From: Ireland J (John)
Sent: 22 May 2018 17:57
To: [Redacted]
Cc: Grisewood A (Aidan); **[Redacted]**
Subject: OFFICIAL SENSITIVE – Fact-check – SFC Summary – May 2018

[Redacted]

The Commission is now formally sharing the Summary chapter of our report for fact-checking purposes.

The Scottish Government is invited to confirm the factual accuracy of the report, and the presentation of Scottish Government policy. We require any comments to be received by 11 AM on Thursday 24th May.

This report and forecasts are being shared strictly for the purposes of commenting on the factual accuracy of the report and for the development of the Scottish Government's Medium Term Financial Strategy. The report and forecasts contains Scottish Fiscal Commission assumptions and determinants that are classified as OFFICIAL-SENSITIVE until the time of publication, they must be protected at all times and must not be shared beyond those requiring access for the purposes of fact-checking.

Please note that the report is still being finalised and the Commission retains the right to change any element of the report.

As per the protocol the report will be shared with the Cabinet Secretary for Finance and the Constitution on the afternoon of Thursday 24th May. A final pre-release version will be shared with the Cabinet Secretary on Wednesday 30th May and the final version of the report will be published on Thursday 31st May.

<< File: Scotland's Economic and Fiscal Forecasts - May 2018 - Chapter 0 - Summary.docx >>
John

From: [Redacted]
Sent: 24 May 2018 10:59
To: Ireland J (John)
Cc: [Redacted] Grisewood A (Aidan)
Subject: OFFICIAL SENSITIVE – Fact-check – SFC Summary – May 2018

John (cc **[Redacted]**

Please find attached version with tracked changes in it and also a few comments below.

UK-EU relationship - para 12 it implies that formal agreement has been reached on the transition/implementation period rather than caveating this as being in principle and subject to conclusion and agreement on the terms of the overall Withdrawal Agreement/Treaty in full (this is the much-quoted “nothing is agreed until everything is agreed” principle). It should perhaps make clearer that the transition period itself is conditional on all aspects of the Withdrawal Agreement being agreed - which of course only adds to the ongoing uncertainty.

By way of additional context, what was announced in March by the European Commission and UK Government was the publication of a new joint version of the draft legal text on the Withdrawal Agreement, but the emphasis is still on this being a draft which they aim to agree in full by October alongside the terms of the future relationship.

We have no comments on the NDR and the Income Tax and Economy sections.

Regards

[Redacted]

Summary

1.1 Introduction

1 In April 2017 the Scottish Fiscal Commission became responsible for producing independent economic and fiscal forecasts to inform the Scottish Budget.

2 The Commission produces five-year forecasts of:

- **Revenue from fully devolved taxes;**
- **Non-savings non-dividend income tax receipts; and**
- **Devolved social security expenditure.**

3 We also forecast onshore GDP in Scotland for the next five years, which feeds into our fiscal forecasts.

4 The reasonableness of the Scottish Government's borrowing projections are also assessed by the Commission. In addition, we assess whether the condition (a 'Scotland-specific economic shock') that triggers additional borrowing powers for the Scottish Government is met.

1.2 Economy

5 We published our first forecasts of the Scottish economy in December 2017. At the time, we described the outlook for growth as subdued. Our view of a subdued outlook is broadly unchanged. Economic growth has been slower over the last decade than historic average rates, and our view remains that this pattern of slower growth is likely to persist over the next five years. Our headline economy forecasts are shown in Table 1, compared to our forecasts published in December.

1.2.1 Table 1: Headline economy forecasts, calendar year basis (% growth)

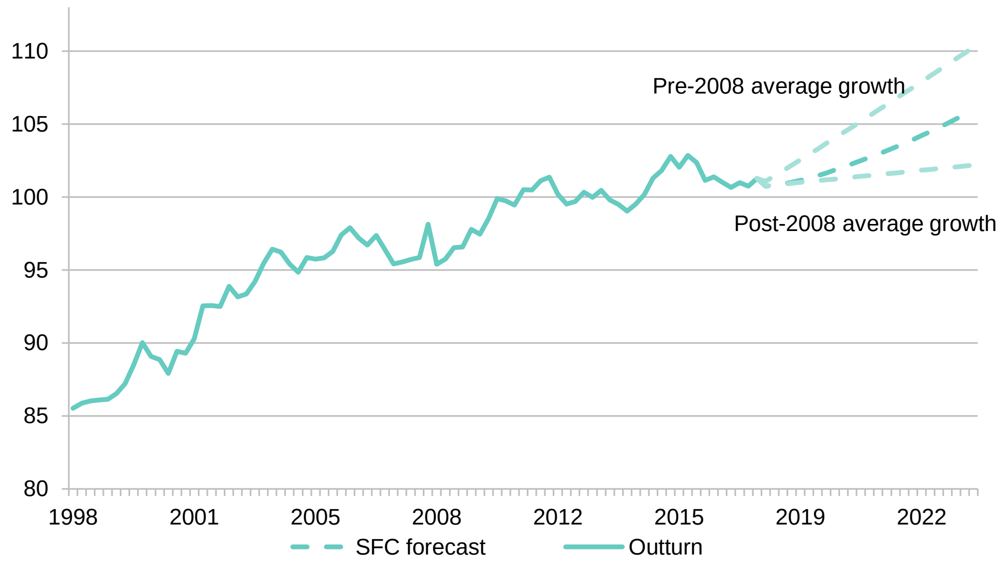
	2016	2017	2018	2019	2020	2021	2022	2023
Economic growth								
December 2017	0.4	0.7	0.7	0.9	0.6	0.9	1.1	
May 2018	0.2	0.8	0.7	0.8	0.9	0.9	0.9	0.9
Trend productivity growth								
December 2017	0.2	0.2	0.5	0.6	0.7	0.8	1.0	
May 2018	0.0	0.0	0.2	0.5	0.8	0.9	1.0	1.1
Nominal wage growth								
December 2017	3.3	2.0	2.3	2.4	2.6	2.8	3.1	
May 2018	3.4	1.1	1.6	1.8	2.2	2.6	2.9	3.2
Real wage growth								
December 2017	2.1	-0.3	0.1	0.5	0.6	0.8	1.1	
May 2018	2.0	-1.0	-0.5	0.0	0.2	0.6	0.9	1.2
Employment growth								
December 2017	-0.6	1.3	0.6	0.0	0.1	0.2	0.1	
May 2018	-0.6	1.2	0.4	0.0	0.1	0.2	0.1	0.1

Source: Scottish Government (2018) Quarterly National Accounts Scotland Quarter 4 2017 (link), Scottish Fiscal Commission

6 Since our previous forecasts, we have undertaken new research into wage growth in Scotland. Real wage growth has been weak over recent years, with real wages lower now than they were a decade ago. As a result of this new research, we have revised down our outlook for real wage growth in Scotland. Real wages are now anticipated to fall by 0.5 per cent during 2018, before gradually levelling off in 2019 and starting to grow slowly from 2020 onwards. In line with this revision to the outlook for wages our income tax forecast has also been revised down.

