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Fiscal Framework Outturn Report

September 2018

Contents

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

Following on from the publication in May of the Scottish Government's Five Year Financial Strategy, this report represents another important step in addressing the recommendations of the Budget Process Review Group, and in developing a year-round approach to budget scrutiny.

As the Group's report noted, the Fiscal Framework is a complex process, and one which needs to be accompanied by full transparency and accessibility in the reporting of its various components.

As Cabinet Secretary for Finance I fully understand my responsibility to facilitate scrutiny by Parliament and others. In line with the report's recommendations, this report therefore provides information on the reconciliation process for Income Tax, Land and Buildings Transaction Tax and Scottish Landfill Tax as well as operation of the Scotland Reserve and our borrowing powers.

The report will be published annually and its contents will be expanded over time as implementation of powers devolved under the Scotland Act 2016 continues, both in relation to tax and social security.

Derek Mackay MSP
Cabinet Secretary for Finance, Economy and Fair Work

1 Introduction

1.1 This is the first 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] - and follows on from May's publication of *Scotland's Fiscal Outlook: The Scottish Government's Five Year Financial Strategy.* Whereas that document set out a medium-term view of Scotland's public finances and the Scottish Government's broad approach to using the new financial powers provided through the Scotland Acts 2012 and 2016, this report focuses on operation of the Fiscal Framework. It is designed, in particular, to support Scottish Parliamentary scrutiny.

Recommendations of the Budget Process Review Group

1.2 Chapter 4 of the Budget Process Review Group Final Report recommended that scrutiny of the Fiscal Framework should be informed by two Scottish Government publications: a Fiscal Framework Outturn Report, to be published annually in September; and the Budget Document, to be published after the UK Budget.

1.3 It made two specific recommendations on the Fiscal Framework Outturn Report as outlined below. In line with recommendation 6, this report is designed to provide information useful for Committees' pre-Budget reports for the 2019-20 Scottish Budget.

Budget Process Review Group Recommendation 6
The Group recommends that the annual Fiscal Framework Outturn Report is based on audited information as far as possible and is published in sufficient time to allow the committees to consider it prior to the publication of their pre-Budget reports. On this basis the Group recommends that the report is published in September.

Budget Process Review Group Recommendation 7
The Fiscal Framework Outturn Report should detail outturn expenditure on each of the social security benefits, with a comparison with the relevant forecasts. Similarly, the outturn [Block Grant Adjustment] for each of the social security powers should be reported along with the relevant [Block Grant Adjustment] forecast, with the aim of identifying a net Budgetary position, and implications for Budget management.

[1] http://www.parliament.scot/S5_Finance/Reports/BPRG_-_Final_Report_30.06.17.pdf

1.4 The Budget Process Review Group Final Report (p.28) also included the suggested content of the Fiscal Framework Outturn Report.

Outline contents of the Fiscal Framework Outturn Report

Reconciliation Process

- Outturn data for Scottish tax revenues (including comparison of outturn with forecast)
- Calculation of outturn BGAs (and comparison with forecast)
- Net budgetary position (revenue minus BGA) for each tax relative to forecast
- Implications of reconciliation for subsequent financial year
- Commentary on latest available interim outturn data on income tax.

Scotland Reserve

- 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

- Borrowing undertaken during the past financial year, and assessment of how far Government remains below its various different borrowing limits (there are separate limits in respect of capital borrowing, and revenue borrowing for cash-management, forecast error and a 'Scotland-specific shock' respectively)
- Implications of borrowing in terms of estimated profile of future repayments

1.5 The remainder of this document follows the structure suggested by the Budget Process Review Group Final Report:

Chapter 2 – Operation of the Fiscal Framework covers the evolution of the fiscal powers of the Scottish Parliament and, in particular, the operation of the Fiscal Framework.
Chapter 3 – Reconciliation Process sets out the timelines for reconciliations of 2017-18 budget forecasts, how they work in practice, and what the impact of reconciliations will be on the Scottish Government's 2019-20 Budget.
Chapter 4 – Scotland Reserve covers payments and withdrawals from the Reserve and the balance of the Reserve.
Chapter 5 – Borrowing sets out borrowing undertaken, how this compares with various borrowing limits, and the estimated profile of future repayments.
Chapter 6 – Conclusion summarises the main results.
Annexes – Annex A provides a summary of the fiscal impact of 2015-16 and 2016-17 Devolved Revenues.
A separate data annex published alongside this Report contains all revenue and Block Grant Adjustment forecasts and outturn data to date.

1.6 The following points are particularly relevant for budget considerations:

- A downward reconciliation of £2 million will be made to the 2019-20 Budget in relation to the fully devolved taxes. The Scottish Government could invoke its resource borrowing powers for a net Budget shortfall to the extent that the outturn net Budget position falls below the forecast for each tax. This is set out in Chapter 3.
- Only a baseline value has been established for income tax and the 2020-21 Budget will be the first Scottish Budget in which an income tax reconciliation will have to be made, relating to income tax for 2017-18.
- The potential scale of the reconciliation required in the 2020-21 Budget is uncertain, but is indicated in the latest forecasts. Since the 2017-18 Budget, the forecast updates have shown a deterioration in the net budget position, which - if proved correct in the outturn - would lead to a reconciliation requirement in 2020-21 of -£267 million. This forecast is based on an estimated baseline, and subject to forecast error. The SFC's Forecast Evaluation Report highlights that an under-estimate of 2017-18 GDP growth had – considered in isolation – taken £188 million off its income tax forecast for 2017-18, which would reduce the estimated reconciliation requirement from -£267 million to -£79 million. The forecasts that will be available at the time of the Budget will provide a more up-to-date estimate of the reconciliation that is to be expected.
- The residual balance of the Scotland Reserve is £192 million, on the basis of planned drawdowns and additions to the Reserve outlined at provisional outturn 2018. This is set out in Chapter 4.
- The Scottish Government will have accumulated £1,459 million of capital debt by the end of 2018-19, well within its overall £3 billion limit. This means that the Scottish Government could make full use of the £450 million annual drawdown limit in 2019-20 should it decide to do so. No resource borrowing has been undertaken. This is set out in Chapter 5.

2 Operation of the Fiscal Framework

Evolution of the Scottish Parliament's fiscal powers

2.1 The Scotland Act 2012 and the Scotland Act 2016 devolved a number of significant new fiscal powers to Scotland.

2.2 Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT) were fully devolved from the financial year 2015-16 under the Scotland Act 2012. The Scottish Rate of Income Tax was devolved under the Scotland Act 2012, with the Scotland Act 2016 extending income tax powers significantly from 2017-18.

2.3 The Scottish Government's capital and resource borrowing powers were granted in the Scotland Act 2012 and the limits were increased in the Scotland Act 2016. The detail of these powers is outlined in chapter five.

2.4 The Scotland Reserve replaced a previous power under the Scotland Act 2012 to operate a limited cash reserve and the Budget Exchange Mechanism operated by HM Treasury. The Reserve is capped in aggregate at £700 million. Annual drawdowns from the Reserve are limited to £250 million for resource and £100 million for capital.

2.5 The Fiscal Framework[2] sets the rules by which these new powers are implemented and managed. This year's Fiscal Framework Outturn Report focuses on the three tax powers that have been fully implemented, as well as the use of borrowing powers and the Scotland Reserve. Data on forecasts and outturns for these taxes - both revenue and corresponding Block Grant Adjustments (BGAs) - are presented in the chapter three of this report.

