Scottish Fiscal Commission

Forecast Evaluation Report

August 2024

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ISBN: 978-1-911637-70-7

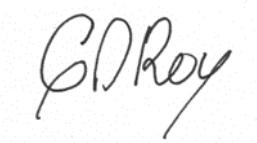
Published by the Scottish Fiscal Commission, August 2024

Laying number: SFC/2024/3

Foreword

Our forecasts play a central role in setting the Scottish Government's Budget. It is therefore important for us to ensure our forecasts are as reliable as possible. To do this we routinely evaluate our previous forecasts to identify improvements we can make for future forecasts. In this report we have evaluated our December 2022 forecasts for the economy, fully devolved taxes, and social security expenditure in 2023-24 and our December 2021 forecast for Scottish income tax revenue in 2022-23.

We would like to thank everyone who has contributed to this report, in particular those data providers who have worked hard to ensure we have the information we need. This includes the Scottish Government, Revenue Scotland, Social Security Scotland, the Department for Work and Pensions, HM Revenue and Customs, and the Office for Budget Responsibility.



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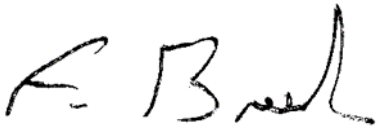

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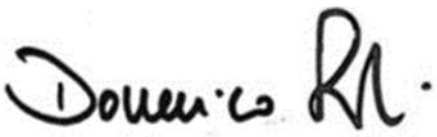

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27 August 2024

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Summary

Introduction

1 In this Forecast Evaluation Report (FER), we evaluate our December 2022 forecasts for the economy, fully devolved taxes, and social security expenditure in 2023-24. We also evaluate our December 2021 income tax forecast for 2022-23. Alongside this report, we have published a Fiscal Update. Some of the commentary that might normally be found in our annual FER publications, such as discussions about the impact of outturn data on Scottish funding, can be found in the Fiscal Update, while this FER focusses on evaluating our forecasts. We have also published our biennial Statement of Data Needs (SDN).[1][2]

2 Our forecasts for 2023-24 were produced during a period of high inflation driven by the Russian invasion of Ukraine and interest rates rising to levels we had not seen since before the 2008-09 Global Financial Crisis, contributing to high levels of uncertainty and leading to greater volatility. Given these factors, we are satisfied with the performance of our forecasts for the economy, devolved taxes, and social security in 2023-24.

3 For income tax, we evaluate our December 2021 forecast for 2022-23. This forecast was produced while there was ongoing uncertainty about the recovery from the Coronavirus (COVID-19) pandemic. It was also before the Russian invasion of Ukraine and the subsequent economic consequences, including the large rise in inflation, were known. Given the inflationary pressures and the earnings growth that followed, a large portion of this error could not have been foreseen, though there remain lessons to be learnt from this forecast error. These factors, alongside others, contributed to us underestimating income tax revenue in Scotland by 11 per cent in 2022-23.

4 Our evaluation of previous forecasts includes analysis of different sources of error, enabling us to identify areas for improvement in producing future forecasts.

Figure 1: Summary of headline evaluations

Topic	Forecast	Outturn	Error	Relative error
Economy	Per cent	Per cent	Percentage points	blank
GDP	-1.0	0.0	1.1	blank
Taxes and social security	£ million	£ million	£ million	Per cent
Income tax	13,671	15,169	1,498	11
Devolved taxes	3,928	3,886	-41	-1
Devolved social security	5,244	5,300	56	1

Source: Scottish Fiscal Commission, Scottish Government, HMRC, Revenue Scotland, Social Security Scotland.

[1] Scottish Fiscal Commission (2024) Fiscal Update - August 2024

[2] Scottish Fiscal Commission (2024) Statement of Data Needs - August 2024

Economy forecast

5 Figure 1 shows that our December 2022 forecast for 2023-24 under-forecast Scottish Gross Domestic Product (GDP) growth by 1.1 percentage points. We judge this to be a reasonable forecast error, being close to the UK historical average absolute error.

6 At the time of our December 2022 publication, the outlook for households and businesses for the year ahead was challenging because of higher inflation and higher interest rates. We forecast the level of GDP to be largely flat over 2023-24 following a shallow recession, compared to the latest outturn which shows GDP remaining broadly flat since early 2022. Nominal average earnings growth was stronger than expected, so that households' real disposable income and consumption increased in aggregate, helping the economy avoid a recession.

7 Employment growth was also higher than we forecast in December 2022. This partly reflects stronger population growth than assumed in our December 2022 forecast. It also reflects lower unemployment, consistent with the economy remaining stable instead of falling into a shallow recession.

Income tax forecast

8 Figure 1 shows that our December 2021 income tax forecast for 2022-23 was £1,498 million, or 11 per cent, lower than outturn. Compared to our assumptions at the time, we underestimated the growth of employment and earnings in Scotland for 2022-23 with inflation-driven nominal earnings growth being the largest factor in under-forecasting Scottish income tax revenue.

9 Now that we have outturn for Scottish income tax and the Block Grant Adjustment (BGA) for 2022-23, we know that there will be a £447 million provisional outturn reconciliation applied in the 2025-26 Scottish Budget. We discuss this in more detail in our Fiscal Update published alongside this Forecast Evaluation Report.[3]

Fully devolved taxes forecast

10 Outturn total revenue from the fully devolved taxes – which includes Non-Domestic Rates (NDR), Land and Buildings Transaction Tax (LBTT), and Scottish Landfill Tax (SLfT) – was not significantly different to our December 2022 forecasts for 2023-24. While the forecast error for total revenue across all fully devolved taxes was small, there were larger errors for each individual tax which offset one another.

11 We over-forecast NDR revenue by £41 million, or 1 per cent. The largest component of the error was an underestimation of the amount refunded to ratepayers after successful challenges to property valuations on the roll. Other components of the error included an overestimate of gross revenue, and an underestimate of the cost to the Scottish Government of reliefs.

[3] Scottish Fiscal Commission (2024) Fiscal Update - August 2024

12 We forecast total LBTT revenue of £774 million for 2023-24. The provisional outturn is £784 million, which is £11 million higher than we forecast giving a small relative error of 1 per cent. In the residential sector, we under-forecast transactions and growth in the average price. Where we had expected the average price to fall by around 2.1 per cent in 2023-24, it remained resilient and grew by 0.1 per cent. In part, we believe this reflects average mortgage rates not rising as quickly as we expected.

13 Our SLfT forecast was £11 million, or 14 per cent, higher than outturn. The largest component of the error was an overestimation of the amount of waste that would be produced in 2023-24, which meant less waste entered landfill than we expected.

Social security forecast

14 Total spending on devolved social security in 2023-24 was £5.3 billion. This is 1 per cent higher than our forecast of £5.2 billion. This is a slightly lower level of relative error than in previous years.

15 The volume of successful applications for disability payments was higher than expected, leading to more people receiving the payments than we forecast. This higher-than-expected demand reflected UK-wide trends across all of our disability payment forecasts. We estimate the higher demand across Child Disability Payment (CDP), Adult Disability Payment (ADP) and Pension Age Disability Payment (PADP) explains £145 million of spending above our forecasts.

16 In addition, there have been fewer people who stopped receiving payments than we expected for CDP and ADP. We think this is because fewer people had their awards ended at review. We estimate that this contributed £23 million to our forecast error.

17 While there were more people receiving CDP and ADP than we forecast, the average level of payments for new applications was lower than we expected. We estimate this effect led to the outturn for these payments being £11 million and £90 million lower than forecast, respectively.

18 For devolved payments with associated BGA funding, based on the latest estimates, we think our relative forecast error will be of a similar scale and direction to the Office for Budget Responsibility (OBR) forecast error for England and Wales. Therefore, the difference between spending on payments with a corresponding BGA and the funding received is broadly aligned with our forecasts. In December 2022, we forecast that spending on the relevant benefits would exceed the BGA funding by £194 million in 2023-24, and based on the March 2024 BGA estimates the gap is £225 million.

Historical forecast evaluation

19 For the first time we are looking back at our history of one-year ahead forecast errors since the Scottish Fiscal Commission (SFC) was established in 2017. Summary figures in each chapter present all of our previous forecasts and discuss any patterns or trends. Overall, we find that SFC forecasts have performed reasonably well, and do not appear subject to significant systematic errors.

Chapter 1
Introduction

Background

1.1 This report provides an evaluation of the SFC's recent forecasts. We publish our forecast evaluation report to:

- provide transparency about our forecasts;
- help users to understand the limitations and likely degree of accuracy of our forecasts;
- learn lessons to improve our forecasts;
- aid understanding of the effect of our forecast errors on the Scottish Budget, including reconciliations.

What is forecast error?

1.2 Forecast error is defined as the difference between the outturn and the forecast for a particular variable. Relative forecast error is the forecast error as a fraction of the forecast value.

Definition of forecast error
Error = Outturn – Forecast
Definition of relative forecast error
Relative Error = (Outturn – Forecast) / Forecast

1.3 Forecast errors are inevitable and do not necessarily mean that the forecasting method was flawed. The future cannot be known with certainty and sometimes a sound method can produce a large forecast error because of unexpected changes.

1.4 To help users understand what represents a reasonable forecast error we provide comparisons based on the OBR's forecasting record as they produce forecasts of a similar range of variables.

1.5 Our aim is to reduce our average forecast error by learning lessons from previous forecasts.

1.6 Forecasts can differ from outturn for many reasons, including:

- **Data revisions**: Sometimes, the data on which we base our forecasts is revised, or new data is released that was not previously available. This can change our understanding of historical data and our judgement on future trends.
- **Modelling errors**: We use a large number of models to create our forecasts. These generally rely on identifying trends in historical data and use a combination of the historical patterns and theory to predict how these trends will change over

time. Sometimes, we may incorrectly identify historical trends, or misjudge how a trend might change in the future.

- **Unexpected events**: Some events simply cannot be predicted in advance. The most obvious example for this year's report being the Russian invasion of Ukraine.

- **Incorrect judgements**: Forecasting relies on a large number of judgements. This is often done when there is limited evidence on which to base a forecasting decision. There are often events we know will affect our forecasts but for which we have limited information on the exact effects or timing. For example, our forecast error for Scottish Landfill Tax in 2022-23 was in part caused by an incorrect judgement of when new incineration sites would open.

- **Analytical mistakes and human error**: While we see simplicity as an asset in our models, some are necessarily large and complex. For example, our income tax model projects income tax records of thousands of individual taxpayers. With such models some relationships can be incorrectly specified which is analytical error. There can also be coding mistakes and incorrect cell referencing which is human error.

- **Changes in policy**: The Scottish or UK Governments may make changes to policies or funding after we have produced our forecasts. Social security spending in 2022-23 was affected by various decisions by the Scottish Government announced after our December 2021 forecasts were published. For example, the package of child poverty measures announced in March 2022. We cannot predict government policy in advance.

1.7 Where possible, we have tried to understand which categories have contributed to our forecast errors. However, in many cases, errors will be a result of several overlapping reasons. We may not always be able to disentangle how different factors have contributed to our overall forecast error. Nevertheless, attempting to identify the sources of forecast error is an important first step in making improvements and understanding what actions to take. For example, if we see modelling errors, we work to develop a better model. If the error was because of analytical mistakes, we would review our internal quality assurance processes.

1.8 We also compare some of our errors to measures of our historical performance. In some areas, we do not have a long forecasting record, particularly in social security where several payments are still relatively new and have changed substantially in recent years. For example, the Scottish Child Payment was not fully implemented for children under 16 until the second half of 2022-23.

1.9 Our use of the terms 'average error' and 'average absolute error' are best illustrated by example: a forecast with errors of positive 1 per cent and negative 1 per cent over the last two years would have an average error of 0 per cent, but average absolute error of 1 per cent.

1.10 We have published comprehensive forecast performance charts providing the full forecast history of the main forecasts included in this publication compared to the outturn data. We have made these charts available in the supplementary figures published on our website to accompany each chapter.

Chapter 2
Economy

Introduction

2.1 In this chapter we evaluate our December 2022 economy forecast for the year 2023-24. At the time of our December 2022 publication, the Scottish and UK economies were undergoing a period of high inflation and rising interest rates following Russia's invasion of Ukraine while still adjusting to the consequences of Brexit and the COVID-19 pandemic.

2.2 We under-forecast growth in real Gross Domestic Product (GDP) by 1.1 percentage points. We judge this to be a reasonable forecast error, being close to the UK historical average absolute error, especially given the uncertain and volatile environment in which we produced the forecast.

Gross Domestic Product

Headline forecast error

2.3 In December 2022, we forecast Scottish GDP to fall by 1.0 per cent in 2023 24 compared to the previous year. The latest outturn estimates published on 31 July 2024 show GDP was flat in 2023-24 (0.0 per cent growth), giving a forecast error of 1.1 percentage points. This is shown in Figure 2.1.

Figure 2.1: Evaluation of December 2022 forecast of GDP growth in 2023-24

Forecast (per cent)	Outturn (per cent)	Error (percentage points)	Historical average absolute error from HM Treasury and the OBR [1]
-1.0	0.0	1.1	1.4

Source: Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022, Scottish Government (2024) GDP Quarterly National Accounts: 2024 Quarter 1 (January-March), OBR (2024) Historical official forecasts database.

Figures may not sum because of rounding.

[1] Average absolute error since 1983, based on calendar-year forecasts. Average absolute error since the creation of the OBR in 2010 is 1.6 percentage points.