7 One of the key factors underlying subdued GDP growth is slow growth in productivity or output per hour worked. The underlying reasons for this are not yet fully understood and are not unique to Scotland. Our forecast for productivity is shown in Figure 1 below, alongside the historic data and pre- and post-financial crisis averages. Since December, following the publication of further weak productivity, we have revised down expectations of productivity growth in 2018 from 0.5 per cent to 0.2 per cent.

Figure 1: Productivity Growth in Scotland (2014=100)



Source: Scottish Fiscal Commission

8 In isolation, weak economic growth observed in recent years would suggest a lower forecast for the next five years than pre-2008 historic averages. Scotland faces additional challenges which mean the period of slower growth is unlikely to end in the near future.

9 Future downside risks include the UK's changing relationship with the EU, a weakening outlook for global trade, Scotland's industrial and demographic structure and weak onshore demand linked to activity in the oil and gas industry.

10 In combination, this means limited increases in average earnings and a more modest outlook for employment growth in the coming years compared to the recent past.

1.2.2 UK-EU relationship

11 The Commission must make assumptions about the impact of Brexit on Scotland. At the time of preparation of our forecasts, the outcome of the negotiations remains unknown, and it is therefore difficult to forecast the impact on the economy.

12 Since our previous forecasts there have been a number of developments on Brexit, including the UK-EU agreement over the terms of a 'transition period'

scheduled to last until 31 December 2020; the British Prime Minister's landmark speech on the future economic partnership with the European Union; and the approval by EU leaders of guidelines setting out the EU's trade negotiating position. While more information has become available, the extent of uncertainty on the outcome and implications of the withdrawal process has not changed since December, as no agreement has yet been reached on the permanent trade and migration arrangements between the UK and the EU after Brexit.

13 With negotiations still taking place, there continue to be rapid political developments by the UK and EU authorities. It is likely that further headway in the Brexit discussions will be made after the publication of our forecasts, particularly following the next European Council meetings of 28-29 June and 18-19 October, with more clarity expected by December.

14 There is also a possibility that an EU exit agreement will be reached in October. In response to a request by the Treasury Select Committee, the OBR has confirmed that it could incorporate a prospective October EU exit agreement in its December Budget forecast to inform the Parliament's vote on the agreement, moving beyond its current Brexit assumptions as necessary. The OBR have said they will consider the scope and robustness of the additional analysis involved and will assess whether this timetable can be delivered. In the same way, we will continue to monitor progress in the withdrawal negotiations and to keep our Brexit assumptions under review for future forecasts.

15 At present, the Commission broadly expects both the uncertainty created by the UK-EU negotiation, and the final settlement, to impact negatively on the Scottish economy over the next five years.

16 While the 'transition period' means that there would be very little change in the UK's relationship with the EU prior to 31 December 2020, the negative effects of this on-going uncertainty can expected to be felt also over the shorter term.

17 In preparing this forecast, we continue to follow the same approach as the OBR. We use broad-brush assumptions including:

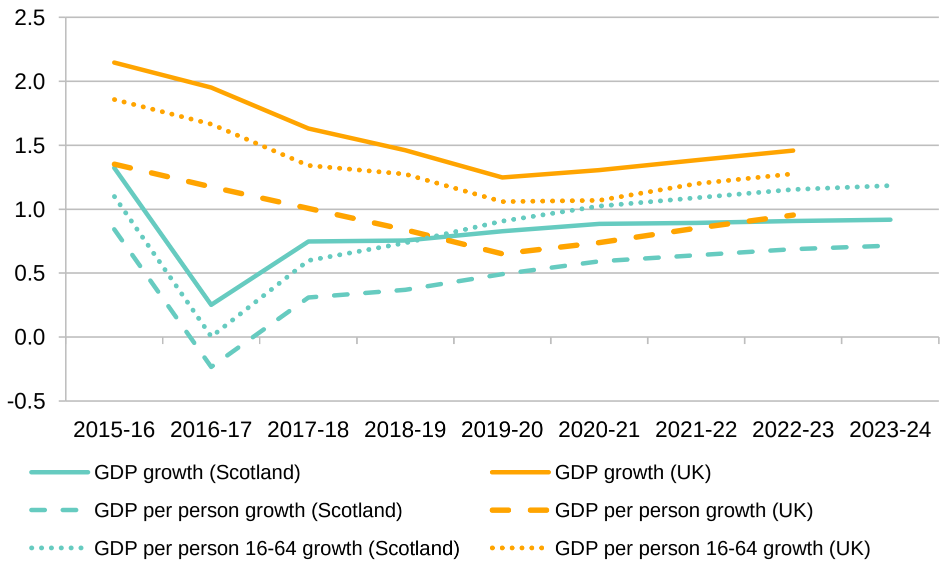
- **The UK leaves the EU in March 2019;**
- **New trading arrangements with the EU and others slows the pace of import and export growth; and**
- **The UK adopts a tighter immigration regime than currently in place.**

18 As in December, we use the 50 per cent net EU migration variant of the ONS 2016 based population projections for Scotland, whereas the OBR has continued to use the principal projection for the UK.[1]

1.2.3 Population and demographic factors

19 As we set out in December, although the Scottish population has been growing in recent years, it has not been growing as fast as the rest of the UK (mainly England) and this difference is projected to continue. Figure 2 shows comparisons between Scottish and UK GDP growth, and GDP growth per person, and GDP growth per person aged 16 to 64.

