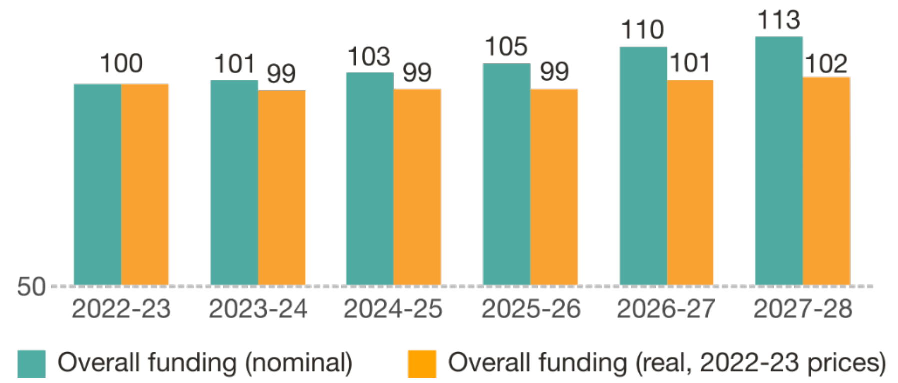
Fiscal Overview

The Scottish Government will see its overall funding levels increase through and beyond the Spending Review period.

However, inflation will erode this growth. Real terms funding will remain slightly below that of 2022-23 for most of the Spending Review period, increasing only modestly in its last year.

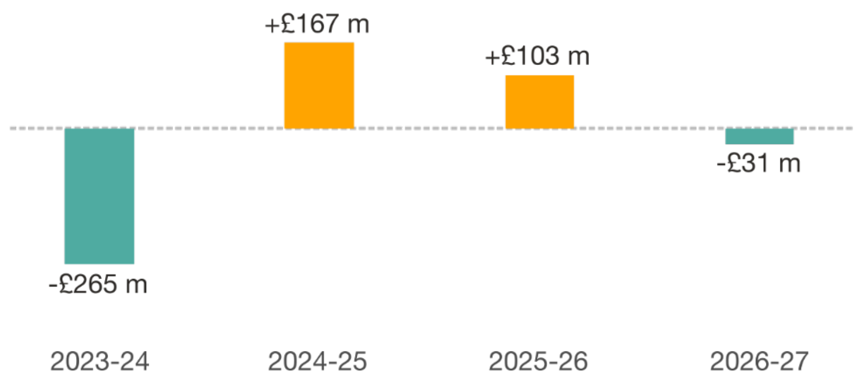
Medium term outlook for overall funding (2022-23 = 100)



Income tax is still expected to reduce the size of the Budget, but only in the first year of the Spending Review.

From 2024-25 the UK Government intends to reduce the basic rate of income tax to 19 per cent. The income tax BGA will reduce accordingly, thus supporting net Scottish income tax funding.

Indicative tax net positions

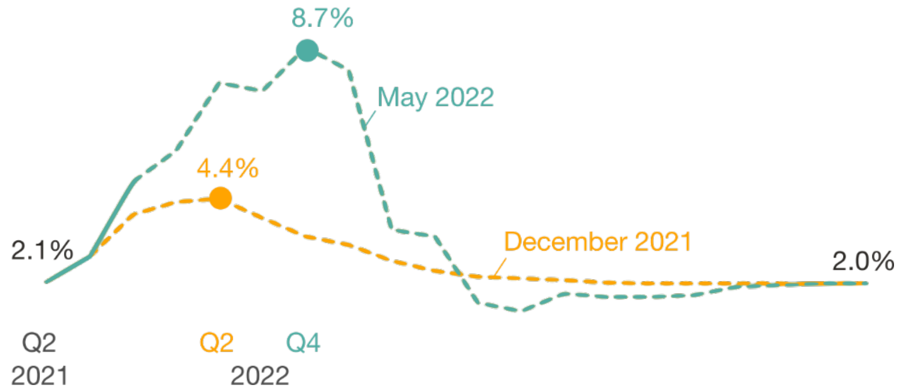


Economy

With inflationary pressures intensifying further since December 2021, we now expect annual CPI inflation to peak at 8.7 per cent in 2022 Q4.

Rising global energy prices, exacerbated by the conflict in Ukraine, have driven large increases in the Ofgem energy price cap in April and October 2022.

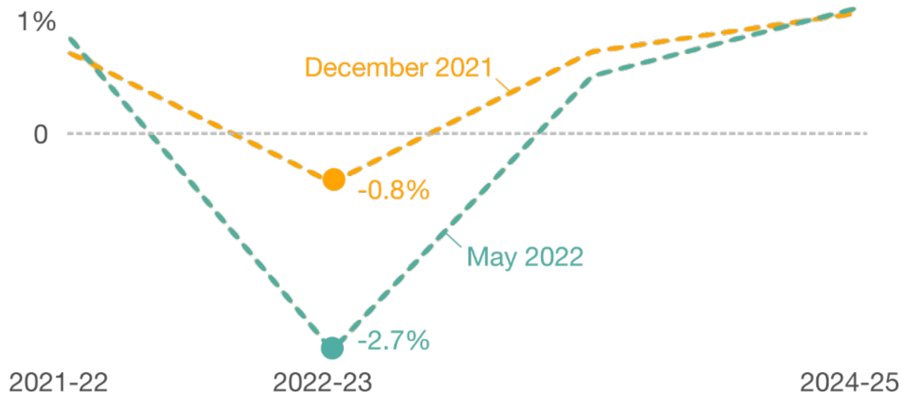
Inflation forecast raised significantly



We forecast real average earnings to decrease by 2.7 per cent in 2022-23.

