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Fiscal Framework Outturn Report

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Foreword by the Cabinet Secretary for Finance

I am pleased to be able to present the third 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, Scottish Landfill Tax, Carer's Allowance, 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 Social Security benefits that were transferred to Scotland in 2020-21.

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 'Kate Forbes'.

Kate Forbes MSP

Cabinet Secretary for Finance

1. Introduction

1.1 This is the third 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 and social security benefits (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 and social security benefit 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 Due to COVID-19, *Scotland's Fiscal Outlook: The Scottish Government's Five Year Financial Strategy* was not published in May as per the normal timings, but will instead be published alongside the Budget. That means that the Scottish Fiscal Commission did not publish forecasts of tax revenues and social security expenditure in May, and the forecasts contained in this report are from the Scottish Budget in February. Therefore, the forecasts included in this report **do not account for the impact of COVID-19 and are likely to change significantly.**

1.4 Similarly, the forecasts of the Block Grant Adjustments are based on the OBR's forecasts of UK tax revenues and social security expenditure at the UK Budget in March, as no forecasts have been published since then. **This also means that the implications of COVID-19 are not fully reflected in the BGA forecasts.**

1.5 As a UK Budget had not been published at the time of the Scottish Budget in February, provisional Block Grant Adjustments (BGAs) were used to inform the Scottish Budget as directed under the Fiscal Framework. Updated BGAs were produced at the UK Budget in March. However, the Cabinet Secretary for Finance decided to use the provisional BGAs to inform the Scottish Budget. Where we refer to latest BGA forecasts in this document, we are referring to the updated BGAs produced at the UK Budget in March.

1.6 Updated forecasts from the Scottish Fiscal Commission will be published alongside the 2021-22 Scottish Budget. The OBR will publish its next set of forecasts in mid to late November which will allow for the calculation of updated forecasts of BGAs. These forecasts will be the first to include the full impact of COVID-19.

1.7 Due to COVID-19, the publication of much of the final data included in this report has been delayed. Therefore, this report uses provisional 2019-20 outturn revenue and BGA data for Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT). The final revenue data will be published as part of Revenue Scotland's Annual Reports and Accounts later in the year. HMRC outturn data, which is used to calculate the final BGAs, will also be available in due course. Provisional Scottish expenditure data is also used for 2019-20 Carer's Allowance and final data will be published as part of the Social Security Scotland Annual Reports and Accounts.

1.8 The following data is therefore included in the report:

- Final reconciliation for 2018-19 Scottish Income Tax.
- Provisional 2019-20 outturn and BGA reconciliations for Land & Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT).
- Provisional 2019-20 outturn and final BGA reconciliation for Carer's Allowance.
- Provisional 2019-20 outturn for Proceeds of Crime and Fines, Forfeitures, and Fixed Penalty Notices.

1.9 Due to the use of provisional data, the overall reconciliation applying to the 2021-22 Scottish Budget cannot be finalised at this point, but will be confirmed in the 2021-22 Scottish Budget document.

1.10 In summary, the following points are relevant for 2021-22 budget considerations:

- The total provisional reconciliation required in the 2021-22 Budget will be -£321 million. This figure includes final reconciliations for 2018-19 Income Tax revenue and BGA and the provisional reconciliations of the 2019-20 BGAs for Land and Building Transaction Tax, Scottish Landfill Tax and Carer's Allowance.
- The closing balance of the Scotland Reserve in 2020-21 is projected to be £211 million, on the basis of provisional outturn 2020 and planned drawdowns following the Autumn Budget Revision.
- Under current plans, the Scottish Government's capital debt will be £1.99 billion by the end of 2020-21, well within its overall £3 billion limit.
- The Scottish Government plans to use its resource borrowing powers for the first time in 2020-21, to borrow £207 million.

Terminology used in this document

1.11 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.

