroom Tax Mitigation	Expenditure	53	53	55	57	58	60	62
DHPs – Other Spend	Expenditure	9*	11	11	11	11	11	11

\* The total outturn quoted for 2018-19 is net of around £1.7 million of 'recovered funding'. Local Authorities spent £9.9 million on payments for reasons other than bedroom tax mitigation but some of this was above their individual allocations, reducing the cost to the Scottish Government to £9.2 million

7.13 Best Start Grants and DHPs are not funded through Block Grant Adjustments. They are instead initially funded by ‘Machinery of Government’ transfer payments directly from the Department of Work and Pensions until the end of the Spending Review period. After that, funding for these benefits becomes part of the core resource block grant, or ‘baselined’ into the block grant, and subject to the Barnett formula. This means that there are no BGAs calculated for these benefits and no reconciliation process. Funeral Support Payment, commencing in autumn 2019, will also commence through this process.

7.14 Table 20 shows the funding transfers that the Scottish Government has agreed before funding becomes part of the core resource block grant.

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**TABLE 20: BEST START GRANT AND DISCRETIONARY HOUSING PAYMENT FUNDING TRANSFERS (£ MILLION)**

		2018-19	2019-20
Best Start Grant	Funding Transfer	1	2
DHPs	Funding Transfer	20	20

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### Benefits Yet to Commence

7.15 Executive competence for the remaining benefits will commence in April 2020 and, where relevant, Block Grant Adjustments will be agreed at the UK Government’s Autumn Budget 2019. A list is given below in table 21.

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**TABLE 21: SOCIAL SECURITY BENEFITS TRANSFERRING TO SCOTLAND**

Benefit	Funding Mechanism	Commencement date
Attendance Allowance	BGA	April 2020
Cold Weather Payments	TBC	Winter 2021
Disability Living Allowance	BGA	April 2020
Industrial Injuries Disablement Benefit	BGA	April 2020
Personal Independence Payment	BGA	April 2020
Severe Disablement Allowance	BGA	April 2020
Winter Fuel Payments	TBC	Winter 2021

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## 8. Overall Reconciliation Requirement for the 2020-21 Budget

8.1 Table 22 below gives the total reconciliation requirement for the 2020-21 Budget. It shows the net impact of the reconciliation for Income Tax from 2017-18, and for the fully devolved taxes, Fines, Forfeitures and Fixed Penalties, Proceeds of Crime Act revenues, and Carer's Allowance for 2018-19.

**TABLE 22: TOTAL RECONCILIATION REQUIREMENTS FOR THE 2020-21 BUDGET  
 (£ MILLION)**

Income Tax 2017-18	Outturn	-204
Of which: Revenue reconciliation		-941
Final BGA reconciliation		+737*
LBTT 2018-19 final BGA reconciliation	Outturn	-3
SLfT 2018-19 final BGA reconciliation	Outturn	-2
FFFP 2018-19 final BGA reconciliation	Outturn	2
PoC 2018-19 final BGA reconciliation	Outturn	0
Carer's Allowance 2018-19 final BGA reconciliation	Outturn	0
<b>Total Reconciliation Requirement</b>		<b>-207</b>

\*The BGA has been revised downwards, which increases the Block Grant in the case of taxes.  
For more detail on the individual entries see tables in sections 3, 4, 5, 6 and 7. reconciliation

## 9. Borrowing

### Capital Borrowing

9.1 Table 23 shows the Scottish Government's capital borrowing plans.

**TABLE 23: CAPITAL BORROWING AND REPAYMENT SCHEDULE**

£ million	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
<b>Debt Stock at start of year</b>	607	1,036	1,258	1,662	1,946	1,868	1,783	1,698
<b>Debt stock as percentage of debt cap</b>	20%	35%	42%	55%	65%	62%	59%	57%
<b>Borrowing</b>	450	250	450	350				
<b>Repayment on 2015-16 borrowing</b>	<i>Capital</i> 9.4 <i>Interest</i> 0	9.4 0	9.4 0	9.4 0	9.4 0	9.4 0	9.4 0	9.4 0
<b>Repayment on 2016-17 borrowing</b>	<i>Capital</i> 11.1 <i>Interest</i> 0	11.1 0	11.1 0	11.1 0	11.1 0	11.1 0	11.1 0	11.1 0
<b>Repayment on 2017-18 borrowing</b>	<i>Capital</i> 7.1 <i>Interest</i> 7.7	14.4 8.4	14.6 8.1	14.9 7.8	15.2 7.5	15.5 7.2	15.8 6.9	
<b>Repayment on 2018-19 borrowing</b>	<i>Capital</i>	12.0	24.1	24.3	24.5	24.8	25.9	
	<i>Interest</i>	2.1	2.2	2.0	1.7	1.5	1.3	
<b>Repayment on 2019-20 borrowing</b>	<i>Capital</i>	6.5	13.3	13.7	14.0	14.3		
	<i>Interest</i>	9.8	11.0	10.7	10.3	10.0		
<b>Repayment on 2020-21 borrowing</b>	<i>Capital</i>	5.1	10.4	10.6	10.9			
	<i>Interest</i>	7.7	8.6	8.3	8.0			
<b>Repayment on 2021-22 borrowing</b>	<i>Capital</i>							
	<i>Interest</i>							
<b>Repayment on 2022-23 borrowing</b>	<i>Capital</i>							
	<i>Interest</i>							
<b>Total Repayments of Principal</b>	20.5	27.6	46.8	65.8	78.1	84.2	85.4	86.5
<b>Debt stock at end of year</b>	1,036	1,258	1,662	1,946	1,868	1,783	1,698	1,612
<b>Debt stock as percentage of debt cap</b>	35%	42%	55%	65%	62%	59%	57%	54%
<b>Repayment period for borrowing (years)</b>	25	10	25*	25*				
<b>Interest rate</b>	1.9	1.0	2.5*	2.5*				

