

## Should anyone care about the Fiscal Framework Outturn Report?

As most people who read this blog will know, the increasing dependence of the Scottish budget on tax revenues means that Scottish budgets are increasingly determined by *forecasts* of tax revenues.

There will almost always be a degree of error associated with these forecasts. Following the end of a financial year, once revenue outturn data is available, we will know whether the Scottish Government actually had more resources at its disposal than had been forecast, or fewer.

A complication in this analysis is that the Scottish budget is not only dependent on forecasts of *Scottish tax revenues*. It is also dependent on forecasts of the '*block grant adjustments*' (BGAs) - these BGAs are effectively estimates of the revenues that the UK Government has foregone as a result of transferring each tax to Scotland. The BGAs are deducted from Scotland's block grant.

The BGAs contained in each Scottish budget are determined by forecasts of the growth of equivalent taxes in the rest of the UK. In the same way that there is likely to be forecast error associated with Scottish revenues, there is likely to be forecast error associated with the BGAs.

How these two sets of forecast error - for Scottish revenues and for the BGAs - effect the resources available to the Scottish budget is the subject of the [Fiscal Framework Outturn Report](#) which was published by the Scottish Government yesterday. As far as government reports go it is relatively short, although given the complex nature of the fiscal framework it nonetheless provides a stern test of the reader's concentration.

The essence of what the report says for the 2017/18 financial year can be summarised as per the table below.

The first three columns show the position when the Budget for 2017/18 was set (i.e. based on the forecasts at that time). Land and Buildings Transactions Tax (LBTT) was forecast to raise £507m, which was slightly less than the £545m forecast for the BGA. According to these forecasts therefore, the Scottish budget was expected to be worse off by around £38m than it would have been without devolution of LBTT, given somewhat slower forecast growth of Scottish revenues compared to the equivalent rUK tax.

For Landfill Tax the position was reversed, so that the forecast for Scottish revenues was slightly higher than the forecast of the BGA.

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What happened to actual revenues? This is shown in the second three columns. LBTT outturn revenues turned out to be £50m higher than forecast. But outturn rUK revenues were also higher than forecast, so the BGA was higher than forecast too. Ultimately, LBTT revenues were lower than the BGA, but not by as much as had been forecast (the gap had been forecast at -£38m, but it turned out to be just -£27m). So in terms of LBTT, the Scottish Government had £11m more revenues than it had budgeted for.

For Landfill Tax, the Scottish budget also ended up being in a slightly better position than forecast. The gap between revenues and the BGA had been forecast at £30m in Scotland's favour, but ended up being £35m in Scotland's favour.

Overall, for the 2017/18 financial year, the Scottish budget was set on the basis that revenues from LBTT and Landfill Tax would be £8m less than the BGA; whereas outturn data reveals the Scottish revenues to be £8m higher than the BGAs, an improvement on the budget position of £16m.

**Table 1: Forecast and outturn revenues and BGAs, 2017/18 Budget £m**

	Budget forecast			Outturn		
	Revenues	BGA	Difference	Revenues	BGA	Difference
LBTT	507	545	-38	557	584	-27
LfT	149	119	30	148	113	35
Total	656	664	-8	705	697	8

*(Technical point for budget wonks: There is a further complication in terms of the timing of these reconciliations. The Scottish Government collected the additional £50m LBTT revenues during financial year 2017/18, and likewise for Landfill Tax. The BGA is updated twice following the Budget Act: first it is updated half-way through the 2017/18 financial year based on an updated forecasts for rUK Stamp Duty and Landfill Tax revenue outturn, and this update is applied to the Scottish block grant in 2017/18; the second update happens in the 2018/19 financial year, once full rUK outturn data is available, and this update is applied to the Scottish block grant in 2019/20. This means that some of the BGA reconciliation for 2017/18 is still to take effect. Specifically, the Scottish block grant in 2019/20 will be reduced by £2m to reflect reconciliations of the 2017/18 BGA forecasts to outturn. Further details are provided in the FFOR).*

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If you have managed to read this far, you may well be thinking ‘This seems a tediously dull way of making inconsequential adjustments to the Scottish budget, and my life would be better spent thinking about more important issues’. This would be a perfectly reasonable view - in the context of a £27bn resource budget, adjustments of £10m here and there are so small that they will largely be lost in rounding - they will certainly not affect spending plans given the typical scale of annual underspending (upwards of £100m).

However, in future years these reconciliations have the potential to become far more significant. No outturn data is yet available for income tax in 2017/18 (there is a much longer lag in outturn availability), but there is scope for substantial revisions to the income tax forecasts. Indeed the latest forecasts for income tax revenues and the income tax BGA imply that the Scottish budget for 2018/19 could be several hundreds of million pounds worse off than when the budget was set.

Layered on top of this is the scope for forecast error in relation to assigned VAT, once that comes on stream in 2020/21, and for forecast error in relation to spending on the new social security benefits.

In short, future iterations of the Fiscal Framework Outturn Report could have substantial ramifications for the Scottish budget, with consequences for spending plans, use of reserves, and borrowing. So whilst this year’s FFOR might be of interest to budget wonks only, future versions will definitely be something to take interest in.