

Witness Name: Professor
Graeme Roy
Statement No.: 1
Exhibits: GR/1 – GR/24
Dated: 16/09/2025

UK COVID-19 INQUIRY

WITNESS STATEMENT OF PROFESSOR GRAEME ROY

I, Professor Graeme Roy, will say as follows: -

Introduction

1. This statement has been prepared by Professor Graeme Roy. I was appointed to the Scottish Fiscal Commission on 1 June 2022 and took over as Chair of the Scottish Fiscal Commission at the end of the month when my predecessor departed.
2. The statement has been prepared with the assistance of Jonathan Ireland, who has been Chief Executive since May 2017, and Claire Murdoch who is currently Head of Fiscal Sustainability and Public Funding at the Commission and has been a member of staff since 2016. Both worked on our publications throughout the pandemic period.

The SFC outside a time of national emergency

3. The SFC is Scotland's official economic and fiscal forecaster. It was established by the Scottish Fiscal Commission Act (2016) which is exhibited as GR/01[INQ000617018]. The Commission is a non-ministerial office of the Scottish Administration. It is independent of the Scottish Government and responsible to the Scottish Parliament principally through the Finance and Public Administration Committee and its predecessor the Finance and Constitution Committee.

SFC Mandate, Key functions and Funding

4. The SFC's statutory duty is "to prepare forecasts and assessments to inform the Scottish budget". It is required to publish two 5-year forecasts each financial year. The forecasts

include Scottish GDP, receipts for the devolved taxes, non-domestic rates and Scottish income tax as well as expenditure on devolved social security payments (Section 2.2). We are also required to assess the reasonableness of the Government's projections of their borrowing requirements.

5. The SFC is also required by statute to publish an annual forecast evaluation (Section 4). This has typically been published in August.
6. The Act also gives the SFC the power to produce reports on "fiscal factors" which are factors that affect the financial resources available to Scottish Ministers (Section 2.4). We have used this power to publish costings of policy changes by the Government and since March 2023 reports on fiscal sustainability with 50-year projections.
7. In carrying out its work the SFC must have regard to the policies of the Scottish Government, but may not consider the effect of any alternative policy (Section 2.7).
8. The SFC has a right of access to any relevant information held by the Scottish Government (Section 10).
9. The Scottish Government funds the SFC. In 2019-20, the year before the pandemic, our funding was £1,933,000. This rose to £2,303,000 in 2022-23 to allow for our additional work on fiscal sustainability.

Core Work of the SFC

10. The core work of the SFC consists of the production of its Scottish Economic and Fiscal Forecasts (SEFF) to support the Scottish Government's Budget (typically in December) and Medium-Term Financial Strategy (MTFS) (typically in May). We also produce an annual forecast evaluation report (typically late August or early September) that provides a discussion of the performance of our Budget setting forecasts. The process behind the preparation of the SEFF is described in detail below.
11. We started to publish Fiscal Updates in April 2020. The purpose and focus of these updates have evolved over time. The original motivation was to consider how the public health restrictions associated with COVID would affect the Scottish Budget and highlight the uncertainties. We thought this was particularly important given the absence of a SEFF in May 2020 and I say more about this later when I discuss the Commission's work during the pandemic.

12. We publish Supplementary Costings when the Scottish Government introduces legislation to change devolved taxes or social security payments outside of a Budget. These costings became a regular feature of our work during the pandemic and the process behind these costings is set out in detail in our Protocol with the Scottish Government. It typically involves our being notified by the Government of their intention to introduce legislation and final policy being shared by the Government at least 10 days in advance. We provide draft costings at least 6 days in advance and final costings 2 days in advance.
13. Following a recommendation by the Organisation for Economic Cooperation and Development (OECD) and in the legacy report of the Scottish Parliament's Finance and Constitution Committee we started to publish Fiscal Sustainability Reports that included long term (50-year) projections of funding and spending in March 2023 with the second report being published in April 2025. In the years between projection reports we plan to publish Fiscal Sustainability Perspectives reports. The first of these reports on Climate Change was published in March 2024. The process behind these reports involves regular conversations with Scottish Government analytical and policy teams as work on the reports progress. Towards the end of the process we typically arrange meetings with senior Scottish Government officials to discuss the reports. There is also a formal process where we ask the Scottish Government to fact check the draft report.
14. We produce a biennial Statement of Data Needs that outlines the data we need to produce our work. It makes recommendations to data providers on how that data can be improved.
15. Our analysts from time to time produce Occasional Papers that explain how we tackle particular forecasting issues.
16. We also publish an Annual Report and Accounts five to six months after the end of the financial year, a business plan at the start of the financial year, and a corporate plan every three years.

Key Working Relationships: Scottish Government and Social Security Scotland

17. In producing our forecasts and costings the key working relationship is with Scottish Government and Social Security Scotland officials. In formal terms this relationship is governed by the Protocol signed by Scottish Ministers and the Commission's chair. The Protocol in force at the start of the pandemic was signed in September 2019 and is exhibited as GR/02 [INQ000617005].

18. The Protocol required that we were given 10 weeks notice of a fiscal event (the publication of either a Budget or a MTFS) and that we and the Government agree a forecast timetable following the suggested one in the Protocol.
19. The agreed timetable will typically include three forecasts rounds where we provide the Government with the current versions of its economic, tax and social security forecasts to assist them in preparing their Budget or MTFS. The forecasts are provided in confidence and may change between rounds as new data is published or other new information is received. If the Government has provided us with provisional changes in tax or social security policy we will include costings alongside the forecasts.
20. Each forecast round involves a written information request by the SFC that is completed by Scottish Government officials before we start work on the round. Once the round is complete we provide forecast round notes which include policy costings to the Government. The round notes and costings are “work in progress” and do not represent the Commissioners’ final judgements nor the final policy decisions of Scottish Ministers. The exchanges are provided in confidence to allow the Commissioners and Government officials a safe space to develop their judgements and policies. There is typically a Round Meeting after each forecast round attended by the Commissioners, SFC staff and Government officials. The discussion at these meetings are not minuted.
21. The forecast timetable will include cut offs for the inclusion of new data in our economic and fiscal forecasts (typically 15 days in advance of publication) as well as a deadline for policy changes by the Government (typically 13 days in advance of publication). Once the forecasts are closed (typically 7 days in advance of publication) we provide the Government with the final forecasts and policy costings.
22. The Protocol also provides for the provision of draft chapters of our forecast report with Government officials for fact checking. We fact check extracts of draft chapters of the Government’s Budget or MTFS documents as well as other documents the Government may publish alongside its principal documents.
23. We provide Scottish Ministers with a near-final draft of our report 4 days in advance of publication and a pre-release copy 1 day in advance of publication. The Cabinet Secretary for Finance will have a short conversation with our Chair typically a day or so before publication of the Budget. We do not hold notes of these meetings.
24. The Protocol guides our relationship with the Scottish Government closely. It is revised regularly to reflect developments in our relationship, particularly when our functions

change or develop. There is provision in the Protocol (paragraph 15) for changes to the agreed timetable subject to the agreement of both parties. This provision has been used frequently during Budget forecasts to allow some flexibility in the deadlines for policy measures and in the provision of reports for fact checks.

25. Social Security Scotland officials are involved in our social security forecasts in a similar way to Scottish Government officials. They contribute to information request returns, attend forecast meetings and fact-check the relevant parts of our reports.
26. Our reports and the judgements on which they are based are collective decisions of all our Commissioners. The judgements and the forecast commentary, including the assessment of the reasonableness of the Government's borrowing requirement are not finalised until publication. We regard the published report as the definitive statement of the Commissioners' judgements. Earlier Round Notes, drafts etc are regarded as provisional working documents.
27. We do not provide advice to the Scottish Government. Our publications contain analysis and commentary on the Government's budgetary policies and highlight risks the Government may face.

Key working relationships: Scottish Parliament

28. The SFC is responsible to the Scottish Parliament principally through the Finance and Public Administration Committee from May 2021 and prior to that the Finance and Constitution Committee. We give evidence to this Committee several times a year, typically following the publication of a major report. We also regularly give evidence to the Social Justice and Social Security Committee and its predecessors. Committees in the Scottish Parliament, like those in the UK House of Commons are cross-party and reflect the party composition of the Parliament.
29. Our analytical staff regularly meet with officials in the Parliament's Financial Scrutiny Unit who are responsible for providing information and analysis to Members of the Scottish Parliament.