Figure 2: **Forecast growth in GDP and GDP per person, Scotland as forecast by the SFC and UK as forecast by the OBR**



Source: Scottish Fiscal Commission, OBR (2018) Economic and Fiscal Outlook – March 2018 (link)

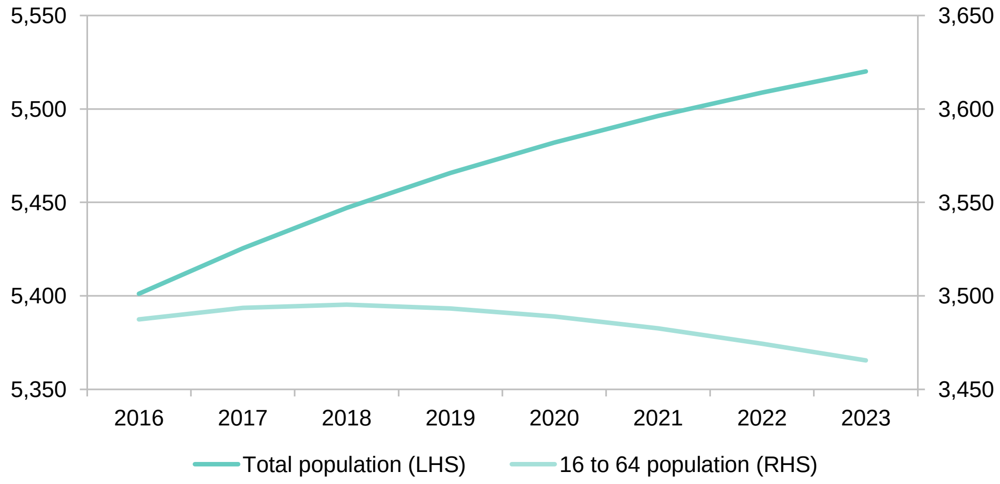
20 Scottish GDP growth will be slower than UK GDP growth over the forecast period. However, when the effects of population growth are stripped out, Scottish growth is much closer to UK growth. This effect is even more pronounced when GDP per person aged 16 to 64 is used: the growth rates on this basis are very similar from 2019-20 onwards.

21 The size of the population aged 16 to 64, which makes up most of the working age population, is important for the economy and the public finances. These individuals are more likely to be working and will be

[1] ONS (2017) 2016-based Population Projections, 50 per cent EU Migration Variant Population projections Scotland (link)

generating the highest tax receipts, for example, in income tax. While the total population is expected to grow, Figure 3 demonstrates that the population aged 16 to 64 is expected to start to shrink from 2018 onwards. This is in contrast to a growing 16 to 64 population in the UK and places a particular drag on growth in GDP in Scotland.

Figure 3: **Forecast Scottish total population and population aged 16 to 64, thousands**

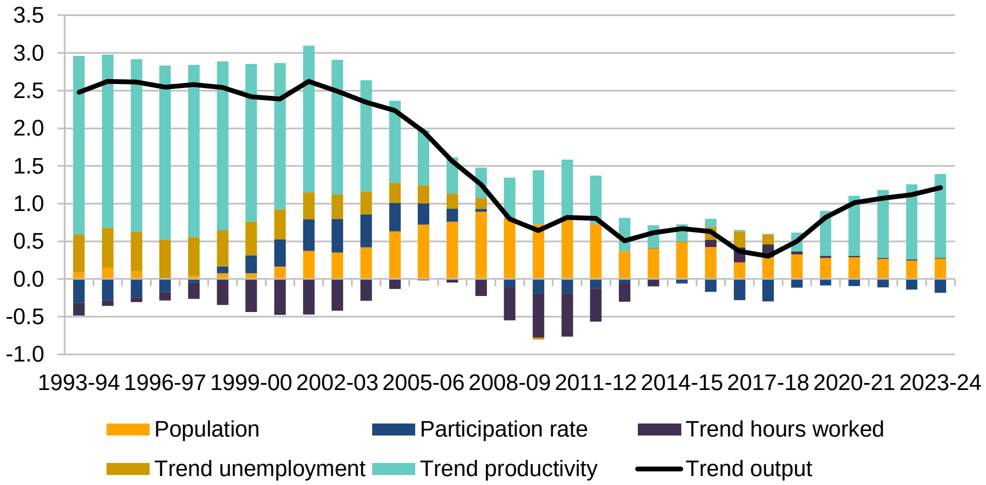


Source: ONS (2017) 2016-based Population Projections, 50 per cent EU Migration Variant Population projections Scotland (link)

Potential output

22 The judgements the Commission has made on the future path for productivity, the labour market and population growth drive the potential output of the Scottish economy as shown in Figure 4. Slow growth in the potential size of the economy will act as a limit to GDP growth.

Figure 4: Growth in Scottish potential output by component



Source: Scottish Fiscal Commission

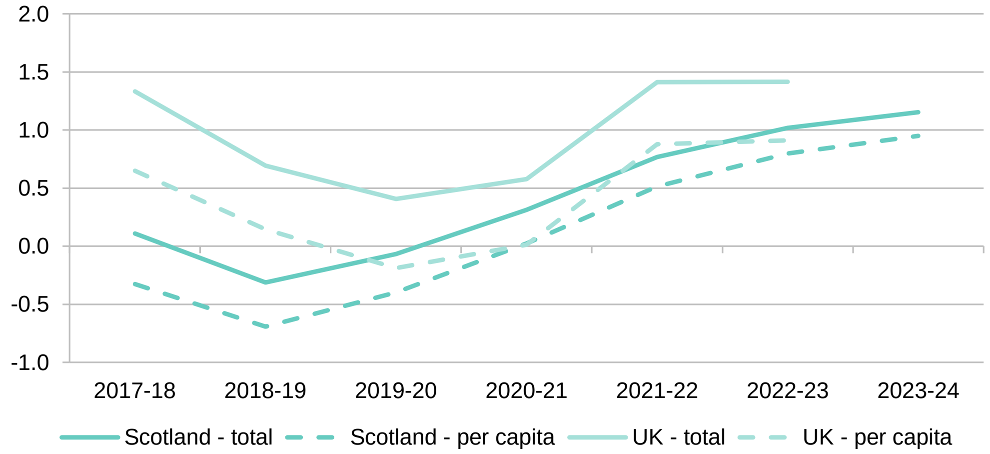
1.2.4

1.2.5 Earnings

23 Trend productivity growth in Scotland has been slow since 2010. However, growth in real wages has been slower still than growth in productivity would suggest. The Commission has further developed its analysis of wage growth, looking in particular at the disconnect between productivity growth and real wage growth since 2010. As a result, our forecasts of real wage growth are now lower than they were in our previous forecasts. Following trends of near zero or negative real wage growth since 2010, real wages are expected to fall by 0.5 per cent in 2018-19, before gradually starting to grow from 2019-20 onwards.

