

11 January 2023

Mr Richard Leonard MSP
Convener
Public Audit Committee
Scottish Parliament
Edinburgh
EH99 1SP

Dear Convener

On 1 December 2022 I provided evidence to the Committee on my [Scotland's public finances: challenges and risks](#) briefing paper. As part of this, Committee members requested further information, which I have responded to below.

Covid-19 spending funded from Barnett consequentials

Members were interested in the share of Covid-19 spending funded by additional Barnett consequentials from the UK Government. My joint report with the Accounts Commission, [Scotland's financial response to Covid-19](#), reported that over the two years of the pandemic the Scottish Government allocated £15.5 billion in its budgets to its Covid-19 response. This was funded from £14.4 billion of Barnett consequentials arising from spending on Covid-19 in devolved areas in England, with the remaining £1.1 billion funded by redirecting existing budgets and from the Scotland Reserve.

Public wages and salaries as a percentage of public expenditure over the past decade

The briefing paper highlighted that wages and salaries account for over £22 billion across the devolved sector, and members of the committee were interested in how this figure had changed over time as a share of public expenditure.

In the [Emergency Budget Review](#) in November, the Scottish Government noted that employee pay in 2022/23 is equivalent to more than half the Scottish Government's resource budget. The publicly available information on historical trends in aggregate spending on public sector pay is limited.

As I highlighted in my evidence to the committee, I am considering how and when it would be appropriate to revisit the issues relating to Scotland's public sector workforce. We intend to investigate the data which is available to inform any work undertaken in the future.

The value of the real-terms change in the budget due to inflation

In the evidence session, members asked about the impact of inflation on the spending review, and what this may mean for the Scottish budget.

Since the evidence session, a number of organisations, including Fraser of Allander Institute (FAI) and the Scottish Fiscal Commission (SFC), have commented on the impact of inflation on the budget and projections of future spending power. The high levels of inflation and the current drivers of that inflation make it challenging to provide reliable estimates of the overall impact on the Scottish budget.

The real-terms value of the budget is generally calculated using the GDP deflator. This is a measure of general inflation in the domestic economy, and is used to analyse the effect of inflation on government spending. The GDP deflator measure of inflation does not include the costs of imported commodities like energy and may understate the level of inflation faced.

Energy costs are incorporated in the Consumer Price Index (CPI), which measures the rate at which the prices of goods and services bought by households rise and fall. However, the Scottish Government does not buy the same basket of goods and services as households. The FAI note that using CPI to calculate the real terms change in the Scottish budget would likely overstate the level of inflation faced.¹

FAI suggest that using the GDP deflator, inflation reduced the value of the resource block grant for 2022/23 by £0.7 billion, and using CPI, the value of the block grant reduced by £1.7 billion.² Both figures suggest significant pressure on the 2022/23 budget.

Looking forward to 2023/24, the SFC highlight that the budget has increased by £1.3 billion in real terms compared to what was expected at the time of their last forecasts in May 2022. SFC note that because this is calculated using the GDP deflator, this potentially understates the actual impact of inflation.³

Overall, this issue highlights the challenges the Scottish Government faces in planning and managing its spending over the coming years. While the prevailing economic environment means that it is facing cost increases across many areas of public spending, these are likely to vary significantly across different types of expenditure. It is important that the Scottish Government understands where the pressures on its budget are, and where it is best able to quickly alter spending and respond to budget fluctuations.

I hope the committee finds this helpful.

Yours sincerely



Stephen Boyle
Auditor General for Scotland

¹ Fraser of Allander Institute, [Scotland's Budget Report](#), December 2022, p6

² Fraser of Allander Institute, [Scotland's Budget Report](#), December 2022, p6

³ Scottish Fiscal Commission, [Scotland's economic and fiscal forecasts](#), December 2022, p28