Key working relationships: Office for Budget Responsibility

30. We have a close working relationship with the Office for Budget Responsibility and signed a Memorandum of Understanding (MoU) with them in January 2019 which is exhibited as GR/03 [INQ000617003]. There is frequent contact between the staff of both

organisations. I will speak with the Chair of the Budget Responsibility Committee several times a year, typically following the publication of their forecasts.

31. Our economic forecasts for Scotland are informed by the UK forecasts published by the OBR particularly when the time interval between publications is small. For example, our inflation forecast often matches the OBR's. We also make use of the OBR income tax costings for policy changes that apply across the UK, for example new measures on compliance. Similarly, we make use of elements of the OBR social security forecasts when they contain information relevant to devolved payments.

32. Although the preparation periods for our forecasts and the OBR's often overlap we typically have very limited knowledge of the content of the OBR forecasts until publication, which is usually before we publish our forecasts. Any pre-publication information shared by the OBR will relate to pre-measures forecasts and not to policy costings.

Key working relationships: Others

33. Scottish Local Authorities play no direct part in the production of our forecasts or other reports. Typically, we do not involve Audit Scotland in the production of our forecasts, although we have regular liaison meetings with their staff. We have a MoU with Audit Scotland exhibited as GR/04 [INQ000616999] but this was signed in October 2024.

34. Revenue Scotland collects Scotland's devolved taxes and provides us with data on tax receipts. There is informal contact between our staff and statisticians in Revenue Scotland in relation to this data and its interpretation. Revenue Scotland statisticians may attend Round Meetings from time to time. We signed a MoU in September 2017 which is exhibited as GR/05 [INQ000617004].

35. We speak with HM Treasury officials about funding arrangements for the Scottish Government and have regular liaison calls. We may contact them with specific queries and will provide extracts of our reports for fact checking when we discuss funding arrangements. We have a MoU with HM Treasury exhibited as GR/06 [INQ000617002] but this was signed in August 2022.

36. The Scottish Government assumed executive competence for paying all devolved social security payments in April 2020, although some payments were devolved before this date. This meant that initially the Scottish Government paid the Department for Work and Pensions (DWP) to deliver these payments in Scotland and we were required to forecast

their cost. This meant we relied on the DWP for data and we signed a MoU for this purpose in May 2019 exhibited as GR/07 [INQ000617000] that was revised in 2021 and 2023. Our direct contact with DWP analysts was in connection with data provision. We had indirect contact with DWP analysts preparing OBR social security forecasts through our attendance at OBR Challenge Meetings.

37. We have had ongoing contact with HMRC in relation to data and analytical work on Scottish Income Tax and VAT assignment. The main channel of communication was through regular liaison calls involving HMRC, Scottish Government officials and ourselves. We signed a MoU with HMRC in June 2018 and revised in 2019 exhibited as GR/08 [INQ000617001] covering the sharing of data and information, developing data sources for modelling taxes in Scotland and developing models and analysis of taxes in Scotland. We had indirect contact with HMRC analysts preparing OBR Scottish Income Tax forecasts through our attendance at OBR Challenge Meetings.

38. We make use of the Bank of England's Agents report in our general contextual and in the early days of the Commission's work we used to speak with the Agent for Scotland about his views on the economy.

39. We rely heavily on the Office for National Statistics for data that feeds into our forecasts. However, direct contact with their statisticians is limited.

External expertise

40. With an analytical staff of around 17 in 2019-20 we were fortunate in being able to rely on our staff to inform the Commissioners in their work. The close working relationship the staff have built up with Scottish Government analysts and policy teams extends the resources we can draw on. We also make use of published reports (and webinars) by a range of "think tanks" including the Fraser of Allander Institute, the Institute for Fiscal Studies, the Institute for Government and the Resolution Foundation. We have occasionally drawn on the Institute for Chartered Accountants in Scotland and the Chartered Institute of Taxation for technical advice on tax issues.

41. We have also engaged with the Scottish Commission on Social Security, for example following the launch of the Adult Disability Payment during the pandemic, we discussed our approach to forecasting the new payment and the effects of the pandemic on social security data.

42. My fellow Commissioners and I also have extensive academic and other networks across the UK that we draw on to inform our views.

International partners

43. We have had a long standing and fruitful relationship with the Public Governance Directorate of the OECD since our establishment. The OECD have produced a set of Principles for Independent Fiscal Institutions; they organise annual conferences and provide advice and networking opportunities with partner institutions internationally. The OECD have reviewed the SFC on two occasions, in 2019 and 2024, to fulfil our statutory obligation for regular independent reviews.

44. We have no relationship with the International Monetary Fund.

Internal Structures

45. The key offices within the SFC just before the pandemic consisted of:

(a) Commissioners

- Dame Susan Rice (Chair), July 2014 – June 2022
- Professor Alasdair Smith, April 2017 – March 2022
- Professor Francis Breedon, October 2018 –
- Professor David Ulph (Chair of Audit and Risk Committee) October 2018 –

(b) Chief Executive and Accountable Officer

- John Ireland, May 2017 –

(c) Other Senior Management Team (SMT) members

- Claire Murdoch, 2016 –
- David Stone, 2017 –
- Susie Warden, 2018 –

46. The only significant change during the pandemic was the departure of Professor Alasdair Smith as a Commissioner in March 2022 and our Chair Dame Susan Rice at the end of June 2022. I was appointed as a Commissioner on 1 June 2022 and took over as Chair at the end of the month when my predecessor departed. Professor Domenico Lombardini was also appointed as a Commissioner on 1 June 2022. Both Professor Lombardini's and my first terms end in May 2026.

47. Michael Davidson joined the staff and became a member of SMT in August 2022.

The work of the SFC during the pandemic (1 January 2020 to 28 June 2022)

Overview of SFC work

48. The Commission, for the most part, continued with its regular cycle of work as described above during the pandemic with some changes reflecting the Scottish Government's activities, the changing budgetary context during the pandemic and data constraints.
49. We published a SEFF alongside each of the Scottish Government Budgets in this period (February 2020 for Budget 2020-21, January 2021 for Budget 2021-22 and December 2021 for Budget 2022-23). The Budget forecast for 2020-21 was delayed because of the UK General Election in December 2019.
50. There would normally have been two MTFS documents published by the Scottish Government in May 2020 and May 2021 alongside which we would have published a set of economic and fiscal forecasts.
51. On 5 March 2020, we were notified of the Government's intention to publish a MTFS on 21 May 2020 and we started to prepare our forecasts. On 1 April the Cabinet Secretary wrote to us saying that she had decided to delay the publication of the MTFS. On 8 April the Convener of the Finance and Constitution Committee wrote to the Cabinet Secretary agreeing that it would be inappropriate to ask us to prepare a revised set of forecasts at this time, and we paused the preparation of our forecasts. On 25 August 2020 the Cabinet Secretary wrote to our Chair giving us notice that the Government would publish its MTFS alongside the Budget in December 2020. In the event the Budget and MTFS were published on 28 January 2021.
52. The MTFS normally due in May 2021 was not published on account of the Scottish Parliamentary elections that took place on 6 May 2021. The Government published its next MTFS alongside the Budget on 9 December 2021.
53. The Commissioners at the time took a decision to publish a set of forecasts in August 2021 given the gap since our last set of forecasts and the statutory obligation to publish two sets of forecasts each financial year. There was no Scottish Government fiscal event on this occasion.
54. Most of our Budget forecasts are evaluated in the August following publication. This allows an initial cut of outturn data to be published. The exception is income tax where

the outturn data is not typically available until the July two years after the end of the financial year. In 2020 the pandemic meant that the income tax outturn data due in July that year was not published by HMRC until late September so our income tax evaluation for 2018-19 was delayed until October. In 2021 we published most of our evaluations early in July to create space for staff to work on the August 2021 forecasts.

55. The Forecast Evaluation Report (FER) published in August 2022 evaluated the devolved tax and social security forecasts published in January 2021 for 2021-22 and the income tax forecast published in February 2020 for 2020-21. Finally, the income tax forecast published in January 2021 for 2021-22 was evaluated in the FER published in August 2023.

56. The pandemic meant that there were more frequent changes in regulations covering devolved taxes and social security payments outside of the annual Budget requiring legislation. This meant that the number of Supplementary Costings we published increased significantly.

57. We started a new Fiscal Update publication series in April 2020 that aimed to provide updates on changes in the in-year Budget position during the early months of the pandemic. These included increases in UK Government spending at the start of the pandemic, the consequential changes in the Scottish Government's budget position and changes in Scottish Government spending as they attempted to mitigate the effects of the pandemic. As the pandemic evolved the purpose and content of the Fiscal Updates also changed.