2.6 Further tax and social security powers in the Scotland Act 2016 are being implemented over the coming years.

2.7 Three Scotland Act 16 tax powers are yet to be implemented: assigned VAT, Air Passenger Duty and Aggregates Levy:

Assigned VAT - The Fiscal Framework agreed that VAT assignment will be implemented in 2019-20. There will be a one-year transitional period during which the assigned VAT will be forecast and calculated, but with no impact on the Scottish Government's Budget.

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

Aggregates Levy - There are ongoing legal issues in relation to the UK tax which are required to be resolved prior to the power being commenced.

2.8 Eleven benefits are transferring to the Scottish Parliament under the Scotland Act 2016. Funding for three benefits is transferred into the block grant with no Block Grant Adjustment and subsequent reconciliation required. These are Discretionary Housing Payments,[3] Best Start Grant and Funeral Expenses

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[2] https://www.gov.scot/Topics/Government/Finance/fiscal-framework

[3] Responsibility for Discretionary Housing Payments was passed to the Scottish Government from April 2017, and these are administered through Local Authorities.

Assistance. All other benefits transferring to the Scottish Parliament will require a Block Grant Adjustment. Executive Competence for Carer's Allowance transferred on 3 September 2018. The first Block Grant Adjustment for Carer's Allowance will be processed at the UK Government's forthcoming Autumn Budget. We will announce further details about timescales for future benefits in due course.

2.9 Data on powers that require a Block Grant Adjustment will be included in future reports once these powers have been implemented.

Why was a new Fiscal Framework needed?

2.10 When the devolved Scottish Government was first established in 1999, it inherited grant funding arrangements that were based on the long-standing Barnett formula. Under Barnett, each financial year's Block Grant is equal to the previous year's grant plus a population share of changes in comparable UK Government spending in devolved areas.[4]

2.11 The Smith Commission[5] - on whose conclusions the Fiscal Framework is based - envisaged a fundamental change in how the Scottish Government would be funded. [6] They foresaw a substantial proportion of the Government's Budget coming directly from tax revenues raised in Scotland. The Commission made two key recommendations:

> *"The Block Grant from the UK Government to Scotland will continue to be determined via the operation of the Barnett Formula." (p.25)*

> *"The revised funding framework should result in the evolved Scottish Budget benefiting in full from policy decisions by the Scottish Government that increase revenues or reduce expenditure, and the devolved Scottish Budget bearing the full costs of policy decisions that reduce revenues or increase expenditure." (p.25)*

2.12 The objective of a new Fiscal Framework was to evolve the funding arrangement by transferring greater fiscal powers and policy responsibilities to Scotland while, to a significant extent, retaining the stability of Block Grant funding.

2.13 The Smith Commission laid down one key principle to guide the development of the new Framework – 'no detriment'. In the context of fiscal devolution, 'no detriment' means:

> *"…initial devolution and assignment of tax receipts should be accompanied by a reduction in the Block Grant equivalent to the revenue foregone by the UK Government, and that future growth in the reduction to the Block Grant should be indexed appropriately." (p.25)*

[4] This means that the Barnett formula only applies to the additional spending each year and not to the total Block Grant.

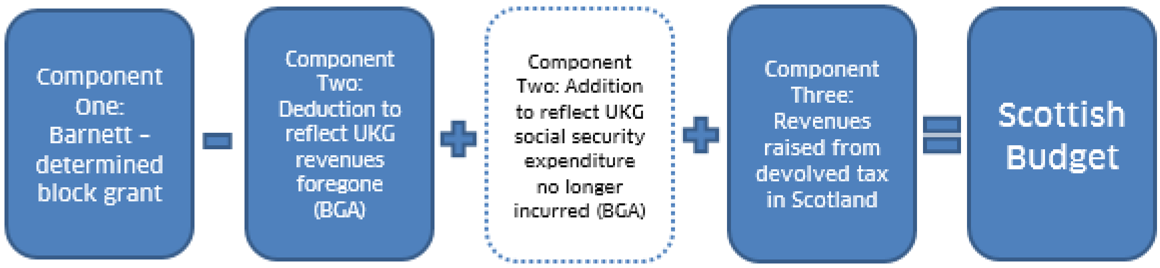
[5] After the 2014 Scottish independence referendum, the Smith Commission made recommendations for the further devolution of powers to the Scottish Parliament.

[6] http://webarchive.nationalarchives.gov.uk/20151202171029/http://www.smith-commission.scot/wp-content/uploads/2014/11/The_Smith_Commission_Report-1.pdf

How the Fiscal Framework works

2.14 Guided by Smith Commission principles, a new Fiscal Framework was agreed between the UK and Scottish Governments in February 2016. The Framework lays down three main components for calculating the Scottish Government's Budget[7].

Figure 2.1 - Guide to the new Scottish Budget process



2.15 **Component One – Barnett-determined Block Grant**
Barnett continues to determine the initial size of the Block Grant before adjustments are made to take account of tax and social security devolution.

2.16 **Component Two – Adjustment to the Block Grant**
The Block Grant is adjusted to reflect the impact of the transfer of greater fiscal powers to the Scottish Budget. In this report, only deductions from Block Grant, i.e. the revenues foregone by the UK Government in devolving revenues to Scotland, are relevant. In future years, Block Grant additions for social security benefits will also be applied.

2.17 **Component Three – Devolved Revenues**
These are the revenues now retained from devolved and assigned tax powers which contribute to Scotland's funding.

2.18 In future, social security spending will be part of the Scottish Budget and the corresponding funding will be transferred to Scotland as additions to the Block Grant.

2.19 Other powers in the Fiscal Framework can also affect the Scottish Government's overall Budget totals. The Government can choose to borrow for capital expenditure, or carry forward underspends from previous years in the Scotland Reserve.

How are the Block Grant Adjustments Calculated?

2.20 A 'baseline value' is required to establish the starting point for the Block Grant Adjustments. The baseline value reflects what was raised by the UK Government in Scotland in the year prior to the devolution of the tax.[8] For example, for Scotland Act 2016 Scottish Income Tax, 2016-17 was the year prior to devolution. For LBTT and SLfT, 2014-15 was the year prior to devolution.

[7] Non-Domestic Rates also form part of the funding arrangements, together with other revenue raising powers (including fees, charges and sales of goods, services and assets), grants from the European institutions and borrowing.
[8] Equivalent procedures will apply to social security Block Grant additions.

2.21 To account for the revenue loss to the UK Government after the initial transfer of power, the baseline BGA is updated annually using an indexation mechanism reflecting the growth in the corresponding UK tax revenue.

2.22 The Governments agreed to apply two indexation mechanisms to track the growth in UK Government tax receipts – the Comparable Model (CM)[9] and the Indexed Per Capita (IPC) method. The Fiscal Framework states that, over the period to 2020/21, the indexation mechanism will be based on the Comparable Model (CM), but then reconciled to the Indexed Per Capita (IPC) method. In practice, it is therefore the IPC method which determines the Block Grant Adjustment, at least until 2021 when the Fiscal Framework will be reviewed.

2.23 Using IPC means that if corresponding UK Government tax revenues per head grow at the same rate as Scotland's, the Scottish Budget will be no better or worse off than before devolution.

2.24 Using IPC therefore achieves the Smith Commission's principle of no detriment - if Scotland's economic performance and tax policy matches the rest of the UK, the Scottish Budget will be the same as under the previous arrangements.