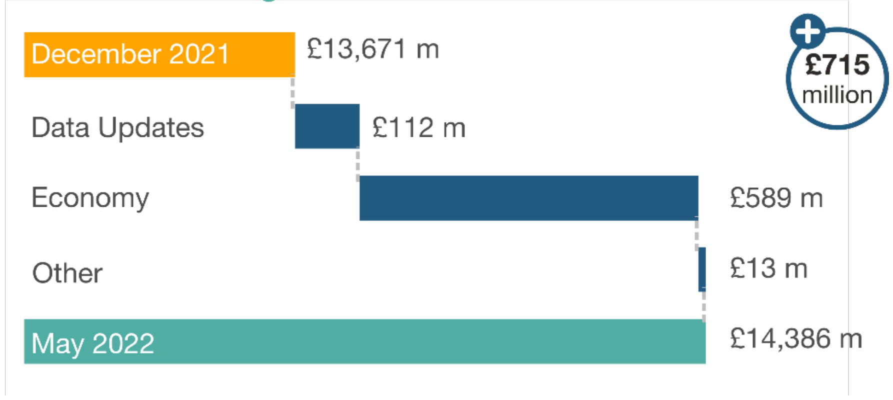
This is because we do not expect nominal earnings to keep pace with rising inflation. Low income households are expected to be disproportionately affected.

Real earnings decreasing because of higher inflation



Tax

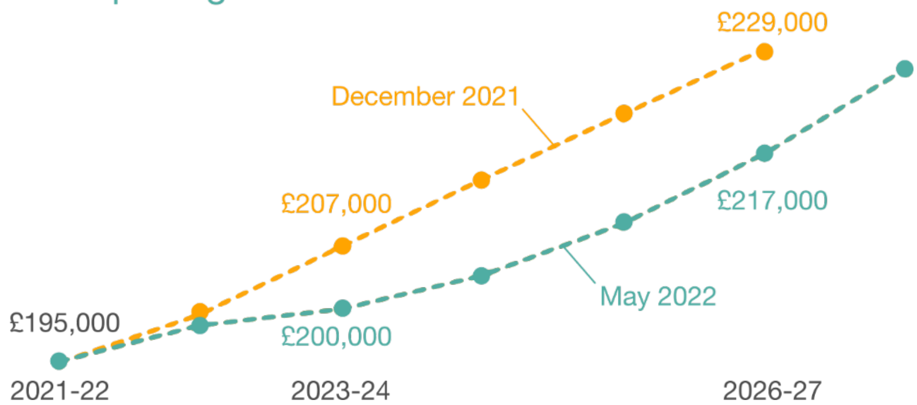
Income tax changes since December 2021 forecast



The increase in our income tax forecast for 2022-23 has largely been driven by changes in the economy.

Growth in nominal earnings and employment have increased the forecast for tax revenues.

House price growth forecast revised down

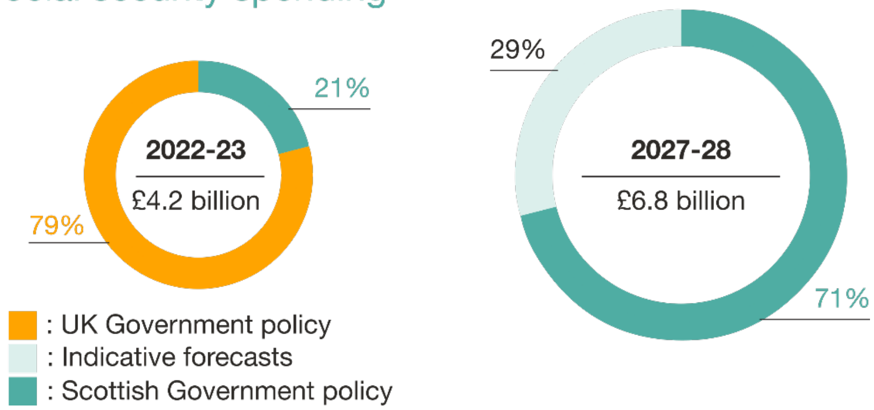


House prices will continue to rise but not as quickly as previously forecast.

The rising cost of living and rising interest rates will put pressure on how much households can afford to spend on moving home.

Social Security

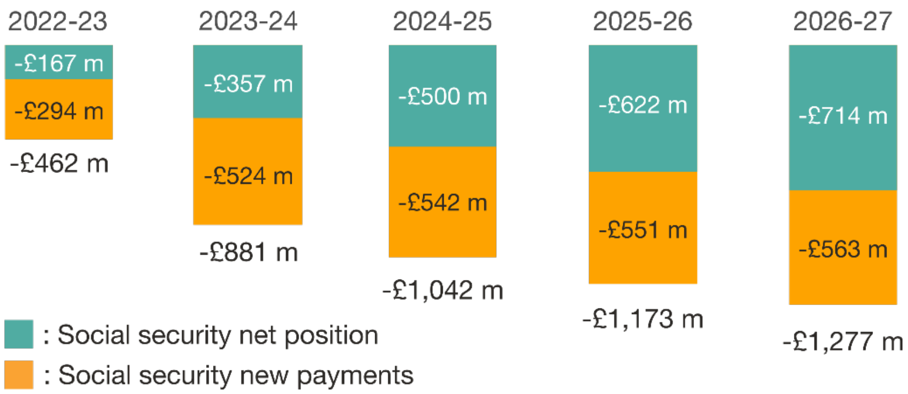
Social security spending



Security spending increases from £4.2 billion in 2022-23 to £6.8 billion in 2027-28.

The Scottish Government plans to replace payments devolved but administered by DWP with Scottish payments by the end of 2025. While the Scottish Government develops the plans for these payments, we present the spending as indicative.