1.12 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.¹

¹ <https://www.gov.scot/publications/fiscal-framework-factsheet/pages/technical-note/>

2. Tax – Overview of tax 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 2018-19, and for 2019-20 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 (£ million)

£ million		Outturn		Forecast					
		2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Income Tax	Revenue	10,916 [†]	11,556 [†]	11,677	12,365	12,897	13,447	14,059	14,722
	BGA ¹	-11,013 [†]	-11,437 [†]	-11,661	-12,345	-12,918	-13,493	-13,976	-14,503
	Net effect	-97[†]	+119[†]	+16	+20	-20	-46	+83	+220
LBTT	Revenue	557 [†]	554 [†]	598 [†]	641	666	692	720	749
	BGA ¹	-584 [†]	-549 [†]	-533 [†]	-584	-617	-677	-724	-771
	Net effect	-27[†]	+5[†]	+65[†]	+58	+49	+15	-3	-22
SLfT	Revenue	148 [†]	149 [†]	119 [†]	116	110	94	79	66
	BGA ¹	-113 [†]	-105 [†]	-99 [†]	-96	-98	-91	-78	-75
	Net effect	+35[†]	+43[†]	+20[†]	+20	+12	+3	+1	-10
TOTAL	Revenue	11,621 [†]	12,259 [†]	12,394	13,123	13,673	14,233	14,858	15,537
	BGA ¹	-11,710 [†]	-12,091 [†]	-12,293	-13,025	-13,632	-14,260	-14,778	-15,349
	Net effect	-89[†]	+167[†]	+101	+98	+41	-27	+80	+188

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. The tax BGAs are shown as negative numbers because they are a deduction from the Block Grant and thus have a negative effect on the budget position.

[†] Indicates outturn

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 6 February.² BGAs are based on forecasts of equivalent UK Government tax revenue prepared by the Office for Budget Responsibility (OBR) for the UK 2020 Budget on 11 March 2020. Scottish tax outturn is provided for Income Tax by HMRC, and for LBTT and SLfT by Revenue Scotland. Outturn data required to calculate the BGAs is provided by HMRC.

² <https://www.fiscalcommission.scot/forecast/scotlands-economic-and-fiscal-forecasts-february-2020/>

2.4 The forecasts for income tax revenues and BGAs for 2019-20 and 2020-21 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 2021-22 provide an indication of the level of revenues that the SFC anticipated before COVID-19, but these figures will not be used to set the 2021-22 Budget, as that will make use of updated forecasts that the SFC will produce for the Scottish Budget.

Taxes yet to be introduced

2.5 Some taxes 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. Prior to the Scottish Budget 2020-21, the UK and Scottish Governments agreed to extend the transitional period for VAT assignment. The VAT working group continue to work on developing a suitable methodology, including how to reflect the potential impacts of COVID.

Air Passenger Duty: Introduction of the Air Departure Tax (ADT) in Scotland has been deferred to allow the issues raised in relation to the Highlands and Islands exemption to be resolved. The Scottish Government will engage with the HM Treasury on their planned consultation on Air Passenger Duty reform and work with stakeholders to find a solution for aviation that remains consistent with our climate ambitions.

Aggregates Levy - Outstanding state aid issues related to the UK Aggregates Levy are now resolved and the UK Government review is complete. The Scottish Government will work closely with stakeholders in the coming months to consider policy options and develop the necessary evidence base to support the introduction of a devolved levy in Scotland. This will build on the research recently published by the Scottish Government.

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

3. Income Tax

3.1 For Scottish income tax, outturn data is normally 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 2018-19 was delayed due to the impact of COVID-19 and was published by HMRC on 23 September 2020. The reconciliation will be applied to the 2021-22 Budget. This data, together with the net effect on the Budget, is shown in table 2.

Table 2: Income Tax Budget Position For 2018-19 Compared With Forecasts (£ million)

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2018	12,177.4	-11,749.1	+428.3
Outturn	11,555.9	-11,437.1	+118.8
Outturn against forecast	-621.5	+312.0*	-309.4

* The BGA has been revised downward – this has a positive effect on net revenues.

3.3 This translates into a £309 million negative reconciliation requirement that will be applied to the 2021-22 Budget (see section 8 for a full breakdown of reconciliations for 2021-22).

3.4 The following chart demonstrates how the forecasts for both revenue and BGAs for income tax in 2018-19 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 2018-19



3.5 2018-19 income tax was forecast to have a positive net effect on Scotland's finances as of the 2018-19 Budget, with revenues exceeding the BGA by £428 million. Both revenue and BGA were revised downwards at outturn and the net impact was ultimately less positive than the original forecast, with outturn revenue £119 million above the BGA. This translates into a £309 million negative reconciliation requirement that will be applied to the 2021-22 Budget.