2.25 Both the revenue being added to the Scottish Government's Budget and the figures being deducted through the Block Grant Adjustment are based on forecasts at the time the Budget is set. As of 2018-19, the Scottish Government uses the Scottish Fiscal Commission's[10] forecasts for revenues. For the Block Grant Adjustments, HMT use the forecasts of the Office for Budget Responsibility (OBR).[11]

2.26 As revenue and Block Grant Adjustments are based on forecasts, these figures need to be 'reconciled' once tax outturn data is available. This is considered in detail in the next chapter. The box below illustrates how BGAs are calculated using 2017-18 LBTT as an example.

Example - BGA calculation for *Land and Buildings Transaction Tax* in 2017-18

For 2017-18, the deduction from the Scottish Government's Block Grant was set in November 2016 based on the OBR forecast of growth in UK Government Stamp Duty Land Tax receipts at the UK Autumn Statement 2016. This was calculated in three steps:

Step One – Baseline Value – The Fiscal Framework agreed that the baseline value would be 2014-15 Stamp Duty Land Tax receipts in Scotland – in other words, what was being raised in Scotland the year before LBTT began operating in Scotland. The OBR's forecast for 2014-15 tax receipts in Scotland at the Autumn Statement 2016 was **£468 million**.[12]

Step Two – Revenue Growth – This baseline adjustment is then indexed annually using growth in equivalent UK Government tax receipts. UK Government Stamp Duty Land Tax receipts grew by **4.2%** between 2014-15 and 2015-16, **4.0%**

[9] The Comparable Model is calculated based on Scotland's population share of the cash change in corresponding UKG receipts and multiplied by a comparability factor.
[10] http://www.fiscalcommission.scot/
[11] http://obr.uk/
[12] The baseline for Stamp Duty Land Tax was reduced by £20 million to account for the forestalling estimated to have occurred before the tax devolved to Scottish Parliament.

between 2015-16 and 2016-17, and were forecast to grow by **8.6%** between 2016-17 and 2017-18.

Step Three – Relative Population Growth – Finally, the BGA also factors in the relative difference in population growth between Scotland and the rest of the UK. A figure of **99.7%** was used for each of the years from 2015-16 to 2017-18.

Taking into account the baseline value, growth in UK Government Stamp Duty Land Tax receipts, and relative difference in population growth, the Block Grant Adjustment for LBTT was **£486 million** in 2015-16, **£504 million** in 2016-17, and **£545 million** in 2017-18, as is set out in the table below.

TABLE 2.1 – LBTT BGA CALCULATION*

	2014-15 (YEAR 0)	2015-16 (YEAR 1)	2016-17 (YEAR 2)	2017-18 (YEAR 3)
Step 1 - Initial baseline value				
Scottish receipts (£m)	468			
Step 2 - Indexation				
rUK receipts (£m)	10,251	10,682	11,113	12,069
% growth in UKG receipts		**4.2%**	**4.0%**	**8.6%**
Step 3 – Adjustment for relative difference in population growth				
rUK population (thousand)	59,249	59,737	60,229	60,725
Scottish population (thousand)	5,348	5,373	5,399	5,424
Relative Scottish/rUK population growth		**99.7%**	**99.7%**	**99.7%**
BGA				
2017-18 BGA (£m)		**486**	**504**	**545**

*Figures may not sum due to rounding.

Expressed otherwise, the calculation for each year is as follows:

<u>2015-16 BGA</u>

£468 million x 1.042 x 0.997 = £486 million

<u>2016-17 BGA</u>

£486 million x 1.040 x 0.997 = £504 million

<u>2017-18 BGA</u>

£504 million x 1.086 x 0.997 = £545 million

£545 million was therefore deducted from the Scottish Government's 2017-18 Budget to reflect the UK Government's revenue loss from devolving LBTT to Scotland.

3 Reconciliations for Income Tax and Fully Devolved Taxes

3.1 At the time of each budget both revenues and BGAs are forecast. These forecasts are reconciled to the outturn data when that becomes available so that the funding available to the Scottish Government ultimately corresponds to actual revenues and BGAs. This chapter describes the timelines for reconciliations, how they work in practice, and what the impact of reconciliations will be on the Scottish Government's Budget. It covers income tax, and the fully devolved taxes (Land and Buildings Transaction Tax and Scottish Landfill Tax).

3.2 Because outturn data is available on different timescales for each of the taxes, different processes determine how income tax and the fully devolved taxes are reconciled. For fully devolved taxes and corresponding UK Government taxes, outturn data is available around six months after the end of the financial year.

3.3 For income tax, outturn data is available around fifteen months after the end of the financial year. There is a greater lag for income tax largely because self-assessment income taxpayers have around 10 months after the end of the financial year to pay any income tax due to HMRC.

3.4 Once outturn data is available, a reconciliation needs to be made in the subsequent Budget to account for the difference between forecast and outturn data Block Grant Adjustments – and in the case of income tax for differences between forecast and outturn tax revenues.[13]

Scottish Income Tax

3.5 A basic principle of income tax devolution under the current Fiscal Framework is that once forecast revenue is assigned and the corresponding BGA is made, there are no changes in the Scottish Government's funding until outturn data is available. These figures are 'locked in' to the Budget.

3.6 In practice, the amount of revenue that the Scottish Fiscal Commission forecasts[14] as part of each Budget process is added to the Scottish Government's available funding. This amount is not revisited until outturn data is available for Scottish Government income tax receipts. Likewise, for the Block Grant Adjustments, the initial deduction for income tax is based on the OBR's forecast of growth of UK Government receipts until outturn data is available for UK Government income tax receipts.

3.7 HMRC is responsible for the collection of Scottish income tax. Outturn data for Scottish income tax and UK Government non-savings, non-dividends receipts are available around 15 months after the end of the financial year. Given this long lag of availability of outturn data, income tax revenue and Block Grant Adjustments are fixed for three years from the time the Budget is set. This means that for 2017-18, income tax revenues were forecast as part of the Budget Bill process in February 2017 and the BGA was forecast at Autumn Statement in November 2016. Outturn figures will not be available until July 2019. The outturn

[13] Revenue for the fully devolved taxes collected in-year by Revenue Scotland is already taken account of within the year. The corresponding Block Grant Adjustment is reconciled when the relevant UK outturn data for the year is available.

[14] For 2017-18, the Scottish Government was the official forecaster of Scottish income tax receipts. The independent SFC found our forecasts to be reasonable.

figures for revenues and the BGA will then be compared with forecast and reconciliations calculated, which will be applied in the 2020-21 financial year.

Reconciliation process for Income Tax

1. To determine funding for the Scottish Budget, SFC's forecasts are used for tax revenues and OBR's forecasts are used to inform the BGA, set by HMT.
2. The forecast BGA for income tax is deducted from the Scottish Government's Block Grant.
3. Forecast tax revenues are added to the Scottish Government's residual Block Grant. Effectively, the Block Grant includes the expected income tax revenue which is transferred by HMT. Revenues and BGA are fixed until outturn data is available.
4. Reconciliations are made to reflect differences between outturn and forecast figures for revenue and the BGA. When revenues increase more (or decline less) than the BGA compared to the initial forecasts, the Scottish Government has more resources available than anticipated.
5. It is this net effect of the revenue and BGA reconciliations which determines whether the Scottish Government's Budget is higher or lower than originally forecast and thereby the impact on the Budget at which the reconciliation takes place.

3.8 At this point, only the baseline value of £10,719 million that refers to 2016-17 has been established as outturn data. This represents a downward revision from the original forecast value of £11,525 million from the UK Government's Autumn Statement 2016.