24 Real household disposable income is not expected to see positive growth until 2020-21 because of a combination of slow wage growth, limited employment growth and inflation. Growth in real household incomes will start to strengthen gradually from 2020 onwards as real wage growth starts to increase.

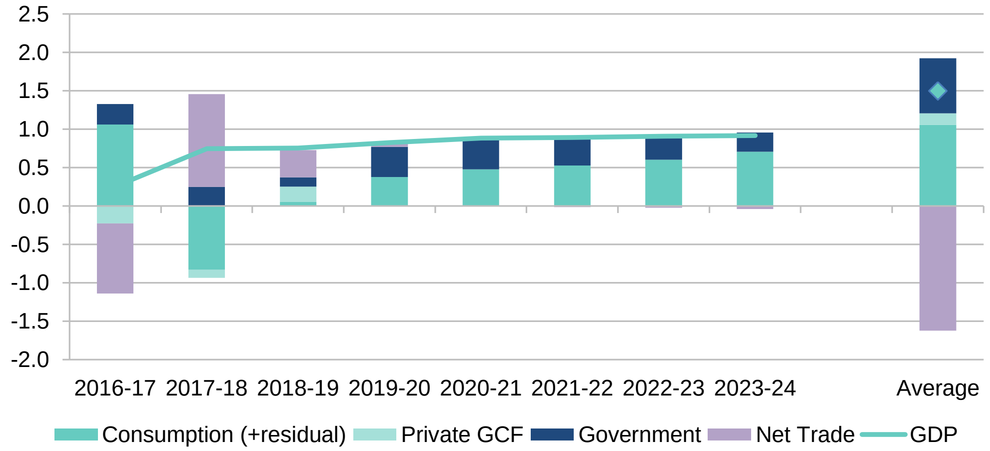
Figure 5: **Growth rate of Real Household Disposable Income, total and per person, Scotland compared to OBR UK forecasts**



Source: Scottish Fiscal Commission, OBR (2017) Economic and Fiscal Outlook – March 2018 (link)

25 The outlook for real household disposable income, combined with an already low savings ratio, limits growth in consumption in the early years of the forecast. As Figure 6 shows, the economic growth achieved in 2018-19 will be driven by net trade and expanding investment, though these factors are not expected to be persistent in future years. From 2019-20, growth will be driven by the gradually increasing consumption and spending by the public sector.

Figure 6: **Contributions by component of expenditure to growth in GDP**



Source: Scottish Fiscal Commission . Note: Historic average is based on growth from 1998 to 2017

1.3 Tax

26 The Commission’s fiscal forecasts directly inform the Scottish Government’s Budget. Table 2 shows a summary of the tax forecasts produced.

Table 2: Summary of tax forecasts 2016-17 to 2023-24

Comment [u1]: Alignment out on SLfT and APD for 2023-24.

£ million	2016-17 Outturn*	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Income Tax (NSND)	11,267	11,467	11,969	12,345	12,805	13,335	13,936	14,547
Non-Domestic Rates	2,731	2,774	2,788	2,859	2,931	3,110	3,307	3,339
Land & Buildings Transaction Tax	484	550	614	656	697	738	781	827
of which, Residential	214	259	312	342	373	405	438	**473**
ADS	93	91	97	100	104	108	112	116
Non-Residential	177	201	206	214	220	226	231	238
Air Passenger Duty	257	277	285	292	301	311	322	335
Scottish Landfill Tax	148	142	114	93	95	87	87	88
Total Tax	**14,842**	**15,379**	**15,928**	**16,480**	**17,105**	**17,905**	**18,805**	

Source: Scottish Fiscal Commission. Figures may not sum to totals because of rounding * Figure for Income Tax is not outturn data, as none is yet available for liabilities in 2016-17. See the income tax section for further detail.

1.4

27 Box 1 explains how the Scottish Budget is determined both by our forecasts and by the OBR forecasts of corresponding UK Government tax receipts.

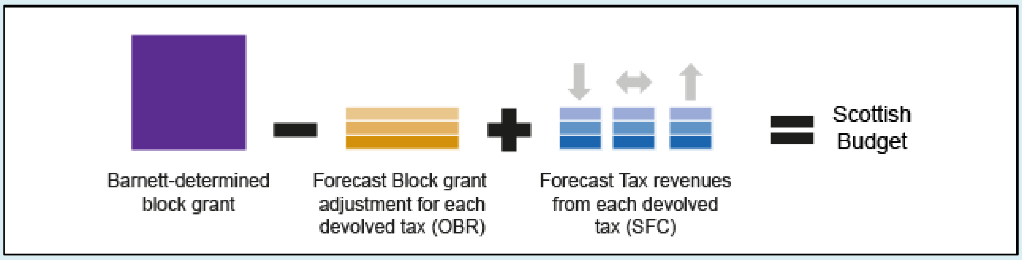
Box 1: Commission Forecasts and the Fiscal Framework

The Scottish Fiscal Commission's forecasts are an important component in determining the total budget that is available to the Scottish Government to spend in each fiscal year. However, it is important to remember that they are not the only relevant forecasts.

The diagram below presents a stylised representation of the way the Scottish Budget will be determined under the Fiscal Framework agreed alongside the Scotland Act 2016. The forecast block grant adjustment changes are based on OBR forecasts of UK Government receipts of corresponding taxes, they do not relate to the OBR's forecasts of Scottish taxes. These forecasts of UK Government receipts are then used by the UK and Scottish Government to calculate the block grant adjustments, in which process the OBR and the Commission have no involvement.

There is one exception to the general picture, which arises in this year's income tax calculation. See Box 3.2 in Chapter 3 for further details.

Figure 7: How is the Scottish Budget Determined?



Source: SPICe Briefing (2017) UK Autumn Budget 2017 – impact on Scotland (link)

Taxes which were devolved before the Scotland Acts 2012 and 2016, such as Council Tax and Non-Domestic Rates Income (NDRi), are outwith the Fiscal Framework and so have no impact on the Block Grant. This means there is no indexation mechanism with equivalent UK Government taxes. The Commission has been tasked with producing a forecast of NDRi, but is not responsible for forecasting Council Tax.