58. Our final analytical output during the pandemic was a number of occasional papers that discussed how we approached certain forecasting issues. These papers tend to be more technical and do not contribute directly to our commentary or analysis of the pandemic.

Chronology

59. We published our Scottish Economic and Fiscal Forecasts (SEFF) on:

- February 2020 – forecasts for Budget 2021-22
- January 2021 – forecasts for Budget 2022-23 and MTFS
- August 2021 – no accompanying Scottish Government fiscal event
- December 2021 – forecasts for Budget 2022-23 and MTFS
- May 2022 – forecasts for MTFS

60. We published four Forecast Evaluation Reports (FER) during the pandemic:

- September 2020 – evaluation of devolved tax and social security forecasts published in December 2018 for 2019-20.
- October 2020 – an update with the evaluation of income tax forecast published in February 2018 for 2018-19
- July 2021 – evaluation of devolved tax and social security forecasts published in February 2020 for 2020-21 (other than non-domestic rates)
- August 2021 – evaluation of non-domestic rates forecast published in February 2020 for 2020-21 and income tax forecast published in December 2018 for 2019-20.

61. We published eight Supplementary Costings during the pandemic

- March 2020 - Non-Domestic Rates (Coronavirus Reliefs) (Scotland) Regulations 2020
- May 2020 - Coronavirus (Scotland)(No. 2) Bill
- May 2020 – amendment to Coronavirus (Scotland)(No. 2) Bill
- July 2020 – legislation to temporarily increase the Land and Buildings Transactions Tax nil rate band
- August 2020 – legislation to enact Child Winter Heating Assistance payments
- September 2020 – legislation to enact Scottish Child Payment
- March 2021 – Stage 2 of Budget Bill debate – changes to two reliefs for Non-Domestic rates and the expansion of the Self-Isolation Support Grant
- June 2021 – legislation to enact additional payment to recipients of the Carer's Allowance Supplement

62. We published the following Fiscal Updates during the pandemic:

- April 2020
- September 2020
- January 2021
- March 2021
- August 2021
- December 2021
- May 2022

63. We published one Statement of Data Needs during the pandemic

- September 2020

64. The key reports are exhibited at appropriate points in the narrative below.

Scottish Economic and Fiscal Forecasts: February 2020

Purpose

65. This forecast report is exhibited at GR/09 [INQ000617010] and was published on 6 February 2020 to support the Scottish Government's Budget for 2020-21 that was published simultaneously.

Process and challenges

66. On 2 October 2019, we received ten weeks' notice from the Cabinet Secretary for Finance, Economy and Fair Work of a Scottish Budget on 12 December, and we started to prepare our forecasts for this date. On 6 November, the Cabinet Secretary wrote to us again saying that the Scottish Budget would not be on 12 December because of the UK general election being held on that date. On 14 November, we were told that there would not be a Scottish Budget in December and we paused our work on the forecasts. After discussion with Scottish Government officials, we resumed work on our forecasts in early January 2020, receiving formal notification on 13 January of a Scottish Budget to be presented on 6 February. With the exception of the temporary suspension of work on the forecasts and the uncertainty around Budget dates, the forecast process was similar to other pre-pandemic forecasts.

67. Following the UK general election in December 2019 the uncertainty about the timing and nature of Brexit was resolved. This meant that there was less short-term uncertainty around Brexit than in 2019, although there was significant long term uncertainty about negotiations during the transition period and what might happen after the transition period. The other challenge we faced in preparing our forecasts was the absence of the usual UK Budget forecasts from the OBR which were due to be published on 6 November 2019, but the UK Budget was cancelled by the Chancellor of the Exchequer because of the general election. The latest set of OBR forecasts available to us were published in March 2019.

68. In preparing our forecasts and reports, we need to finalise parts of our work sequentially. Where one piece of work feeds into another, we need to ensure a structured and stable

process of finalising each component, with late changes being very disruptive. The cut-off for new data and information feeding into the forecasts was 15 January 2020. Our economy forecast for this publication was finalised on 17 January. After this date we could not change the economy forecast as it fed into other forecasts, most notably income tax. All that could be changed was our assessment of the risks associated with the forecast.

69. The near final report was shared with the Scottish Government on Friday 31 January. After this time, over the weekend of 1 February and 2 February and Monday, Tuesday and to a lesser extent the Wednesday work continued on the report. However, the focus of our effort would have been on incorporating information on the Government's Budget, borrowing and funding decisions that formed the core of Chapter 2 of the report (Fiscal Overview).

Central findings and analysis

70. Our forecast report noted that over the course of 2018 and 2019, Brexit negotiations had played a dominant role in the economic narrative of Scotland and the UK. Uncertainty about both the nature and timing of Brexit resulted in subdued growth over 2019 and greater volatility between quarters. Looking ahead to 2020, the UK had now left the EU, and the unwinding of some Brexit-related uncertainty may have supported some additional growth. However, Brexit remained a risk to continued economic growth. We noted that the outlook for trade had been exacerbated by the potential for global trade wars and, more recently, the potential fallout from COVID.
71. The report also contained our fiscal forecasts for the devolved taxes and social security payments for 2020-21 and the following four years. We did not factor in any impact for COVID or public health measures into these forecasts.

Forecast Evaluations

72. We evaluated these economic forecasts for 2020-21 in our Forecast Evaluation Report published in July 2021, exhibited at GR/10 [INQ000616998]. We noted that when we published our forecast in February 2020, we considered COVID as a potential risk to global trade.
73. The subsequent economic impact of the COVID pandemic was in large part a response of businesses and households to the public health measures introduced by the Scottish Government in March 2020 and later. Our statutory obligation (Section 2.7 of the Act) is

to have regard to the policy of Scottish Ministers when we make our forecasts and we are also restricted to not consider the effects of alternative policies. At the time we published the forecast the Scottish Government's policy position did not indicate an upcoming lockdown or other severe public health restrictions on households or businesses. Our assessment also reflected the public information on the virus and its spread that were available at the time.

74. Because our February 2020 forecasts did not account for the exact nature of the Government's public health measures including the economic response to the lockdown and other effects of COVID, some of our forecast errors for 2020-21 are particularly large.

75. In February 2020 we forecast the Scottish economy would grow by 1.0 per cent in 2020. The data available when we produced our evaluation show that COVID and the associated public health restrictions led to the Scottish economy shrinking by 9.6 per cent in 2020, a forecast error of -10.6 percentage points, several times greater than our largest previous GDP forecast error.

76. We said that we evaluate our forecasts with the aim of reducing our average forecast error by learning lessons from previous errors. However, the shock caused by COVID and the associated public health measures was so unusual that it is hard to draw out useful lessons for the future. Shocks of this kind are a risk we can never fully control for in our forecast.

77. To counter the negative effects of COVID and the associated public health restrictions, the Scottish Government introduced several new tax and social security policies over the course of 2020. These policies reduced tax revenues and increased social security spending and, because they were announced during the year and after our forecasts were published, these new policies further affected our forecast errors. For example, over half of the error in our social security forecast can be attributed to the Scottish Government's COVID response, through extra funding for the Scottish Welfare Fund, Discretionary Housing Payments and Fair Start Scotland, and the introduction of the Coronavirus Carer's Allowance Supplement and Self-Isolation Support Grant.

78. Similarly, our forecast error for Land and Buildings Transaction Tax (LBTT) can also be partly attributed to temporary policies introduced in response to COVID, with an extension to the Additional Dwelling Supplement (ADS) repayment period and increase in the nil rate threshold, both introduced after we produced our February 2020 forecast.

