

Fiscal Framework Data Update

July 2019

Overview

The first Fiscal Framework Outturn Report was published in September 2018 to report on operation of the Fiscal Framework and support Parliamentary scrutiny.

This Fiscal Framework Data Update provides the latest relevant data, in advance of publication of a further Fiscal Framework Outturn Report in September, as recommended by the Budget Process Review Group.

The key update is the outturn data for 2017-18 income tax which determines the reconciliation that will be required in the 2020-21 budget. The table below records the current situation.

TABLE 1: TAX RECONCILIATION REQUIREMENTS FOR THE 2020-21 BUDGET (£ MILLION)

Income Tax 2017-18	Outturn	-204
Of which:		
Revenue	Outturn	-941
BGA	Outturn	+737*
LBTT 2018-19 BGA	Forecast	-1
SLfT 2018-19 BGA	Forecast	-1
Total Tax Reconciliation Requirement		-206

*The BGA has been revised downwards which increases the Block Grant.

For more detail on the individual entries see tables 2, 9 and 10.

Please note - all tables in this document may not sum due to rounding

Since the publication of *Scotland's Fiscal Outlook* the position of the Scotland Reserve has also been updated. The latest estimate of the balance of the Scotland Reserve by end of fiscal year 2019/20 is £233.5 million, on the basis of planned drawdowns outlined at provisional outturn 2019 (see table 17).

If you have comments on this document, we would be delighted to receive them. Please contact Finance.Co-ordination@gov.scot.

Tax and Social Security – Net Budget Position and Forecast Reconciliations

This section provides an overview of the latest information (outturn or forecast) regarding revenues and BGAs for income tax and the fully devolved taxes – Land and Building Transaction Tax (LBTT) and the Scottish Landfill Tax (SLfT). It also provides data regarding spending and BGAs for devolved Social Security benefits.

Revenue forecasts are taken from the latest version of the Scottish Fiscal Commission's *Scotland's Economic and Fiscal Forecasts*, published on 30 May.¹ The figures for BGAs are based on forecasts of equivalent UK Government tax revenue prepared by the Office for Budget Responsibility (OBR).

Because the Scottish Government must rely on forecasts when setting each Budget, funding is reconciled to actual outturn data in subsequent Budgets. Because this data becomes available for different taxes or social security benefits at different times, reconciliations are made throughout the budget cycle. A full explanation of the reconciliation process can be found in the Technical Note² that accompanies *Scotland's Fiscal Outlook: The Scottish Government's Five Year Financial Strategy*.

Tax

Income Tax 2017-18 Outturn

For Scottish income tax, outturn data is available around 15 months after the end of the financial year, and a reconciliation is applied in the Budget for the year after that. 2017-18 income tax outturn data was published on 18 July 2019 and the reconciliation will be applied to the 2020-21 Budget.

