

# Finance and Public Administration Committee

**25th Meeting, 2023 (Session 6), Tuesday 3  
October 2023**

## Fiscal Framework Outturn Report

### Introduction

The Fiscal Framework Outturn Report (FFOR) was published on 29 September 2023. This report is published annually following a recommendation made by the Budget Process Review Group (BPRG).

The purpose of the FFOR is to show how actual receipts collected for devolved/shared taxes and actual spend on social security compare with the forecasts made at the time the budget was set.

Across the range of these devolved powers, the document sets out the level of either positive or negative “reconciliation” to be applied to the upcoming budget.

The document sets out the provisional closing balance for 2022-23 in the Scotland Reserve (the Scotland Reserve is the account into which underspends or surplus tax receipts can be placed).

The FFOR also contains information on planned borrowing and overall borrowing levels relative to the borrowing limits set in the [Fiscal Framework](#).

The FFOR has a specific role to play in the pre-budget scrutiny process envisaged by the BPRG. Publication of this outturn information allows the Finance and Public Administration Committee the opportunity to question the Cabinet Secretary around how the Scottish Government intends to handle any negative or positive “reconciliations” in the upcoming Budget.

Members should note that the majority of data in the report is provisional. In a letter to the Committee, the Minister for Community Wealth and Public Finance states:

“As the publication of the majority of final outturn data has been delayed until later this year, this report uses provisional Scottish outturn for 2022-23 Land

and Buildings Transaction Tax (LBTT), Scottish Landfill Tax (SLfT) and Social Security benefits expenditure. The equivalent BGA data is also on a provisional basis for Social Security, although LBTT and SLfT data is final. With income tax both the 2021-22 revenue outturn and BGA can be considered final. An update will be sent to the Committee once the remaining data is finalised later in the year.”

Members may wish to seek additional information on this, and any insights into the likely scale of changes that may come when the final outturn data is available.

The report notes that “differences in timing of the Census in Scotland compared to the rest of the UK” means that 2021 population estimates for Scotland and rUK are not available on a consistent basis:

“As such, the Block Grant Adjustments remain provisional, and will be revised once the Scottish Census 2022 results are available for the ONS to incorporate into their mid-year estimates. An additional reconciliation will then be required to account for this final population data, at a date to be determined.

The Scottish Government and HM Treasury have agreed that the mid-2020 estimates will continue to be used for all upcoming fiscal events until the population data is revised.

Although some initial census population estimates for Scotland in 2021 have now been published by the National Records of Scotland (NRS), it will take time for this information to be incorporated into the official ONS population estimates used in the Scottish Fiscal Framework, including revisions to the back-series of population estimates going back to 2011”

Again, members may wish to discuss the likely scale of revisions to come.

## Key points from FFOR

Notwithstanding the provisional nature of the data underpinning the report, key points for members to note are as follows:

- The total net provisional reconciliation applying to the 2024-25 Budget will be negative at £331.6 million
- This is largely arising from a negative income tax reconciliation of £389.9 million, offset by a combined positive reconciliation of £58.3 million from Land and Buildings Transaction tax (LBTT); Scottish Landfill tax (SLfT), Social Security benefits spending and Fines, Forfeitures and Fixed Penalties (FFFP)
- The FFOR reports a provisional residual balance in the Scotland reserve for 2022-23 of £245 million
- Capital debt will total £2.3 billion by the end of 2024-25. This is 77% of the £3 billion limit. Capital debt is expected to reach 85% of the limit in 2029-30. Last year (2022-23) the Scottish Government borrowed £300 million from the

National Loans Fund to be repaid over 15 years at an interest rate of 3.48%. The compares to borrowing in 2021-22 of £150 million to be repaid over 20 years at an interest rate of 1.44%.

- In 2022-23 the Scottish Government borrowed £47 million for forecast errors. This was borrowed from the National Loans Fund at a rate of 3.68% to be repaid over five years. Outstanding debt from resource borrowing was £480 million at end of 2022-23 (the cumulative Resource borrowing limit is £1.75 billion).

As members know, the Fiscal Framework between the Scottish and UK governments was updated over the summer. The new arrangements will apply from 2024-25, meaning that the current Fiscal Framework will still apply for 2023-24. The FFOR sets out the following helpful table outlining the before and after 2024-25 arrangements.

	2016/17-2023/24	2024/25 onwards
<b>BGA Mechanism</b>	Run both Indexed per Capita (IPC) and Comparable methods, but only use the IPC method in practice	Simplify: put IPC on a permanent basis
<b>Resource borrowing</b>	Up to £300m p.a. to cover forecast error , £1.75bn cumulative	Up to £600m p.a. to cover forecast error, £1.75bn cumulative, both indexed to inflation
<b>Capital borrowing</b>	Up to £450m, p.a.; £3bn cumulative cap	Up to £450m p.a., £3bn cumulative cap, both indexed to inflation
<b>Reserve drawdown limits</b>	£250m resource; £100m capital	Abolished
<b>Overall reserve limit</b>	£700m	£700m indexed to inflation
<b>VAT Assignment</b>	The two Governments have agreed that VAT assignment will be implemented in 2019-20.	How and when to implement VAT Assignment will be discussed at a future Joint Exchequer Committee
<b>Crown Estate</b>	Deduction to the block grant of £6.6m p.a.	Deduction to the block grant profiled at £10m / £10m / £15m/ £20m / £40m. Fixed in nominal terms at £40m beyond.
<b>Fines and penalties</b>	Block Grant Adjustment to fines and penalties revenue	Flat annual deduction to the block grant
<b>Coastal Communities Fund</b>	No mention	Absorbed into Barnett (no immediate impact on SG)
<b>Scotland Specific Economic Shock</b>	Up to £600m resource borrowing capacity when triggered	Abolished

## Income tax policy and receipts

In the narrative on the income tax reconciliation, the FFOR states in paragraph 35:

“The SFC estimate that Income Tax policies implemented since 2017-18 have raised up to £750 million in 2021-22, when compared with matching Income Tax policy in the rest of the UK. However, relatively weaker economic performance alongside differences in the income distribution have partly offset this. Therefore, the overall benefit of Income Tax devolution to the Scottish Budget in 2021-22 has been £85 million.”

Members may wish to discuss this issue with the Cabinet Secretary and plans for improving economic performance and earnings relative to the rest of the UK.

## **Proceeds of crime**

The FFOR notes that the basis on which the block grant adjustment (BGA) for revenues raised under the Proceeds of Crime Act 2002 remains a subject of dispute between the Scottish and UK Governments. As such “no reconciliation takes place while the BGA remains subject of dispute”.

It is relatively small amounts of money, but members may wish to seek an update on this issue, why it wasn't included in the Fiscal Framework review and likely timescale for any resolution.

**Ross Burnside, Senior Research Specialist, SPICe Research  
29 September 2023**