1.4.1 Income tax

28 The outlook for income tax is driven by the outlook for earnings and employment. Continued slow growth in the economy means slow growth in income tax revenues. As a result, the Commission is forecasting lower revenue from income tax than previously forecast in February.

Table 3: Comparison with previous February 2018 forecast

2.	£ million	3. 2 015-16	4. 2 016-17	5. 2 017-18	6. 2 018-19	7. 2 019-20	8. 2 020-21	9. 2 021-22	10. 2 022-23
11.	February 2018 post-measures	12. 1 0,932	13. 1 1,214	14. 1 1,584	15. 1 2,177	16. 12,647	17. 13,152	18. 13,733	19. 14,372
20.	2016-17 outturn data	**21.** 0	**22.** 3 0	**23.** 5 3	**24.** 7 8	**25.** 8 0	**26.** 8 4	**27.** 8 7	**28.** 9 2
29.	Economy forecast	**30.** 0	**31.** 6	**32.** - 198	**33.** - 317	**34.** - 405	**35.** - 474	**36.** - 545	**37.** - 614
38.	2015-16 SPI data	**39.** 1 5	**40.** - 5	**41.** - 21	**42.** 5	**43.** 7	**44.** 2 5	**45.** 6 6	**46.** 9 6
47.	Tax-Motivated Incorporations	**48.** 0	**49.** 2 1	**50.** 4 3	**51.** 2 6	**52.** 3 1	**53.** 3 5	**54.** 1 0	**55.** 1 3
56.	Other[2]	**57.** 1	**58.** 0	**59.** 7	**60.** 8	**61.** - 1	**62.** 0	**63.** 1	**64.** - 3
65.	2017-18 policy recosting	**66.** 0	**67.** 0	**68.** - 2	**69.** - 2	**70.** - 7	**71.** - 7	**72.** - 7	**73.** - 8
74.	2018-19 policy recosting	**75.** 0	**76.** 0	**77.** 0	**78.** - 6	**79.** - 8	**80.** - 9	**81.** - 11	**82.** - 12
83.	May 2018 pre-measures	84. 1 0,948	85. 1 1,267	86. 1 1,467	87. 1 1,969	88. 1 2,345	89. 1 2,805	90. 1 3,335	91. 1 3,936
92.	May 2018 policy changes	**93.** -	**94.** -	**95.** -	**96.** -	**97.** -	**98.** -	**99.** -	**100.** -
101.	May 2018 post-measures	102. 1 0,948	103. 1 1,267	104. 1 1,467	105. 1 1,969	106. 1 2,345	107. 1 2,805	108. 1 3,335	109. 1 3,936
110.	*Change from February 2018*	***111.*** *1 6*	***112.*** *5 3*	***113.*** *- 118*	***114.*** *- 209*	***115.*** *- 302*	***116.*** *- 347*	***117.*** *- 398*	***118.*** *- 437*

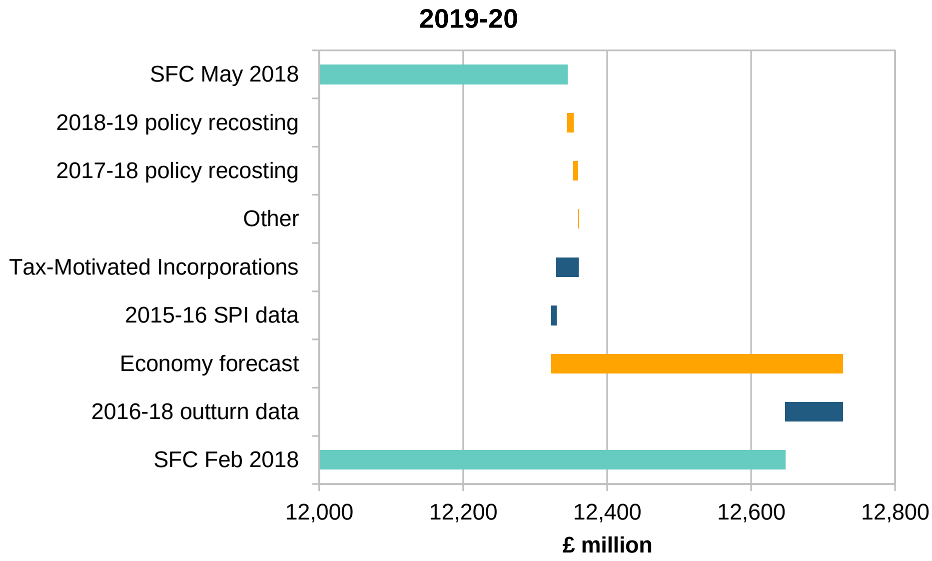
Source: Scottish Government (February 2017) forecast (link), Scottish Fiscal Commission

29 The table shows a range of factors and developments since our forecast in February that have led to a small upward revisions in 2015-16 and 2016-17 tax years, with downwards revision for subsequent years. Although the latest economy forecasts have reduced future tax liabilities, other factors such as strong employment outturn data in 2016-17 have had a positive impact on the forecast.

[2] Includes revisions to OBR triple lock and CPI forecasts, HMRC Gift Aid estimates, inclusion of 2017 mid-year population estimates and model developments.

30 Figure 8 presents the relative scale of these factors for 2019-20. Changes since February have led to a downwards revision for 2019-20 of around £300 million.

Figure 8: February 2018 compared to May 2018 forecast by factor, 2019-20



31 Changes to the economy forecast in isolation have reduced our forecast of income tax liabilities in 2019-20 by £405 million. The developments to the economy forecasts are discussed in Chapter 2. The main reasons for these changes are:

- New research by the Commission on wage growth in Scotland has led the Commission to revise down its outlook for wages
- One off factors such as adjustments in the oil and gas supply chain to lower oil prices and declines in the construction industry leading to weaker than expected wage growth in 2017 and in to 2018
- A downwards revision to productivity growth in 2018-19, following a weaker than expected performance over the last two years, has also marginally reduced the outlook for earnings

32 In summer 2018, HMRC will publish its first full estimates of outturn income tax liabilities in Scotland, covering the year 2016-17. For the first time, this will be based on full administrative data using Scottish taxpayer flags. Once

available, this will be the primary measure of income tax liabilities in Scotland.