Social security funding pressures forecast



Scottish Government receives funding for the payments devolved from the UK Government. Spending above this funding must be met from its wider Budget.

Scottish Government spending above the funding received is forecast to increase from £0.5 to £1.3 billion.

Summary

Introduction

1 This note provides an abridged version of our summary, first focusing on the economic outlook before turning to the Scottish Government's funding outlook and spending plans. We have added sections from our main report which discuss changes to our social security forecasts since December 2021 and the social security funding position.

2 Our latest forecasts accompany the Scottish Government's fiscal event presenting both the Medium-Term Financial Strategy (MTFS) and Resource Spending Review (RSR) to the Scottish Parliament. This is the first time the Scottish Government has conducted a multi-year spending review since 2011. The RSR covers the four financial years starting in 2023-24, a period when the Scottish Government's resource funding is broadly flat after allowing for inflation. Although the final year of the RSR, 2026-27, has funding 11 per cent higher than 2022-23 before adjusting for inflation, it is 3 per cent higher in real terms. Spending on social security will account for an increasing share of the resource Budget, rising from around 10 per cent of the resource budget in 2022-23 to 14 per cent in 2026-27. At the same time the capital budget is expected to fall, both before and after inflation, over the next four years.

3 The recent sharp rise in inflation has had a significant effect on our forecasts and on the Scottish fiscal outlook. High inflation means falling real incomes for households in Scotland and will also put pressure on the Scottish budget via rising social security payments which are linked to inflation. On the other hand, higher nominal earnings growth has led us to revise our income tax forecasts upwards.

The economic outlook and uncertainty

4 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 Coronavirus (COVID-19) developments in China are contributing to a worsening in supply chain disruptions and deterioration in the global economic outlook. Together, these factors are contributing to rising inflation and slowing growth, though it is not possible to disentangle each effect individually. After Scottish GDP growth of 2.1 per cent this year, sustained by the rebound from the COVID-19 shock, we expect growth to slow to 1.1 per cent in 2023-24, slightly lower than we forecast in December 2021.

5 Overall, economic uncertainty has risen in the last few months. While GDP growth is lower than we previously forecast, in our forecasts we do not expect Scotland to enter a recession. However, the risk of a recession in Scotland and the UK is materially higher now than at the time of our previous forecasts.

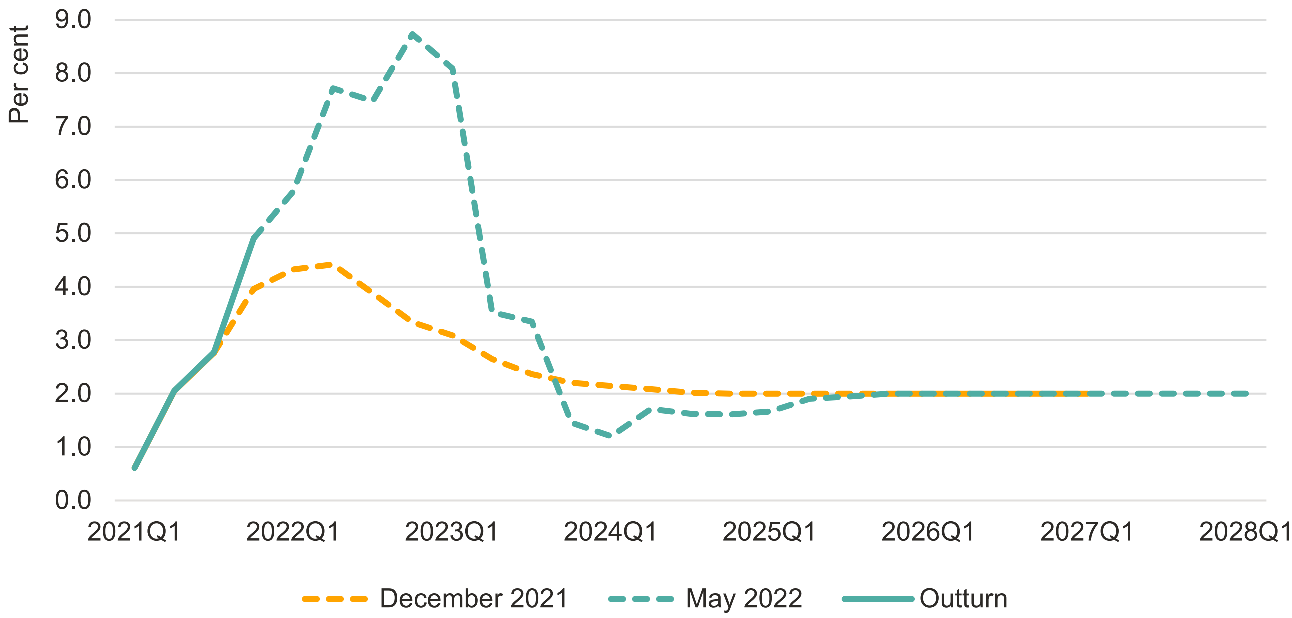
Figure 1: Headline economy forecasts, growth rates

Per cent	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
GDP							
December 2021	10.4	2.2	1.2	1.3	1.4	1.4	-
May 2022	11.6	2.1	1.1	1.0	1.0	1.0	1.0
Consumer Price Index							
December 2021	3.3	3.7	2.3	2.0	2.0	2.0	-
May 2022	4.0	8.0	2.4	1.7	2.0	2.0	2.0
Average real earnings							
December 2021	0.6	-0.8	0.7	1.1	1.3	1.4	-
May 2022	0.8	-2.7	0.4	1.2	1.1	1.2	1.3

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – December 2021 (link).
Shaded cells refer to outturn available at time of publication. Nominal earnings are adjusted for inflation using the Consumer Expenditure Deflator.