3.9 The 2020-21 Budget will be the first Budget in which an income tax reconciliation will be made and this will be based on the outturn from the 2017-18 Budget. Outturn data for 2017-18 will be available in summer 2019.

3.10 Although no reconciliation is required for income tax in 2019-20, the potential scale of the reconciliation required in the 2020-21 Budget is indicated in the latest forecasts. Since the 2017-18 Budget, the forecast updates have shown a deterioration in the net budget position, which - if proved correct in the outturn - would lead to a reconciliation requirement in 2020-21 of -£267 million.[15]

3.11 This forecast is uncertain. It is based on an estimated baseline, and subject to forecast error, a point highlighted in the SFC's Forecast Evaluation Report[16], published on 5 September. The SFC report notes that the current estimate for GDP growth in 2017-18 is 1.3 per cent, whereas it had forecast it to be 0.7 per cent. It goes on to illustrate that – taking this impact in isolation – the under-estimate of economic growth had taken £188 million off its income tax forecast for 2017-18. On this basis, the reduction in revenues would be £203 million rather than the £391 million estimated for *Scotland's Fiscal Outlook* shown in the table below – and the estimated reconciliation requirement -£79 million rather than -

[15] Latest forecasts presented in the Medium Term Financial Strategy, https://www.gov.scot/Publications/2018/05/1497/downloads
[16] http://www.fiscalcommission.scot/publications/forecast-evaluation-reports/forecast-evaluation-report-september-2018/

£267 million. The SFC report notes that this illustrative position does not take into account lower than expected outturn figures for 2016-17 income tax revenues.

3.12 The forecasts that will be available at the time of the Budget will take into account the outturn baseline and provide a more up-to-date guide to the reconciliation that is to be expected. The Scotland Reserve provides a mechanism to anticipate future budget pressures in the 2019-20 Budget.

TABLE 3.1 – INCOME TAX LATEST FORECASTS COMPARED WITH 2017-18 BUDGET FORECASTS (£ MILLION)

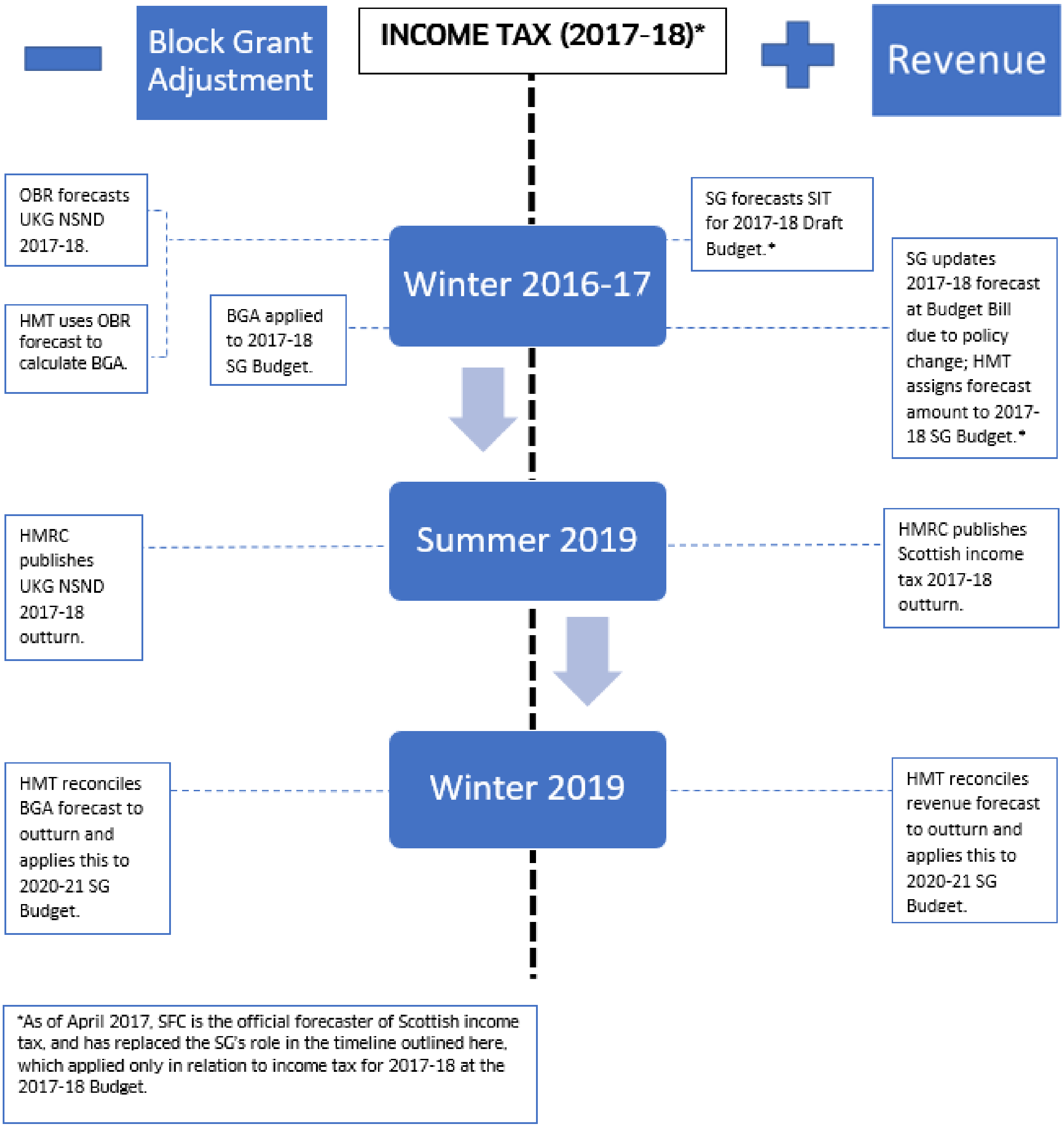
	Revenues	BGA	Net Budget position
Forecast as of Budget Act 2017	11,857	11,750	107
Latest forecast (*Scotland's Fiscal Outlook*)	11,467	11,626	-159
Latest forecast against Budget Act 2017	-391	-124	**-267**

*Figures may not sum due to rounding.

3.13 Both Scottish income tax revenue and BGA are lower in the most recent forecasts than in the Budget 2017-18 forecast. As long as Scottish and UK income taxes develop in the same direction, the Fiscal Framework reduces the volatility caused by forecast revisions.

3.14 A timeline outlining the income tax reconciliation process for the 2017-18 Budget – which will become relevant for the 2020-21 Budget - is shown overleaf.

FIGURE 3.1 - TIMELINE FOR INCOME TAX RECONCILIATION



Fully Devolved Taxes

3.15 This section focuses on the operation of the fully devolved taxes in the 2017-18 financial year. It sets out forecasts and outturn[17] for both tax revenues and BGAs, and highlights the reconciliations already made in the 2018-19 Budget and the remaining reconciliation required in the 2019-20 Budget.

Reconciliation process for LBTT AND SLfT

1. In advance of the forthcoming financial year, SFC's forecasts are used for tax revenues and OBR's forecasts are used to inform the BGA, set by HMT.
2. The forecast BGA for each tax is deducted from the Scottish Government's Block Grant for the forthcoming financial year.
3. Revenue Scotland collects revenues over that financial year.
4. Block Grant Adjustments are updated twice. The first update is made within that financial year at the UK Budget, on the basis of the most recent OBR forecasts. Once outturn data is available in the following financial year, a final reconciliation is applied to the Scottish Government's Block Grant for the financial year thereafter (i.e. two years after the year to which the revenues relate).
5. Whether the Scottish Budget is in a better position at outturn than as originally forecast depends on both: i) how outturn revenues compare with forecast, and ii) how the outturn BGA compares with forecast. For both fully devolved taxes the net outturn position has improved compared to the 2017-18 budget forecast.