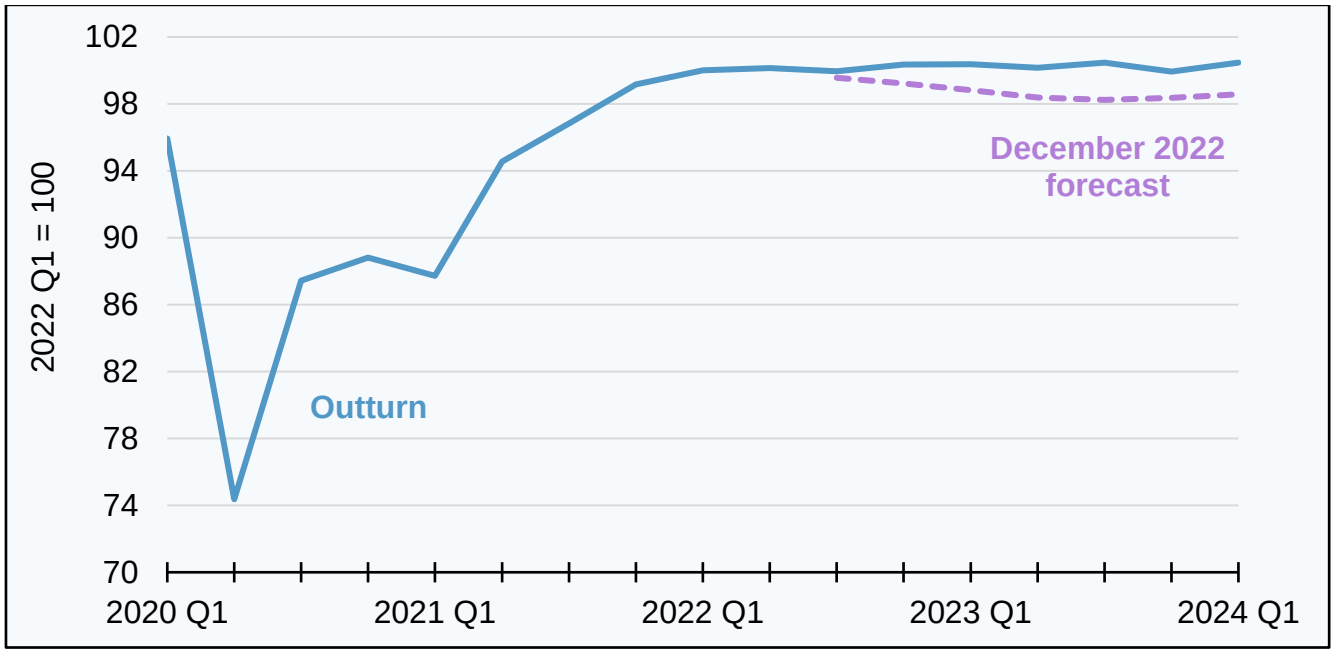
2.4 At the time of our December 2022 publication, the outlook for households and businesses for the year ahead was challenging. Inflation had reached a peak of around 11 per cent in October 2022, driven by energy and traded goods, and was expected to stay above the 2 per cent target during 2023-24. Interest rates had risen to levels not seen since before the 2008-09 Global Financial Crisis. Reflecting high inflation and high interest rates, real disposable household income was falling sharply and appeared likely to fall further in 2023-24. The data available at that time suggested the Scottish economy had already entered a shallow recession, which we expected to last six quarters until 2023 Q3.

2.5 Figure 2.2 shows that our outlook of subdued growth for 2023-24 was broadly correct. We forecast the level of GDP to be largely flat over 2023-24 following a shallow recession. The latest outturn shows GDP holding up and remaining largely flat since early 2022.

2.6 In our December 2022 publication, we explained that the precise magnitude and duration of the recession were uncertain, and that our forecast had to be seen within the context of a prolonged period of economic stagnation. Even if a recession is not present in the latest outturn, the underlying performance is still one of slow economic growth, and our forecast was broadly consistent with this picture.

Figure 2.2: Scottish GDP index, December 2022 forecast and outturn

Scotland avoided a shallow recession and GDP was slightly above our forecast



Description of Figure 2.2: Line graph showing our December 2022 forecast of GDP compared to the latest outturn. We under-forecast GDP in 2023-24 as we expected it to fall for six consecutive quarters from 2022 Q2 to 2023 Q3 whereas it remained flat since early 2022.

Source: Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022, Scottish Government (2024) GDP Quarterly National Accounts: 2024 Quarter 1 (January-March).

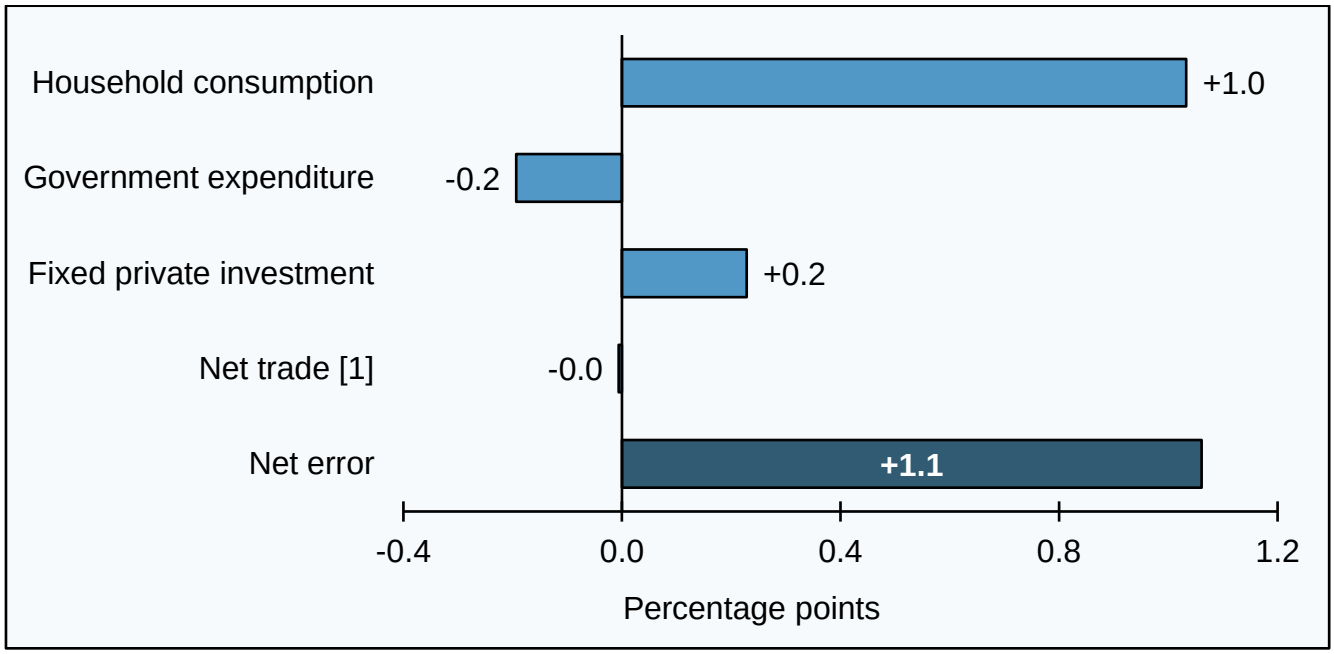
Understanding our forecast error

2.7 Figure 2.3 shows the decomposition of our December 2022 GDP forecast error for 2023-24 by components of expenditure. Household consumption, which accounts for almost two thirds of GDP, is the main driver of our GDP growth under-forecast. There are also small offsetting contributions from government expenditure and fixed private investment.

2.8 The main factor supporting household consumption in 2023-24 was that nominal average earnings growth was stronger than expected. This resulted in real disposable household income increasing in aggregate despite higher inflation and higher interest rates, helping household consumption growth remain positive.

Figure 2.3: Decomposition of December 2022 GDP forecast error for 2023-24

Under-forecast of household consumption is the main driver of our GDP forecast error



Description of Figure 2.3: Bar chart showing contributions in percentage points to the GDP error from household consumption (under-forecast by 1.0 percentage points), government expenditure (over-forecast by 0.2 percentage points), fixed private investment (under-forecast by 0.2 percentage points), and net trade including residual (over-forecast by 0.0 percentage points).

Source: Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022, Scottish Government (2024) GDP Quarterly National Accounts: 2024 Quarter 1 (January-March).

[1] 'Net trade' category includes residual factors which are: changes in inventories, including balancing adjustments; and statistical discrepancy.

Labour market

Headline forecast error

2.9 Figure 2.4 shows the error in our December 2022 forecasts of employment and nominal earnings growth for 2023-24. Employment and earnings are the most important determinants from our economy forecast as they feed into our forecast of Scottish income tax. Income tax outturn data for 2023-24 will not be available until summer 2025. In Figure 2.4 we also show a comparison to error in OBR's November 2022 forecasts, as the budget setting income tax Block Grant Adjustment (BGA) for 2023-24 was based on the OBR's November 2022 forecasts.

Figure 2.4: December 2022 forecast error in employment and nominal earnings growth for 2023-24, and comparison with the OBR

Forecast	Determinant	Forecast (per cent)	Outturn (per cent) [1]	Error (percentage points)
SFC December 2022	Employment (RTI-based)	-0.5	1.2	1.7
SFC December 2022	Average earnings	4.1	6.0	1.9
SFC December 2022	Total earnings	3.6	7.5	3.9
OBR November 2022	Employment (LFS-based)	-0.1	0.3	0.4
OBR November 2022	Average earnings	3.5	6.5	3.0
OBR November 2022	Total earnings	3.3	6.7	3.4

Source: Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022, Scottish Government (2024) GDP Quarterly National Accounts: 2024 Quarter 1 (January-March), ONS (2024) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted – July 2024, OBR (2022) Economic and fiscal outlook – November 2022, OBR (2024) Economic and fiscal outlook – March 2024.

Figures may not sum because of rounding.

[1] For the OBR, outturn data is as available at last forecast (OBR March 2024). For the SFC, outturn data is as available at time of this publication, and published in the economy supplementary figures accompanying this report.

Our source for total earnings (wages and salaries) is the Quarterly National Accounts for Scotland (QNAS). Our measure of employees is based on Real Time Information (RTI); this, together with an assumption about self-employment based on the Annual Population Survey (APS), gives our measure of employment. Average earnings are equal to QNAS total earnings divided by employees. Earnings growth rates based on QNAS may differ from those based on RTI pay data.

Understanding our forecast error for employment

2.10 Figure 2.4 shows that we under-forecast Scottish employment growth in 2023-24 by 1.7 percentage points, compared to the OBR's under-forecast of 0.4 percentage points for UK employment growth.

2.11 While our and the OBR's employment growth forecasts were similar, the difference between the two errors is due to different outturn estimates. This may be because of the

different employment data sources being used. Our measure is based on Real Time Information (RTI) which shows payrolled employment growth in 2023-24 of 1.4 per cent in Scotland (1.6 per cent in the UK), whereas the OBR's main source is the Labour Force Survey (LFS) which shows employment being broadly flat in 2023-24 in the UK and falling by 2 per cent in Scotland.[4]

2.12 This comparison between RTI and LFS aligns with our and others' views that the LFS may be underestimating employment.[5] In part, this is because the population weights used to produce LFS estimates do not yet fully reflect the recent high levels of international migration.[6] Our current understanding is that LFS population weights will be partially updated later this year, with a further full reweighting to take place after the publication of the next set of subnational population projections, currently planned for spring 2025.[7] In contrast to the LFS, RTI estimates are derived from administrative data so are likely to be capturing the recent strong population growth, thus giving a more reliable picture of employment in 2023-24. We discuss this issue further in our 2024 Statement of Data Needs.[8]

2.13 Our under-forecast of population is one possible source of our employment forecast error as it is likely that population has grown faster than assumed in our December 2022 forecast. However, we cannot quantify the exact contribution as estimates of Scottish population and migration for 2023-24 are not yet published.

2.14 Our overestimate of unemployment is another potential source of our employment forecast error. Because of the recent measurement issues with the LFS, including falling response rates and increased volatility, there is currently significant uncertainty about the quality of the official unemployment statistics we usually rely upon. This makes it difficult to evaluate our unemployment forecast. However, our assessment based on other available sources of labour market data is that unemployment in 2023-24 did not rise by as much as we forecast in December 2022. This is consistent with the economy remaining stable instead of falling into the shallow recession we had expected in December 2022.

Understanding our forecast error for average earnings

2.15 Figure 2.4 shows that we under-forecast Scottish nominal average earnings growth in 2023-24 by 1.9 percentage points, compared to the OBR's under-forecast of 3.0 percentage points for the UK.

[4] ONS (2024) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted – July 2024, ONS (2024) HI11 Regional labour market: headline indicators for Scotland – July 2024, ONS (2024) A01: Summary of labour market statistics – July 2024.

[5] For example, Box D in Bank of England (2024) Monetary Policy Report – May 2024

[6] ONS (2024) Long-term international migration, provisional: year ending December 2023

[7] ONS (2024) Labour market transformation – update on progress and plans: July 2024

[8] Scottish Fiscal Commission (2024) Statement of Data Needs - August 2024

2.16 In December 2022 we correctly predicted strong growth in nominal average earnings in 2023-24, reflecting ongoing labour market tightness and high inflation, but outturn data was even stronger than our forecast.[9]

2.17 In part, our under-forecast was because labour market conditions across the UK remained exceptionally tight, pushing up nominal average earnings by more than expected. The Bank of England (BoE) has found that recruitment challenges led businesses to hold on to workers despite subdued economic growth by more than in past similar periods (excess 'labour hoarding').[10] The BoE has suggested this can partly explain the persistence of labour market tightness and strong wage pressures. Higher public sector pay awards have also contributed to the upward pressure on earnings growth.