6 With inflationary pressures intensifying further since December 2021, we now expect annual Consumer Price Index (CPI) inflation to peak at 8.7 per cent in 2022 Q4, as shown in Figure 2. This is mainly driven by the large increases in the Ofgem energy price cap in April and October, which is an effect of rising global energy prices in the wake of the pandemic, which are further exacerbated by the conflict in Ukraine.

Figure 2: Consumer Price Index inflation, year-on-year growth



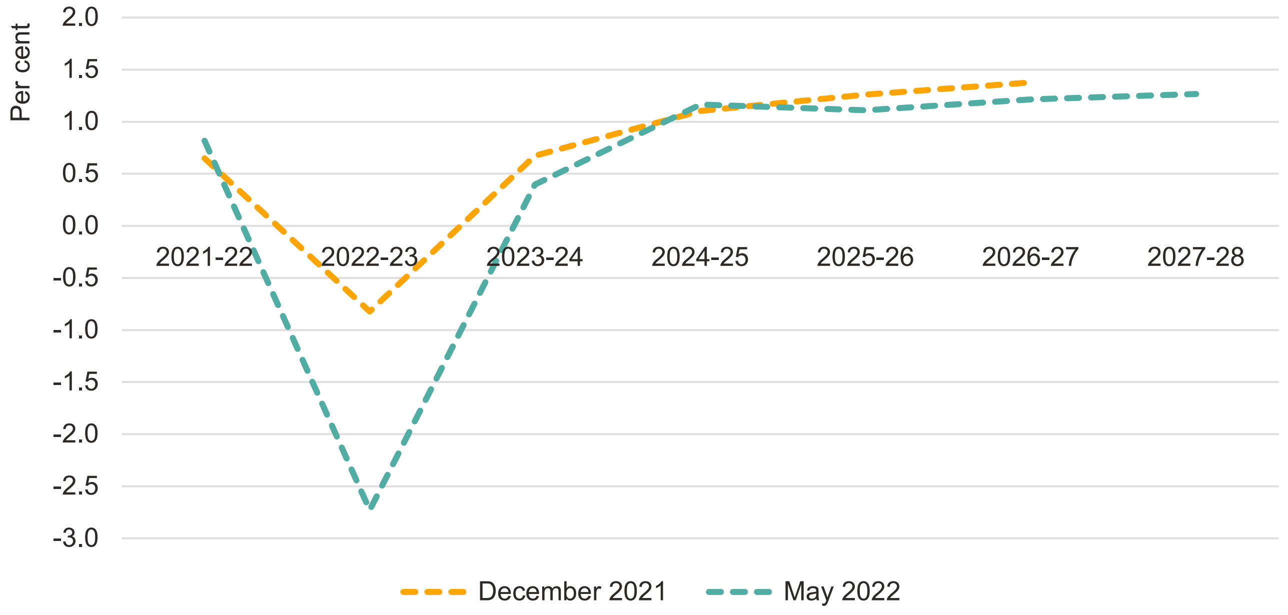
Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – December 2021 (link), OBR (2022) Economic and Fiscal Outlook – March 2022 (link), OBR (2021) Economic and Fiscal Outlook – October 2021 (link).
The year-on-year CPI inflation peak in 2022 Q4 of 8.7 per cent is different from the year-on-year peak for 2022-23 which is 8.0 per cent.

7 Domestic price pressures from the labour market have also picked up. Unemployment has continued to fall despite the end of furlough and is now at historic lows, adding to recruitment difficulties. Reflecting higher inflation and wage pressures from an increasingly tight labour market,

we expect nominal average earnings to grow by 4.1 per cent in 2022-23, moderating in later years as inflation falls back and labour market conditions normalise.

8 We do not expect average earnings growth to match inflation levels in the next year. Consequently, as shown in Figure 3, many households are expected to see a fall in their real earnings next year. This has significant implications for households, especially for lower income households who spend more of their money on essentials and cannot cut back on savings or discretionary spending to cover rising costs.

Figure 3: Real average earnings growth



Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – December 2021 (link).

Box 3.1: Rising inflation and cost of living

CPI inflation in the year to April 2022 reached 9 per cent, a 40-year high, driven by sharp rises in energy bills and the highest food price inflation in a decade. This will mean a significant fall in real incomes for many Scottish households, but lower income households are likely to be particularly severely affected.

Low-income households will tend to struggle more with rising prices as they spend more of their money on essentials including energy and food, and cannot just cut back on savings or discretionary spending to cover rising costs.

In addition, the prices of those essential items that form a greater proportion of spending for low income households are rising fast. Estimates of inflation by income groups from the Institute for Fiscal Studies and the Resolution Foundation show the bottom ten per cent earners are facing even higher inflation than the headline CPI, above 10 per cent, compared to below-average rates for the top ten per cent earners.[1]

While costs are rising, the latest HMRC PAYE mean pay data by income groups for the UK, show that the bottom ten per cent earners saw pay growth of only 0.1 per cent between February and March 2022, compared to 2.3 per cent for the top one per cent earners.[2] While some Scottish payments will see large

[1] Institute for Fiscal Studies (2022) Inflation hits 9% with poorest households facing even higher rates (link), Resolution Foundation (2022) Cap off (link).
[2] Institute for Fiscal Studies (2022) Latest pay data confirms rise in earnings inequality (link)

increases, most benefits will only rise by 3.1 per cent in April 2022, based on the September 2021 CPI rate. From April 2023, payments will be uprated by the September 2022 CPI rate. In our current forecast, this would be a 7.5 per cent increase.