\*Figures are indicative. Final decisions on specific borrowing arrangements will be taken during the relevant financial year.

9.2 The Scottish Government borrowed £250 million in 2018-19 to support capital expenditure. This is less than the £450 million originally planned, largely as a result of additional consequential capital funding received from the UK Government. The borrowing was drawn down from the National Loans Fund and will be repaid over a 10 year period, at an interest rate of 1 percent.

9.3 The Scottish Government has announced plans to borrow the annual maximum of £450 million in 2019-20. Final decisions on the specific borrowing arrangements for 2019-20 will be taken over the course of the year.

9.4 The Scottish Government currently plans to borrow a further £350 million in 2020-21 to support the National Infrastructure Mission. Final decisions on future borrowing levels will be taken as part of the 2020-21 Budget and subsequent budget processes.

9.5 Chapter 3 of *Scotland's Fiscal Outlook: The Scottish Government's Five Year Financial Strategy* from May 2019 sets out the principles and policies that guide the use of the Scottish Government's fiscal powers. In relation to capital borrowing, it is the Scottish Government's policy to borrow between £250 million and £450 million over the remaining period of the National Infrastructure Mission. Final decisions are always taken within the relevant budget year, depending on circumstances. No assumptions for borrowing in the years from 2021-22 are included in table 23.

9.6 On the basis of existing and planned borrowing included in the table, the Scottish Government will have accumulated £1.66 billion in capital debt by the end of 2019-20, 55 per cent of its overall limit. Details on previous borrowing can be found in the Fiscal Framework Outturn Report published on 20 September 2018. Data on future borrowing will be published in subsequent bulletins.

9.7 The affordability and sustainability of all Scottish Government long-term revenue commitments, including repayment of debt stock, are assessed through the Budget process and are kept within a maximum of five per cent of the total annual resource budget available (excluding social security spend). The commitments included in the five per cent calculation are the Scottish Government's share of the ongoing costs of: previous Public Private Partnership (PPP) contracts that are now operational; Non-Profit Distributing (NPD) and Hub programmes; growth accelerator; and cost of borrowing. This self-imposed limit ensures that we do not overly constrain our budget choices in future years.

9.8 In its report, “*Scotland’s Economic and Fiscal Forecasts*”, published May 2019, the Scottish Fiscal Commission judged the Government’s projections of capital borrowing as compliant with the terms set out in the Fiscal Framework.

## Resource Borrowing

9.9 The resource borrowing powers are deliberately restricted to very specific circumstances and do not detract from the fundamental requirement for a balanced Scottish budget each financial year. The Scottish Government has not used its resource borrowing powers to date. It has therefore not accumulated any debt which counts towards its overall and annual limits for resource borrowing.

9.10 The overall limit of resource borrowing is £1.75 billion and the total annual limit is £600 million. Resource borrowing can be used for in-year cash management (maximum £500 million annually, increasing to £600 million in case of a Scotland-specific economic shock) and in cases of forecast error (maximum £300 million annually, increasing to £600 million in case of a Scotland-specific 'economic shock').

9.11 The Scottish Government could invoke its resource borrowing powers for a net Budget shortfall to the extent that the outturn net Budget position falls below the forecast for each tax. Current estimates of this were outlined in previous sections. The Scottish Government will make a decision on whether and how to use resource borrowing based on the overall Budget situation.

9.12 No economic shock has occurred which would allow access to the additional resource borrowing and the Scottish Fiscal Commission has not forecast an economic shock. It is important to note that if the conditions for an economic shock are met it is not possible for the Scottish Government to apply resource borrowing to provide an economic stimulus – only to meet a shortfall in tax receipts or demand-led social security spending.