33 Once published, the Commission will review the new data and look to make appropriate adjustments to its forecasting approach for future forecasts and publications. We expect to be able to provide analysis of this issue in our September 2018 Forecast Evaluation Report.

118.1.1

118.1.2 Non-Domestic Rates (NDR)

34 Our forecast of NDR for 2018-19 is £2,788 million, which is £24 million lower than the forecast in December 2017. This downward revision results mainly from higher than expected appeals losses related to the 2010 revaluation cycle, in addition to weaker growth in the tax base than previously forecast.

35 The Government announced a number of policy measures in December 2017, some of which were introduced in response to the Barclay Review.[3] Due to availability of new data, we have revised our estimates of the cost of several of these policies. Overall, this reduces the cost of these policies by £1 million.

36 The Commission forecasts what is known as the contributable amount of NDR. This can be thought of as the amount collected by local authorities through the course of the year which flows to the Scottish Government. The amount available to local authorities to spend – the distributable amount – is set by the Scottish Government prior to the start of the year.

37 Differences between the amount distributed by the Scottish Government and amounts collected by local authorities are shown after year end in the audited publication of the NDR Rating Account. While in recent years a cumulative deficit has been carried forward, at Draft Budget 2018-19 the distributable amount was set using our forecast with the aim of bringing the account to balance by the end of 2018-19.

38 Given the revisions to our forecast, we now project a £59 million deficit in the NDR Rating Account at the end of 2018-19. The audited balance of the account will in practice depend on data returns submitted to the Scottish Government by local authorities throughout the year. As the distributable amount is already set for 2018-19, this projected deficit cannot be dealt with in-year, and so may be carried forward into the calculation of the amount to be distributed at Draft Budget 2019-20.

118.1.3 Land and Buildings Transaction Tax (LBTT)

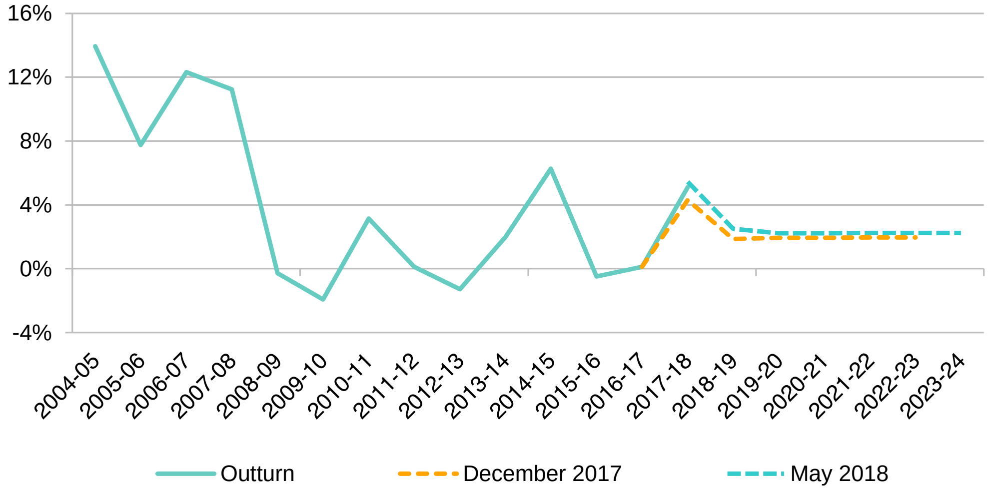
[3] See report of the Barclay Review, August 2017 (link)

39 **Having shown signs of recovery in the first half of 2017-18, Scotland's housing market had an uneven end to the year. There has been considerable growth in prices, but an irregular change in transactions. The number of purchases valued below £250,000 fell 3.8 per cent in the second half of 2017-18, compared with the same period in 2016-17, while the rest of the market grew 13.1 per cent. Transactions below £250,000 account for most of the market leading to a fall in the total number of market transactions, in contrast to our December 2017 expectation of a rise.**

40 **Across the five-year forecast horizon, we expect house price growth to return to around 2.2 per cent a year, the average rate seen in Scotland since the financial crisis.**

118.1.4

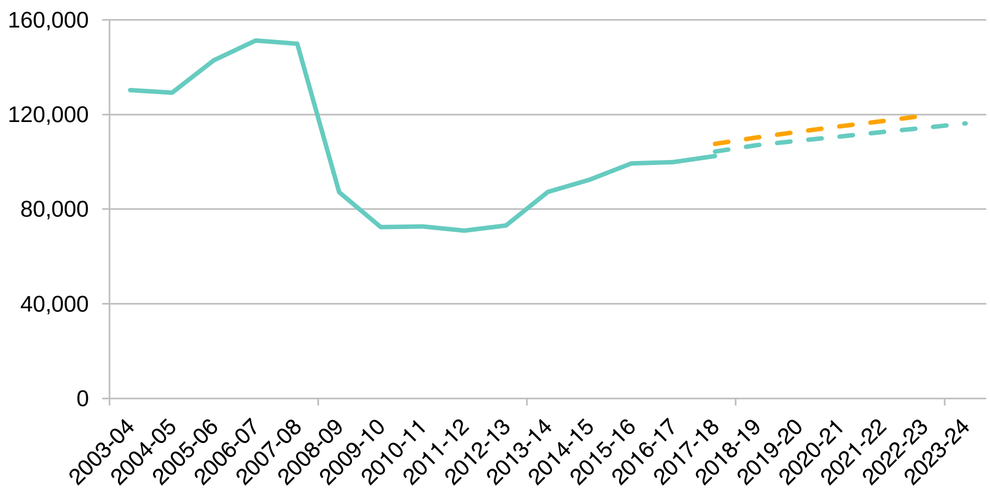
118.1.5 Figure 9: Quarterly Residential Mean house price growth forecasts
118.1.6



118.1.7 Source: Scottish Fiscal Commission, Register of Scotland (link)
118.1.8 Note. Registers of Scotland transaction statistics cover properties between £20,000 and £1,000,000. Registers of Scotland growth rates are based on date of registration while Commission's forecast is on effective date basis.