3.6 The difference between forecast and outturn figures for 2018-19 revenue and BGAs for income tax is in part related to the fact that, at the time of the 2018-19 Scottish Budget, they were informed by a forecast 2016-17 baseline. Ultimately, income tax outturn for 2016-17 was £495 million lower than the 2016-17 forecast baseline used at the 2018-19 Scottish Budget (note the large reduction at Budget Act 2019 when the baseline was confirmed).

3.7 The outturn data for income tax for 2019-20 should be available in summer 2021, with a reconciliation to outturn being applied to the 2022-23 Budget. Table 3 shows the latest forecast reconciliation. However, newly published data from HMRC's real time information system³ show that Scottish PAYE receipts, which account for around 88% of total Scottish Income Tax, grew faster than the rUK's between 2018-19 and 2019-20 (2.7% vs. 1.4%). This implies that the outturn reconciliation may be better than the forecast in the table.

2019-20 Income Tax	Revenues	BGA	Net effect on Budget	Forecast Reconciliation
Forecast as of Budget 2019-20	11,683.6	-11,501.1	+182.5	
Latest forecast	11,676.9	-11,661.4	+15.5	
Change	-6.7	-160.3		-167.0

3.8 Outturn data for 2020-21 should be available in summer 2022, with a reconciliation being applied to the 2023-24 Budget. Table 4 shows the latest forecast reconciliation. As noted in the introduction, COVID-19 has meant that there have been no updated SFC forecasts of revenues since the Scottish Budget in February 2020. There has therefore been no change in the forecast of revenues.

3.9 Similarly, there have been no updated OBR forecasts since the UK Budget in March 2020. However, as noted in paragraph 1.5, the Scottish Budget used provisional BGAs as it took place in February, before the UK Budget in March. The change in the forecasts for the BGA, the net effect on the Budget, and the forecasts reconciliation therefore reflect the difference between the provisional BGA used in the Budget, and the forecast of the BGA provided at the UK Budget in March 2020.

2020-21 Income Tax	Revenues	BGA	Net effect on Budget	Forecast Reconciliation
Forecast as of Budget 2020-21	12,365.4	-12,319.3	+46.1	
Latest forecast	12,365.4*	-12,345.2	+20.2	
Change	N/A	-25.9		-25.9

* SFC forecasts would normally have been updated at the MTFS in Spring however its publication was delayed due to the impact of COVID.

³ <https://www.gov.uk/government/statistics/scottish-income-tax-outturn-statistics-2018-to-2019>

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 2019-20, along with the potential reconciliations required for the 2020-21 Budget. This report uses provisional 2019-20 outturn revenue and BGA data for the fully devolved taxes. The final revenue data will be published as part of Revenue Scotland's Annual Report and Accounts later in the year. HMRC outturn data which is used to calculate the final BGAs will also be available in due course.

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 normally 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 Due to the late UK Budget, the in-year reconciliations for LBTT and SLfT in 2019-20 were made to the 2020-21 Scottish Block Grant based on the Scottish Budget BGAs. A final reconciliation will then be applied to the 2021-22 Scottish Budget on the basis of final outturn figures.

LBTT

4.5 Table 5 shows the provisional net effect on budget for LBTT for 2019-20, and compares outturn to forecasts.

Table 5: 2019-20 LBTT Provisional Outturn Compared with Forecasts (£ million)

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2019	642.9	-566.5	+76.4
Provisional Outturn	597.8	-533.0	+64.8
Provisional Outturn against forecast	-45.1	+33.6	-11.6

4.6 A provisional negative BGA reconciliation of £5.8 million will be applied in 2021-22, as shown in table 6. £39.4 million was added in the in-year reconciliation but the outturn in table 5 shows that the ultimate reconciliation amounts to £33.6 million, leaving a final reconciliation of £5.8 million.

Table 6: LBTT 2019-20 Provisional BGA Reconciliation (£ million)

Forecast BGA - UK Autumn Budget 2018	-566.5	
Forecast BGA - Scottish Budget 2020	-527.1	
In-year reconciliation applied to 2020-21 Block Grant*		+39.4
Provisional Outturn BGA	-533.0	
Provisional Reconciliation applied to 2021-22 Block Grant		-5.8

* 2019-20 in-year reconciliation delayed to impact 2020-21 due to late UK Budget.