79. We evaluated our income tax forecast for 2020-21 in our August 2022 FER which is exhibited as GR/11 [INQ000616996]. We noted that in 2020-21 Scotland faced extended periods of restrictions on retail, hospitality and socialising which affected the economy and people's incomes. However, the Coronavirus Job Retention Scheme (CJRS) and the Self-Employment Income Support Scheme (SEISS) largely protected the labour market from the economic consequences of the pandemic. While GDP fell sharply because of lockdown restrictions, there was a lesser effect on the employment and earnings data for 2020-21. However, these economic effects still reduced the amount of income tax that was collected in this period and outturn data show that we overestimated Scottish income tax revenues by £417 million.
80. Income tax funding in the 2020-21 Scottish Budget was based on both our February 2020 forecast of Scottish tax revenues and the corresponding Block Grant Adjustment (BGA), which is based on the OBR's December 2019 forecast of income tax revenues in the rest of the UK. The income tax BGA was also overestimated by £468 million, so the downwards adjustment in funding for the Scottish Budget related to the income tax BGA should have been £468 million lower. The combined effect of these forecast errors was a positive income tax reconciliation of £50 million.
81. Finally, our FER published in September 2020 looked at our 2019-20 devolved tax and social security forecasts published in December 2018. The pandemic struck too late in the financial year (ending 31 March 2020) to have a large effect on these forecasts. We noted that from mid-March the pandemic caused many deaths, significant economic disruption and largely froze the housing market. These effects came too late in the financial year to have a large effect on tax revenues and social security spending, other than a small reduction in LBTT revenue.
82. The common theme in all these evaluations of our February 2020 forecasts is that there were forecast errors, sometime quite large, that could be attributed to the impact of the measures taken to mitigate the effects of the pandemic. However, at the time of our forecasts, the first COVID cases in Scotland had not been diagnosed. We noted COVID as a potential risk to the global economic outlook, but it was not part of our central forecasting judgement that the situation would evolve into the COVID pandemic.

Scottish Economic and Fiscal Forecasts: January 2021

Purpose

83. Our next set of forecasts were published on 28 January 2021 and the report is exhibited as GR/12a [INQ000617012]. These forecasts supported the Scottish Government's Budget for 2021-22 and also the Government's five year MTFS published on the same day.

84. This set of forecasts was the first since the pandemic began in Scotland and they covered the years 2021-22 through to 2025-26. They demonstrated the profound effects COVID had on the economy and the Scottish Budget. The Commissioners cautioned that "There is huge uncertainty about how the pandemic will develop, and in turn what future associated public health restrictions and fiscal support measures might be put in place."

Process and challenges

85. On 11 November 2020, we received eleven weeks' notice from the Cabinet Secretary for Finance of a Scottish Budget and MTFS on 28 January 2021. The simultaneous publication of a Budget and a MTFS by the Government added to the challenges of producing a forecast, especially as this was the first forecast produced with our staff, Commissioners and Scottish Government officials all working from home. For the SFC most of these challenges related to our taking on board the 5-year analysis and the narrative included in the Government's MTFS in a relatively short period before our own document was finalised.

86. The OBR published a set of economic and fiscal forecasts on 25 November 2020 alongside the UK Government's Spending Review that set UK departmental budgets for 2021-22 and the block grant for Scotland for the same period. The OBR forecast contained three scenarios for the course of the pandemic and public health restrictions that helped inform our own forecasts. However, in December 2020, the situation was further exacerbated by a new more contagious variant of COVID and the likely prevalence of additional social mixing over the Christmas and New Year festive period. Two weeks before we closed our forecast, a new lockdown was announced in Scotland to control rising COVID cases following the emergence of the Alpha variant of the virus. These events limited the direct utility of the OBR scenarios in producing our assumptions.

87. The deadline for inclusion of new data in our forecast was 7 January 2021 and our economy forecast closed on the same date. The final deadline for Scottish Government tax and social security policy measures was 18 January 2021.

Central findings and analysis

88. Our forecasts were highly dependent on the economic and social restrictions imposed by the Scottish Government because of COVID. As part of our forecasting process we made broad-brush assumptions about the likely outlook for the economic and social effects of public health restrictions in Scotland and the UK. Our assumptions were informed by the Scottish and UK Government's policy intentions at the time as well as the number of cases and deaths.
89. We thought that the tougher restrictions and the roll-out of the vaccinations would take time to have an effect. We expected to see elevated cases and excess deaths throughout 2021 Q1. From 2021 Q2, we assume cases and excess deaths would gradually fall to the levels seen from June to September 2020.
90. We assumed that from 2021 Q3 the virus will be broadly controlled, though this would not mean the pandemic is over. We also assumed that during 2021 varying levels of regional and national restrictions would be needed to be implemented to continue to control the spread of the virus, and that there may also be international travel restrictions.
91. We noted that the job protection schemes first launched by the UK Government in March 2020 had been adapted and extended a number of times as the pandemic progressed. The job protection schemes in place in January 2021 were due to end in April 2021. In our central case, we assumed there would be no further extensions to the, at the time, current job protection schemes.
92. Vaccinations against the virus began in late 2020. We said that it would take time for the vaccination programme to take effect, not least because of limited supplies of any vaccines and the time it takes to vaccinate a large population. There were also uncertainties about how long the vaccines will protect people and their effect upon transmission of the virus.
93. Finally, consistent with the longer-term elements of the central and upside scenarios in the November 2020 OBR forecasts, as exhibited in GR/12b [INQ000650992], we assumed that by the end of 2021 COVID would, on the whole, be managed like a normal virus. Cases and deaths would run at low baseline levels and restrictions, national or regional, would no longer be required

94. However, there was significant uncertainty, and while our central case allowed for a reasonable degree of variation, a materially different pathway of COVID and restrictions would mean the economy, taxes and social security spending could be significantly different from our forecasts.
95. Scottish GDP fell by almost a quarter during the UK-wide lockdown in early 2020. As restrictions were lifted over the summer, GDP started to recover and grew for six consecutive months, so that in 2020 Q3 Scotland had regained around two thirds of the lost output. Restrictions started to tighten again across the UK in late 2020, as cases rose and a new variant of COVID was discovered in the UK, with mainland Scotland and most of the rest of the UK in lockdown at the start of 2021. We expected that this new lockdown to reduce economic activity in the first quarter of 2021.
96. In contrast to the first lockdown, more sectors of the economy remained open, many businesses adapted to the restrictions, and support schemes such as furlough were already in place. We expected GDP to fall in 2021 Q1 by around 5 per cent, a smaller fall than during the first lockdown. We expected that GDP would then continue to recover.
97. Our forecast for 2021 as a whole was for growth of 1.8 per cent, picking up to 7.5 per cent in 2022, mainly fuelled by household consumption as higher-income consumers who accumulated savings during the lockdown months started spending again. In contrast, lower-income households – who had been disproportionately affected by the COVID crisis – were less able to save during the pandemic, and may have run down savings or borrowed to cover day-to-day expenses, so at best they could be expected to spend cautiously in order to restore their finances.
98. COVID will have long-lasting effects on the Scottish economy. We didn't expect Scottish GDP to recover to its pre-COVID level until the start of 2024. In 2025, Scottish GDP would still be 4 per cent below where we expected it to be in our February 2020 forecast. Our long-term GDP outlook changed because we assumed there will be longer-term effects of the pandemic on the Scottish economy.
99. Another important (non-COVID) development was the UK and EU reaching a free trade agreement which came into effect at the end of the transition period on 1 January 2021. Our recent forecasts already incorporated the long-run effects of Brexit on the Scottish economy and, because the deal was within the range of our previously expected outcomes, we continued to use the same assumptions for the forecast.

100. There was one final element of our economic forecasts. When compared to the previous OBR forecasts for the UK published in November 2020, our GDP forecasts met the criteria for a Scotland-specific economic shock as defined in the fiscal framework to be triggered. The fiscal framework agreed between the Scottish and UK Governments provided for additional borrowing and Scotland Reserve powers for Scotland in the event of a Scotland-specific economic shock. Based on what we observed in 2020, we believed that the outlook for Scottish GDP and UK GDP were broadly similar and most of the difference between our forecasts for Scotland and the OBR's UK forecasts was likely to be accounted for by the fact that the two forecasts were based on different views about what health measures would be in place in early 2021.
101. Turning to our fiscal forecasts, we published a Fiscal Update alongside our forecasts that provided a detailed breakdown of how the 2020-21 Scottish Budget changed since the Budget was introduced in February 2020, including the effect of revised tax and social security forecasts.
102. For 2021-22, lower employment primarily because of COVID and the associated health measures reduced our income tax forecast by £458 million for 2021-22. With earnings more resilient, earnings changes only reduced the income tax forecast by £125 million in 2021-22. The impact of these forecasts on the Scottish budget also depends upon movements in the Block Grant Adjustment for income tax that represents the hypothetical amount that would have been raised in Scotland if income tax had not been partially devolved. The BGA is calculated by the UK and Scottish Governments based on OBR forecasts of income tax receipts in the rest of the UK.
103. The 2021-22 income tax net position had increased markedly since our February 2020 forecasts were published, from £155 million to £475 million. This is because our forecast growth of Scottish income tax revenue in 2021-22 is higher than the forecast growth in the BGA based in the OBR's forecasts. We forecast growth in income tax revenues in 2021-22 of 3.5 per cent, compared to growth in the BGA of 1.0 per cent.
104. We believed that the higher relative growth rate of Scottish income tax revenues largely arose because of the significant uncertainty around COVID and its effects on the data and judgements used in our income tax modelling. The timing of the Scottish and OBR UK forecasts and the pace of change between the two forecasts being produced also had a significant effect.