Historical forecast performance

2.18 Figure 2.5 has three purposes. First, it reports our one-year ahead GDP forecast errors since our first forecast in December 2017. Second, it gives our reported principal reason for each forecast error. Finally, it compares these errors and summarises them into measures of historical forecast performance: the average absolute error and the average error which are measures of, respectively, accuracy and bias. We present these average errors both including and excluding the two years most affected by the COVID-19 pandemic (2020 and 2021), which were a uniquely difficult time in which to produce forecasts. Excluding these outlier years gives an average absolute error of 0.6 percentage points and an average error of 0.3 percentage points. These suggest a reasonable degree of forecast accuracy and that typically we have neither over-forecast nor under-forecast GDP growth for the year ahead.

2.19 Figure 2.5 shows that at least four out of six forecasts were affected by one-off issues or unpredictable events such as outturn data revisions, Brexit-related uncertainty, and the COVID-19 pandemic. Box 2.1 discusses the impact of outturn data revisions on our forecasts. At this stage, we have not identified any systematic concerns with the way we produce our forecasts. Over time, as we publish more forecasts and undertake more evaluations, we will be able to make a more comprehensive analysis of our forecast performance and draw conclusions on areas for development.

2.20 From next year, we will include our own average forecast error in our headline evaluation table, alongside comparable information from HM Treasury and the OBR.

[9] In a tight labour market, when vacancies are high compared to staff availability, firms face greater competition in attracting or retaining workers and are therefore more likely to raise nominal wages as workers seek to protect their real incomes from the higher cost of living.

[10] Bank of England (2024) Two puzzles: recent UK labour market dynamics – speech by Megan Greene

Figure 2.5: Average of reported one-year ahead GDP forecast errors

Forecast	Budget year	Main reason for error	Forecast (per cent)	Outturn (per cent)	Error (percentage points)
December 2022	2023-24	GDP remained stable supported by stronger than expected growth in population, employment, and earnings.	-1.0	0.0	1.1
December 2021	2022-23	GDP was stable in line with forecast despite the unexpected inflation shock after the invasion of Ukraine.	2.2	2.0	-0.2
January 2021	2021-22	COVID-19 (GDP fall in 2021 Q1 lockdown overestimated; furlough scheme extended until September 2021, as announced in March 2021).	7.5	11.8	4.2
February 2020	2020	COVID-19 (unexpected event)	1.0	-9.6	-10.6
December 2018	2019	Exceptional political uncertainty related to Brexit negotiations.	1.2	0.7	-0.4
December 2017	2018	Exceptionally large revisions to outturn GDP data (QNAS Aug 2018).	0.7	1.4	0.7
Average error	blank	blank	blank	blank	-0.9
Average error excluding COVID-19	blank	blank	blank	blank	0.3
Average absolute error	blank	blank	blank	blank	2.9
Average absolute error excluding COVID-19	blank	blank	blank	blank	0.6

Source: Scottish Fiscal Commission – Forecast Evaluation Reports.

We summarise our latest forecast error and all the errors reported in our previous FER publications, comparing each forecast against the outturn available at the time we first evaluated the forecast rather than against the latest outturn.

This approach ensures that each forecast is evaluated against a consistent vintage of outturn and that our latest and previous errors are compared on a like-for-like basis.

The OBR's approach is to compare against the latest outturn. Our supplementary figures provide the latest outturn, allowing for the evaluation to be made either way.

Figures may not sum because of rounding.

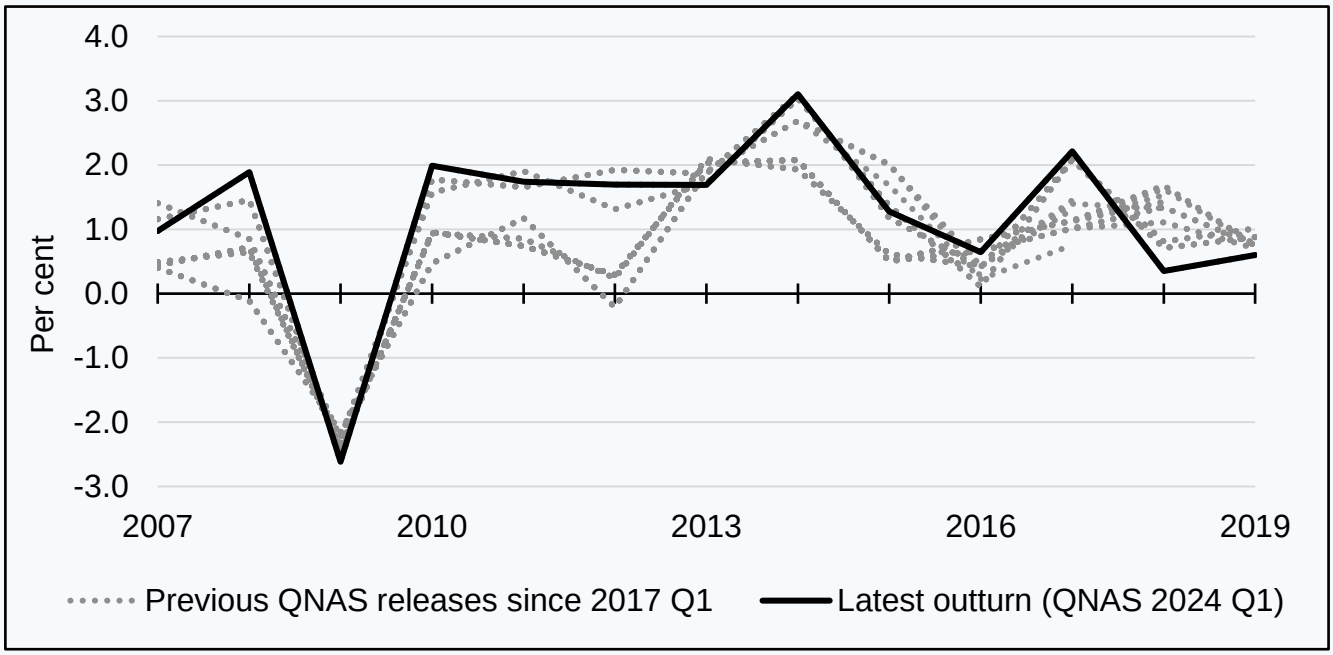
Box 2.1: Outturn data revisions

An important issue for GDP forecasting and evaluation is the size and frequency of revisions made to outturn data. Economic data is inevitably revised due to methodological changes over time and because earlier estimates are refined as more of the data required to measure GDP becomes available. Revisions are therefore commonplace and part of the nature of economic data, not only in Scotland but internationally.

Figure 2.6 shows the variability of GDP outturn data for Scotland. GDP growth rates can be revised significantly, often multiple times, in subsequent outturn data releases. For example, average annual growth between 2007 and 2016 was 0.7 per cent in the QNAS 2017 Q1 release compared to 1.2 per cent in the latest outturn from the QNAS 2024 Q1 release.

Figure 2.6: Outturn data revisions to GDP growth rates, Scotland, 2007 to 2019

GDP outturn data can be revised multiple times in subsequent data releases



Description of Figure 2.6: Line chart showing GDP growth rates based on the latest outturn from the QNAS 2024 Q1 release and on all previous releases since QNAS 2017 Q1.

Source: Scottish Government – Quarterly GDP statistics archive.

Outturn data revisions were the principal factor in our December 2017 GDP forecast error for 2018. In the August 2018 GDP publication, there were significant upward revisions to outturn data for 2017, driven by revisions to estimates of construction industry activity. As discussed in our 2019 FER, had we had these revised estimates for 2017 at the time of our December 2017 forecast, we would have published a higher forecast of GDP growth for 2018 (closer to the initial outturn).[11] Since then, outturn has been revised down, from 1.4 per cent at the time we first evaluated the forecast to 0.4 per cent in the QNAS 2024 Q1 release.

In recent years, there have been large revisions to estimates of GDP from 2020 onwards because of the effects of the COVID-19 pandemic on data collection and dissemination. So

[11] Scottish Fiscal Commission (2019) Forecast Evaluation Report – September 2019

far, these revisions have occurred after publication of the relevant FER and so have not directly affected our reported forecast errors in Figure 2.5. It is likely that GDP statistics from 2020 onwards will remain more uncertain than normal for some time and will change again in future releases.

We continue to engage with the Scottish Government to anticipate and communicate possible revisions to GDP data effectively, and to consider the effect of these on our forecasts.

Conclusions

2.21 We produced our December 2022 forecasts at a time when the economy had been hit by two global shocks in immediate succession – the COVID-19 pandemic and the energy price shock following Russia's invasion of Ukraine. Overall, the latest outturn data for GDP and the labour market in 2023-24 is above our December 2022 forecasts.

2.22 In December 2022 we forecast the level of GDP to be largely flat over 2023-24 following a shallow recession, compared to the latest outturn which shows GDP remaining largely flat since early 2022. Nominal average earnings growth was stronger than anticipated and above inflation, so that households' real disposable income and consumption increased in aggregate, helping the economy avoid a recession. A number of factors contributed to this stronger earnings growth in 2023-24, so it is difficult to pinpoint specific actions to improve our forecast accuracy. The quality of labour market data continues to be a concern in our forecasting process.

2.23 In future, we will continue to focus on the importance of communicating the forecast in a clear and meaningful way by putting the forecast numbers into the wider context. In our December 2022 report we discussed how the precise magnitude and duration of the recession were uncertain, and that the recession had to be seen within a period of slow economic growth over the longer term. Subsequent outturn showed GDP had remained stable and the recession had not materialised, but this did not fundamentally change our narrative. Placing more weight on the explanations rather than just the numbers helped ensure our messages remained coherent and reliable.

Chapter 3
Tax

Introduction

3.1 In this chapter we evaluate our December 2021 forecast of Scottish income tax (SIT) for 2022-23. We also evaluate our December 2022 forecasts of the devolved taxes, including Non-Domestic Rates (NDR), Land and Buildings Transaction Tax (LBTT), and Scottish Landfill Tax (SLfT) for 2023-24.

3.2 Figure 3.1 compares our forecasts against outturn. Scottish income tax outturn for 2022-23 was £15,169 million, £1,498 million higher than our forecast of £13,671 million. For the devolved taxes, total revenue was £3,886 million, which is £41 million lower than our forecast of £3,928 million.

3.3 Following publication of outturn data, we now know there will be a provisional £447 million income tax reconciliation applied in the 2025-26 Scottish Budget. We discuss this reconciliation as well as further analysis on the income tax net position in our Fiscal Update published alongside this report.[12] We will discuss the total reconciliation from all devolved taxes to be applied in the 2025-26 Scottish Budget in our next Scotland's Economic and Fiscal Forecasts publication.

Figure 3.1: Summary of tax forecast errors

Tax	Forecast (£ million)	Outturn (£ million)	Error (£ million)	Relative error (per cent)
Income tax	13,671	15,169	1,498	11
Other devolved taxes, of which:	3,928	3,886	-41	-1
Non-Domestic Rates	3,075	3,033	-41	-1
Land and Buildings Transaction Tax	774	784	11	1
Scottish Landfill Tax	79	69	-11	-14

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts, HMRC (2024) Scottish Income Tax Outturn Statistics: 2022 to 2023, Scottish Government (2024) Non-domestic rates income statistics, Revenue Scotland (2024) Provisional Outturn Data 2023-24.

Figures may not sum because of rounding.

[12] Scottish Fiscal Commission (2024) Fiscal Update - August 2024

Income tax

3.4 In July 2024 HM Revenue and Customs (HMRC) published Scottish income tax outturn statistics for 2022-23.[13] In this section we evaluate the budget setting forecast that we published in December 2021.

Headline forecast error

3.5 Figure 3.2 compares our December 2021 budget setting forecast of Scottish income tax revenue in 2022-23 to outturn data. We under-forecast Scottish income tax revenue by £1,498 million most of which is explained by higher earnings growth and inflation.

Figure 3.2: Headline evaluation – December 2021 forecast of 2022-23 income tax

Forecast (£ million)	Outturn (£ million)	Error (£ million)	Relative error (per cent)
13,671	15,169	1,498	11

Source: Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – December 2021, HMRC (2024) Scottish Income Tax Outturn Statistics: 2022 to 2023.

Figures may not sum because of rounding.

Understanding the December 2021 forecast error

3.6 We produced this forecast during a period of uncertainty as the UK was still being affected by the COVID-19 pandemic. After we published our forecast there was a period of high inflation caused in part by the impact of the invasion of Ukraine and a subsequent increase in energy prices. Within this context we had to make several judgements around the outlook for the Scottish and UK economies in an environment of high uncertainty.

3.7 Our economy forecasts are an important component of our income tax forecasts. When we made our December 2021 forecast, we expected inflation in 2022-23 to be 3.7 per cent, in line with the latest OBR forecast at the time. Inflation rose by more than expected and averaged 10.0 per cent over 2022-23. Nominal earnings increased in line with inflation, explaining a significant proportion of our overall forecast error.