4.7 Table 7 compares the forecasts used to set the 2020-21 Budget with the latest forecasts of revenue and BGA for 2020-21 LBTT. As noted in the introduction, COVID-19 has meant that there have been no updated SFC forecasts of revenues since the Scottish Budget in February 2020. There has therefore been no change in the forecast of revenues.

4.8 Similarly, there have been no updated OBR forecasts since the UK Budget in March 2020. However, as noted in paragraph 1.5, the Scottish Budget used provisional BGAs as it took place in February, before the UK Budget in March. The change in the forecasts for the BGA, the net effect on the Budget, and the forecasts reconciliation therefore reflect the difference between the provisional BGA used in the Budget, and the forecast of the BGA provided at the UK Budget in March 2020. The actual in-year reconciliation will be based on updated BGAs forecasts provided for the next Scottish Budget.

Table 7: Forecast Comparison of 2020-21 LBTT (£ million)

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2020	641.5	-556.5	+84.9
Latest Forecast	641.5*	-583.9	+57.6
Change	N/A	-27.3	-27.3

* SFC forecasts would normally have been updated at the MTFS in Spring however its publication was delayed due to the impact of COVID.

SLfT

4.9 Table 8 shows the provisional net effect on budget for SLfT for 2019-20, and compares outturn to forecasts.

Table 8: 2019-20 SLfT Provisional Outturn Compared with Forecasts (£ million)

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2019	103.7	-91.1	+12.6
Provisional Outturn	119.2	-98.8	+20.4
Provisional Outturn against forecast	+15.5	-7.7	+7.8

4.10 A provisional negative BGA reconciliation of £2.1 million will be applied in 2021-22, as shown in table 9. £5.5 million was subtracted in the in-year reconciliation but the outturn in table 8 shows that the ultimate reconciliation amounts to £7.7 million, leaving a final reconciliation of £2.1 million.

Table 9: SLfT 2019-20 Provisional BGA Reconciliation (£ million)

Forecast BGA - UK Autumn Budget 2018	-91.1
Forecast BGA – Scottish Budget 2020	-96.6
In-year reconciliation applied to 2020-21 Block Grant*	-5.5
Provisional Outturn BGA	-98.8
Provisional Reconciliation applied to 2021-22 Block Grant	-2.1

* 2019-20 in-year reconciliation delayed to impact 2020-21 due to late UK Budget.

4.11 Table 10 compares the forecasts used to set the 2020-21 Budget with the latest forecasts of revenue and BGA for 2020-21 SLfT. As noted in paragraphs 4.7 and 4.8, there has been no updated revenue forecasts and the difference between the two BGA figures reflects the difference between the provisional BGA on which the Scottish Budget was based in February, and the updated BGA position at the UK Budget in March. The actual in-year reconciliation will be based on updated BGAs forecasts provided for the next Scottish Budget.

Table 10: Forecast Comparison of 2020-21 SLfT (£ million)

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2020	115.9	-87.3	+28.5
Latest Forecast	115.9*	-95.6	+20.2
Change	N/A	-8.3	-8.3

* SFC forecasts would normally have been updated at the MTFs in Spring however its publication was delayed due to the impact of COVID.

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 is normally 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 2019-20 outturn revenue data. The final revenue data will be published as part of Scottish Government's Consolidated Accounts.

5.6 The UK Government revenues used to calculate the BGA for FFFPs are published in the HM Courts & Tribunals Service Trust Statement. This has not been published yet so no final BGA for 2019-20 can be calculated at this time. An update on the final BGA reconciliation for FFFPs will be confirmed in the 2021-22 Scottish Budget document.

5.7 Table 11 shows the net effect on the Budget for 2019-20 FFFP revenue, comparing outturn data with forecasts for the same.

Table 11: FFFP Net Budget Effect for 2019-20 Compared with Forecasts (£ million)

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2019	25.0	-27.1	-2.1
Provisional Outturn	20.4	N/A	N/A
Provisional Outturn against forecast	-4.6	N/A	N/A

5.8 Table 12 compares forecasts of the net effect on the Budget for FFFP in 2020-21. When outturn data for the BGA becomes available in the next financial year, a reconciliation will be applied in 2022-23, meaning that these figures are indicative only.