105. We expected revenues for the other devolved taxes to increase by 36 per cent in 2021-22 compared to 2020-21. The exception was Scottish Landfill Tax, which was expected to gradually decline over the next five years as more waste was diverted to alternatives other than landfill. Our forecasts for Non-domestic rates and Land and Buildings Transaction tax reflected our expectation that the Scottish economy would continue to recover from the COVID pandemic.
106. The Scottish Government announced policy changes for NDR that included freezing the poundage and a three-month extension to the relief for airports and properties in the retail, hospitality and leisure sectors. We expected these changes to reduce tax revenues by £251 million in 2021-22.
107. Turning to devolved social security payments we took the view that COVID had undoubtedly increased the number of people eligible for working-age social security support as unemployment had increased and those who were in work would find their income had reduced as result of the restrictions. We estimated that £3.6 billion would be spent by the Scottish Government on social security in 2021-22.
108. An increase in eligibility will increase spending only if people apply for devolved payments to which they have become entitled. COVID may have led to increased awareness of the assistance available and reduced some of the perceived stigma around social security support. There are other changes that we attributed to COVID that reduced social security spending. For example, inflation was then very low, and lower than we expected in our February 2020 forecasts, which led to smaller increases in payment rates in all future years and reduced spending.

Forecast Evaluations

109. Our economic forecasts were evaluated in our August 2022 Forecast Evaluation Report exhibited as GR/11 [INQ000616996]. Scotland's GDP was estimated to have grown by 11.8 per cent in 2021-22, which is 4.2 percentage points higher than our January 2021 forecast of 7.5 per cent. This error is higher than usual and dominated by the effect of COVID on the economy. In particular, we underestimated GDP growth in 2021 Q1 and this was because of two main factors: the lockdown in early 2021 was not as significant as we anticipated; and we underestimated the scale of the economic activity generated by the rollout of the vaccine and associated testing programme.
110. The labour market in 2021-22 also turned out to be more resilient than anticipated, with employment continuing to grow after the end of the furlough scheme on 30

September 2021. Average earnings in 2021-22 grew at a significantly faster rate than we forecast, partly driven by labour shortages and recruitment difficulties in the wake of the pandemic as well as rising inflation. There were also COVID-related temporary effects boosting average pay growth, especially in the first half of the year.

111. Total revenues from the fully devolved taxes (NDR, LBTT and SLfT) in 2021-22 were 8 per cent (£227 million) higher than our forecasts for 2021-22. This forecast error was because of large forecast errors for LBTT and SLfT and these taxes relate to 31 per cent of fully devolved taxes revenue.

112. LBTT revenues were £221 million (38 per cent) above our forecast. This forecast error is large compared to previous forecast evaluation reports. There was a broadly similar level of error for the more volatile non-residential component compared to our last forecast evaluation report (39 per cent compared to 32 per cent). Errors relating to residential and ADS components were much higher than in previous years (40 per cent and 30 per cent, respectively). These errors arose because house prices grew faster than expected and the share of residential properties paying the top two tax bands increased. This likely reflects unpredictable reactions to the end of pandemic-related restrictions, wider macroeconomic changes and changing buyers' preferences.

113. Revenues from NDR were £31 million (1 per cent) lower than our forecast. More revenue than we expected was lost to successful appeals against revaluations but this was offset because awards of Retail, Hospitality, Leisure and Aviation relief were less than we expected.

114. Total spending on devolved social security in 2021-22 was £3,754 million. This is 4 per cent higher than our forecast of £3,618 million. This is similar to the previous year, when we reported an error of 3 per cent for our February 2020 forecasts of spending in 2020-21. The reasons for the error are also similar to the previous year, with around half associated with the COVID pandemic.

115. We evaluated our income tax forecast in our August 2023 Forecast Evaluation Report exhibited as GR/13 [INQ000616997]. We underestimated income tax revenues by £1,461 million, or 12 per cent. When we produced our January 2021 forecast, we had to make assumptions around the outlook for COVID and its effects on the economy and tax base. There was also uncertainty about the labour market data we were using and the effects of the job support schemes.

116. Compared to our assumptions at the time, the lockdown in early 2021 was not as significant as we anticipated. The Scottish economy was more resilient, with the most recent data showing growth in Gross Domestic Product (GDP) of 14.2 per cent compared to our forecast of 7.5 per cent. There was an unexpected increase in inflation in 2021-22, further increasing nominal earnings growth compared to our forecasts. There also appears to have been strong growth in tax revenues from the top end of the income distribution, particularly among those paying tax via Self Assessment. These factors led to an underestimate of the amount of income tax collected in 2021-22 by £1,461 million. Importantly for the Scottish Budget, there was a similar scale and direction of error in the BGA based on forecasts by the OBR.

Scottish Economic and Fiscal Forecasts: August 2021

Purpose

117. The Scottish Parliament's Finance and Constitution Committee recommended in its February 2021 Budget Scrutiny Report that the SFC publish its next set of forecasts in September given that the usual May forecast will not take place because of the Scottish Parliamentary election. On 23 March our Chair wrote to the Committee's convener saying that we would publish these forecasts on Thursday 26 August 2021. The report is exhibited as GR/117 [INQ000617008].

Process and challenges

118. Although there was no Scottish Government fiscal event to accompany the forecasts, we continued to follow our typical ten week period ahead of publication and started work on our forecasts in mid-June. The cut off for the inclusion of new data in the forecast was 6 August. We closed the economy forecast on the same date.

119. The latest OBR forecast that could inform our forecasts was published on 3 March 2021. This meant that the Covid scenarios for their economic forecasts were somewhat dated by the time we published our own forecasts which limited their direct utility in setting our broad brush COVID assumptions, although they still provided some helpful insights.

Central findings and analysis

120. We retained our approach of making a set of broad brush assumptions, informed by Scottish Government public health, policy about the progress of the pandemic and the associated public health measures.

121. We noted that the success of the COVID vaccination programme has weakened the links between case numbers, hospitalisations and deaths and has led to a shift in the public health approach of both the UK and Scottish Governments. Formal restrictions had eased significantly and we appeared to be moving in to the recovery phase from the pandemic. We assumed that there would be no future waves of rapidly rising COVID deaths and hospitalisations, though we acknowledged that cases may rise again significantly for periods. With deaths and hospitalisations remaining low, public health restrictions would remain minimal.
122. We cautioned that the pathway out of the COVID pandemic was unlikely to be completely smooth. We expected that it would take time for households and businesses to adjust to a new normal, so economic activity would remain lower than pre-pandemic until 2022. It was not clear how individuals and businesses would respond to the easing of restrictions while COVID remained prevalent. There were also on-going international supply pressures which combined with domestic recruitment challenges presented risks to our forecasts. The downside risk remains of new public health restrictions being imposed if the vaccines became less effective at preventing hospitalisations and deaths through vaccine escaping variants of the virus emerging or a general reduction in the effectiveness of vaccines that is not countered by a booster programme.
123. From January 2021, the public health and economic situations improved. There was good evidence that the vaccines have been very effective in suppressing deaths and serious illness allowing for a faster pace in lifting restrictions. There were also indications that the economy had recovered more quickly than we had envisaged in January 2021. There was a smaller fall in education activity than we had forecast because of the phased reopening of schools in February and March, and the swift vaccine rollout contributed to output growth in the health sector.
124. Overall, our assumptions lead us to a more positive outlook for the economy compared to our January 2021 forecasts. Then we had expected GDP to fall in 2021 Q1 by around 5 per cent, followed by a gradual recovery in economic activity. The continuing pace of the wider recovery led us to revise up our expectations for Scotland's GDP growth in the near term. Our forecast for 2021-22 as a whole was for growth of 10.5 per cent, mainly fuelled by household consumption, as it reverted to pre-pandemic levels with the removal of restrictions and higher-income consumers started to spend savings accumulated during the pandemic. We expected GDP to reach its pre-COVID level in 2022 Q2, almost two years earlier than we had forecast previously.