3.8 In December 2021 we had income tax outturn data for 2019-20. To forecast the income tax for 2022-23 we first used Real Time Information (RTI) data on Pay As You Earn (PAYE) income tax to estimate growth in 2020-21. We then used our economy forecasts for earnings and employment to estimate growth in 2021-22 and 2022-23. Figure 3.3 shows how our forecasts of earnings and employment growth across 2021-22 and 2022-23 compare to the outturn data that is now available.

[13] HMRC (2024) Scottish Income Tax Outturn Statistics: 2022 to 2023

Figure 3.3: Cumulative growth of key economic determinants across 2021-22 and 2022-23

Determinant	Forecast (per cent)	Outturn (per cent)	Difference (percentage points)
Employment	2.3	3.8	1.5
Average earnings	6.5	12.4	6.0

Source: Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – December 2021, Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, Office for National Statistics (2024) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted – July 2024.

Outturn earnings figures are sourced from the latest RTI mean pay data.

Figures may not sum because of rounding.

Error breakdown

3.9 Figure 3.4 provides a breakdown of our December 2021 forecast error. We estimate that the error in our economy determinants explains £899 million of the total £1,498 million error.

3.10 The main cause of our income tax error is explained by our earnings forecast being too low in December 2021, largely a result of underestimating the rise in inflation. Due to the fiscal drag effect, high nominal earnings growth meant more people were paying tax at higher rates. Our underestimation of earnings growth led to an error of £769 million.

3.11 In December 2021 we forecast that employment rates would remain largely unchanged in 2022-23 from the previous year. Employment has been higher than we expected leading to under-forecasting income tax revenue by £130 million. Further details of our earnings and employment errors can be found in the economy section of our Forecast Evaluation Report 2023.[14]

3.12 Our estimate of income tax growth in 2020-21 based on RTI data on PAYE income tax in that year was very close to outturn and only resulted in a £5 million error.

3.13 We cannot directly estimate the causes of the remaining forecast error. The remaining error is likely explained by a variety of factors including unexpected changes in the distribution of taxpayers in Scotland across bands, various reliefs, behavioural changes in response to tax policy that were different from those included in our forecast, and the overall state of the Scottish and UK economies.

3.14 It is worth noting that in the latest statistics, the outturn figure for 2019-20 has been revised down by around £75 million. Our December 2021 forecast would likely have been different if we had the correct outturn at the time. We have not shown the effect of this in Figure 3.4 but instead evaluated against the outturn figure we had at the time.

[14] Scottish Fiscal Commission (2023) – Forecast Evaluation Report – August 2023

Figure 3.4: Decomposition of December 2021 Scottish income tax forecast error for 2022-23

Component	£ million
SFC forecast December 2021	13,671
Earnings	769
Employment	130
2020-21 growth estimate using RTI PAYE data [1]	5
Other [2]	594
HMRC Outturn July 2024	15,169
Net error	1,498

Source: Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – December 2021, Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, HMRC (2024) Scottish Income Tax Outturn Statistics: 2022 to 2023.

Figures may not sum because of rounding.

[1] Real Time Information data on Pay As You Earn income tax.

[2] 'Other' category includes changes in the distribution of taxpayers including high growth at the top end of income distribution.

3.15 The distribution of revenue across tax bands in our budget setting forecast was based on 2019-20 outturn data and grown using our forecasts from 2020-21 onwards. We assumed that earnings growth would be distributed across taxpayers evenly. Any asymmetry in the distribution of earnings growth across taxpayers can lead to forecast error, though we cannot currently observe this directly in the outturn data.

3.16 Figure 3.5 shows the forecast distribution of revenue across tax bands in 2022-23 compared to outturn. We under-forecast how much revenue the top three bands would generate and the majority of our forecast error comes from higher rate taxpayers.

3.17 We can infer that unexpectedly strong earnings growth among higher earners of the income distribution led to a stronger than expected fiscal drag effect, resulting in additional income tax revenue. This likely explains part of the £594 million residual forecast error we have labelled as 'Other' in Figure 3.4.

Figure 3.5: Revenue breakdown, differences between December 2021 forecast and 2022-23 outturn

Taxpayers	Budget setting forecast (£ million)	Outturn (£ million)	Difference (£ million)
Starter rate	51	48	-3
Basic rate	1,490	1,346	-144
Intermediate rate	3,772	4,040	269
Higher rate	6,021	7,038	1,017
Top rate	2,337	2,696	359
All bands	13,671	15,169	1,498

Source: Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – December 2021, HMRC (2024) Scottish Income Tax Outturn Statistics: 2022 to 2023.

Figures may not sum because of rounding.

High income taxpayers and Self Assessment

3.18 We discussed high income taxpayers and Self Assessment in Annex A in last year's report.[15] We concluded that this group of taxpayers have a significant effect on our forecast error but that we have limited means to monitor it until outturn is published. The latest outturn shows that income tax paid through Self Assessment only grew by 1.0 per cent in 2022-23 to £1,850 million.

3.19 While we can see from Figure 3.5 that overall higher earners saw unexpectedly strong growth in their earnings and tax liabilities, we can infer from the HMRC data that non-employee income growth must have been weaker. Non-employee income includes the income of the self-employed and income from properties and pensions. As more data becomes available, including the 2022-23 Public Use Tape (PUT), we will see what we can learn about movements in non-employee earnings to improve our forecasts.

Non-Domestic Rates

3.20 In this section we evaluate our December 2022 forecast of Non-Domestic Rates (NDR) revenue in 2023-24 against provisional outturn data from notified returns.

3.21 Figure 3.6 shows that NDR revenue for 2023-24 was £3,033 million, which is £41 million, or 1 per cent, lower than our December 2022 forecast of £3,075 million. For NDR we believe this is a small error and in the context of the Scottish Budget this is a very small error.

3.22 The main reason for this forecast error is that valuation appeals (both revaluation appeals and non-revaluation appeals) reduced revenue by more than expected, leading to greater refunds of overpayments than we forecast.

[15] Scottish Fiscal Commission (2023) – Forecast Evaluation Report – August 2023

Figure 3.6: Headline evaluation – December 2022 forecast of 2023-24 NDR revenue

Forecast (£ million)	Provisional outturn (£ million) [1]	Error (£ million)	Relative error (per cent)
3,075	3,033	-41	-1

Source: Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022, Scottish Government (2024) Non-domestic rates income statistics, Office for Budget Responsibility (2024) Historical official forecasts database.

Figures may not sum because of rounding.

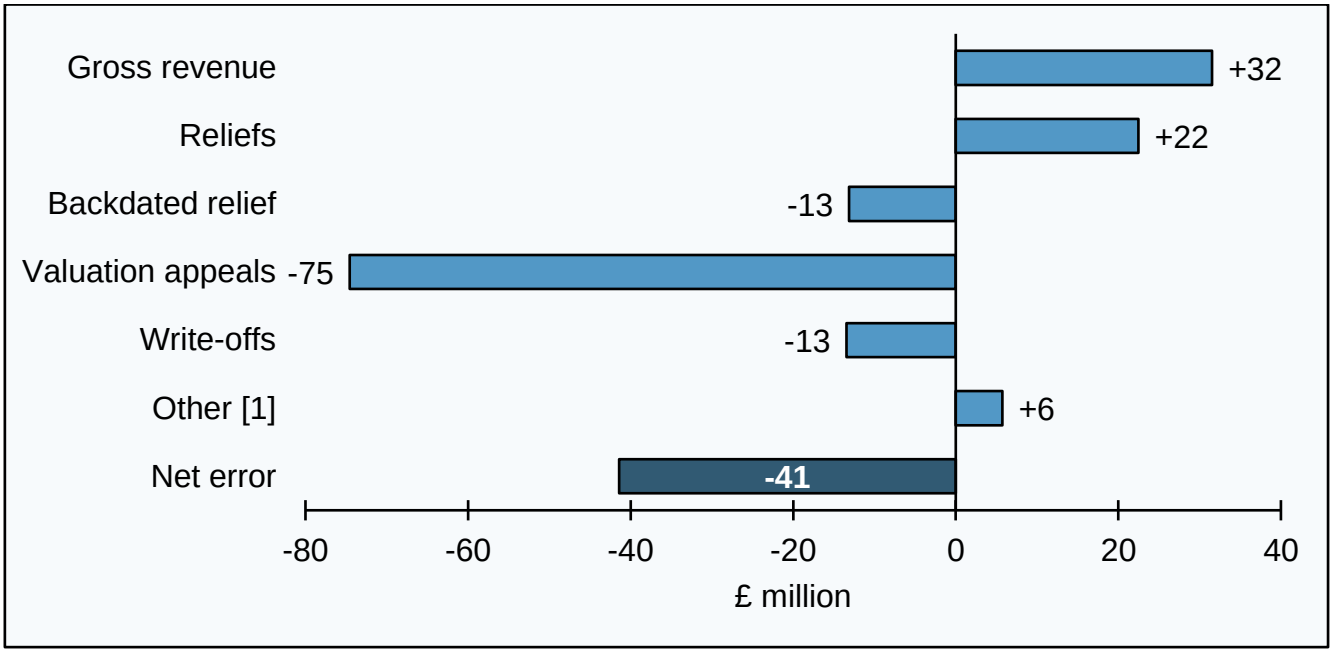
[1] The outturn figure may change once the final audited figures are available. The average annual difference between provisional outturn and final audited figures between 2017-18 and 2021-22 was minus £1.2 million.

Understanding our forecast error

3.23 Figure 3.7 shows a decomposition of the £41 million total error in 2023-24.

Figure 3.7 Decomposition of the December 2022 NDR forecast error for 2023-24

The largest component of error is greater-than-expected losses to valuation appeals



Description of Figure 3.7: Bar chart shows the components of difference between forecast and outturn. The largest error was because more revenue was lost to valuation appeals than was forecast.

Source: Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022, Scottish Government (2024) Non-domestic rates income statistics.

Figures may not sum because of rounding.

[1] 'Other' category includes error relating to bad debts, late additions to and deductions from the roll, and interest on refunds of overpayments, along with other small adjustments to NDR revenue.

Refunds of overpayments

3.24 The lower outturn revenue than we forecast in December 2022 is largely a result of more money being repaid to ratepayers after a successful valuation appeal. We forecast

refunds totalling £20 million, but the outturn amount refunded was £94 million. This is a small but particularly volatile part of our forecast.

3.25 Refunds are made when a valuation is successfully challenged. This challenge could be to the value on the current valuation roll (from 2023) or one that has been replaced – the 2017 roll, the 2010 roll, or an earlier roll. Local authorities effectively backdate successful challenges to the start of the fiscal year by issuing a new bill for the year in progress, and this is reflected in the NDR income (NDRI) returns. This means that successful challenges to valuations on the current roll do not affect the reported total amount refunded.

3.26 The outturn data does not break down the refunds into the amount refunded because of appeals to each different roll. The vast majority of this loss is attributable to successful appeals to the 2017 roll.

3.27 Since December 2022, we have developed a new method for forecasting losses from this cycle, so that we project forward the loss rate from appeals resolved from 1 January 2022 to the outstanding appeals. The revised method has not yet been used in any of our published forecasts, but we will incorporate it into our next forecast.

Gross revenue

3.28 The second-largest component of error was the gross revenue, which we under-forecast by £32 million in our December 2022 forecast.

3.29 This was because of smaller errors. We overestimated the amount of Rateable Value (RV) deducted from the new roll when ratepayers made challenges to valuations on it. In addition, for each year we scale down our calculation of gross revenue from the valuation roll because the calculation tends to overestimate outturn gross revenue. We scaled down by too much, mainly because the total of local authorities' mid-year estimates for 2022-23 gross revenue was too low.

3.30 Our forecast in December 2022 was based on an estimation of the new valuation roll which would come into effect on 1 April 2023. This also contributed to the underestimation, but by a smaller amount. Since then, we have taken two snapshots of the roll, on 1 April 2023 and 1 April 2024, so we are basing our forecast on a more accurate picture of property valuations.

3.31 A further small factor in our December 2022 forecast was that we overestimated the growth in the tax base over the course of the year, which partially offset our under-forecast of the gross revenue.

Reliefs

3.32 We over-forecast the cost to the Scottish Government of reliefs to NDR by £22 million.

3.33 The largest errors were in our costings of the Small Business Bonus Scheme (SBBS) and the related Small Business Transitional Relief (SBTR). For SBBS, this appears to be because our estimate of the new valuation roll, which would come into place on 1 April 2023, suggested greater eligibility than proved to be the case. For SBTR, we assumed in calculating the costing that all eligible ratepayers would claim the relief, but it appears that take-up may have been much lower.

Box 3.2: Non-Domestic Rating Account

We forecast the contributable amount of NDR. This is pooled at a national level before being redistributed as part of the local government finance settlement. The amount redistributed to local authorities is known as the distributable amount.

In December 2022, we provided an illustrative projection of the balance of the Non-Domestic Rating Account in 2023-24 showing a £66 million deficit. This was based on our forecast of the contributable amount, and the distributable amount set by the Scottish Government for the 2023-24 budget. Figure 3.8 shows the difference between our forecast and the final balance. The provisional balance is based on the most recent figures.

Figure 3.8: Provisional balance of the Non-Domestic Rating Account in 2023-24

Component	SFC illustrative projection (£ million)	Provisional outturn (£ million)	Difference (£ million)
Provisional contributable amount (A)	3,075	3,082	7
Net effect of prior year adjustments (B) [1]	-11	-37	-26
Distributable amount (C)	3,047	3,047	0
Annual balance (D) (A + B - C)	17	-2	-19
Cumulative balance (E) (Previous year E + current year D) [2]	-66	-85	-18

Source: Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022, Scottish Government (2022) Scottish Budget 2023-24, Scottish Government (2024) Non-domestic rates income statistics.