Treatment of Revenues

3.16 For the fully devolved taxes, the Scottish Government manages the impact of any variation in actual receipts against the forecast in year as part of the overall annual Budget management process.

3.17 For the Budget Act 2017, LBTT was forecast to raise £507 million. Outturn revenues as of September 2018 were £557 million, £50 million more than the original forecast.

TABLE 3.2 – LBTT OUTTURN REVENUES FOR 2017-18 COMPARED WITH FORECASTS (£ MILLION)	
Forecast revenues as of Budget Act 2017	507
Outturn as of September 2018	557
Difference	+50

[17] This reports uses 2017-18 outturn data for the Fully Devolved Taxes which will be published as part of Revenue Scotland's Annual Accounts in October 2018.

3.18 For the Budget Act 2017, SLfT was forecast to raise £149 million. Outturn revenues as of September 2018 were £148 million, £1 million lower than originally forecast.

TABLE 3.3 – SLFT OUTTURN REVENUES FOR 2017-18 COMPARED WITH FORECASTS (£ MILLION)

Forecast revenues as of Budget Act 2017	149
Outturn as of September 2018	148
Difference	-1

3.19 The combined surplus for the two taxes compared to original forecasts (50 million for LBTT, -£1 million for SLfT) has been added to the Scotland Reserve.

In-year BGA update and reconciliation figures

3.20 The Block Grant Adjustments are changed twice. The first change takes place during the same financial year at the UK Autumn Budget to reflect latest forecasts of corresponding UK Government tax receipts, and is managed as part of in-year budget management. The second change takes place in the following financial year once outturn data for corresponding UK Government tax revenues is available and a final reconciliation is applied to the Scottish Government's Block Grant for the financial year two years after the year to which the revenues relate. Where the Block Grant Adjustment is higher than forecast, the Scottish Government's Budget is reduced, and vice versa.[18]

3.21 Changing the BGAs in this way means that the Scottish Government is shielded from Budget volatility as long as BGAs move in the same direction as tax revenues during the financial year.

3.22 The section below shows the reconciliations which will be made at the UK Autumn Budget.

3.23 For the Budget Act 2017, the BGA for LBTT was forecast to be £545 million. As of Budget Act 2018, the estimated BGA had risen to £591 million, £46 million above the original forecast. To account for this, £46 million was deducted from the Scottish Government's Block Grant for 2017-18 in the 2018-19 Budget.

3.24 The outturn BGA is £584 million, £7 million below the forecast BGA as of Budget Act 2018. £7 million will therefore be added to the Scottish Government's Block Grant for 2019-20.

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[18] Block Grant Adjustments for social security will work to similar timescales and principles as the fully devolved tax Block Grant Adjustments. This is because payments for social security benefits will be made 'in-year' in the same way the fully devolved taxes will be collected in-year. The one key difference is that the social security Block Grant Adjustments will be additions to the Block Grant, rather than deductions.

TABLE 3.4 – OUTTURN LBTT BGA FOR 2017-18 COMPARED WITH FORECASTS (£ MILLION)

Forecast BGA	At Budget Act 2017	545
	At Budget Act 2018	591
Outturn BGA	Calculated using HMRC July 2018 Tax Receipts Publication	584
In-year update	Applied to Block Grant for 2017-18	-46
Reconciliation	To be applied to Block Grant for 2019-20	**+7**

3.25 As of Budget Act 2017, the BGA for SLfT was forecast to be £119 million. As of Budget Act 2018, the estimated BGA had fallen to £104 million, £15 million below the original forecast. To account for this, £15 million was added to the Scottish Government's Block Grant for 2017-18.

3.26 The outturn BGA is £113 million, £9 million below the forecast BGA as of Budget Act 2018. £9 million will therefore be deducted from the Scottish Government's Block Grant for 2019-20.

TABLE 3.5 – SLFT OUTTURN BGA FOR 2017-18 COMPARED WITH FORECASTS (£ MILLION)

Forecast BGA	At Budget Act 2017	119
	At Budget Act 2018	104
Outturn BGA	Calculated using HMRC July 2018 Tax Receipts Publication	113
In-year update	Applied to Block Grant for 2017-18	15
Reconciliation	To be applied to Block Grant for 2019-20	**-9**

Reconciliations required for 2019-20 Budget

3.27 Two reconciliations will be applied to the Scottish Government's forthcoming 2019-20 Budget – one for the 2017-18 LBTT BGA and one for the 2017-18 SLfT BGA. The reconciliations are outlined in the table below, with the basis of these figures set out in Tables 3.4 and 3.5 above.

TABLE 3.6 – RECONCILIATION REQUIREMENT (£ MILLION)

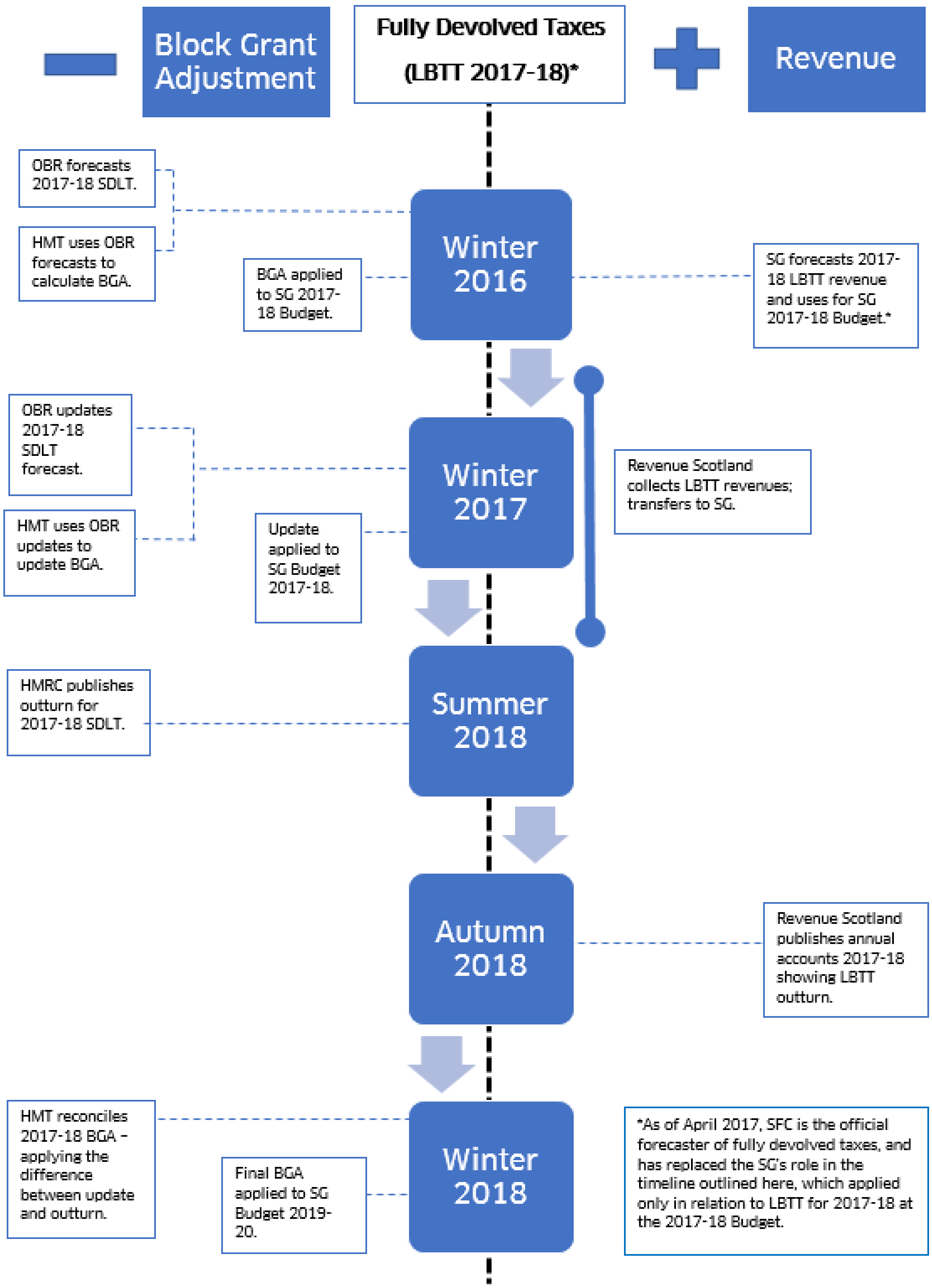
Tax	Reconciliation
LBTT (2017-18)	7
SLfT (2017-18)	-9
Total	**-2**