The package of additional measures announced by the Chancellor of the Exchequer on 26 May 2022 may help alleviate the pressures on lower income households.[3]

It is possible that the pressure higher prices are putting on household finances could drive higher take-up of both devolved social security payments and the underlying reserved qualifying benefits like Universal Credit. While we currently forecast slightly higher take-up of devolved payments in the future, any further increases will result in higher social security spending.

9 Our forecast of inflation is aligned with the Office for Budget Responsibility (OBR) March 2022 UK inflation forecast and is similar to that of the Bank of England from its May 2022 Monetary Policy Report.[4] After peaking in 2022 Q4, we expect inflation to gradually return to the 2 per cent target as energy prices stabilise, global supply bottlenecks ease, and the squeeze on real incomes and demand limits domestically generated inflation. There are significant risks around the outlook for inflation, with consequences for the wider economic outlook.

- Inflation could be higher if global inflationary pressures intensify further because of the conflict in Ukraine and the COVID-19 lockdowns in China. Similarly, supply chain disruptions could increase and hold back investment and production by more than anticipated. This could potentially result in an extended period of high inflation and subdued growth.
- There is also a risk that higher inflation becomes entrenched and more persistent domestically leading to a wage-price spiral in the UK. This would require a much larger interest rate response from the Bank of England in order to re-anchor inflation expectations, with significant implications for the economy.
- Alternatively, external inflationary pressure could fall more quickly than we expect, reducing inflation and the squeeze on real incomes.

10 High inflation is a risk for economic growth because it erodes households' real incomes, firms' profit margins, and consumer and business confidence. We carefully considered a range of forecasts, including that by the Bank of England, and concluded that they all agree on the underlying drivers but, as happens with forecasting, take a different view as to their effects on the economy. We therefore recognise that stagnant growth or a recession are a downside risk to the forecast.

11 After we closed our forecasts to new data on 11 May, Office for National Statistics (ONS) inflation data published on 18 May showed inflation continuing to rise sharply, with CPI inflation at 9 per cent over the year to April 2022. This underlines the significant uncertainty around the outlook for inflation and the economy. While the current monthly inflation data continue to be volatile, we believe our outlook for inflation remains reasonable.

12 Broadly in line with the assumptions we made in our December 2021 forecasts, all COVID-19 legal restrictions in Scotland ended on 21 March 2022. COVID-19 is now being managed like a standard virus, with only voluntary guidance in place. The economy has also returned to close to pre-recession levels of activity. COVID-19 is still present in Scotland leading to hospitalisations and

[3] Institute for Fiscal Studies (2022) IFS response to government cost of living support package (link)
[4] Office for Budget Responsibility (2022) Economic and Fiscal Outlook – March 2022 (link)
Bank of England (2022) Monetary Policy Report – May 2022 (link)

deaths. The Scottish Government's COVID-19 threat level is now at medium.[5] In our central forecast, we expect deaths and serious illness from COVID-19 in Scotland to remain low and stable, with no legal restrictions being reintroduced. There remains a risk that a new variant of COVID-19 emerges that is resistant to current vaccines, which could lead to new public health restrictions. Should new public health restrictions which affect economic activity be necessary, then the economic and fiscal outlook over the forecast is likely to be more negative than we currently expect.

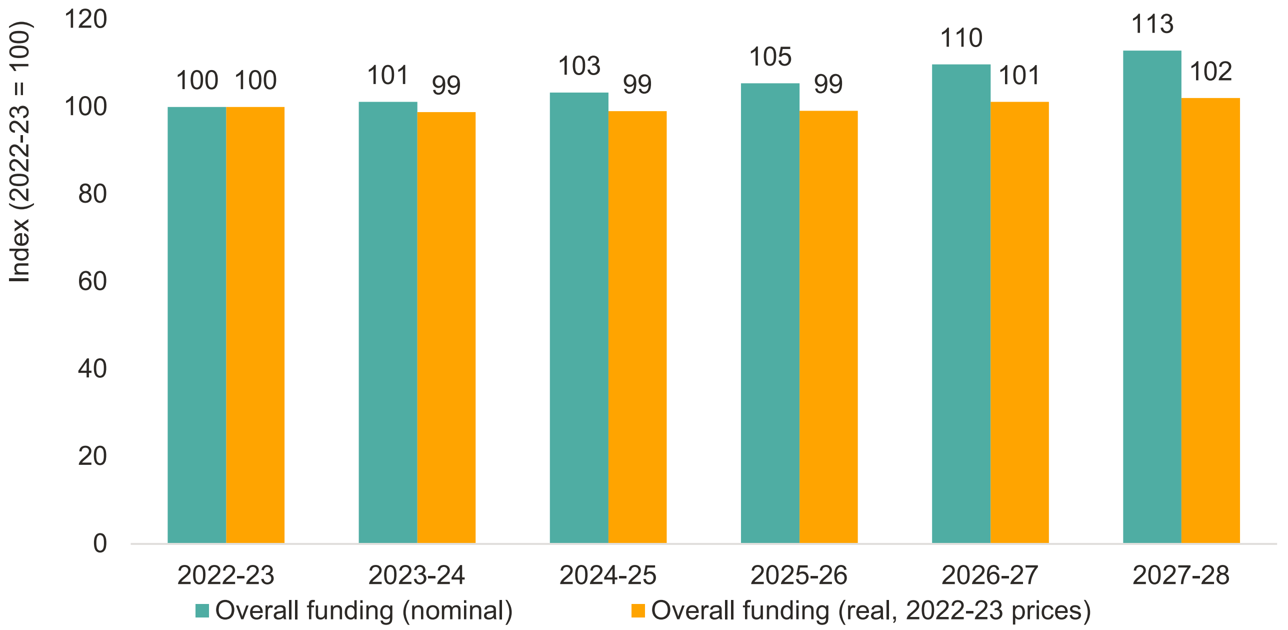
13 We continue to see Scotland's total earnings growth lagging behind the UK's. We expect this trend to persist over the next few years, with important implications for tax revenues and the Scottish Budget. As we discussed in our December 2021 forecast report, Scotland's slower total earnings growth relative to the UK can be explained by a combination of longer-term structural factors and divergent sectoral and regional performance.