Figures may not sum because of rounding.

[1] The prior year adjustments are calculated based on notified outturn from 2022-23. This could change when audited figures are available.

[2] The change in the cumulative balance is different from the change in the annual balance because of a small error in our projection of the cumulative balance at the end of 2022-23.

This balance is affected by several factors. Contributions are determined by local authorities' own estimates of collections for the year ahead, which are submitted to the Scottish Government early in the financial year. The net effect of prior year adjustments (B) is determined by the difference between the provisional contributable amount (PCA) and the final audited NDR figures from the previous financial year. The distributable amount (C) is set at each Scottish Budget and is unchanged. Differences between the PCA and final audited outturn in 2022-23 are carried forward as prior year adjustments into 2023-24.

In the provisional outturn for 2023-24 the cumulative balance is in deficit by £85 million, compared with our projection of a deficit of £66 million. This increase in the deficit is a result of a net effect of prior year adjustments for 2022-23 that was more negative than expected, partially offset by a larger-than-expected PCA for 2023-24. This deficit will ultimately be reduced to zero through the Scottish Government's setting of the distributable amount – the Scottish Government's position was to pause the balancing of the NDR pool in 2024-25, and then complete it over a three-year period starting in 2025-26.

Land and Buildings Transaction Tax

3.34 This section evaluates our December 2022 forecast of Land and Buildings Transaction Tax (LBTT) revenue in 2023-24 using provisional outturn data and management information from Revenue Scotland.[16] We forecast three components of LBTT: residential LBTT, the Additional Dwelling Supplement (ADS), and non-residential LBTT.

3.35 In December 2022 we forecast total revenue of £774 million for 2023-24. The provisional outturn is £784 million, which is £11 million higher than we forecast giving a relative error of 1 per cent. Outturn exceeded our forecast by 7 per cent for both residential and net ADS revenues, and was lower than our forecast by 14 per cent for non-residential LBTT.

Figure 3.9: Headline evaluation – December 2022 forecast of 2023-24 LBTT revenue

Tax	Forecast (£ million)	Outturn (£ million)	Error (£ million)	Relative error (per cent)
Residential LBTT	392	421	29	7
Additional Dwelling Supplement	165	176	11	7
Non-Residential LBTT	216	187	-29	-14
Total	774	784	11	1
OBR average relative absolute error (one-year-ahead)	blank	blank	blank	10

Source: Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022, Revenue Scotland (2024) Provisional Outturn Data 2023-24, Office for Budget Responsibility (2024) Historical official forecasts database.

LBTT revenue is net of ADS repayments, excludes penalties and interest, and also excludes revenue losses. The OBR average relative absolute error relates to total UK property transaction taxes over the period 2011-12 to 2022-23.

Figures may not sum because of rounding.

Residential LBTT

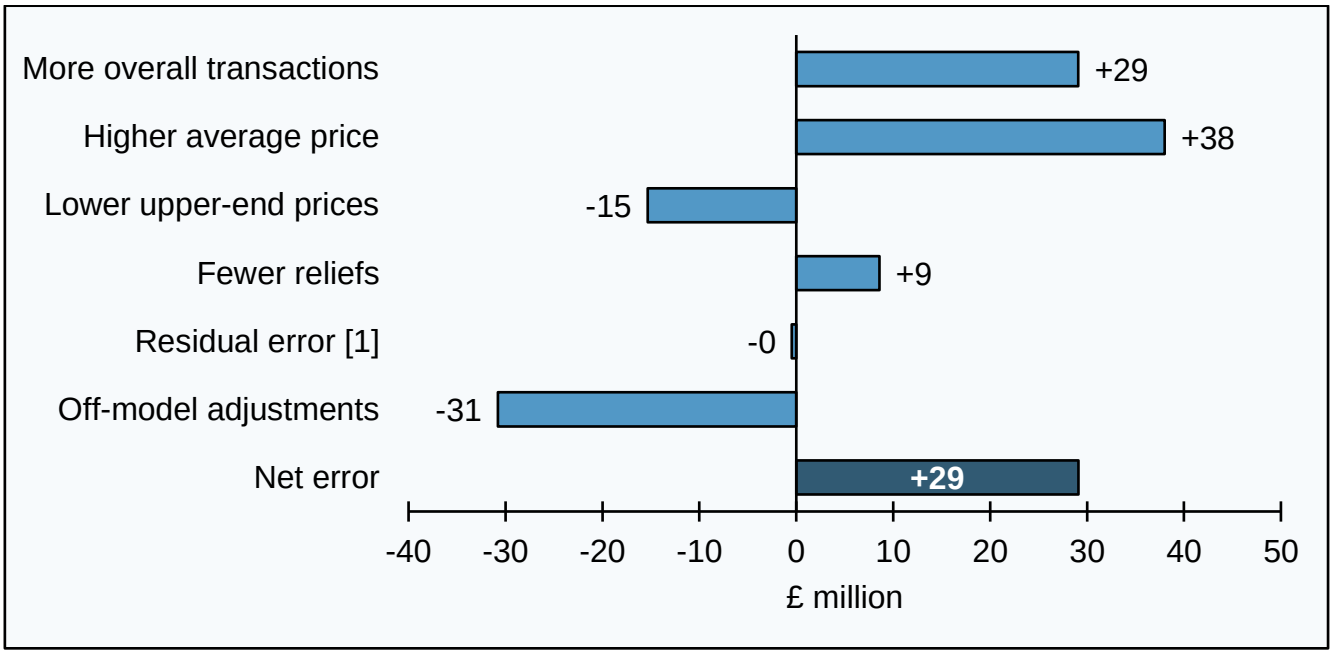
3.36 Our forecast of £392 million for residential LBTT was £29 million lower than actual revenue, with outturn being 7 per cent higher than forecast at £421 million. Figure 3.10 shows the decomposition of this forecast error, with a large share of it being the result of under-forecasting of transactions and price growth in 2022-23 and 2023-24. Off-model adjustments made to reflect in-year 2022-23 outturn revenue in December 2022 mitigated some of this error.

3.37 In December 2022 we had seen large increases in property transactions and house prices in 2021-22. We expected that higher interest rates and the wider economic downturn being forecast would lead to a decrease in demand for residential properties in 2023-24 and we therefore forecast a decrease in house prices and transactions.

[16] Revenue Scotland (2024) Provisional Outturn Data

Figure 3.10: Decomposition of December 2022 residential LBTT error for 2023-24

Higher-than-anticipated prices and transactions led to higher-than-anticipated revenue



Description of Figure 3.10: Decomposition bar chart shows net forecast error as positive £29 million, with more overall transactions responsible for positive £29 million of this, a higher average price for positive £38 million, and off-model adjustments for negative £31 million.

Source: Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022, Revenue Scotland (2024) Provisional Outturn Data 2023-24, Revenue Scotland (2024) LBTT Forecasting Data – June 2024.

Figures may not sum because of rounding.

[1] 'Residual error' category represents error other than those listed explicitly.

3.38 We under-forecast growth in the average price, and this led us to under-forecast net residential LBTT by around £38 million. Whereas we had expected the average price to fall by around 2.1 per cent in 2023-24, it remained resilient and grew by 0.1 per cent. In part, error in this price forecast can be explained by our assumed average mortgage rate in 2023-24, which was expected to be at an average of 4.4 per cent over the course of the year in line with OBR forecasts; outturn was 3.2 per cent.[17] We judged that house price growth should be negatively affected by interest rate rises.

3.39 While we had forecast a fall in transactions to around 86,000, the fall was smaller than we expected. Transactions were instead around 94,000 and this led us to under-forecast net residential LBTT by around £29 million.

3.40 We make adjustments to improve our final forecasts when in-year outturn revenue appears inconsistent with what our model forecasts. For our 2023-24 forecast produced in December 2022, we made an adjustment to reflect in-year outturn revenue observed in 2022-23. This adjustment represented a 10 per cent uplift to our forecasts of residential LBTT in each year over the forecast horizon. This adjustment acted to reduce

[17] Bank of England Database (accessed 18 July 2024) CFMHSDE, OBR (2022) November 2022 Economic and fiscal outlook – supplementary economy tables.

the size of our forecast error, ultimately bringing our forecast more in line with final outturn for 2023-24.

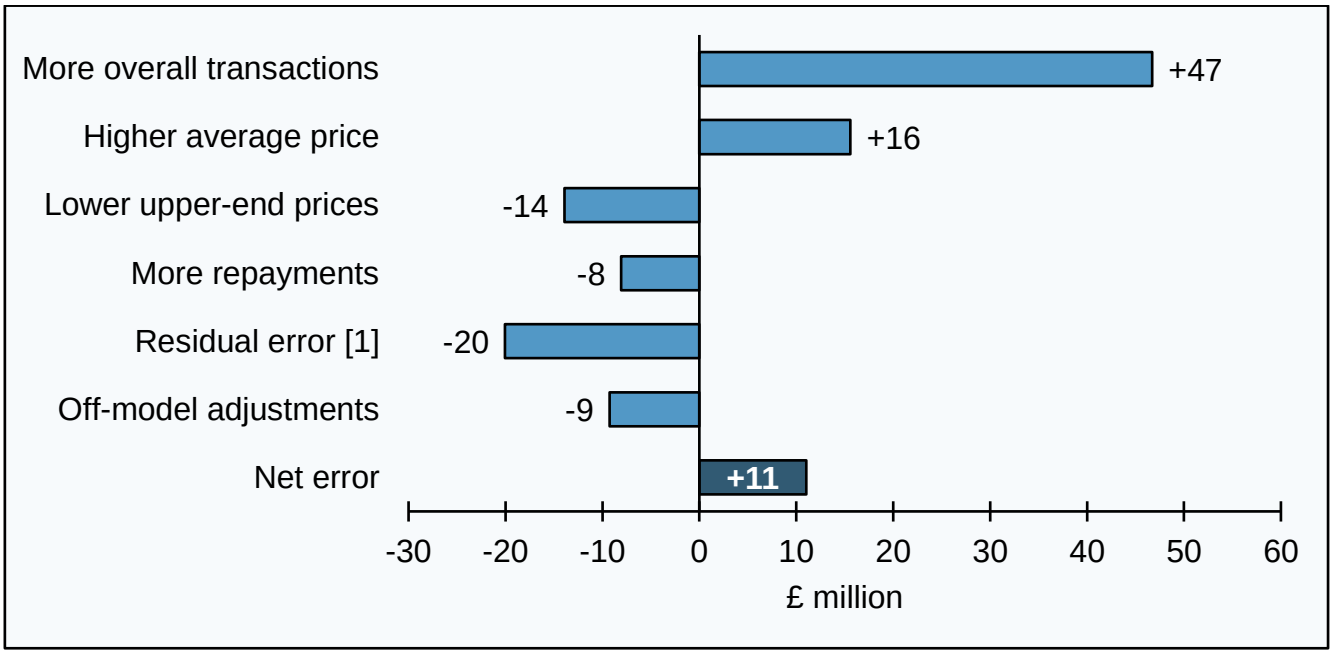
Additional Dwelling Supplement

3.41 Our forecast of £165 million for ADS was £11 million lower than actual revenue, with outturn being 7 per cent higher than forecast at £176 million. Our forecasts of ADS are tied to our forecasts of residential LBTT as we assume that some share of residential transactions will also incur ADS liability. As such, drivers of error in our forecast of residential LBTT feed through to error in our forecast of ADS.

3.42 Figure 3.11 shows the decomposition of this forecast error, with a large share of it being driven by our under-forecasting of transactions and price growth in 2022-23 and 2023-24. Factors pulling in the opposite direction, reducing the extent of under-forecasting, include over-forecasting prices at the upper end of the market, off-model adjustments, and residual error.

Figure 3.11: Decomposition of December 2022 ADS error for 2023-24

Higher-than-anticipated prices and transactions led to higher-than-anticipated revenue



Description of Figure 3.11: Decomposition bar chart shows net forecast error as positive £11 million, with more overall transactions responsible for positive £47 million of this and residual error for negative £20 million.

Source: Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022, Revenue Scotland (2024) Provisional Outturn Data 2023-24, Revenue Scotland (2024) LBTT Forecasting Data – June 2024.

Figures may not sum because of rounding.

[1] 'Residual error' category represents error other than those listed explicitly.

3.43 We under-forecast transactions, and this led us to under-forecast net ADS by around £47 million. The outturn volume of ADS transactions in 2023-24 was around 21,000. We forecast around 17,400 transactions, 17 per cent lower than outturn.

3.44 Our transactions forecast included a downward adjustment for an assumed effect that the ADS rate rise from 4 per cent to 6 per cent would discourage transactions. It is

difficult to evaluate our costing of the behavioural response as there are many other factors that affect transactions such as higher interest rates and general market sentiment. We believe these are having a greater effect on our forecast error here rather than our estimate of the policy measure on discouraging transactions which is based on semi-elasticities sourced from the OBR.[18]

3.45 We under-forecast prices, and this led us to under-forecast net ADS by around £16 million. The average market value of an ADS transaction[19] in 2023-24 was 3.4 per cent higher than our forecast.

3.46 As with residential LBTT, our overall net forecast error was reduced, and hence improved, by off-model adjustments applied to the forecast so as to reflect in-year outturn revenue observed in 2022-23.