3.28 In total, a reconciliation of -£2 million will be applied to the Scottish Government's Block Grant for 2019-20. This means that the Scottish Government will have £2 million less available in its 2019-20 Budget. The final reconciliation will be made at the UK Autumn Budget[19].

3.29 A timeline outlining the fully devolved tax reconciliation process for 2017-18 can be found below. This is for LBTT – the process for SLfT is very similar.

[19] As well as this reconciliation, the UK Autumn Budget will determine the 2019-20 Block Grant on the basis of the UK Government's spending decisions as well as the BGAs that will be applied to the 2019-20 Block Grant. The BGAs are derived from the OBR forecast that are produced for the Budget. Additionally, the OBR forecast for the UK Autumn Budget will provide the basis for the BGA update of the fully devolved taxes for the tax year 2018-19, which will be managed by the Scottish Government within the current tax year.

FIGURE 3.2 - TIMELINE FOR DEVOLVED TAX RECONCILIATION



Net Budget Position

3.30 The net Budget position for individual taxes compares devolved revenues with Block Grant deductions. If the net position is positive, the Scottish Government raises more in devolved taxes than it loses in the corresponding Block Grant Adjustment. For this report only the net Budget positions for the fully devolved taxes are shown since there is no net Budget position to report for income tax, only the 2016-17 baseline value which has a zero net Budget impact.

3.31 For the Budget Act 2017, the forecasts suggested that LBTT revenues would be £38 million less than the Block Grant Adjustment. Outturn revenues were £27 million less than the Block Grant Adjustment, an £11 million improvement on the Budget Act 2017 position.

TABLE 3.7 – LBTT BUDGET POSITION FOR 2017-18 COMPARED WITH FORECASTS (£ MILLION)

	Revenues	BGA	Net Budget position
Forecast as of Budget Act 2017	507	545	-38
Outturn	557	584	-27
Outturn against forecast	+50	+39	**+11**

3.32 Forecasts suggested that SLfT revenues would be £30 million more than the Block Grant Adjustment for the Budget Act 2017. Outturn revenues were £35 million more than the provisional Block Grant Adjustment, a £5 million improvement on the Budget Act 2017 position.

TABLE 3.8 – SLFT BUDGET POSITION FOR 2017-18 COMPARED WITH FORECASTS (£ MILLION)

	Revenues	BGA	Net Budget position
Forecast as of Budget Act 2017	149	119	30
Outturn	148	113	35
Outturn against forecast	-1	-6	**+5**

3.33 As we can see in the tables above, the net Budget impact of the two devolved taxes at the Budget Act 2017 was -£8 million combined (=£30 million-£38 million). The outturn data shows an improvement. The net Budget position is +£8 million (=£35 million-£27 million) for the two taxes combined – an improvement of +£16 million (=£11 million+£5 million). The Scottish Government raised £49 million more in fully devolved taxes than anticipated but its BGA only increased by £33 million.

3.34 Overall, the net effect of the adjustments in taxes and BGAs is +£16 million. Any extra tax revenue has been collected but so far the BGAs have only been increased by £31 million, leaving another £2 million increase to be reconciled as explained in the previous section.

3.35 The comparison between forecast and outturn numbers shows that for these two taxes the revision in the net outturn position is smaller than either the revision of the total revenue or the total BGA position. The combination of revenue and BGA has reduced budget volatility because Scottish and UK revenue changed in the same direction from forecast to outturn.

4 Scotland Reserve

4.1 The Scotland Act 2016 replaced a previous power under the Scotland Act 2012 (to operate a limited cash reserve) and the HMT rules on the Budget Exchange Mechanism with a new Scotland Reserve. This allows the Scottish Government to build up funds when devolved revenues are higher than forecast, smooth all types of spending (including carrying-forward underspends), assist the management of tax volatility and determine the timing of expenditure. The Scotland Reserve applied from 2017-18 onwards and is split between resource and capital.

4.2 The Reserve is capped at £700 million, or only 2.2 per cent of the total Scottish Budget in 2018-19. Annual drawdowns from the Reserve are limited to £250 million for resource and £100 million for capital.

Operation of the Scotland Reserve

4.3 The opening balance in the Scotland Reserve at the start of 2017-18 was £74 million. The closing balance on the Reserve for 2017-18 is £527 million, as reported in the provisional outturn statement to the Scottish Parliament in June 2018.

4.4 The Cabinet Secretary for Finance's Ministerial Statement on the provisional Budget outturn for the 2017-18 financial year noted that the currently expected drawdown from the Scotland Reserve in 2018-19 is £335 million (resource and capital). £235 million of this is accounted for by underspend from the previous financial year. The remaining £100 million comprises Scotland Act 2016 Implementation funding provided by HMT in 2017-18 which was previously expected to be provided in 2018-19.

4.5 On the basis of planned drawdowns outlined at provisional outturn 2018, the residual balance of the Scotland Reserve is £192 million. An update on the reserve position, including the changes from the confirmation of final outturn against the 2017-18 budget will be provided as part of the 2018-19 Spring Budget Revision.

4.6 As noted above, the Scotland Reserve is the mechanism by which any underspend in the Scottish Budget can be carried forward to be used in a subsequent financial year. In recent years, with very tight financial management, underspend has been low, less than 1 per cent of the total discretionary Budget. Even so, managing money across financial years is likely to use up a substantial proportion of the £250 million resource and £100 million capital limits. This restricts the Scottish Government's ability to draw down from any reserve that is built up.

4.7 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.