The five-year funding outlook

14 The Scottish Government has set its RSR plans for the next four years, 2023-24 to 2026-27, based on a forecast funding position. We include an additional year of funding for 2027-28 based on our own projections including our five-year tax and social security forecasts. The funding position depends on UK Government funding, tax revenues, borrowing and reserve plans and Scottish Government assumptions about other funding sources. We consider the Scottish Government's assumptions broadly reasonable, but note the risk that funding differs from the current plans. Should funding be less than currently projected then the Scottish Government will need to adjust its spending plans in each year in the Budget.

15 The relatively small increases in total funding (resource and capital) have presented a challenge for Scottish Government in setting its spending plans, despite the Scottish Government assuming funding will increase above the UK Government Spending Review settlement. After adjusting for inflation the Scottish Government's total funding for the next three years is expected to be 1 per cent lower than in 2022-23. It increases by 2 per cent in 2026-27 bringing it to 1 per cent higher than the current financial year.

Figure 7: Total Scottish Government funding (resource and capital)



[5] Scottish Government (2022) Coronavirus in Scotland (link) accessed 26 May 2022

Source: Scottish Fiscal Commission, Scottish Government.
Figures in 2022-23 prices calculated using year-on-year growth GDP deflators from Table 1.7 of the OBR's March 2022 supplementary economy tables (link). Figures rebased so 2022-23 = 100.
Funding in 2022-23 has been updated for the latest information including changes in UK Government funding, changes to Scottish Government Reserve drawdown plans and revised fully devolved tax forecasts. This differs from the Scottish Government's presentation of 2022-23 funding which is presented at the same level as the 2022-23 Scottish Budget as introduced in December 2021. The growth rates for funding presented here therefore differ from those presented by the Scottish Government.
Scottish Fiscal Commission assumptions are used for 2027-28. Please refer to **Annex D** for more details.

16 Resource funding makes up most of the Scottish Budget and is for current spending on the delivery of public services such as NHS Scotland, other public sector wages, goods and services and social security spending. Capital funding accounts for 13 per cent of the Scottish Budget in 2022-23. It is used for long-term investment such as hospitals, roads and research and development. Capital funding is decreasing for the next three years.

17 The relatively flat level of resource funding is because of several factors. Firstly, the UK Government's Spending Review in October 2021[6] set out the Scottish Government's funding from the UK Government up to 2024-25, and funding falls over this period after adjusting for inflation. Scottish tax revenues have a negative impact on the Scottish Budget in 2023-24 because these revenues are expected to grow more slowly than in the rest of the UK. In 2024-25, a very large negative reconciliation of -£817 million is expected because of changes to forecasts for 2021-22 income tax revenues. The pressure is alleviated slightly in 2025-26 as the tax net position is positive and the reconciliations are smaller. Figure 8 summarises the Scottish Government's resource funding position.

Figure 8: Summary of the Scottish Government's resource funding position

£ million	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
UK Government funding [1]	39,019	39,956	41,232	42,466	44,118	45,512
Other funding [2]	3,238	3,463	3,307	3,036	3,324	3,294
Tax net position	-51	-265	167	103	-31	-54
Final reconciliations [3]	-15	-221	-817	-238	-	-
Resource borrowing	15	110	300	119	-	-
Resource reserve drawdown	400	279	250	113	87	87
Total resource funding available	42,607	43,321	44,439	45,600	47,498	48,839
Social security spending	4,173	5,072	5,725	6,108	6,490	6,847
Total resource funding for all other portfolios	38,434	38,249	38,715	39,492	41,008	41,992

Source: Scottish Fiscal Commission, Scottish Government.
Figures may not sum because of rounding.
[1] UK Government funding includes Block Grant (Barnett and non-Barnett), social security Block Grant Adjustments (BGAs) and non-tax BGAs.
[2] Other funding includes the NDR distributable amount and 'other' funding sources such as income from the Immigration Health Surcharge. It also removes the cost of capital and resource borrowing repayments from available funding.
[3] Final reconciliations in 2022-23 include income tax, and final reconciliations for the BGAs for LBTT, SLfT, social security and Fines, Forfeitures and Fixed Penalties. From 2023-24 onwards final reconciliations are for income tax only and based on forecasts.
Scottish Fiscal Commission assumptions are used for 2027-28. Please refer to **Annex D** for more details.

[6] HM Treasury (2021) Autumn Budget and Spending Review 2021 (link)

18 The funding position for areas other than social security is constrained by both the relatively flat level of total funding, and the growing social security allocation. In 2022-23 social security spending accounts for around 10 per cent of the overall resource budget; by 2026-27 we expect it to account for around 14 per cent. In real terms this means the available resources for the non-social security budget are falling for the first three years of the RSR.

19 The Scottish Government's funding position is not fixed, even in the current financial year changes can arise from the UK Government altering its spending plans, changes to tax forecasts and changes to the Scottish Government's borrowing and reserve plans. The RSR therefore needs to be set based on a projection of future funding. We do however note that the Scottish Government will need to alter its future spending plans as the funding position becomes clearer for each year.

The five-year spending outlook

Overall position

20 The RSR sets out the Scottish Government's spending plans over the four years from 2023-24. The spending allocations have been set at a time when inflation will erode the purchasing power of the Government, and there will be pressure for public sector wages to increase with inflation.