Non-Residential LBTT

3.47 Our forecast of £216 million for non-residential LBTT was £29 million higher than actual revenue, with outturn being 14 per cent lower than forecast at £187 million. Figure 3.12 shows the decomposition of this forecast error, with a large share of our over-forecasting of revenue driven by over-forecasting of transactions and off-model adjustments.

3.48 We over-forecast transactions, and this led us to over-forecast net non-residential LBTT by around £10 million. Focusing on non-residential conveyances, which tend to raise the most non-residential LBTT when compared to leases, outturn transactions were 0.6 per cent lower than our forecast.

3.49 We under-forecast growth in the average price, and this led us to under-forecast net non-residential LBTT by around £7 million. The average chargeable consideration of a non-residential property in 2023-24 was 3.7 per cent higher than we had forecast it would be.

3.50 As with both residential LBTT and ADS, an off-model adjustment was applied to the final forecast so as to reflect in-year outturn revenue observed in 2022-23. However, where doing so helped to reduce the size of our forecast error for both residential LBTT and ADS, here it made the forecast error larger. Without this adjustment, our net forecast error for 2023-24 would have been around £18 million in absolute terms rather than its current figure of £29 million. As of our December 2023 forecast publication, we have dropped the practice of rolling these off-model adjustments forward into later years.[20]

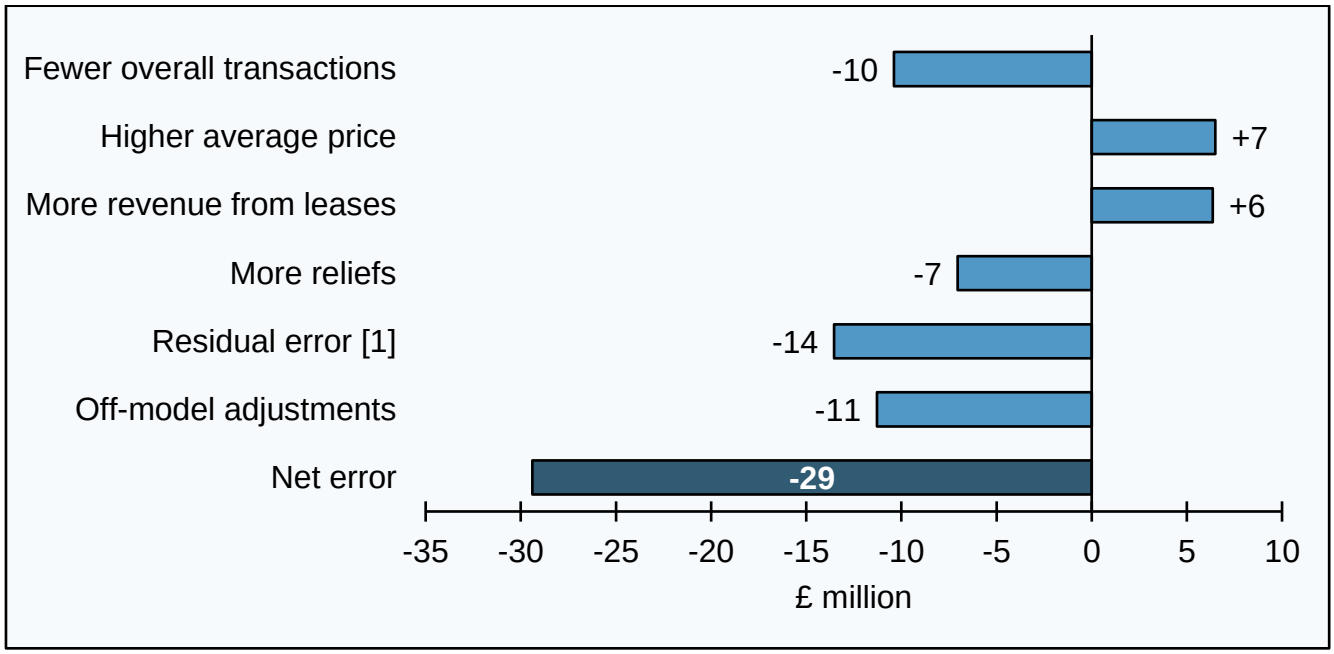
[18] OBR (2017) Forecast evaluation report - October 2017

[19] Excluding those with a market value of more than £1,000,000.

[20] Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, paragraph 4.93

Figure 3.12: Decomposition of December 2022 non-residential LBTT error for 2023-24

Over-forecasting of revenue driven by multiple sources of error



Description of Figure 3.12: Decomposition bar chart shows net forecast error as negative £29 million, with fewer overall transactions responsible for negative £10 million of this, residual error for negative £14 million, and off-model adjustments for negative £11 million.

Source: Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022, Revenue Scotland (2024) Provisional Outturn Data 2023-24, Revenue Scotland (2024) LBTT Forecasting Data – June 2024.

Figures may not sum because of rounding.

[1] 'Residual error' category represents error other than those listed explicitly.

Scottish Landfill Tax

3.51 Figure 3.13 compares the 2023-24 provisional outturn data for Scottish Landfill Tax (SLfT) with our December 2022 forecast for 2023-24 SLfT revenue.

Figure 3.13: Headline evaluation – December 2022 forecast of 2023-24 SLfT revenue

Forecast (£ million)	Outturn (£ million) [1]	Error (£ million)	Relative error (per cent)	OBR average absolute error (per cent) [2]
79	69	-11	-14	8

Source: Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecast December 2022, Revenue Scotland (2024) Provisional Outturn Data 2023-24, OBR (2024) Historical official forecast database.

Figures may not sum because of rounding.

[1] The outturn figure may change once final audited figures are available.

[2] The OBR average relative absolute error relates to landfill taxes (UK Landfill Tax, SLfT, Landfill Disposals Tax (LDT)) over the period 2011-12 to 2022-23.

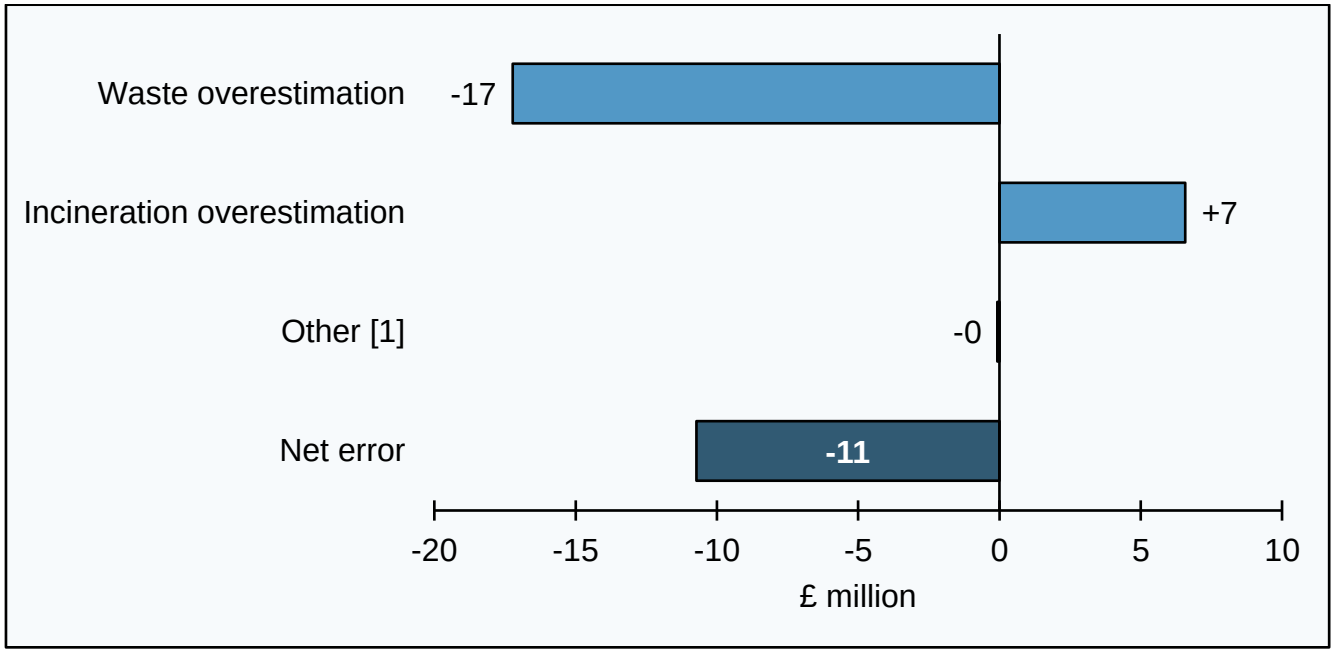
3.52 Provisional SLfT outturn revenue for 2023-24 was £69 million which is 14 per cent lower than the £79 million we forecast in December 2022. Our forecast error is higher than the OBR's average relative absolute one-year ahead forecast error of 8 per cent for all UK landfill taxes. We believe a negative error of £11 million is moderate in the context of forecasting SLfT and very small in the context of the Scottish Budget.

3.53 Figure 3.14 shows that we overestimated waste in Scotland leading to an error of negative £17 million in SLfT revenue in 2023-24. In December 2022 we expected 2022-23 landfill data to be representative of future years and while we did forecast a reduction of waste, we did not expect waste levels to fall as much as they did. This error is larger than our previous years error where we underestimated waste in Scotland.

3.54 Figure 3.14 also shows that we overestimated incineration capacity offsetting our forecast error from waste by £7 million. Less waste burnt in Energy from Waste (EfW) sites means less waste is diverted away from landfill. This error is mostly explained by established EfW sites burning less waste than we expected.

Figure 3.14: Decomposition of December 2022 SLfT forecast error for 2023-24

Largest source of forecast error came from overestimation of waste produced



Description of Figure 3.14: Decomposition bar chart shows the main components of difference between forecast and outturn were an overestimation of waste in Scotland and an overestimation of how much waste would be incinerated.

Source: Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecast December 2022, Revenue Scotland (2024) Provisional Outturn Data 2023-24.

[1] 'Other' category is made up of error from Scottish Landfill Communities Fund (SLCF) adjustments, off model adjustments to account for differences between provisional and outturn revenues as well as residual error.

Historical forecast performance

3.55 Figure 3.15 and Figure 3.16 summarise our one-year ahead overall errors from 2018-19 onwards, for income tax and devolved taxes, respectively. We present both the average error and the average absolute error. We averaged our errors both including and excluding the two years most affected by the COVID-19 pandemic (2020-21 and 2021-22).

3.56 High inflation leading to higher-than-expected nominal earnings growth has been the main reason for our recent income tax forecast errors, whereas access to accurate outturn data was an issue with our earlier forecasts.

Figure 3.15: Average of reported one-year ahead income tax forecast errors

Forecast	Budget year	Main reason for error	Forecast (£ million)	Error (£ million)	Relative error (per cent)
December 2021	2022-23	High inflation leading to higher-than-expected nominal earnings growth.	13,671	1,498	11
January 2021	2021-22	Effects of COVID-19 pandemic on earnings and employment smaller than expected.	12,263	1,343	11
February 2020	2020-21	Economic impact of COVID-19 not known until after forecast.	12,365	-506	-4
December 2018	2019-20	Higher-than-expected growth in nominal earnings.	11,684	66	1
February 2018	2018-19	Did not have access to accurate historical outturn data when forecast was produced.	12,177	-701	-6
Average error	blank	blank	blank	340	3
Average error excluding COVID-19	blank	blank	blank	288	2
Average absolute error	blank	blank	blank	823	0
Average absolute error excluding COVID-19	blank	blank	blank	755	0

Source: Scottish Fiscal Commission – Forecast Evaluation Reports.

We summarise our latest forecast error and all the errors reported in our previous FER publications, comparing each forecast against the latest outturn available rather than the outturn at the time we first evaluated the forecast.

This approach ensures that each forecast is evaluated against a consistent vintage of outturn and that our latest and previous errors are compared on a like-for-like basis.

Figures may not sum because of rounding.

3.57 For devolved taxes, while there has been no main reason for errors which has persisted across all years, errors associated with forecasting prices and transactions for LBTT and errors associated with appeals losses from NDR have been reasons that have contributed to overall error in multiple years.

Figure 3.16: Average of reported one-year ahead devolved taxes forecast errors

Forecast	Budget year	Main reason for error	Forecast (£ million)	Error (£ million)	Relative error (per cent)
December 2022	2023-24	Higher losses from NDR appeals than forecast.	3,928	-41	-1
December 2021	2022-23	Higher prices than forecast for residential LBTT.	3,659	89	2
January 2021	2021-22	Higher prices and more high value transactions than forecast for LBTT linked to COVID-19 uncertainty.	2,813	227	8
February 2020	2020-21	Policy changes for NDR reliefs and LBTT in response to COVID-19.	3,507	-1,067	-30
December 2018	2019-20	Lower non-residential LBTT than forecast – potentially an early COVID-19 effect.	3,532	-54	-2
December 2017	2018-19	Errors from lower NDR appeal losses and lower incineration for SLfT than forecast, partly offset by fewer high value residential transactions for LBTT.	3,507	36	1
Average error	blank	blank	blank	-135	-4
Average error excluding COVID-19	blank	blank	blank	8	0
Average absolute error	blank	blank	blank	252	7
Average absolute error excluding COVID-19	blank	blank	blank	55	2

Source: Scottish Fiscal Commission – Forecast Evaluation Reports.

We summarise our latest forecast error and all the errors reported in our previous FER publications, comparing each forecast against the latest outturn available rather than the outturn at the time we first evaluated the forecast.