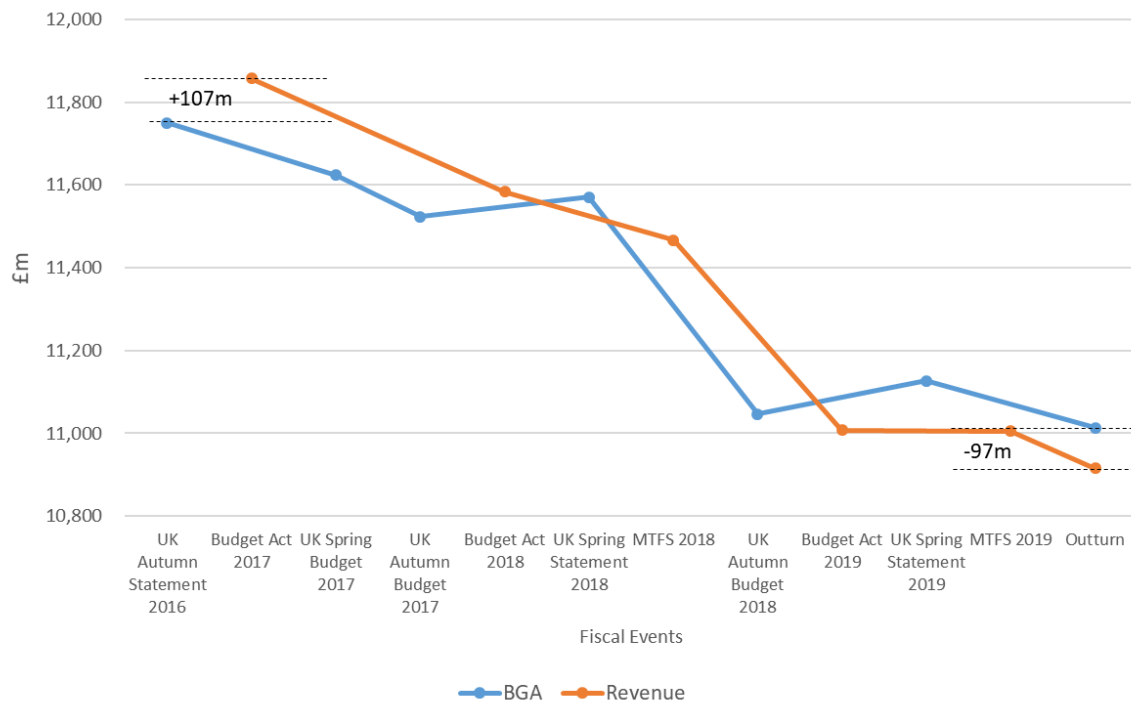
TABLE 2: INCOME TAX RECONCILIATION TO 2020-21 BUDGET (£ MILLION)

2017-18 INCOME TAX	Revenues	BGA	Net Position	Reconciliation
Budget 2017-18	11,857	11,750	+107	
Outturn	10,916	11,013	-97	
Change	-941	-737		-204

¹ <http://www.fiscalcommission.scot/publications/scotlands-economic-and-fiscal-forecasts/scotlands-economic-and-fiscal-forecasts-may-2019/>

² <https://www.gov.scot/binaries/content/documents/govscot/publications/publication/2019/05/scotlands-fiscal-outlook-scottish-governments-medium-term-financial-strategy-2019/documents/fiscal-framework-technical-note/fiscal-framework-technical-note/govscot%3Adocument/fiscal-framework-technical-note.pdf>

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



Since the 2017-18 Budget, the forecast updates have shown a deterioration in the net budget position (difference between revenue and BGA), going from a net positive position at the time the budget was set to a net negative position at outturn.

The difference between forecast and outturn figures for 2017-18 revenue and BGAs for income tax is in part related to the fact that, at the time of the 2017-18 Scottish Budget, they were based on a forecast 2016-17 baseline. Ultimately, income tax outturn data for 2016-17 (and therefore the baseline) was £806 million lower than the 2016-17 forecast used at the 2017-18 Scottish Budget, leading to a sharp decline between forecast and outturn for both the revenues and the BGA.

Income Tax Forecast Reconciliations

For 2018-19 the outturn data will be available in summer 2020 and for 2019-20 in summer 2021. Below are the latest forecast reconciliations (these are as set out in the MTFS 2019). These forecasts will be updated at Budget 2020-21.

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

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

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

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

Fully Devolved Taxes

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 revenues are not necessary and enables the Scottish Government to manage any variance between forecast and actual revenues as part of its in-year budget management process. The latest forecasts for 2019-20 LBTT and SLfT are shown in Tables 5 and 6.

TABLE 5: LBTT 2019-20 REVENUE FORECAST (£ MILLION)

SFC Revenue Forecast – Budget 2019-20	643
SFC Revenue Forecast – MTFS 2019	616
Change	-27

TABLE 6: SLfT 2019-20 REVENUE FORECAST (£ MILLION)

SFC Revenue Forecast – Budget 2019-20	104
SFC Revenue Forecast – MTFS 2019	109
Change	+6

The BGAs for these taxes are reconciled in two stages. The first ‘interim reconciliation’ is made within the financial year at the UK Autumn Budget, on the basis of the most recent OBR forecasts. The latest forecast (on the basis of the UK Spring Statement) interim reconciliation to the 2019-20 LBTT and SLfT BGAs is shown in Tables 7 and 8.