21 The Scottish Government plans to increase spending on health and social security. We show the amount available to be spent on other areas in Figure 10. Before adjusting for inflation, the remaining funding is lower for the first three years of the RSR than in 2022-23. Only in 2026-27 is funding for other areas expected to increase above the current level. Once adjusted for inflation, funding for other areas falls more substantially for the first three years of the RSR and is 8 per cent below 2022-23 levels by 2025-26. In 2026-27 funding is expected to be 5 per cent below 2022-23 levels in real terms. This reduction in real funding for other areas has consequences for how the Scottish Government has allocated funding to different portfolios.

Figure 10: Summary of the Scottish Government's funding position

£ million	2022-23	2023-24	2024-25	2025-26	2026-27
Total resource funding available [1]	42,607	43,321	44,439	45,600	47,498
Social security spending [2]	4,173	5,072	5,725	6,108	6,490
Health and social care spending	17,106	17,550	17,995	18,536	19,029
Total resource funding for all other portfolios	21,328	20,699	20,719	20,956	21,979

Source: Scottish Fiscal Commission and Scottish Government.
Figures may not sum because of rounding.
[1] Funding in 2022-23 has been updated for the latest information including changes in UK Government funding, changes to Scottish Government Reserve drawdown plans and revised fully devolved tax forecasts. This differs from the Scottish Government's presentation of 2022-23 funding which is presented at the same level as the 2022-23 Scottish Budget as introduced in December 2021.
[2] Social Security spending is based on our forecasts and not directly traceable to a specific spending allocation in the Resource Spending Review.

Figure 11: Scottish Government's spending allocations in 2022-23 prices

£ million	2022-23	2023-24	2024-25	2025-26	2026-27
Constitution, External Affairs and Culture	100	95	87	86	84
Crown Office and Procurator Fiscal Service	100	98	96	94	92
Deputy First Minister and Covid Recovery	100	98	96	94	157
Education and Skills	100	98	96	95	109
Finance and Economy	100	96	95	94	102
Health and Social Care	100	100	101	102	103
Justice and Veterans	100	98	96	98	96
Net Zero, Energy and Transport	100	97	98	101	115
Rural Affairs and Islands	100	97	96	94	93
Social Justice and Housing	100	117	128	134	139
Local Government	100	98	96	94	93
Scottish Parliament and Audit Scotland	100	98	96	94	92
Total	100	101	102	102	104

Source: Scottish Fiscal Commission, based on Scottish Government information.
Figures may not sum because of rounding.
Figures in 2022-23 prices calculated using year-on-year growth GDP deflators from Table 1.7 of the OBR's March 2022 supplementary economy tables (link). Figures rebased so 2022-23 = 100.
Scottish Government spending plans for 2022-23 are at the same funding level as when the 2022-23 Scottish Budget was introduced in December 2021. This differs from the Scottish Government's presentation which excludes non-recurring spending from the 2022-23 baseline. The growth rates for allocations presented here therefore differ from those presented by the Scottish Government. The spending level in 2022-23 informing the growth rates presented in this figure is different to our estimated funding presented in other figures as it reflects spending plans from December 2021.

22 In 2023-24 and 2024-25 spending on all other areas is expected to fall in real terms. In 2025-26 only the Net Zero, Energy and Transport portfolio is expected to increase, with spending 0.8 per cent above 2022-23 levels in real terms. In 2026-27, the last year of the RSR when funding growth is highest, spending on the Education and Skills portfolio and Finance and Economy portfolio also increase. The Deputy First Minister and Covid Recovery portfolio has a large increase in funding in 2026-27 to cover the next Scottish Parliament elections. All other portfolios will see real terms reductions in spending in every year of the RSR.

Changes in Social Security spending forecast since December

23 The Commission provides forecasts of devolved social security spending and presents the changes since the 2022-23 Scottish Budget. We now forecast devolved social security spending to increase from £4.2 billion in 2022-23 to £6.8 billion in 2027-28.[7] Our forecasts cover spending on the payments to individuals and families, but not the associated administration costs, which are budgeted for separately by the Scottish Government.

[7] Spending on Winter Fuel Payment (WFP) is excluded from spending in 2022-23, from 2024-25 we include spending on Pension Age Winter Heating Assistance which replaces Winter Fuel Payment.

24 Figure 5.1 shows that since December 2021 our forecast has increased by £41 million in 2021-22, and by £980 million in 2026-27.

Figure 5.1: Change in total social security spending forecasts since December 2021

£ million	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
December 2021	3,679	4,065	4,657	4,966	5,230	5,511
May 2022 [1]	3,720	4,173	5,072	5,725	6,108	6,490
Change since December 2021	41	108	414	758	878	980

Source: Scottish Fiscal Commission.

25 A higher inflation forecast for September 2022 increases spending from 2023-24 onwards across all the payments which are uprated. Increases in our inflation forecast raise our spending forecast by £213 million by 2026-27. The Scottish Government has announced policy changes that increase spending by £98 million in 2026-27. The main policy change is the increase of Scottish Child Payment to £25 per week. In addition, we have incorporated the latest data into our models, which results in an increased projected number of people receiving social security support.

26 The Scottish Government has introduced significant reforms to delivering social security in Scotland. Existing payments administered by the Department for Work and Pensions (DWP) on behalf of the Scottish Government are being replaced by new payments administered by Social Security Scotland. In previous publications we highlighted how our forecasts did not include changes which the Scottish Government planned to make beyond the next financial year, where crucial details on the new payments were still to be decided. To support the RSR we have included indicative forecasts of the additional spending arising from the Scottish Government's policy commitments over the RSR. The inclusion of these indicative forecasts has increased spending by £344 million in 2026 27.