41 **We expect the drop in the number of transactions in the second half of 2017-18 to be temporary. However, this drop has led us to slightly revise down our December forecast.**

118.1.9 Figure 10: Scotland residential property transactions



118.1.10 Source: Scottish Fiscal Commission, Register of Scotland (link)
118.1.11 Note. Registers of Scotland transaction statistics cover properties between £20,000 and £1,000,000. Registers of Scotland volumes are based on date of registration while Commission's forecast is on effective date basis.
118.1.12

42 **The Scottish Government has introduced draft legislation to provide for introduction of therelief for First Time Buyers (FTBs)announced at the Draft Budget 2018-19. If approved by the Scottish Parliament, this would raise the zero rate tax threshold for FTBs from £145,000 to £175,000, with effect from 30 June. We have decreased our costing of the relief by £1 million in 2018-19.**

43 **Non-residential receipts are expected to increase over the five-year forecast horizon. We have revised up our December 2017 forecast as a result of a higher price growth forecast and the introduction of a new forecasting approach. The effect of these is partially offset by a lower forecast for transactions. In the medium term, prices and transactions grow in line with the Commission's economic forecast.**

44 **Secondary legislation has brought forward to allow for Group Relief to be available in certain specific scenarios involving the use of "share pledge" type arrangements, as is already the case .under Stamp Duty Land Tax (SDLT). The change will apply only to future transactions. We estimate this could cost on average £0.6 million per year, although there is a high degree of uncertainty with this point estimate as there is no direct data available.**

Comment [u2]: Need some more specific text here. Group relief available from the introduction of LBTT.

Comment [JM3]: Re-worked the text to highlight the level of uncertainty – "expect" doesn't seem accurate given the context.

118.1.13 Air Passenger Duty

45 Air Passenger Duty (APD) is paid by passengers departing from UK airports. The Scottish Government had legislated to replace APD with Air Departure Tax (ADT) from April 2018. In November, the Scottish Government agreed with the UK Government to defer the devolution of APD.[4] The Commission has developed a forecast for Scottish APD receipts; we will continue to publish these forecasts to inform the future plans for devolution of APD.

46 Our forecast of Scottish APD receipts shows revenues increasing over the five-year horizon. Scottish passenger numbers have grown strongly in the last four years at a time when Scottish GDP growth has been relatively subdued.

47 The forecast of Scottish APD has changed since December 2017 with downwards revisions to each year. The reasons for change include an updated estimate for child exemption due to recently published data from HMRC. This information was not available in December 2017 and the new estimate revised up the cost of the exemption from 2 per cent of APD revenues to 5 per cent. Despite these downward revisions, strong growth is forecast over the forecast horizon.

118.1.14 Scottish Landfill Tax

48 Landfill tax is an environmental tax which has contributed towards a reduction in the amount of waste landfilled over the last decade. While this trend appears to have levelled off in Scotland in recent years, the Commission is forecasting significant reductions in the amount of waste landfilled and subsequent tax receipts over the next five years.

49 The forecast is largely driven by the projected increase in incineration capacity across Scotland over the forecast period. The build-up in capacity is in part a reaction to the increasing cost of the tax on disposal via landfill. It is also a sign that local authorities and waste management companies are beginning to plan ahead to meet their obligations in response to the ban on the landfill of biodegradable municipal waste from 2021. The full impact of the ban is still being assessed and may result in tax receipts being significantly lower in the later years of our current forecast.

50 There have been small upwards revisions to the forecast across the forecast horizon since December 2017. These are predominantly a result of the inclusion of the most recent published data from Revenue Scotland,

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[4] Letter from the Cabinet Secretary for Finance and Constitution to the Convener of the Finance and Constitution Committee 22 November 2017 (link)

suggesting that receipts have not lowered as we expected. Notification of a delay to the full rate operation of the first site to increase incineration capacity has resulted in further increases to revenue in 2017-18 and 2018-19.

118.2 Social security expenditure

51 As part of the devolution of social security powers to the Scottish Parliament, the Commission is required to produce independent official forecasts of devolved social security expenditure in Scotland.

52 The devolution of social security benefits is phased and the forecasts reflect either Scottish or UK Government policy, depending on the status of each benefit. The benefits already devolved are Discretionary Housing Payments, the Scottish Welfare Fund and Employability Services. Our forecasts of expenditure on these areas reflect current Scottish Government policy.

53 Prior to Carer's Allowance (CA) being devolved, CA will continue to be administered by DWP at the rate set by the UK Government. We forecast expenditure in line with the UK Government's policy until further plans for devolution are announced.

54 The Scottish Government has committed to increasing the level of Carer's Allowance to that of Jobseeker's Allowance. This increase will be paid by the Scottish Government via the Carer's Allowance Supplement.

55 We forecast expenditure for a number of benefits which are currently reserved but where the Scottish Government has announced plans for devolution. As we have not received specific policy details, or dates for devolution, we forecast these benefits based on existing UK Government policy. These benefits are Funeral Payments, Healthy Start Vouchers and Sure Start Maternity Grant.[5]

56 As the Scottish Government announces plans for the devolution of further benefits we will include them in our future forecasts.

[5] The Scottish Government have announced that Funeral Expense Assistance will replace Funeral Expenses Payments, Best Start Grant will replace Sure Start Maternity Grant and Best Start Foods will replace Healthy Start Vouchers by summer 2019.

Table 4: Summary of social security forecasts 2016-17 to 2023-24

£ million	2016-17 Outturn	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Carer's Allowance (CA)	234	248	267	285	303	318	334	349
CA Supplement	0	0	35	37	40	42	44	46
Discretionary Housing Payments	50	60	61	63	65	66	67	69
Scottish Welfare Fund	33	33	33	33	33	33	33	33
Employability Services	0	11	20	19	28	22	9	0
Fair Start Scotland	0	*0*	*16*	*19*	*28*	*22*	*9*	*0*
Work Able Scotland	0	*3*	*0*	*0*	*0*	*0*	*0*	*0*
Work First Scotland	0	*9*	*4*	*0*	*0*	*0*	*0*	*0*
Funeral Expenses Payments	5	5	5	5	5	5	5	5
Healthy Start Vouchers	5	4	4	4	4	4	4	3
Sure Start Maternity Grant	3	3	3	3	3	3	3	3
Total Social Security	**330**	**364**	**428**	**450**	**480**	**493**	**498**	**508**

Source: Scottish Fiscal Commission, DWP Benefit Expenditure by Country and Region 2016-17 (link), Scottish Government Discretionary Housing Payments Statistics (link), Scottish Government Scottish Welfare Fund Statistics (link), DWP unpublished data, Department of Health unpublished management information

57 Other than for the interim Carer's Allowance Supplement which is set out in the Social Security (Scotland) Bill, the Scottish Government's intention is to set out all detailed rules relating to eligibility criteria and rates of devolved benefits in subordinate legislation. To support the Scottish Parliament and the public in understanding and scrutinising the Scottish Government's policy proposals, the Commission will produce forecasts of expenditure to accompany subordinate legislation relating to any areas in our remit.