This approach ensures that each forecast is evaluated against a consistent vintage of outturn and that our latest and previous errors are compared on a like-for-like basis.

Figures may not sum because of rounding.

Chapter 4
Social security

Introduction

4.1 This chapter evaluates our social security forecasts and compares the Scottish Government's provisional outturn spending in 2023-24 against our December 2022 forecasts, which informed the 2023-24 Scottish Budget.

4.2 Our forecasts cover 'devolved social security expenditure' as defined in the Scottish Fiscal Commission Act.[21] This includes nearly all of the payments paid out by Social Security Scotland, devolved payments in Scotland administered by the Department for Work and Pensions (DWP), some payments made by local authorities, and some spending on employability support services.

4.3 The outturn figures in this report are consistent with the Scottish Government's June 2024 provisional outturn statement.[22] The figures are provisional and may change when Social Security Scotland publishes the audited Annual Report and Accounts later this year.

4.4 Total spending on devolved social security in 2023-24 was £5.3 billion. This is 1 per cent higher than our forecast of £5.2 billion. We consider this to be a small error in the context of forecasting social security and a slightly lower level of relative error than in previous years. The main reasons for the error are higher spending on disability payments because of higher than anticipated demand and fewer people than expected having their disability payment awards ended. These factors were partially offset by lower spending because average payment levels for Child Disability Payment (CDP) and Adult Disability Payment (ADP) were lower than we forecast.

4.5 For devolved payments with associated Block Grant Adjustment (BGA) funding, based on the latest estimates, our relative forecast error will be of a similar scale and direction to the OBR's forecast error for England and Wales. Therefore, the difference between spending on payments with a corresponding BGA and the funding received is broadly aligned with our forecasts. In December 2022, we forecast that spending on the relevant benefits would exceed the BGA funding by £194 million in 2023-24, and based on the updated BGAs following the March 2024 Spring Statement we estimate the gap is £225 million.[23]

4.6 Figure 4.1 shows the forecast, outturn, and error for each of the devolved social security payments that we cover, with three sub-totals covering:

- The payments with a corresponding BGA, where spending was £75 million (2 per cent) higher than forecast.

[21] Scottish Fiscal Commission Act 2016 (legislation.gov.uk)

[22] Scottish Government (2024) Budget - provisional outturn 2023 to 2024: Ministerial speech - gov.scot (www.gov.scot)

[23] Scottish Government (2024) Fiscal framework data annex: June 2024

- The other payments administered by Social Security Scotland, where spending was £14 million (2 per cent) lower than forecast.
- Other devolved social security spending, mainly administered by local authorities, where spending was £5 million (4 per cent) lower than forecast.

Figure 4.1: Summary of December 2022 social security forecast errors for 2023-24

Payment [1]	Forecast (£ million)	Provisional outturn (£ million) [2]	Error (£ million)	Relative error (per cent)
Payments with a corresponding Block Grant Adjustment, of which:	4,554	4,629	75	2
Adult Disability Payment	2,690	2,632	-57	-2
Child Disability Payment	328	425	98	30
Scottish Adult Disability Living Allowance	438	445	7	2
Pension Age Disability Payment	614	659	45	7
Carer Support Payment	372	358	-14	-4
Employment Injury Assistance	84	81	-3	-4
Severe Disablement Allowance	6	6	0	-2
Winter Heating Payment	24	23	0	-1
Other Social Security Scotland payments, of which:	546	532	-14	-2
Scottish Child Payment	442	429	-13	-3
Best Start Foods	17	13	-4	-26
Best Start Grant	20	21	2	8
Funeral Support Payment	12	13	1	9
Carer's Allowance Supplement	50	48	-2	-4
Child Winter Heating Payment	5	8	3	65
Other devolved social security, of which:	144	139	-5	-4
Discretionary Housing Payments	84	82	-2	-2
Scottish Welfare Fund	36	36	0	0
Employability Services [3]	25	22	-3	-14
Total social security spending	5,244	5,300	56	1

Source: Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022, Scottish Government, Social Security Scotland.

Figures may not sum because of rounding.

[1] The payment names here use the names of the new Scottish payments, but in some cases spending still fully or partly relates to the DWP-administered payments that they will replace.

[2] Outturn figures are provisional and may change when Social Security Scotland publishes its audited accounts.

[3] Employability Services is an indicative forecast and includes elements for which there is outturn data, specifically spending on Fair Start Scotland.

Understanding our forecast error

4.7 When we finalised our December 2022 forecast, we had monthly financial data for most payments up to October 2022. Statistical data was available up to summer 2022 for Social Security Scotland payments and Personal Independence Payment (PIP), but only up to spring 2022 for the other disability and carer payments administered by the DWP.

4.8 At the time of our forecast, we assumed the economy was in a shallow recession following rises in inflation and interest rates. Recession was in fact avoided, but the higher cost of living and continued high inflation through 2023, which together with the disability prevalence, may have contributed to higher demand for disability payments.

4.9 Since December 2022, we have produced two further forecasts for 2023-24. Figure 4.2 shows the reduction in the forecast error for social security as we have incorporated the additional data and policy information into each of our later forecasts.

Figure 4.2: Performance of later social security forecasts for 2023-24

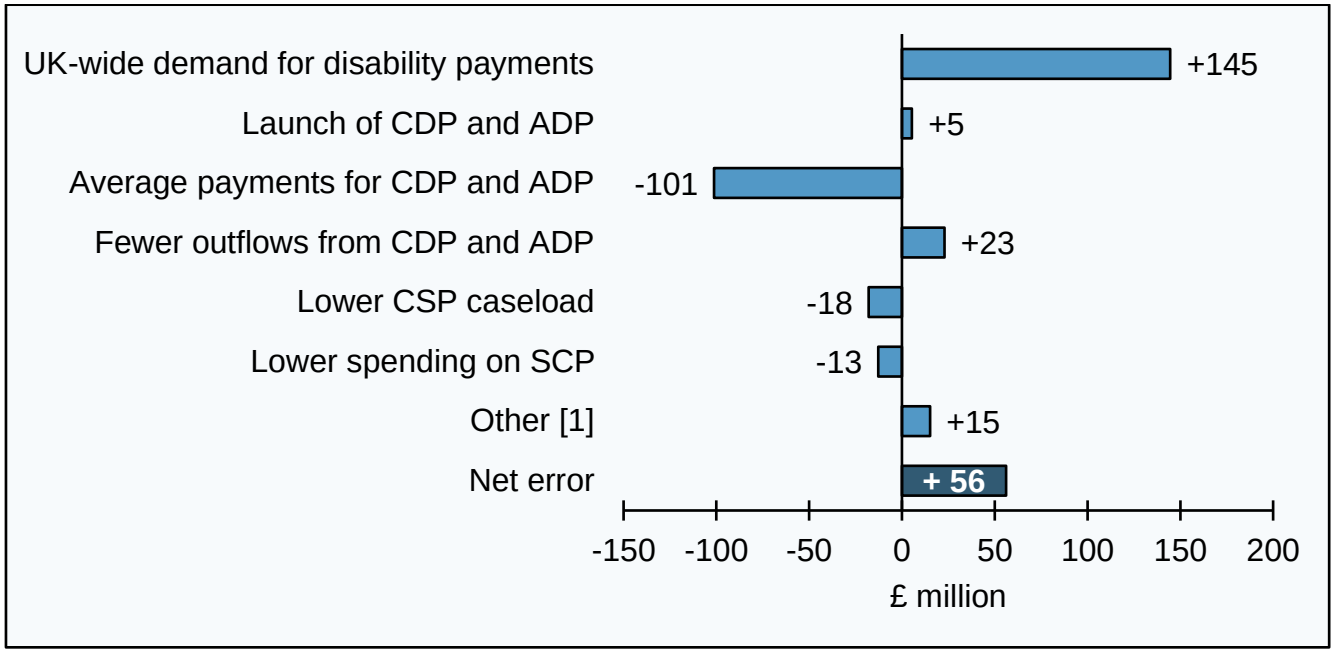
Forecast	Forecast (£ million)	Error (£ million)	Relative error (per cent)
December 2022	5,244	56	1
May 2023	5,290	11	0
December 2023	5,299	1	0

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts.

4.10 We have evaluated our December 2022 forecast to present the elements contributing to the total error of £56 million. Figure 4.3 shows the main sources contributing to the social security spending forecast error in 2023-24.

Figure 4.3: Decomposition of December 2022 social security forecast error for 2023-24

UK-wide higher demand for disability payments contributed the most to forecast error



Description of Figure 4.3: Bar chart shows the errors for social security for 2023-24 in pound millions by main decomposition categories.

Source: Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022, Scottish Government, Social Security Scotland.

Figures may not sum because of rounding.

[1] 'Other' category is the sum of all errors too small to be included in the figure individually.

UK-wide higher demand for disability payments

4.11 In our forecasts of disability payments, we distinguish between the UK-wide rise in demand for disability payments and the effect unique to Scotland resulting from the introduction of CDP and ADP.

4.12 At the time of producing our December 2022 forecast, there had been several months of high levels of successful applications for PIP and ADP across the UK. We introduced a UK-wide demand assumption to reflect these higher trends, increasing our ADP forecast. We assumed higher demand was driven by NHS waiting lists potentially leading to people's health conditions worsening as they wait for treatment, an increasing number of people becoming economically inactive because of long-term sickness, and financial pressures from the cost of living.

4.13 The high volume of applications continued to exceed our higher forecast, and this factor became stronger across all our disability payment forecasts rather than being confined to PIP and ADP. We estimate the higher UK-wide demand across CDP, ADP and Pension Age Disability Payment (PADP) explains £145 million of spending above our forecasts.

4.14 The difference between the CDP forecast and outturn accounts for a large proportion of the forecast error. At the time of our forecast in December 2022, the CDP data from Social Security Scotland was limited, and insufficient to inform our understanding of the higher UK-wide demand effect in Scotland. Statistical data at the time only showed the

number of submitted and successful applications and not the number of applications in payment or their payment award. The data available did not cover all relevant elements of the payment and we could not distinguish between the UK-wide effects and effects unique to Scotland because of the introduction of CDP. We decided not to revise our forecast on partial data in order to reduce the risk of further subsequent revisions. As a result of this, we based our forecast on data from before CDP was launched, so did not capture any UK-wide increase in the disability payments demand, nor the full scale of the higher demand for CDP above the UK trends.

4.15 Our forecast assumptions on the demand for disability payments also affected other related payments. Families with a child or young person under 19 years old who receives the highest rate of the care or daily living component of a disability payment receive Child Winter Heating Payment (CWHP). Accordingly, higher than expected numbers of children and young people receiving disability payments meant that spending on CWHP was higher than forecast.

New applications and the launch of CDP and ADP

4.16 Our forecasts of CDP and ADP were based on our judgements on the effects of operational and delivery changes introduced when these payments launched. One of our main assumptions was that there would be an initial spike in the number of successful applications when the payment launched, and that the award level of approved applications would remain higher than the equivalent payment in the rest of the UK. Our assumptions were relative to the growth in Disability Living Allowance (DLA) for children and PIP in England and Wales. We forecast a short spike at the launch of CDP, and a longer 18-month spike for ADP.

4.17 The combined error for CDP and ADP that we attribute to new applications from the launch of the payments is relatively modest at £5 million, as errors for the individual payments offset each other. The launch of CDP and ADP does seem to have led to a rise in successful applications relative to the payments replaced, meaning our general judgement was broadly correct.

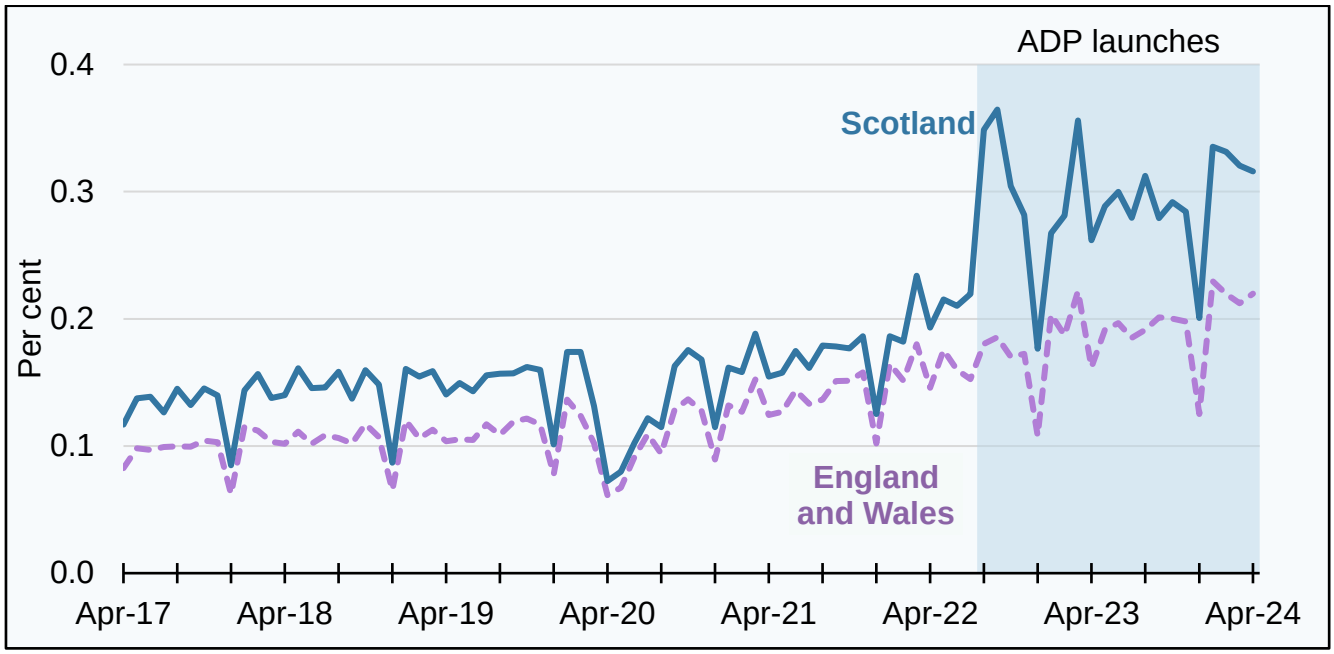
4.18 Data from Social Security Scotland shows that, in comparison to DLA for children in England and Wales, the number of approved applications to CDP has grown at a faster rate than we had initially forecast, and the number of applications has remained at a high level. This has contributed £49 million to the total error of spending being higher than forecast.