125. We had previously expected there to be a significant degree of 'scarring', long-term economic damage, from the effects of the pandemic, but the speed of economic recovery following the 2021 reopening made us more optimistic. We lowered our estimate of the permanent economic damage from COVID to 2 per cent of long-run GDP, down from 3 per cent in our January 2021 forecast. Reduced productivity had been our major source of scarring; but we now expect productivity in 2025 Q1 to be 0.8 per cent lower than the pre-pandemic February 2020 forecast, rather than the 2.2 per cent we estimated in January 2021.
126. We noted that since January, another feature of the Scottish and UK economies had been rising inflation. International supply pressures as well as domestic recruitment difficulties both appeared to have been contributing to rising prices. We normally base our inflation forecasts on those produced by the OBR. But inflation since the OBR forecast in March 2021 had been a lot stronger than expected earlier in the year. We therefore aligned our inflation projections for 2021 and 2022 with those published in the Bank of England's August 2021 Monetary Policy Report.
127. Many of our tax forecasts were revised up significantly since our January 2021 forecasts, both because of the improved economic outlook and rising inflation. Our income tax forecast for 2021-22 was revised up by around £0.9 billion. The forecast was around £1.3 billion higher than the latest available estimate of the 2021-22 BGA based on the OBR March 2021 forecast. This large difference was the result of significant changes in the economic outlook between when the OBR made their March 2021 forecast and when we made our August 2021 forecast. This timing mismatch between the component forecasts meant the estimated £1.3 billion net funding position was artificially high and did not reflect the likely true net funding position for 2021-22. We expected that the updated OBR forecasts which were due to be published on 27 October would reduce the gap between the BGA and our forecast of income tax revenues.
128. The improved economic outlook also affected our forecasts of devolved tax revenues. Our LBTT forecast was revised upwards in all years, because of higher house prices and a faster recovery in the non-residential property market. Similarly, stronger outturn data and revisions to the economy forecast led to upward revisions to our SLFT forecast. NDR revenue was reduced in 2021-22 following the Scottish Government's decision to extend the retail, hospitality, leisure and aviation relief for the full financial year, but from 2023-24 onwards our revised inflation forecast increased revenue compared to our January forecast

129. We forecast devolved social security spending would increase from £3.7 billion in 2021-22 to £5.2 billion in 2026-27, as more people receive social security support each year and payment amounts are updated by inflation.

130. This publication contained our first estimate of spending on the new Adult Disability Payment (ADP), due to replace the Personal Independence Payment (PIP) nationally from summer 2022. Both PIP and ADP provide financial assistance to contribute towards the increased costs incurred by an individual because of a disability or long-term health condition. We estimated that, by 2026-27, spending on ADP would be £0.5 billion higher than what would have been spent on PIP with total spending reaching £3.0 billion in 2026-27.

Forecast Evaluations

131. Our annual forecast evaluation reports only consider our Budget setting forecasts. This means that our August 2021 forecasts have not been evaluated.

Scottish Economic and Fiscal Forecasts: **December 2021**

Purpose

132. These forecasts accompanied the Scottish Government's fiscal event presented on 9 December 2021. Our report is exhibited at GR/15 [INQ000617016] and fed into both the 2022-23 Scottish Budget and the MTFs presented by the Scottish Government to the Parliament.

Process and challenges

133. On 21 September 2021, we received 11 weeks' notice from the Cabinet Secretary for Finance and the Economy of the publication of a Scottish Budget and Medium Term Financial Strategy on 9 December 2021. The economy forecasts closed on 23 November.

134. Our other forecasts were finalised on 30 November and before the emergence of the Omicron variant. The information available in early December on the severity and likely implications for restrictions of Omicron was limited, but broadly we thought it remained reasonable to assume the effects of Omicron lay within our central assumptions.

135. The latest OBR forecast we had access to as we prepared these forecasts was published on 27 October 2021 at the time of the UK Budget and Spending Review.

136. To facilitate comparisons with the previous Budget setting forecasts in January 2021 this report focused on comparisons with the January 2021 forecasts rather than the August 2021 forecasts.

Central findings and analysis

137. We noted that the pandemic continued to affect society, the economy, and the Scottish Budget, but to a lesser extent than we expected when we produced our forecasts for the previous Scottish Budget in January 2021. The success of the vaccination programme weakened the links between case numbers, hospitalisations and deaths, and the public health response has shifted. We anticipated that domestic restrictions would be minimal with limited measures in place until April 2022. From then and into the longer term we assumed that COVID would become endemic and begin to be managed through guidance and voluntary measures.

138. We continued to expect a strong economic recovery in 2021-22, with Scottish GDP growing by 10.4 per cent which implied a return to pre-pandemic levels of economic activity by the second quarter of 2022.

139. Throughout 2020-21 and 2021-22 the labour market was more resilient than many economic forecasters and commentators, including the SFC, expected. In our December 2021 forecasts we expected the unemployment rate to peak at only 4.9 per cent, a significant downward revision from our January 2021 forecast which peaked at 7.6 per cent. Following strong growth in 2021-22, we expected nominal earnings growth to moderate in 2022-23 at 2.6 per cent.

140. Inflationary pressures had intensified since the summer, driven in part by high energy prices. Our central view of inflation, in line with the OBR and similar to that of the Bank of England, saw annual CPI inflation peaking at 4.4 per cent in 2022 Q2 and gradually returning to target in the second half of 2024 as supply chain issues ease, global demand rebalanced and energy prices fell back. There were however significant risks to the outlook for inflation. If inflation remains higher for longer, this would have significant implications for the Scottish economy and households.

141. Although our forecast of Scottish income tax revenues had increased since the January 2021 forecast, we expected revenues in 2022-23 to be £190 million less than the income tax Block Grant Adjustment (BGA) – the amount subtracted from the Scottish Budget to account for the devolution of income tax

142. We expected devolved Scottish taxes to raise £17.3 billion of revenue in 2022-23, a significant upwards revision of £777 million since our January 2021 forecasts. The stronger than expected economic activity combined with higher inflation led us to revise up our forecasts of nominal household incomes, house prices and GDP, some of the main determinants of our tax forecasts.
143. We forecast the Scottish Government to spend £4.1 billion on social security in 2022-23 including new spending plans announced in the Scottish Budget. The Scottish Child Payment doubled from £10 to £20 per child per week from April 2022. Our forecast allowed for the possibility that the higher payment rate would encourage more applications. Low Income Winter Heating Assistance launched in winter 2022 replacing Cold Weather Payments and was forecast to cost £21 million in 2022-23. Our forecasts also included the launch of the largest social security payment, Adult Disability Payment, which replaced the Personal Independence Payment

Forecast Evaluations

144. Our economic forecasts were evaluated in our Forecast Evaluation Report published on 29 August 2023 and exhibited as GR/13 [INQ000616997]. Our December 2021 GDP forecast error for 2022-23 was relatively small. When we published our forecasts in December 2021, economic growth was mostly driven by the ongoing economic recovery from COVID-19. At that time, the Russian invasion of Ukraine or the subsequent energy price shock in early 2022 could not be factored in. Despite this, Scottish GDP in 2022-23 appeared to have remained stable. The stability reflected the effect of the UK Government's energy support schemes and households running down savings.
145. While real or constant-price GDP in 2022-23 was largely flat, the impact of high inflation on the economy was felt in nominal or current price terms, feeding through to higher nominal GDP and earnings.
146. Total revenues from the fully devolved taxes, which includes NDR, LBTT and SLfT, were 2 per cent higher than our December 2021 forecasts for 2022-23. This is mainly because LBTT revenues were higher than we expected. Our NDR forecast was £2,809 million in December 2021. Provisional outturn for 2022-23 of £2,792 million means that our forecast error was £17 million, or 1 per cent. More revenue was lost to appeals than forecast, reducing revenue. Counteracting this, fewer reliefs were claimed than forecast, increasing revenue.

147. Total spending on devolved social security in 2022-23 was £4,193 million. This was 3 per cent higher than our forecast of £4,065 million. This error has a similar scale and direction as in the previous two years. The two biggest factors explaining this error are higher spending on disability payments and in-year policy decisions by the Scottish Government, both of which were recurring themes in previous years.
148. Total spending on the main disability payments, was £116 million (4 per cent) higher than our forecast. The bulk of this error is associated with more people than we had forecast receiving the payments. These recent trends appear to be a UK-wide effect and the OBR forecasts of spending on disability benefits in England and Wales had also increased. This means we expect the higher spending to be broadly matched through higher BGA funding. We have already seen £116 million of in-year reconciliations in 2022-23.
149. Spending on the Scottish Child Payment was higher than our forecast but if we account for the in-year decision to increase the weekly rate and the earlier implementation of eligibility for older children, the underlying position is that the number of children receiving payment was lower than we had forecast, reducing spending by £18 million.
150. Our budget setting income tax forecast for 2022-23 was evaluated in our Forecast Evaluation Report exhibited as GR/13 [INQ000616997].
151. In July 2024 HM Revenue and Customs (HMRC) published Scottish income tax outturn statistics for 2022-23. We under-forecast Scottish income tax revenue by £1,498 million most of which is explained by higher earnings growth and inflation.
152. We produced this forecast during a period of uncertainty as the UK was still being affected by the COVID 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.
153. 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.