Table 12: Forecast FFFP Budget Position for 2020-21 (£ million)

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2020	25.0	-23.8	+1.2
Latest Forecast	25.0	-23.8	+1.2
Change	0.0	0.0	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 the subject of dispute between the Scottish and UK Governments and the BGA remains at -£4m while the dispute remains unresolved.⁴ The Scottish Government will seek to address this issue as part of the review of the Fiscal Framework.

6.2 This report uses provisional 2019-20 outturn revenue data. The final revenue data will be published as part of the Scottish Government's Consolidated Accounts.

6.3 Table 13 shows the net effect on budget for 2019-20, comparing outturn data for revenues and BGAs with forecasts for the same.

Table 13: POC Budget Position for 2019-20 Compared with Forecasts (£ million)

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2019	5.0	-4.3	+0.7
Provisional Outturn	6.3	-4.3	+2.0
Provisional Outturn against forecast	+1.3	0.0	+1.3

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

6.5 Table 14 compares forecasts of the net budget position for PoC in 2020-21. As with 2019-20, this is not expected to lead to a reconciliation.

Table 14: Forecast POC Budget Position for 2020-21 (£ million)

	Revenues	BGA	Net effect on Budget
Forecast as of Budget Act 2020	5.0	-4.3	+0.7
Latest Forecast	5.0	-4.3	+0.7
Change	0.0	0.0	+0.7

⁴ Further background on this dispute is included in Fiscal Framework Outturn Report 2019.

7. Social Security

7.1 This section contains the latest outturn and forecasts available on expenditure and BGAs for Social Security benefits from 2019-20 onwards, and the net effect on the Scottish Budget. This report uses provisional 2019-20 outturn expenditure data for Carer's Allowance. The final expenditure data will be published as part of Social Security Scotland's Annual Reports and Accounts later in the year.

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.

7.3 Executive competence for Attendance Allowance, Disability Living Allowance, Industrial Injuries Disablement Allowance, Personal Independent Payment and Severe Disablement Allowance were transferred at the 2020-21 Scottish Budget and therefore BGAs for these benefits were calculated for the first time.

7.4 As the new benefits were only introduced in 2020-21, the first set of in-year BGA reconciliations will not take place until later this year, impacting the 2020-21 Budget. Carer's Allowance, which has been in operation since 2018-19, is the only Social Security benefit to require a reconciliation from 2019-20.

7.5 Table 15 shows the SFC's latest expenditure forecast for the Social Security benefits that have been devolved so far and the Block Grant Adjustment estimates provided at the UK Budget 2020.

Table 15: Forecasts of Social Security 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 [†]	-284 [†]	-292	-311	-336	-355	-375
	BGA	157 [†]	283 [†]	292	307	328	352	379
	Net effect on Budget	+5 [†]	-2 [†]	+1	-4	-9	-3	4
Attendance Allowance	Expenditure	N/A	N/A	-532	-546	-562	-582	-601
	BGA	N/A	N/A	544	560	577	599	616
	Net effect on Budget	N/A	N/A	+12	+14	+16	+17	+15
Personal Independence Payment	Expenditure	N/A	N/A	-1,583	-1,650	-1,714	-1,776	-1,841
	BGA	N/A	N/A	1,481	1,602	1,763	1,936	2,052
	Net effect on Budget	N/A	N/A	-102	-47	+49	+160	+211
Disability Living Allowance	Expenditure	N/A	N/A	-718	-720	-714	-704	-692
	BGA	N/A	N/A	626	549	449	332	284
	Net effect on Budget	N/A	N/A	-92	-171	-266	-372	-408
Industrial Injuries Disablement Allowance	Expenditure	N/A	N/A	-80	-79	-78	-78	-77
	BGA	N/A	N/A	81	80	80	80	79
	Net effect on Budget	N/A	N/A	+1	+1	+2	+3	+2
Severe Disablement Allowance	Expenditure	N/A	N/A	-7	-7	-6	-6	-5
	BGA	N/A	N/A	8	8	8	7	7
	Net effect on Budget	N/A	N/A	+1	+1	+1	+2	+2
Total Social Security Benefits	Expenditure	-152 [†]	-284 [†]	-3,213	-3,312	-3,411	-3,500	-3,592
	BGA	157 [†]	283 [†]	3,033	3,107	3,204	3,307	3,417
	Net effect on Budget	+5 [†]	-2 [†]	-180	-206	-207	-193	-175

[†] Indicates outturn; BGAs are shown as positive as they represent additional funding.