TABLE 7: LBTT 2019-20 FORECAST BGA INTERIM RECONCILIATION (£ MILLION)

Forecast BGA - UK Autumn Budget 2018	567
Forecast BGA - UK Spring Statement 2019	535
Forecast Reconciliation to 2019-20 Budget	+32

TABLE 8: SLfT 2019-20 FORECAST BGA INTERIM RECONCILIATION (£ MILLION)

Forecast BGA - UK Autumn Budget 2018	91
Forecast BGA - UK Spring Statement 2019	92
Forecast Reconciliation to 2019-20 Budget	-1

Once outturn data is available in the following financial year, a final reconciliation is applied to the block grant for the financial year thereafter (i.e. two years after the year to which the revenues relate). Tables 9 and 10 show the forecast final reconciliation for 2018-19 LBTT and SLfT BGAs.

TABLE 9: LBTT 2018-19 FORECAST BGA RECONCILIATION (£ MILLION)

Forecast BGA - UK Autumn Budget 2017	600
Forecast BGA - UK Autumn Budget 2018	546
Interim reconciliation applied to 2018-19 Block Grant	54
Forecast BGA - UK Spring Statement 2019	547
Forecast Final Reconciliation applied to 2020-21 Block Grant	-1

TABLE 10: SLfT 2018-19 FORECAST BGA RECONCILIATION (£ MILLION)

Forecast BGA - UK Autumn Budget 2017	94
Forecast BGA - UK Autumn Budget 2018	104
Interim reconciliation applied to 2018-19 Block Grant	-9
Forecast BGA - UK Spring Statement 2019	105
Forecasts Final Reconciliation applied to 2020-21 Block Grant	-1

Social Security

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

For social security benefits, forecasts are of spending rather than revenues and Block Grant Adjustments are additions rather than deductions. The Adjustments will be calculated on the basis of forecasts at each spending round and fiscal event at which a forecast for UK government benefit spending is produced. Forecasts of UK government benefit spending in England and Wales will be produced by the OBR and the block grant adjustment calculated on this basis. Once outturn data is available the block grant adjustments will be recalculated, and reconciled to the original calculation.

Reconciliations for expenditure are not necessary. The Scottish Government manages any variance between forecast and actual expenditures as part of its in-year budget management process.

Carer's Allowance

Carer's Allowance is the only social security benefit in current operation that requires a Block Grant Adjustment. Table 11 shows the SFC's latest expenditure forecast for Carer's Allowance (not including the supplement) and the Block Grant Adjustment estimate provided at the Spring Statement 2019.

TABLE 11: FORECASTS OF CARER'S ALLOWANCE EXPENDITURE AND BLOCK GRANT ADJUSTMENTS (£ MILLION)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	
Carer's Allowance	SFC Expenditure Forecast - MTFS 2019	152	286	304	325	351	371	393
	BGA Estimate - UK Spring Statement 2019	157	287	304	325	355	385	N/A
	Difference	5	1	0	0	4	14	N/A

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

As with the fully devolved taxes, the BGAs for benefits are reconciled twice. The first 'interim reconciliation' is made within the financial year at the Autumn Budget, on the basis of the most recent OBR forecasts. The latest interim reconciliation to the 2019-20 Carer's Allowance BGA is shown in Table 12.

TABLE 12: CARER'S ALLOWANCE 2019-20 FORECAST BGA INTERIM RECONCILIATION (£ MILLION)

Forecast BGA - UK Autumn Budget 2018	290
Forecast BGA - UK Spring Statement 2019	287
Forecast Reconciliation to 2019-20 Budget	-3

Once outturn data is available in the following financial year, a final reconciliation is applied to the block grant for the financial year thereafter. There will be a reconciliation for the 2018-19 Carer's Allowance BGA as part of the 2020-21 Budget. Table 13 shows the forecast final reconciliation

TABLE 13: CARER'S ALLOWANCE 2018-19 FORECAST BGA FINAL RECONCILIATION (£ MILLION)

Forecast BGA - UK Autumn Budget 2018	157
Forecast BGA - UK Spring Statement 2019	157
Forecast Reconciliation to 2020-21 Budget	0

Discretionary Housing Payments and Best Start Grant

The Scottish Fiscal Commission forecasts expenditure on Best Start Grant and Discretionary Housing Payments (DHPs) and Scottish Government spending plans on DHPs, as shown in Table 14 below.