154. 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.

Scottish Economic and Fiscal Forecasts: May 2022

Purpose

155. We published a set of forecasts on 31 May 2022 to accompany the Scottish Government's 2022 MTFS and a resource spending review. Our report is exhibited as GR/16 [INQ000617014].

Process and challenges

156. On 14 March 2022, we received notice from the Cabinet Secretary for Finance and the Economy of the publication of a MTFS and Resource Spending Review on 31 May 2022. To finalise our forecasts for publication, our cut-off date for incorporating new data and information into the forecasts was 11 May 2022. No data or information available after 11 May were included in our forecasts.

157. The latest OBR forecast we had access to before we closed our forecasts was published on 23 March 2022.

Central findings and analysis

158. Broadly in line with the assumptions we made in our December 2021 forecasts, all COVID legal restrictions in Scotland came to an end on 21 March 2022. At the time of publication COVID was being managed like a normal virus, with only voluntary guidance in place. The economy had returned to close to pre-recession levels of activity. COVID was still present in Scotland leading to hospitalisations and deaths, with the Scottish Government's COVID threat level at medium. We expected COVID levels in Scotland to remain low and stable, with no legal restrictions being reintroduced.

159. We considered that the effects of the pandemic on society and the economy would be long lasting. Some industries had been reshaped, more people were likely to work from home or adopt hybrid working than before the pandemic. For people who experienced unemployment because of the pandemic there were likely to be scarring effects on their future productivity and earnings. We did not make any explicit

adjustments to our forecasts to account for COVID or its legacy effects as these were now implicitly present in our model data and forecast baselines.

160. We noted that there still was a risk that a new variant of COVID emerges that was resistant to the available vaccines, which could lead to new public health restrictions or for the public to respond by reducing their activity and contacts with other people.
161. Our report said that the Scottish and UK economies were emerging from the pandemic with already rising inflation, driven by global energy and traded goods prices, when Russia's invasion of Ukraine delivered another significant global inflation shock. At the same time COVID developments in China were contributing to a worsening in supply chain disruptions and deterioration in the global economic outlook. Together, these factors contributed to rising inflation and slowing growth, though it was not possible to disentangle each effect individually. After Scottish GDP growth of 2.1 per cent in 2022-23, sustained by the rebound from the COVID shock, we expected growth to slow to 1.1 per cent in 2023-24, slightly lower than we forecast in December 2021.
162. Overall, economic uncertainty had risen in the few months before publication. While GDP growth was lower than we previously forecast, we did not expect Scotland to enter a recession. However, the risk of a recession in Scotland and the UK was materially higher now than at the time of our previous forecasts.
163. We expected devolved Scottish taxes to raise £18.1 billion of revenue in 2022-23, an upward revision of £743 million since our December 2021 forecasts. We had seen higher inflation since the winter, mostly driven by the increase in the Ofgem energy price cap and higher global energy prices following the conflict in Ukraine. Rising inflation can lead to fiscal drag. With certain taxes, rising inflation can have an accelerating effect on the growth of tax revenues when tax thresholds are fixed, leading to growth in tax revenues above growth in the tax base.
164. We revised our income tax forecast up significantly compared to December 2021. We forecast an average increase in revenues of £889 million from 2022-23 onwards, which was driven mainly by improvements in the outlook for the economy and an adjustment in our baseline assumptions on the higher rate threshold.
165. The Scottish Government introduced significant reforms to delivering social security in Scotland. Existing payments administered by the DWP on behalf of the Scottish Government were being replaced by new payments administered by Social Security

Scotland. We forecast devolved social security spending to increase from £4.2 billion in 2022-23 to £6.8 billion in 2027-28.

Forecast Evaluations

166. Our annual forecast evaluation reports only consider our Budget setting forecasts.

This means that our May 2022 forecasts have not been evaluated.

Fiscal Update – April 2020

Purpose

167. We published a Fiscal Update on 23 April 2020 that is exhibited at GR/17 [INQ000617007]. The start of the pandemic saw significant increases in UK Government public spending which resulted in additional funding for the Scottish Government and therefore Scottish Government spending. We considered it important to publish an update to inform Parliament and the public about the changes in the Scottish Government's funding position. We also explained how spending on the pandemic was split between reserved and devolved areas, and how the Scottish Government's funding arrangements affects the associated risks faced by the Scottish Government. The Fiscal Update also covered how the pandemic could affect the economy and the public finances, and the challenges forecasting in that environment.

Process and Challenges

168. This report relied on us receiving information from the Scottish Government. Our legislation allowed us to request this information and to publish the report. The Scottish Government provided the information requested on the required timescales. We adopted this approach for all subsequent Fiscal Updates.

169. In February 2020 we had published for the first time the Scottish Government's resource and capital funding positions for the 2020-21 Scottish Budget broken down by source. This provided us with a baseline against which we could compare any changes in spending. Chapter 3 of our report set out the changes to resource and capital funding in 2020-21 since February 2020. In the chapter we explained which changes had arisen because of the Budget deal agreed to pass the Budget, the UK Budget in March 2020, and the subsequent UK Government spending announcements in response to COVID.

170. In the early weeks of the pandemic it was not possible to say what the effects would be on the economy and the public finances. Our report sought to explain the different ways these could be affected, and what the potential effects were on the Scottish

Budget. We also recognised that the Scottish Government's funding arrangements are complex and what is most important is relative differences between Scotland and the rest of the UK. We sought to explain the ways the Scottish Budget was exposed to risks and which parts of the 2020-21 Budget were insulated from the effects of COVID. Chapter 2 of the report explained how the Budget is funded, potential reasons for spending differences in Scotland and the rest of the UK and the effects on devolved tax revenues and social security spending.

Fiscal Update – September 2020

Purpose

171. On 2 September 2020 we published a second Fiscal Update alongside our Forecast Evaluation Report and Statement of Data Needs. This second Fiscal Update is exhibited at GR/18a [INQ000617006] and set out the latest position of the Scottish Budget, discussed the potential variations in the Scottish Budget which the Government had to manage in 2020-21, and the levers available to do so. We also considered the effects of COVID on the economy. The Statement of Data Needs is exhibited as GR/18b [INQ000650992]. We published this information to provide the Scottish Parliament and the wider public with transparent information on the scale of changes to the Scottish Budget.

Process and Challenges

172. The Fiscal Update highlighted some of the challenges the Scottish Government was facing in managing its budget and how the UK Government had provided the Scottish Government with a guarantee that the minimum COVID funding provided in 2020-21 would be £6.5 billion. We reviewed the latest economic data and highlighted uncertainties we would need to consider when producing our next forecasts to accompany the 2021-22 Scottish Budget.

173. We hosted our first ever webinar in September 2020 in which our Commissioners at the time presented our Fiscal Update and explained how COVID could affect the Scottish Budget and economy. We invited questions from attendees which were answered by the panel.

Fiscal Update – January 2021

Purpose

174. The Fiscal Update published on 28 January 2021 is exhibited as GR/19 [INQ000616993]. It accompanied our forecast publication Scotland's Economic and

Fiscal Forecasts. The Fiscal Update was much shorter than our previous reports and set out the changes to the 2020-21 funding position for resource and capital and how the in-year fully devolved tax and social security forecasts and associated Block Grant Adjustments had changed.

Process and Challenges

175. Our report noted how the UK Government had announced a guaranteed minimum level of funding for the Scottish Government in July 2020. The UK Government recognised the unusual circumstances and the need for the Scottish Government to have certainty about the level of funding being received and it therefore guaranteed that COVID funding would not be reduced in-year. The guarantee was set in July 2020 but then increased in October, November and December as public health restrictions were changed in England. We noted it was possible the guaranteed funding would be revised again if public health restrictions in England continued, and the extension of funding to support businesses in England resulted in additional funding for the Scottish Government.

176. We noted how with only two months remaining of the financial year, the Scottish Government had a difficult task meeting the balanced budget requirement for 2020-21. Its funding depended on the policy response of the UK Government in the last quarter of the financial year to the growing public health crisis and could increase above the guaranteed level. Tighter public health restrictions would result in spending increases in the demand-led schemes which the Scottish Government operated to support businesses during COVID-19.