Carer's Allowance

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

7.7 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.

7.8 Table 16 shows the provisional net budget position for Carer's Allowance for 2019-20.

Table 16: 2019-20 Carer's Allowance Provisional Outturn Compared with Forecasts (£ million)

	Expenditure	BGA	Net effect on Budget
Forecast as of Budget Act 2018	-283.1	289.6	+6.5
Provisional Outturn	-284.4	282.6	-1.7
Provisional Outturn against forecast	-1.3	-7.0	-8.2

7.9 A negative BGA reconciliation of £3.3 million will be applied in 2021-22, as shown in table 17. £3.7 million was subtracted in the in-year reconciliation but the outturn in table 16 shows that the ultimate reconciliation amounts to £7.0 million, leaving a final reconciliation £3.3 million.

Table 17: Carer's Allowance 2019-20 BGA Reconciliation (£ million)

Forecast BGA - UK Autumn Budget 2018	289.6	
Forecast BGA – Scottish Budget 2020	285.9	
In-year reconciliation applied to 2020-21 Block Grant*		-3.7
Outturn BGA	282.6	
Reconciliation to 2021-22 Budget		-3.3

* 2019-20 in-year reconciliation delayed to impact 2020-21 due to late UK Budget.

7.10 The latest forecasts of the net effect on budget for 2020-21 Social Security Benefits are shown in the tables below. These figures are indicative only. As with the fully devolved taxes, there have been no updated forecast of expenditure since the Scottish Budget in February 2020. The difference between the BGA forecasts in the table reflects the difference between the provisional BGA on which the Scottish Budget was based in February 2020 and the updated BGA position as of the UK Budget in March 2020. Updated BGA forecasts will be provided for the next Scottish Budget which will form the basis for the in-year BGA reconciliation.

Table 18: Forecast Carer's Allowance Budget Position for 2020-21 (£ million)

	Expenditure	BGA	Net effect on Budget
Forecast as of Budget Act 2020	-291.6	303.3	+11.6
Latest Forecast	-291.6*	292.3	+0.6
Change	N/A	-11.0	-11.0

* SFC forecasts would normally have been updated at the MTFS in Spring however its publication was delayed due to the impact of COVID.

Table 19: Forecast Attendance Allowance Budget Position for 2020-21 (£ million)

	Expenditure	BGA	Net effect on Budget
Forecast as of Budget Act 2020	-532.2	535.3	+3.1
Latest Forecast	-532.2*	544.4	+12.1
Change	N/A	+9.0	+9.0

* SFC forecasts would normally have been updated at the MTFS in Spring however its publication was delayed due to the impact of COVID.

Table 20: Forecast Personal Independence Payment Budget Position for 2020-21 (£ million)

	Expenditure	BGA	Net effect on Budget
Forecast as of Budget Act 2020	-1,582.9	1,601.4	+18.5
Latest Forecast	-1,582.9*	1,480.7	-102.2
Change	N/A	-120.7	-120.7

* SFC forecasts would normally have been updated at the MTFS in Spring however its publication was delayed due to the impact of COVID.

Table 21: Forecast Disability Living Allowance Budget Position for 2020-21 (£ million)

	Expenditure	BGA	Net effect on Budget
Forecast as of Budget Act 2020	-718.5	669.0	-49.4
Latest Forecast	-718.5*	626.1	-92.4
Change	N/A	-43.0	-43.0

* SFC forecasts would normally have been updated at the MTFS in Spring however its publication was delayed due to the impact of COVID.

Table 22: Forecast Industrial Injuries Disablement Allowance Budget Position for 2020-21 (£ million)

	Expenditure	BGA	Net effect on Budget
Forecast as of Budget Act 2020	-80.2	84.7	+4.5
Latest Forecast	-80.2*	80.9	+0.7
Change	N/A	-3.8	-3.8

* SFC forecasts would normally have been updated at the MTFS in Spring however its publication was delayed due to the impact of COVID.