TABLE 14: FORECASTS AND SPENDING PLANS FOR BEST START GRANT AND DISCRETIONARY HOUSING PAYMENT EXPENDITURE (£ MILLION)

		2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Best Start Grant	SFC Expenditure Forecast	4	21	16	16	17	17	18
DHPs – Bedroom Tax Mitigation	SFC Expenditure Forecast	51	53	55	57	58	60	62
DHPs – Other Spend	SG spending plans	11	11	11	11	11	11	11

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 summer 2019, will also commence through this process. Table 15 shows the funding transfers that the Scottish Government has agreed before funding becomes part of the core resource block grant.

TABLE 15: 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

Benefits Yet to Commence

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.

Capital Borrowing

Table 16 shows the Scottish Government's current capital borrowing plans.

The Scottish Government has 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.

In 2019-20, the Scottish Government has announced plans to borrow the annual maximum of £450 million capital intended over a 25-year period. Final decisions on the specific borrowing arrangements for 2019-20 will be taken over the course of the year.

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.

Chapter 3 of *Scotland's Fiscal Outlook: The Scottish Government's Five Year Financial Strategy* sets out the Scottish Government's policy of borrowing between £250 million and £450 million over the remaining period of the National Infrastructure Mission, but this is not included in table 16 at this stage. Final decisions are always taken within the relevant budget year, depending on circumstances.

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.

The capital outlook assumes that the maximum amount of capital borrowing (£450 million) will be undertaken in 2019-20 and £350 million in 2020-21. As set out in the Medium Term Financial Strategy, Scottish Government policy is to borrow between £250 million and £450 million over the remaining period of the National Infrastructure Mission, but this is not included in modelling of the capital outlook. Final decisions are always taken within the relevant budget year, depending on circumstances.

TABLE 16: CAPITAL BORROWING AND REPAYMENT SCHEDULE

£ million		2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Borrowing		450	250	450	350				
Repayment on 2015-16 borrowing	<i>Capital</i>	9.43	9.43	9.43	9.43	9.43	9.43	9.43	9.43
	<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>		7.07	14.35	14.62	14.90	15.19	15.48	15.77
	<i>Interest</i>		7.72	8.35	8.07	7.80	7.51	7.22	6.93
Repayment on 2018-19 borrowing	<i>Capital</i>			11.95	24.06	24.29	24.52	24.76	24.99
	<i>Interest</i>			2.06	2.21	1.98	1.74	1.51	1.27
Repayment on 2019-20 borrowing	<i>Capital</i>				6.5	13.3	13.6	14	14.3
	<i>Interest</i>				9.8	11	10.7	10.3	10
Repayment on 2020-21 borrowing	<i>Capital</i>					5.1	10.4	10.6	10.9
	<i>Interest</i>					7.7	8.6	8.3	8
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		20.53	20.53	32.48	51.10	63.22	69.06	69.89	70.73
Repayment period for borrowing (years)		25	10	25	25				
Interest rate		1.9	0.95	2.5	2.5				
Is interest rate fixed or variable?		Fixed	Fixed	Fixed	Fixed				

Scotland Reserve

Table 17 shows the 2018-19 Reserve position as reported to Parliament at Provisional Outturn in June 2019.

TABLE 17: 2018-19 SCOTLAND RESERVE FORECAST AT 31 MARCH 2019, £ MILLION

	Resource	Capital	Financial Transaction	Total
2018-19 Opening Balance	440.1	86.5	11.4	538
2018-19 Additions to reserve	179.3	0.8	121.4	301.5
Of which:				
General	171.3	0.8	121.4	293.5
Devolved Taxes forecast surplus receipts	5.0	-	-	5.0
Guarantee Fee Income	3.0	-	-	3.0
2018-19 Planned Drawdowns	-250.0	-22.0	-	-272.0
2018-19 Closing Balance (Provisional)	369.4	65.3	132.8	567.5
2019-20 Planned Drawdowns	-234.0	-65.3	-34.7	-334.0
2019 20 Closing Balance (Provisional)	135.4	-	98.1	233.5