4.19 We have also observed an increase in the number of applications received for ADP compared to PIP in England and Wales since the start of the ADP pilot. Figure 4.4 shows that there was a large increase in ADP applications when it launched in mid-2022 and that the higher level of applications largely persisted throughout 2023. Based on our analysis of application volumes and approval rates, we consider that the assumptions we made in December 2022 on the number of approved applications are broadly consistent with the observed data on applications received.

4.20 We estimate there is a negative £44 million forecast error associated with our assumptions for ADP applications. We think this is explained by Social Security Scotland taking longer to process ADP than we expected, which may have resulted in some of the spending being displaced from 2023-24 to the next financial year.

Figure 4.4: Monthly applications to PIP and ADP as percentage of the population aged 16 to 65

Applications per person for disability payments has been higher in Scotland than in England and Wales



Description of Figure 4.4: Line chart shows the number of applications as percentage of the population aged 16 to 65 in Scotland and England and Wales.

Source: Scottish Fiscal Commission.

Average payments for CDP and ADP

4.21 We expected that the changes to information collection and decision-making for ADP and CDP, compared to the payments they replaced, would lead to Social Security Scotland making higher awards to new applicants.

4.22 In contrast, while we have observed an increase in applications, there was a decrease in the average payment award received by the new applications to CDP and ADP in comparison to the respective payments in England and Wales. The lower average payment award for new applications has reduced the overall average payment award for CDP and ADP. We estimate this effect led to the outturn for these payments being £11 million and £90 million lower than forecast, respectively.

4.23 We have observed a change in the ADP payment award distribution compared to PIP. We have seen a notable increase in the number of new approved applications in receipt of lower payment awards, and an increase in the higher payment awards, with fewer mid-value payment awards. The overall result of this is that the average payment level for ADP is lower in Scotland than the level for PIP in England and Wales, and lower than we forecast in December 2022. We think that there may have been an increase in the average payment award of those clients who would have been eligible for PIP in the absence of ADP. However, it seems that the average payment for the additional applications for those who would now be successful under the newly launched ADP but not PIP tends to be lower.

Fewer outflows from CDP and ADP

4.24 There have been fewer people who stopped receiving payment (outflows), than we expected from CDP and ADP. We estimate that this contributed £23 million to our forecast error.

4.25 We think the lower outflows are a result of fewer people than expected having their award ended at review. In our CDP and ADP forecasts, we assumed that, because of the introduction of light-touch reviews with those payments, fewer people will have their award ended at review under CDP and ADP than would have under DLA for children and PIP. This leads to higher spending as people continue to receive payments for longer.

4.26 The lower-than-expected outflows suggest the effect of light-touch reviews could be stronger than anticipated. We expect Social Security Scotland to publish data on the outcome of award reviews in their quarterly publication from September 2024. We will incorporate this data into our next forecasts, which will better reflect the lower number of clients leaving the caseload in CDP and ADP.

Lower CSP caseload

4.27 Spending on Carer Support Payment (CSP) was £14 million lower than we forecast as fewer people received the payment than forecast.

4.28 Part of this error can be explained by lower-than-assumed award levels for disability payments. The eligibility for CSP relies on the cared for person receiving a certain level of disability payment. With a higher-than-expected proportion of successful new applications to CDP and ADP being at a lower award level that is not eligible for CSP, the CSP caseload was lower than we forecast in December 2022.

4.29 As carers are required to wait for the person they are caring for to be receiving a disability payment before they can receive CSP, we think this led to the caseload building up more slowly than we forecast. We expect this to be a temporary effect, however, this could mean that spending we had forecast for 2023-24 falls into 2024-25.

Lower spending on SCP

4.30 Spending on Scottish Child Payment (SCP) was £13 million lower than we forecast. This was primarily because the number of children eligible was lower than we forecast, partly offset by a higher take-up rate.

Comparison against the OBR forecasts and BGA funding

4.31 The OBR will report on its forecasting accuracy later this year. Comparison of the OBR's November 2022 forecasts against the OBR's March 2024 forecasts and DWP's annual report and accounts, suggests that the OBR's forecast error for disability and carer payments in England and Wales 2023-24 was around 1 per cent.[24] Our error for the disability and carer benefits with a corresponding Block Grant Adjustment (BGA) was closer to 2 per cent, mainly because we had a large forecast error associated with CDP.

[24] UK Government (2024) DWP annual report and accounts 2023 to 2024

4.32 Our forecast error is likely to be partly matched to the corresponding BGA funding by reconciliations that take account of the OBR's forecast error. Final BGAs and reconciliations are not yet available, but funding for 2023-24 has already been increased by £45 million through in-year reconciliations based on the OBR's November 2023 forecasts.[25]

4.33 The gap between spending and BGA funding, which we describe as the net position, does appear to be widening in line with our forecasts. In December 2022 we forecast that spending on the relevant benefits would exceed the BGA funding by £194 million in 2023-24, and based on the March 2024 BGA we estimate the gap is £225 million.

4.34 It is not possible to accurately evaluate the elements that contribute to the change in the net position as it depends on the OBR's forecast assumptions. However, the following elements contributed to the difference between December 2022 forecasts and latest estimate of the 2023-24 net position:

- Both, the OBR and the SFC, have under-forecast the effect of the UK-wide increase on the adult disability payments. As these forecast errors should be similar in scale they should have a minimal impact on the net position error.
- The OBR allowed for an additional increase in the number of successful applications for DLA for children in their forecast to reflect the UK-wide increase in applications post COVID-19 and we did not. In addition, we underestimated the number of additional applications to CDP as a result of the operational and delivery changes introduced by the Scottish Government. These factors led to us under-forecast the CDP and therefore resulted in an underestimate of the December 2022 net position.
- We overestimated the effect of the new applications to CDP and ADP on the average payment level but underestimated the effect of the launch of CPD and ADP on the rate of outflows. The average payments award has been lower than we forecast in December 2022, but we have seen fewer outflows than initially forecast. The combined effect of these elements results in an overestimate of the net position in December 2022.

Historical forecast performance

4.35 Figure 4.5 summarises our one-year ahead overall social security forecast errors for 2018-19 onwards. The forecasts for 2018-19 were our first forecasts of social security and there was a large error as a result of Carer's Allowance not being devolved until September 2018 but our forecasts being for a full year of spending. However, this error did not have any fiscal consequences as our forecast was not included in the 2018-19 Budget.

4.36 In each of the last five years, outturn has been higher than we forecast by between 0 per cent and 3 per cent. While we appear to have consistently under-forecast social security spending, there is no clear systematic error that applies to all years of our forecasts. For 2020-21 through 2022-23 around 1 percentage point of the forecast error in each year was a result of the Scottish Government policy changes announced after

[25] Scottish Government (2024) Scottish Budget 2023 to 2024: spring budget revision

the relevant budget, which increased spending. The lower relative error in the most recent year reflects the fact that there were no such policy changes in 2023-24.

4.37 For 2020-21 and 2021-22 the errors were largely a result of the effect of the COVID-19 pandemic through additional Scottish Government spending to support people and higher than anticipated spending on the Self-Isolation Support Grant (SISG).

4.38 From 2021-22 there has been higher than expected demand for disability benefits. This is an area where we are closely monitoring new data and research to continue to improve our understanding of the trends in disability payments to reduce future forecast error.

Figure 4.5: Average of reported one-year ahead social security forecast errors

Forecast	Budget year	Main reason for error	Forecast (£ million)	Error (£ million)	Relative error (per cent)
December 2022	2023-24	CDP forecast was too low because of unexpected demand and data limitations.	5,244	56	1
December 2021	2022-23	UK-wide higher demand for disability payments.	4,065	128	3
January 2021	2021-22	Higher spending on SISG as COVID-19 infections were more widespread than expected and more people receiving PIP than forecast.	3,618	64	2
February 2020	2020-21	Additional spending by the Scottish Government in response to COVID-19.	3,435	100	3
December 2018	2019-20	Higher eligibility and take-up for Best Start Grant and Best Start Foods.	458	2	0
December 2017	2018-19	Carer's Allowance was devolved five months later than assumed in forecasts.	424	-121	-29
Average error – including 2018-19	blank	blank	blank	38	-3
Average absolute error including 2018-19	blank	blank	blank	78	6
Average error – excluding 2018-19	blank	blank	blank	70	2

Source: Scottish Fiscal Commission – Forecast Evaluation Reports.

We summarise our latest forecast error comparing each forecast against the latest outturn, rather than the outturn available at the time we first evaluated the forecast. This approach is consistent with the OBR's approach and ensures that each forecast is evaluated against the most accurate estimate of spending outturn.

Figures may not sum because of rounding.

Conclusions

4.39 The largest contribution to our social security forecast error in 2023-24 was higher spending on disability payments associated with higher demand than we forecast, a trend which has also arisen for disability payments in the rest of the UK. Although we adjusted our forecasts in December 2022 to try capture the higher demand, it continued to exceed our expectations. As this also contributed to forecast errors in 2021-22 and

2022-23, it is an area where we are closely monitoring new data and research to improve our forecasts.

4.40 Alongside the higher demand for disability payments, for 2023-24 there have also been errors associated with our forecasts from the effects of Scottish Government policy and delivery changes made at the introduction of CDP and ADP. The policy costing for these payments was based on a wide range of assumptions on how policy delivery and operational changes would affect spending. While our broad judgment on the effect of these changes on spending was correct, we have identified divergences in our assumptions on average award levels, successful new applications, and the outcome of award reviews.

4.41 We understand that in upcoming publications Social Security Scotland will include statistics on the outcome of award reviews for disability payments. Incorporating this data in our forecasts will mean we can better reflect recent trends in outflows for CDP and ADP.

4.42 Despite these differences in our disability payment forecast, the difference between social security outturn for payments with BGAs and the latest estimates of BGA funding, is broadly in line with the scale we forecast in December 2022. In our December 2023 forecast we presented analysis evaluating some of our judgements on the effect of Scottish Government changes.[26] We will continue to build on this analysis to improve our forecast.

[26] Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023

Additional information

Abbreviations

ADP	Adult Disability Payment
ADS	Additional Dwelling Supplement
APS	Annual Population Survey
BGA	Block Grant Adjustment
BoE	Bank of England
CDP	Child Disability Payment
CSP	Carer Support Payment
DLA	Disability Living Allowance
DWP	Department for Work and Pensions
FER	Forecast Evaluation Report
GDP	Gross Domestic Product
HMRC	His Majesty's Revenue and Customs
LBTT	Land and Buildings Transaction Tax
LDT	Landfill Disposals Tax
LFS	Labour Force Survey
NDR	Non-Domestic Rates
NHS	National Health Service
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Cooperation and Development
ONS	Office for National Statistics
PADP	Pension Age Disability Payment
PCA	Provisional contributable amount
PIP	Personal Independence Payment
PUT	Public Use Tape
QNAS	Quarterly National Accounts Scotland
RTI	Real Time Information
RV	Rateable Value
SBBS	Small Business Bonus Scheme
SBTR	Small Business Transitional Reliefs
SDN	Statement of Data Needs
SFC	Scottish Fiscal Commission
SG	The Scottish Government

SISG	Self-Isolation Support Grant
SLCF	Scottish Landfill Communities Fund
SLfT	Scottish Landfill Tax
UK	United Kingdom

A full glossary of terms is available on our website: Glossary | Scottish Fiscal Commission.

Professional standards

The SFC is committed to fulfilling our role as an Independent Fiscal Institution, in line with the principles set out by the Organisation for Economic Cooperation and Development (OECD).[27]

The SFC also seeks to adhere to the highest possible standards for analysis. While we do not produce official statistics, we voluntarily comply as far as possible with the UK Statistics Authority's Code of Practice for Statistics. Further details and our statement of voluntary compliance can be found on our website.[28]

Correspondence and enquiries

We welcome comments from users about the content and format of our publications. If you have any feedback or general enquiries about this publication or the SFC, please contact info@FiscalCommission.scot. Press enquiries should be sent to press@FiscalCommission.scot.

All charts and tables in this publication have also been made available in spreadsheet form on our website. For technical enquiries about the analysis and data presented in this paper please contact the responsible analyst:

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[27] OECD (2014) Recommendation on Principles for Independent Fiscal Institutions - OECD

[28] Scottish Fiscal Commission (2022) Statement of Voluntary Compliance with the Code of Practice for Statistics and Error Policy | Scottish Fiscal Commission

This publication is available at www.FiscalCommission.scot

ISBN: 978-1-911637-70-7

Published by the Scottish Fiscal Commission, August 2024