TABLE 4.1 – SCOTLAND RESERVE BALANCE(£MILLION)

	Resource	Capital	Total
Scotland Reserve			
2017-18 Opening Balance	74	-	**74**
2017-18 Additions to reserve	358	95	**453**
2017-18 Closing Balance (Provisional)	**432**	**95**	**527**
2018-19 Planned Drawdowns			
To support 2018-19 spending plans	(238)	(97)	**(335)**
Resource to capital switch	(2)	2	-
Residual Balance Available (Provisional)	**192**	**-**	**192**
Additions to reserve were made up of:			
Scotland Act 2016 Implementation Funding	100	-	**100**
2017-18 LBTT outturn	50	-	**50**
2017-18 SLfT outturn	(2)	-	**(2)**
2017-18 Penalties and Interest on devolved taxes	2	-	**2**
2017-18 Liberty House Guarantee Fee Income	2	-	**2**
2017-18 Planned Underspend to support 2018-19 spending plans	140	95	**235**
2017-18 Additional Uncommitted Underspend	66	-	**66**
Additions to reserve	**358**	**95**	**453**

Notes on Table 4.1:

1. The figures for additions to the reserve are the provisional outturn figures as reported to Parliament in June 2018. Table 3.3 shows that outturn revenues for SLfT were £1m less than the forecast at the Budget Act 2017. This was an improvement of £1m against the position reported to Parliament in June and outlined in the table above.
2. The Scottish Fiscal Commission (SFC) in their May Forecast published a figure for the anticipated additions to the reserve of £377 million. The additional £76 million reported here represents additional emerging underspend as the provisional outturn position was finalised.
3. The planned drawdown reflects the aggregate of additional spending commitments set out in the 2018-19 budget intended to be funded from the Reserve. The planned drawdown has increased by £29 million from the equivalent figure quoted in the SFC in the May Forecast. There was not sufficient Capital carry forward to fully fund these spending commitments at that time.
4. Liberty House Group paid a fee of £2 million in 2017-18 to secure a Scottish Government guarantee with respect to a power purchase agreement between the hydro plant and aluminium smelter at Lochaber. The total discounted value of all premiums due to the Scottish Government in respect of this guarantee is £18.7 million. Fee income is placed in the reserve to support funding of any future calls under the guarantee.

5 Borrowing

5.1 The Scotland Act 2012 gave the Scottish Government power to borrow from the National Loans Fund, through the issue of bonds, or through commercial loans (directly from a bank or other lender). Resource borrowing can only be funded from the National Loans Fund (NLF), whereas capital borrowing can be funded from the NLF, commercial loans or the issue of bonds subject to a statutory aggregate cap and an annual limit. The Scottish Fiscal Commission is required to assess the reasonableness of Scottish Ministers borrowing projections and does so at each fiscal event.

Capital Borrowing

5.2 Capital borrowing allows the Scottish Government to fund capital projects, for example to invest in schools, roads and hospitals.

TABLE 5.1 – CAPITAL BORROWING

Statutory Limit	£3,000 million
Annual Limit	£450 million
Repayment Period	Normally 10 years, but where the lives of the assets being purchased through the loan justify longer or shorter terms, these can be agreed.
Source	NLF, Commercial Loan, Bonds

5.3 The Scottish Government agreed a notional borrowing arrangement with HM Treasury in 2015-16 and 2016-17 as part of managing the budgetary impact of Office for National Statistics classification decisions on a number of Non-Profit Distributing (NPD) projects, including the Aberdeen Western Peripheral Route. The amounts recorded against borrowing limits for those years are notionally repaid over 30 years (linked to the life of the underlying NPD contracts). This notional borrowing arrangement counts towards the overall capital borrowing cap, but does not have a cash impact on the Scottish Budget.

5.4 The Scottish Government borrowed £450 million in 2017-18, the maximum allowed within the Fiscal Framework limits. The borrowing was drawn down from the National Loans Fund on 08/03/2018 over 25 years on an annuity repayment profile with a fixed interest rate of 1.90%.

5.5 In total, the Scottish Government will have accumulated £1,459 million of capital debt by the end of 2018-19, well within its overall £3 billion limit. For 2018-19, final decisions on the source of capital borrowing, repayment period and method will be taken during the financial year. The evolution of the debt stock and future repayment obligations are shown in table 5.2.

TABLE 5.2 - SCOTTISH GOVERNMENT CAPITAL BORROWING AND REPAYMENTS (£ MILLION)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Borrowing	283	333	450	450		-	-	-	-
Notional Repayment on 2015-16 borrowing	-	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4
Notional Repayment on 2016-17 borrowing	-	-	11.1	11.1	11.1	11.1	11.1	11.1	11.1
Repayment on 2017-18 borrowing	-	-	-	7.1	14.3	14.6	14.9	15.2	15.5
Repayment on 2018-19 borrowing	-	-	-	-	7.1	14.3	14.6	14.9	15.2
Total Repayments	-	9.4	20.5	27.6	41.9	49.4	50	50.6	51.2
Repayment period for borrowing (years)	30	30	25	25	-	-	-	-	-
Debt Stock	283	607	1,036	1,459	1,417	1,368	1,318	1,267	1,216
Debt stock as a percentage of debt cap	9%	20%	35%	49%	47%	46%	44%	42%	41%

Resource Borrowing

5.6 The Scottish Government has the power to borrow for resource spending for the following reasons:

- In-year cash management.
- Forecast error in relation to devolved and assigned taxes and devolved social security expenditure arising from forecasts of Scottish receipts/expenditure and corresponding UK forecasts for the Block Grant Adjustments.
- Any observed or forecast shortfall in devolved or assigned tax receipts or devolved social security expenditure incurred where there is, or is forecast to be, a Scotland-specific economic shock. This is defined as annual GDP growth of below one per cent and GDP growth in Scotland one percentage point below GDP growth in the UK. A forecast economic shock would depend on the Scottish Fiscal Commission forecast of Scottish GDP compared to the OBR's forecast of UK GDP and is assessed on a rolling 4-quarter basis.

TABLE 5.3 – RESOURCE BORROWING	
Statutory Limit	£1,750 million
Annual Limit	£600 million of which: • £500 million for in-year cash management (increases to £600 million in Scotland-specific shock) • £300 million for forecast error (increases to £600 million in Scotland-specific shock)
Repayment Period	3 to 5 years
Source	NLF

5.7 The Scottish Government has not used resource borrowing powers to date. The resource borrowing power is deliberately restricted to very specific circumstances and does not detract from the fundamental requirement for a balanced Scottish Budget each financial year.

5.8 The Scottish Government could invoke its resource borrowing powers for a net Budget shortfall to the extent that the outturn net Budget position falls below the forecast for each tax. Current estimates of this were outlined in Chapter 3. The Scottish Government will make a decision on whether and how to use this borrowing power based on the overall Budget situation.

5.9 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. [20]

Future Borrowing

5.10 For 2018-19 final decisions on the source of capital borrowing, repayment period and method will be taken during the financial year.

5.11 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 5% of the total annual Budget available. The commitments included in the 5% calculation are the Scottish Government's share of the ongoing costs of: previous PPP contracts that are now operational, the current Non Profit Distributing (NPD) and hub programmes, rail investment (financed via the Regulatory Asset Base – RAB) and the costs of borrowing.

[20] If a shock were triggered, the Scottish Government would be able to borrow for any shortfall in outturn revenues, even if they relate to financial years prior to the shock period. For example, if a shock were triggered based on 2019-20 GDP data, the Scottish Government would be allowed to borrow to cover a shortfalls in both 2018-19 and 2017-18 tax revenues. It would not have to wait until outturn data for 19-20 revenues were available to use the economic shock borrowing provisions.

5.12 In their report, “Scotland’s Economic and Fiscal Forecast”, published in May, the Scottish Fiscal Commission judged the Government’s projections of capital borrowing as reasonable and as compliant with the terms set out in the Fiscal Framework.