9.13 Chapter 3 of *Scotland's Fiscal Outlook: The Scottish Government's Five Year Financial Strategy* from May 2019 sets out the principles and policies that guide the use of the Scottish Government's fiscal powers and in particular how resource borrowing will be used in a way that balances the principles of Flexibility, Stability, and Value for Money.

## 10. Scotland Reserve

10.1 The opening balance in the Scotland Reserve at the start of 2018-19 was £538 million. The closing balance on the Reserve for 2018-19 is £568 million, as reported to Parliament at Provisional Outturn in June 2019.

10.2 The currently expected drawdown from the Scotland Reserve in 2019-20 is £334 million (resource and capital). £301 million of this is accounted for by underspend from the previous financial year, Devolved Taxes forecast surplus receipts and Guarantee Fee income.

10.3 On the basis of planned drawdowns outlined at provisional outturn 2019, the residual balance of the Scotland Reserve is £233.5 million. An update on the reserve position, including the changes from the confirmation of final outturn against the 2018-19 budget will be provided with the 2019-20 Spring Budget Revision.

10.4 Table 24 shows the 2018-19 Reserve position as reported to Parliament at Provisional Outturn in June 2019.

**TABLE 24: 2018-19 SCOTLAND RESERVE FORECAST AT 31 MARCH 2019 (£ MILLION)**

	Resource	Capital	Financial Transaction	Total
<b>2018-19 Opening Balance</b>	<b>440.1</b>	<b>86.5</b>	<b>11.4</b>	<b>538.0</b>
2018-19 Planned Drawdowns	-250.0	-22.0	-	-272.0
2018-19 Additions to reserve	179.3	0.8	121.4	301.5
Of which:				
General underspend	171.3	0.8	121.4	293.5
Devolved Taxes forecast surplus receipts	5.0	-	-	5.0
Guarantee Fee Income	3.0	-	-	3.0
<b>2018-19 Closing Balance (Provisional)</b>	<b>369.4</b>	<b>65.3</b>	<b>132.8</b>	<b>567.5</b>
2019-20 Planned Drawdowns	-234.0	-65.3	-34.7	-334.0
<b>2019-20 Closing Balance (Provisional)</b>	<b>135.4</b>	<b>-</b>	<b>98.1</b>	<b>233.5</b>

10.5 Chapter 3 of *Scotland's Fiscal Outlook: The Scottish Government's Five Year Financial Strategy* from May 2019 sets out the principles and policies that guide the use of the Scottish Government's fiscal powers, including the use of the Scotland Reserve. The Scottish Government intends to build up the balance in the Scotland Reserve over time as resources allow, in order to have a financial cushion available while ensuring that there remains sufficient capacity in the Reserve to prudently manage any underspend across financial years. A carefully managed reserve is a key element of managing the financial volatility that can arise through the operation of the Fiscal Framework.

## 11. Sources of data and publication timetable

11.1 This section provides data on the various sources of data that have been used in compiling this report, together with the dates of publication.

11.2 A complete list is given below in table 25.

**TABLE 25: SOURCES OF DATA AND PUBLICATION TIMETABLE**

<i>Data</i>	<i>Source</i>	<i>Date of Publication</i>
Income Tax Revenue Outturn	Scottish Income Tax Outturn Statistics Scottish Government's Medium Term Financial Strategy	18 July 2019 30 May 2019
Income Tax BGAs	Provisional Outturn Data Final figures will be published in Revenue Scotland's Annual Reports & Accounts	June 2019 2 October 2019
LBTT/SLfT Revenue Outturn	HMRC Tax & NIC Receipts	21 August 2019
UK Stamp Duty and Landfill Tax Outturn	Scottish Government's Medium Term Financial Strategy	30 May 2019
LBTT/SLfT BGAs	Scottish Government unpublished data	
FFFP Revenue Outturn	HM Courts & Tribunals Service Trust Statement 2018-19	18 July 2019
UK Fines Outturn	Scottish Government's Medium Term Financial Strategy	30 May 2019
FFFP BGA	Scottish Government unpublished data	
POCA Revenue Outturn	Scottish Government's Medium Term Financial Strategy	30 May 2019
POCA BGA	Scottish Government's Medium Term Financial Strategy	30 May 2019
Social Security Expenditure Outturn	Social Security Scotland Annual Accounts	26 September 2019
DWP Expenditure Outturn	DWP Benefit expenditure by country and region	24 September 2019
Social Security BGAs	Scottish Government's Medium Term Financial Strategy	30 May 2019
Scottish Fiscal Commission forecasts	Scottish Fiscal Commission Scotland's Economic and Fiscal Forecasts	30 May 2019

11.3 If you have comments on this document, please contact [Finance.Co-ordination@gov.scot](mailto:Finance.Co-ordination@gov.scot).



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