118.2.1 Carer's Allowance

58 Carer's Allowance (CA) is paid to help individuals who care for someone who is disabled with substantial caring needs. Expenditure on CA is forecast to increase over the forecast horizon from £248 million in 2017-18 to £349 million in 2023-24. Expenditure increases due to an increase in the number of individuals expected to receive CA payments and uprating of the weekly payment rate in line with CPI inflation.

59 The Scottish Government is introducing a CA Supplement to increase CA to match the rate of Jobseekers Allowance (JSA). The CA Supplement will be paid as two lump sums per financial year, each worth six months (26 weeks) of difference between CA and the higher of: Jobseeker's Allowance (JSA) or

the amount JSA would be if it were adjusted for inflation. The Social Security (Scotland) Bill provides a mechanism to pay the Carer's Allowance Supplement at the earliest opportunity, from summer 2018.[6] The qualifying dates and payment dates have not yet been set by the Scottish Government and therefore our forecast remains illustrative in the absence of this information.

Expenditure for the CA Supplement increases from £35 million in the year it is introduced (2018-19) to £46 million by the end of the forecast period (2023-24). The Social Security (Scotland) Bill was amended at Stage 3 to place a duty on ministers to uprate the CA Supplement each year in line with inflation and this is the key driver of the increase in expenditure over the forecast period. The cost of the new uprating policy is £9 million by 2023-24.

118.2.2 Discretionary Housing Payments

60 Discretionary Housing Payments (DHPs) are grants awarded by local authorities to people in need of extra financial assistance with housing costs. The Scottish Government has committed to using DHPs to mitigate the removal of the spare room subsidy (RSRS), commonly known as the 'Bedroom Tax'. Our forecasts show the cost of mitigating the RSRS increases over the forecast horizon, from £51 million in 2018-19 to £58 million in 2023-24. Based on Scottish Government policy, we assume other expenditure on DHPs remains constant at £10.9 million a year over the forecast horizon.

118.2.3 Scottish Welfare Fund

61 The Scottish Welfare Fund (SWF) was set up in April 2013 and provides grants for people on low incomes. Expenditure on the SWF has been constant at £33 million since 2013. Our forecast assumes this remains constant.

118.2.4 Employability Services

62 The Scottish Government has introduced new voluntary services to provide employability support to help the long-term unemployed and people with disabilities to find sustainable employment. The Scottish Government has contracted external providers to deliver the service. Eligible customers are referred mainly by Jobcentre Plus to an employability service provider.

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[6] Social Security (Scotland) Bill (2018) [as passed] (link)

63 Two interim services were operational in 2017-18; Work First Scotland and Work Able Scotland. The Fair Start Scotland (FSS) service started in April 2018 and will accept referrals for three years, but contracts with and payments to providers run for five years, from April 2018 to November 2023 with final outcome payments made up to 29 February 2024.

64 Forecast expenditure is based on the service design, the estimated number of individuals supported and the probabilities of those individuals entering into and sustaining employment. The overall forecast annual expenditure on Employability Services is £20 million in 2018-19 and rises to £28 million in 2020-21 before declining over the rest of the forecast horizon.

65 FSS has seen downward revisions to forecast spending in the first two years of the service, with an equal total upward revision to spending in the last three. Peak spending on FSS (£27.7 million) is forecast for 2020-21.

66 The May 2018 forecast contains an important update to the methodology. Service providers have now provided the Scottish Government their monthly forecasts both of how many service starts and sustained employment outcomes they expect and when they expect these milestones to be achieved. Previously, service providers gave forecasts only for the total number of job outcomes they expected to realise over the full life of the service. This methodology update accounts for revisions made to the expected expenditure for FSS within each year of the forecast.

118.2.5 Other benefits

67 The Scottish Government has announced plans for the devolution of Funeral Expenses Payment, Healthy Start Vouchers and the Sure Start Maternity Grant. Currently there is insufficient detail for us to produce forecasts based on the Scottish Government's policy. We have therefore produced forecasts of expenditure based on current UK Government policy. Since our last publication there have only been minor revisions to these forecasts to allow for model refinements and data updates.

68 Universal Credit (UC) is reserved to the UK Government and we do not forecast expenditure. UC is a qualifying benefit for several of the benefits we forecast so any delays or changes to the rollout could impact on our forecasts.

118.3 Borrowing

Capital borrowing

69 The Scottish Government has provided projections of its capital borrowing requirements up to 2019-20. We judge that these projections are within the limits set out in the Fiscal Framework, and are therefore reasonable.

70 The Scottish Government borrowed the annual maximum in 2017-18 and plan to do the same in 2018-19 and 2019-20. This will result in a projected debt stock of £1.87 billion by the end of 2019-20 which is 62 per cent of the total statutory limit of £3 billion. It will only be possible for the Government to continue to borrow the maximum amount per year until 2022-23. Beyond this point the statutory borrowing cap will limit the annual amount available to borrow.

Resource borrowing

71 The Scottish Government have confirmed that they have not used resource borrowing powers to date and that there are no current plans for resource borrowing over the period of the Medium Term Financial Strategy.

72 We have assessed whether we are forecasting a Scotland-specific economic shock, which would trigger additional resource borrowing. Given our forecasts, and the most recent OBR forecasts, the conditions for this are not currently met.

The Scotland Reserve

73 The Scottish Government has provided information on the balance of the Scotland Reserve and projected drawdowns in 2018-19. The reserve had a provisional aggregate balance of 451 million at the end of 2017-18. The Scottish Government have projected they will drawdown £68 million from the capital reserve and £238 million from the resource reserve during 2018-19. We have assessed these projections are within the limits set by the Fiscal Framework, and are therefore reasonable.

118.4 VAT

74 Regulations have been introduced in the Scottish Parliament to expand the remit of the Commission to include VAT forecasting. We are currently developing our forecast methodology. Our first full VAT forecast will be published in December 2018.