Fiscal Update – March 2021

Purpose

177. Our 9 March 2021 Fiscal Update is exhibited as GR/20 [INQ000616994]. It provided an update on the 2020-21 and 2021-22 funding positions.

Process and Challenges

178. We published this report in March 2021 following the UK Budget and ahead of the Scottish Parliament elections. We noted how the 2021-22 Scottish Budget had increased by £1.3 billion since the Scottish Government introduced its Budget in January 2021 as a result of additional COVID funding allocated at the UK Budget in March 2021 and COVID funding the Scottish Government deferred from 2020-21 into 2021-22.

179. We did not publish updated forecasts in May 2021 because of the elections and therefore included a discussion on the Scottish-specific economic shock which had been triggered by our January 2021 forecasts. We compared the latest OBR forecasts published in March 2021 to our January 2021 forecasts and showed these still implied the conditions for a Scottish-specific economic shock were met. However, we explained this was most likely because of timing issues between our and the OBR's forecasts.

Fiscal Update – August 2021

Purpose

180. Our Fiscal Update published on 26 August is exhibited at GR/21 [INQ000616991] This was a short publication monitoring changes in funding in the 2020-21 and 2021-22 Scottish Budgets.

Process and Challenges

181. The Scottish Government's funding position continued to evolve with increases in COVID funding at the UK Budget and at Main Estimates. As this report was published alongside updated forecasts it was a short supplementary publication providing detailed information for Parliament and interested users.

Fiscal Update – December 2021

Purpose

182. Our 9 December 2021 Fiscal Update is exhibited as GR/22 [INQ000616992]. This was a short publication monitoring changes in funding in the 2021-22 Scottish Budget.

Process and Challenges

183. We presented the latest resource and capital funding positions for 2021-22 reflecting the effects of in-year revisions to fully devolved tax and social security forecasts as well as additional COVID funding from the UK Government.

184. As this report was published alongside the 2022-23 Scottish Budget and our Scotland's Economic and Fiscal Forecasts publication it was a short supplementary publication providing detailed information for Parliament and interested users.

Fiscal Update – May 2022

Purpose

185. Our 32 May 2022 Fiscal Update is exhibited as GR/23 [INQ000616995]. This was a short publication monitoring changes in funding in the 2021-22 and 2022-23 Scottish Budgets.

Process and Challenges

186. This was the last time we published a Fiscal Update as a separate document, after this we only published Fiscal Updates as annexes to our main forecast publication. The document had become more routine, focusing on specific funding changes rather than explaining the discussive documents we published at the start of the pandemic.

Uncertainties and **our forecasts**

187. We routinely produce economic forecasts in the face of considerable uncertainty. For example, before and at the time of the pandemic, there was considerable uncertainty over the UK's exit from the EU and terms of any agreement with the EU. As the pandemic drew to a close in 2022 the Russian invasion of Ukraine exacerbated rises in the wholesale price of gas and added to the cost of living crisis with the Chancellor announcing a significant policy package to assist households in May 2023. Another example is the current situation in May 2025 when we are producing a forecast at the same time as US policy on tariffs is changing rapidly and unpredictably.

188. However, it is reasonable to say – as we did in some of our forecast evaluations – that the scale of the economic response to the public health measures introduced at times during the pandemic was unprecedented in recent times. This meant that some of our forecast errors were much larger than we normally expect.

189. In producing our forecasts we took the approach of making a series of broad brush assumptions about the course of the pandemic. These judgments were based, as is our statutory duty, on the Scottish Government's policy position at the time the forecasts were made. We tried to ensure that the assumptions were robust enough to immediate developments in those policies if the course of the virus could change (as it did for example in the pre-publication period for our December 2021 report with the emergence of the Omicron variant). We also endeavoured to make the assumptions span the time period until restrictions were lifted and the behavioural responses returned to something like normality. We were helped in this by the Scottish Government publishing a Framework for Decision Making in April 2020 and then a series of route maps through and out of the crisis.

190. It was of course entirely understandable given the nature of the pandemic that policy would at times have to be quite reactive to developments and could change quite rapidly. Ultimately, our forecasts are made at a point in time and needed to reflect the policies in place at that time, rather than trying to predict potential future changes in policy. To an extent, this made our role simpler, as we didn't need to predict future changes in policy direction.

Monitoring the Scottish Government's economic response to the virus

191. As the summaries of our key findings illustrate our economic forecasts and narrative depended on our understanding the impact of both the Scottish and UK Government's economic response to COVID. In part our judgements here were informed by an understanding of the publicly announced policy measures, and also by other economic data that we consider in reaching our judgements. At no point did we formally evaluate the Government's economic response as this lies outside our remit.

192. In addition, our tax forecasts and especially those for NDR and LBTT depended on how businesses and individuals responded to the tax policy changes introduced by the Scottish Government as part of the economic response. Our policy costings attempted to estimate these behavioural effects, but again formal evaluation of the policy response and their economic impact lay outside our remit.

Working with external parties during the pandemic

193. During the pandemic we continued the approach to working with external partners we had developed before the pandemic started. Our working relationship with the OBR in particular allowed us to make use of their analysis based on their extensive contacts with public health experts. Although this was helpful, it is fair to say that at times the pace of events or the time intervals between their forecasts and ours made this information less directly useful than it could have been. Within the Scottish Government we had access to a wider range of analysts and policy officials than we did before and after the pandemic, including those working in the central COVID analytical teams and policy officials working on the vaccination programme.

Lessons Learnt and Reflections

Internal and external reviews

194. We did not commission any internal or external reviews relating to the issues in the Provisional Outline of Scope for Module 9.
195. We carry out an internal review of each forecast a short time after publication in which staff are asked to comment on the practical issues in producing the forecasts and publishing the forecast document. We also discuss the conclusions of these reviews with the Scottish Government teams who work with us. However, these are purely process reviews and do not consider the design or delivery of Scottish or UK economic policy.

Improved data relevant to the response to future pandemics

196. The UK and Scottish Government's responses to the pandemic resulted in significant increases in UK Government spending, funding provided to the Scottish Government by the UK Government and Scottish Government spending. Monitoring and tracking changes in the Scottish Government's funding position was difficult from publicly available information. Over the course of the pandemic we saw our role as using our right of access to information from the Scottish Government to request this information and then publish it in an accessible form to allow us, the Scottish Parliament and interested users to see how the Scottish Budget was changing.
197. We publish a Statement of Data Needs every two years with recommendations for how data could be improved. Many of the recommendations in our last statements aim to improve the transparency of the Scottish Budget in general, but would also mean that should a future pandemic occur resulting in significant shifts in public spending it would be easier to monitor and track these changes.
198. One area of particular relevance is the lack of transparency around the funding provided by the UK Government to the Scottish Government. We recommended HM Treasury and Scottish Government should ensure timely publication of Barnett funding data, either by updating the Block Grant Transparency at each UK fiscal event or directly releasing detail on Barnett consequentials.
199. We also made a number of recommendations to the Scottish Government to improve the data it publishes on funding and spending including to publish funding and spending data at detailed levels in unrounded forms in machine-readable, open-source data sets which are updated regularly – at the Scottish Budget, Medium-Term Financial Strategy, when the Budget is revised during the year, and when provisional and final outturn is presented. This would make it much easier to track changes in the Scottish Budget over time.

Readiness for a future whole-system civil emergency

200. Since the end of the pandemic, we have focussed our efforts on developing our 5-year economic and fiscal forecasts in the face of the increases in the cost-of-living and energy prices following the invasion of Ukraine, the new UK Government and more recently the new US Government. Following a recommendation by the OECD and the Scottish Parliament's Finance Committee we had also expanded our activities to publishing 50-year fiscal sustainability reports.

201. We have also developed our approaches to communicating uncertainty in our reports by focussing attention on how the Fiscal Framework between the Scottish and UK Governments operates when there are both cross UK shocks and also shocks that are specific to either Scotland or the rest of the UK. For example our work on climate change, exhibited as GR/24 [INQ000616990], discusses the implications of joint policy responsibilities which do not fit into a simple either reserved or devolved category.

Recommendations to improve the economic response to a future pandemic

202. It's not part of our role to evaluate Scottish Government economic policy in general or specifically in planning for a future pandemic.

Statement of Truth

I believe that the facts stated in this witness statement are true. I understand that proceedings may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

Signed: **Personal Data**

Dated: 16/09/2025