6 Conclusion

6.1 In summary, the following points are relevant for budget considerations:

- It is estimated that a downward reconciliation of £2 million will be made to the 2019-20 Budget in relation to the fully devolved taxes.
- Only a baseline value has been established for income tax and the 2020-21 Budget will be the first Scottish Budget in which an income tax reconciliation will have to be made, relating to income tax for 2017-18.
- The potential scale of the reconciliation required in the 2020-21 Budget is uncertain, but is indicated in the latest forecasts. Since the 2017-18 Budget, the forecast updates have shown a deterioration in the net budget position, which - if proved correct in the outturn - would lead to a reconciliation requirement in 2020-21 of -£267 million. This forecast is based on an estimated baseline, and subject to forecast error. The SFC's Forecast Evaluation Report highlights that an under-estimate of 2017-18 GDP growth had – considered in isolation – taken £188 million off its income tax forecast for 2017-18, which would reduce the estimated reconciliation requirement from -£267 million to -£79 million. The forecasts that will be available at the time of the Budget will provide a more up-to-date estimate of the reconciliation that is to be expected.
- The residual balance of the Scotland Reserve is £192 million, on the basis of planned drawdowns outlined at provisional outturn 2018.
- The Scottish Government has accumulated £1,459 million of capital debt, well within its overall £3 billion limit. This means that the Scottish Government could make full use of the £450 million annual drawdown limit in 2019-20 should it decide to do so. No resource borrowing has been undertaken.

6.2 Comparing the outturn to the position that was forecast at the 2017-18 Scottish Budget (including the latest estimate for income tax) one can see that revenue and BGAs have moved in the same direction (both increased or both decreased) for each tax.

6.3 In line with the recommendations of the Budget Process Review Group, the next Fiscal Framework Outturn Report will be published in September 2019.

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

Annex A: Fiscal Impact of 2015-16 and 2016-17 Devolved Revenues

This Annex provides a summary of the historic performance of devolved revenues in 2015-16 and 2016-17. Both 2015-16 and 2016-17 Budgets were set before the Fiscal Framework was agreed in February 2016. There was no permanent mechanism for annually adjusting the Block Grant in respect of the devolved revenues. This is why both 2015-16 and 2016-17 Block Grant Adjustments (BGA) were subject to interim agreements, as detailed below.

2015-16

In 2015-16, two devolved taxes were in operation for the first time: Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT). The Scottish Government forecast these taxes and the Scottish Fiscal Commission assessed the reasonableness of the forecasts.

For the Block Grant Adjustment, as the Fiscal Framework agreement had not yet been agreed, a specific one-year agreement was reached with the UK Government for 2015-16 in January 2015. It was agreed that a Block Grant Adjustment of £494 million would be applied to the Scottish Government's 2015-16 Budget. This figure was based on a comparison of forecasts prepared by the Office for Budget Responsibility (OBR) and by the Scottish Government of receipts that would have been expected from SDLT and from UK Landfill Tax in Scotland in 2015-16.

As this covered both LBTT and SLfT, no figures were agreed for the individual taxes. It was agreed that this figure would not be revisited. There is no reconciliation to outturn for this BGA. The table below sets out the outturn budget position compared with the original forecasts:

TABLE A.1 –BUDGET POSITION FOR LBTT AND SLFT 2015-16 COMPARED WITH FORECASTS (£ MILLION)

	Revenues	BGA	Net Budget position
Forecast as of Budget Act 2015	**498**	**494**	**+4**
Comprising			
LBTT	*381*		
SLfT	*117*		
Outturn	**572**	**494**	**+78**
Comprising			
LBTT	*425*		
SLfT	*147*		
Outturn against forecast	**+74**	**0**	**+74**

As we can see in the tables above, the net Budget impact of the two devolved taxes at the Budget Act 2015 was +£4 million. On outturn, the net Budget position was +£78 million for the two taxes combined – an improvement of £74 million.

The Scottish Government therefore raised £74 million more in fully devolved tax revenue than anticipated in 2015-16. These surplus tax revenues were deposited into the Scottish Government's Cash Reserve (now Scotland Reserve).

2016-17

In 2016-17, three devolved taxes were in operation: Scottish Rate of Income Tax (SRIT), Land and Buildings Transaction Tax and Scottish Landfill Tax. The Scottish Government continued to forecast LBTT and SLfT. The Office of Budget Responsibility forecast SRIT revenues.

Scottish Rate of Income Tax

As part of the transitional arrangements for SRIT, it was agreed there would be no reconciliation of forecasts to outturn for tax revenues or BGA for the first year of operation of the SRIT.

The OBR forecast that SRIT would raise £4,900 million in 2016-17 at Autumn Statement 2015 and this figure was used for both the BGA and forecast revenues.

Outturn data is now available for 2016-17 SRIT Revenues – £4,350 million. Because of the prior agreement that there would be no reconciliation for either SRIT revenues or the BGA, the Scottish Government's spending power was not affected by the difference between forecast or actual revenues/BGA for 2016-17 SRIT.

Land and Buildings Transaction Tax/ Scottish Landfill Tax

For 2016-17, the Scottish Government forecast revenues of £671 million from the two fully devolved taxes in operation. The Scottish Fiscal Commission considered these forecasts reasonable.

For the BGA, as the Fiscal Framework had not been agreed, the Scottish and UK Governments agreed a provisional one-year BGA of £600 million for 2016-17 covering both LBTT and SLfT. The Governments agreed that this BGA would be reconciled once was outturn was available.

TABLE A.2 – BUDGET POSITION FOR LBTT AND SLFT 2016-17 COMPARED WITH FORECASTS (£ MILLION)

	Revenues	BGA	Net Budget position
Forecast as of Budget Act 2015	**671**	**600**	**+71**
Comprising			
LBTT	*538*		
SLfT	*133*		
Outturn	**633**	**665**	**-32**
Comprising			
LBTT	*484*	534	-50
SLfT	*149*	131	+18
Outturn against forecast	**-38**	**+65**	**-103**

The net Budget impact of the two devolved taxes at the Budget Act 2016 was +£71 million. On outturn, the net Budget position was -£32 million for the two taxes – a deterioration of £103 million compared to the forecast position.

The Scottish Government managed the £103 million deterioration over two years. The £38 million shortfall of revenues arose within 2016-17, as the Scottish Government receives fully devolved receipts during the financial year. As a result, this was managed within the year as part of the overall budget management strategy through a combination of offsetting underspends carried forward from previous years and in-year emerging underspends.

The £65 million increase in the Block Grant Adjustment was applied at the UK Autumn Budget 2017 after HMRC outturn data was published. This BGA was therefore dealt with separately as part of the management of the 2017-18 Budget. Given that forecasts at both Autumn Statement 2016 and Spring Budget 2017 that the BGA would be higher than £600 million, the Scottish Government foresaw a negative reconciliation and anticipated this in its budget management strategy.

The deterioration of the 2016-17 Budget position was therefore carefully managed within our established in-year budget management processes over more than one year without recourse to the Scotland Reserve, resource borrowing or any in-year cuts to portfolio budgets.

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This publication is available at **www.gov.scot**

Any enquiries regarding this publication should be sent to us at
The Scottish Government
St Andrew's House
Edinburgh
EH1 3DG

ISBN: 978-1-78781-189-8 (web only)

Published by The Scottish Government, September 2018

Produced for The Scottish Government by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA
PPDAS460506 (09/18)