Table 23: Forecast Severe Disablement Allowance Budget Position for 2020-21 (£ million)

	Expenditure	BGA	Net effect on Budget
Forecast as of Budget Act 2020	-7.5	8.7	+1.3
Latest Forecast	-7.5*	8.3	+0.8
Change	N/A	-0.4	-0.4

* SFC forecasts would normally have been updated at the MTFS in Spring however its publication was delayed due to the impact of COVID.

Benefits Yet to Commence

7.11 Cold Weather Payments and Winter Fuel Payments were expected to be delivered in Winter 2021. This has, however, been delayed and an update will be provided in due course.

8. Overall Reconciliation Requirement for the 2021-22 Budget

8.1 Table 24 below gives the total provisional reconciliation requirement for the 2021-22 Budget. It shows the net impact of the reconciliation for Income Tax from 2018-19, and for the fully devolved taxes, Proceeds of Crime, and Carer's Allowance for 2019-20.

Income Tax 2018-19	Outturn	-309.4
Of which: Final Revenue reconciliation		-621.5
Final BGA reconciliation		+312.0
LBTT 2019-20 provisional BGA reconciliation	Provisional Outturn	-5.8
SLfT 2019-20 provisional BGA reconciliation	Provisional Outturn	-2.1
FFFP 2019-20 final BGA reconciliation	Outturn	N/A
PoC 2019-20 final BGA reconciliation	Outturn	0.0
Carer's Allowance 2019-20 BGA reconciliation	Outturn	-3.3
Total Provisional Reconciliation Requirement		-320.6

*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.

9. Borrowing

Capital Borrowing

9.1 Table 25 shows the Scottish Government's capital borrowing plans.

Table 25: Capital Borrowing and Repayment Schedule									
£ million		2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Debt Stock at start of year		607	1,036	1,258	1,617	1,994	1,909	1,816	1,722
Debt stock as percentage of debt cap		20%	35%	42%	54%	66%	64%	61%	57%
Borrowing		450	250	450	405	450*			
Repayment on 2015-16 borrowing	<i>Capital</i>	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4
	<i>Interest</i>	0	0	0	0	0	0	0	0
Repayment on 2016-17 borrowing	<i>Capital</i>	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1
	<i>Interest</i>	0	0	0	0	0	0	0	0
Repayment on 2017-18 borrowing	<i>Capital</i>		7.1	14.4	14.6	14.9	15.2	15.5	15.8
	<i>Interest</i>		7.7	8.4	8.1	7.8	7.5	7.2	6.9
Repayment on 2018-19 borrowing	<i>Capital</i>			11.9	24.1	24.3	24.5	24.8	25.0
	<i>Interest</i>			2.1	2.2	2.0	1.7	1.5	1.3
Repayment on 2019-20 borrowing	<i>Capital</i>				13.3	17.2	17.3	17.4	17.5
	<i>Interest</i>			0.4	2.2	2.3	2.2	2.1	2.0
Repayment on 2020-21 borrowing	<i>Capital</i>					7.8*	15.7*	15.9*	16.1*
	<i>Interest</i>					4.5*	5.0*	4.9*	4.7*
Repayment on 2021-22 borrowing	<i>Capital</i>								
	<i>Interest</i>								
Repayment on 2022-23 borrowing	<i>Capital</i>								
	<i>Interest</i>								
Total Repayments of Principal		20.5	27.6	46.8	72.5	84.7	93.2	94.0	94.5
Debt stock at end of year		1,036	1,258	1,617	1,994	1,909	1,816	1,722	1,627
Debt stock as percentage of debt cap		35%	42%	54%	66%	64%	61%	57%	54%
Repayment period for borrowing (years)		25	10	22.5**	25*				
Interest rate		1.9	1.0	0.6**	1.15*				

*2020-21 Figures are indicative. Final decisions on specific borrowing arrangements will be taken later in the financial year.

** 2019-20 Borrowing took place in three tranches - these are weighted average figures.

9.2 The Scottish Government borrowed £405 million in 2019-20 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 in three tranches throughout the financial year. £200 million will be repaid over a 20 year period, at an interest rate of 0.6% percent,

and £205 million will be repaid over a 25 year period, of which £190 million is repaid at a rate of 0.56% and £15 million at a rate of 0.76%

9.3 The Scottish Government has announced plans to borrow the annual maximum of £450 million in 2020-21. Final decisions on the specific borrowing arrangements for 2020-21 will be taken over the course of the year.

9.4 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.

9.5 On the basis of existing and planned borrowing included in the table, the Scottish Government will have accumulated £1.99 billion in capital debt by the end of 2020-21, 66 per cent of its overall limit.

9.6 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.

9.7 In its report, "*Scotland's Economic and Fiscal Forecasts*", published Feb 2020, 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

9.8 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 plans to use resource borrowing to address the reconciliation for 2017-18 income tax, as outlined in paragraph 9.10. However, this borrowing has not yet been drawn down and no borrowing was undertaken in previous years. The Scottish Government has therefore not accumulated any debt that counts towards its overall and annual limits for resource borrowing.

9.9 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) and in cases of forecast error (maximum £300 million annually, increasing to £600 million in case of a Scotland-specific 'economic shock').

9.10 The Scottish Government can 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. A negative £207 million reconciliation has been applied to the Scottish Budget 2020-21 relating to 2017-18 Scottish Income Tax; 2018-19 LBTT and SLFT; Fines, Forfeitures and Fixed Penalties (FFFPs); and Carer's Allowance. The Scottish Government plans to use its resource borrowing powers for the first time in 2020-21, to borrow £207 million to fully offset the impact of the negative reconciliation. This borrowing will be repaid over the next five years. For future years the Scottish Government will make a decision on whether and how to use resource borrowing based on the overall Budget situation.

9.11 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.

9.12 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 2019-20 was £605 million. The closing balance on the Reserve for 2019-20 is £434 million, as reported to Parliament at Provisional Outturn in June 2020.

10.2 The expected drawdown from the Scotland Reserve in 2020-21 is £223 million following the 2020-21 Autumn Budget Revision.

10.3 On the basis of planned drawdowns, the residual balance of the Scotland Reserve is £211 million. An update on the reserve position, including the changes from the confirmation of final outturn against the 2019-20 budget will be provided with the 2020-21 Spring Budget Revision.

10.4 Table 26 shows the 2019-20 Reserve position as reported to Parliament at Provisional Outturn in June 2020.

Table 26: Scotland Reserve Forecast (post 2020-21 Summer Budget Revision & 2019-20 Provisional Outturn)

	Resource	Capital	Financial Transaction	Total
2019-20 Opening Balance	381.1	65.3	158.6	605.0
2019-20 Planned Drawdowns	-248.8	-60.0	-120.0	-428.8
2019-20 Additions to reserve	85.8	75.5	96.2	257.5
2019-20 Closing Balance (Provisional)	218.1	80.8	134.8	433.7
2020-21 Planned Drawdowns	-148.6	-70.0	-4.0	-222.6
2020-21 Closing Balance (Provisional)	69.5	10.8	130.8	211.1

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 27.

Table 27: 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	23 September 2020
Income Tax BGAs	UK Spring Budget	11 March 2020
	Provisional Outturn Data	June 2020
LBTT/SLfT Revenue Outturn	Final figures will be published in Revenue Scotland's Annual Reports & Accounts	TBC
	UK Stamp Duty and Landfill Tax Outturn	HMRC Tax & NIC Receipts
LBTT/SLfT BGAs	UK Spring Budget	11 March 2020
FFFP Revenue Outturn	Scottish Government unpublished data	
	HM Courts & Tribunals Service Trust Statement 2019-20	TBC
UK Fines Outturn	UK Spring Budget	11 March 2020
FFFP BGA	UK Spring Budget	11 March 2020
POCA Revenue Outturn	Scottish Government unpublished data	
	UK Spring Budget	11 March 2020
Social Security Expenditure Outturn	Final figures will be published in Social Security Scotland Annual Accounts	TBC
DWP Expenditure Outturn	DWP Benefit expenditure by country and region	25 September 2020
Social Security BGAs	UK Spring Budget	11 March 2020
Scottish Fiscal Commission forecasts	Scottish Fiscal Commission Scotland's Economic and Fiscal Forecasts	6 February 2020

11.3 If you have comments on this document, please contact Finance.Co-ordination@gov.scot.



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