27 We have also included an adjustment in our Adult Disability Payment (ADP) model to incorporate the latest data and reflect clients who had previously received Disability Living Allowance (DLA) and successfully reapply to Personal Independence Payment (PIP). This adjustment adds £130 million to the forecast by 2026-27.

Changes since December 2021

28 Figure 5.11 shows the main reasons our headline forecasts have changed since December 2021 split by data updates, modelling changes, assumption changes and policy changes.

Figure 5.11: Change in social security spending forecasts since December 2021

£ million	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
December 2021	3,679	4,065	4,657	4,966	5,230	5,511
Data updates	45	72	166	269	382	512
Modelling changes	0	46	65	40	-11	-92
Assumptions – Inflation	-	4	156	216	207	213
Assumptions – Eligibility and take-up	-5	-20	-10	-1	5	10
Assumptions – Population	0	1	2	3	4	4
Assumptions – Other	-2	-25	-78	-110	-113	-109

Policy changes – Scottish Government	0	25	113	341	404	442
Policy changes – UK Government	3	6	-	-	-	-
May 2022	3,720	4,173	5,072	5,725	6,108	6,490
Change since December 2021	41	108	414	758	878	980

Source: Scottish Fiscal Commission.

Indicative forecasts

29 Our forecasts now include the additional spending arising from the Scottish Government's plans to replace the devolved previously UK-wide payments with Scottish payments. The spending forecasts included in the RSR reflect these plans and the additional spending arising from the Scottish Government's different approach to social security. It does not reflect any further changes the Scottish Government may make to the payments, such as changes to the qualifying criteria for payments or payment amounts.

30 These are based on discussions with the Scottish Government in which our assumptions on the timings for launching the payments and the transfer of clients, as well as the principles of the policies in development were deemed reasonable. We attach a high degree of uncertainty to these forecasts as the important policies details, for example on launch dates, are not firm. Where appropriate, we have assumed increases in successful new applications aligned with judgements used to estimate spending changes for similar policy changes. We will review the assumptions as more information becomes available and will publish detailed estimates of spending after the policies are announced.

31 We assume **that Scottish Carer's Assistance (SCA)** will replace Carer's Allowance (CA) and will maintain the extra support provided by Carer's Allowance Supplement (CAS). We assume this will be introduced at the start of 2024-25 after the PIP to ADP transfer is complete, and that all clients will have transferred to SCA by the end of 2024-25. We based our assumptions on the information from the consultation published in February 2022 and discussions with Scottish Government officials.[8] Specifically, we assume that Carer's Additional Person Payment (CAPP), which is a payment worth £10 per week to carers receiving Scottish Carer's Assistance and caring for more than one person who is receiving a disability payment, will be introduced when SCA is introduced. We have assumed that the five priorities for change set out in the consultation, which expand eligibility for SCA, will be introduced after the case transfer completes.

32 We have also produced an indicative forecast for **Pension Age Disability Payment (PADP)**, the replacement for Attendance Allowance (AA) in Scotland. We assume an increase in the number of successful applications when PADP launches and a higher level of applications thereafter. Our PADP forecast also reflects the change in the terminally ill definition for the disability payments.[9] The increase in the number of people receiving PADP has a knock-on effect on the number of people receiving SCA, as there will be a higher number of eligible people caring for a pensioner receiving an award for a disability payment.

33 Except for the clients receiving Severe Disablement Allowance (SDA), the Scottish Government plans to transfer everyone receiving a UK Government disability payment to a Scottish payment. We have discussed with the Scottish Government different options for a managed transfer of people receiving DLA. Of these options, we assume that people receiving DLA will be directly transferred without a reassessment into a new **Scottish Adult DLA** by the end of 2025. We assume DLA

[8] Scottish Government (2022) Scottish Carer's Assistance: consultation (link)
[9] Scottish Government Policy actions: Terminal illness (link)

clients will continue receiving the same payment award in Scottish Adult DLA and an award review will not be required at the point of transfer. Under the current assumption, this policy would result in no additional spending.

34 While the Scottish Government has not announced plans for **Employment Injury Assistance** (EIA), the replacement of Industrial Injuries Disablement Scheme (IIDS), its officials believe that it is reasonable to assume that the ethos and principles from the already introduced disability payments will apply to EIA. We have assumed a 1 per cent increase in spending from 2025-26, rising to 4 per cent by 2027-28.

35 Our forecasts also include the Fair Start Scotland employability service, which has operated since 2018-19 under devolved powers falling within our remit. This service is scheduled to close to new participants from the end of 2022-23, but the Scottish Government plans to continue to fund similar support indirectly through funding to Local Authorities as part of the No One Left Behind programme. We do not have full details of how this will be implemented, but we have included an assumed £25 million overall annual spending for 2023-24 onwards, covering both the rundown of Fair Start Scotland and funding for replacement **Employability Services**.

36 We have now included Winter Fuel Payment in the headline forecast. We assume the same eligibility rules will apply when this is devolved in winter 2024 and replaced by **Pension Age Winter Heating Assistance** (PAWHA). When devolved, we expect the cost of PAWHA to be funded by the BGA.

Figure 5.9: Additional spending from indicative forecasts

£ million	2023-24	2024-25	2025-26	2026-27	2027-28
Scottish Carer's Assistance	-	24	54	75	78
Pension Age Disability Payment	-	18	39	50	59
Employment Injury Assistance	-	-	0	2	3
Employability Services	13	21	25	25	25
Pension Age Winter Heating Assistance	-	184	189	191	190
Knock-on effect on SCA	-	1	2	2	3
Total additional spending	13	249	309	344	359

Source: Scottish Fiscal Commission
Figures may not sum because of rounding.
Scottish Adult DLA is not included in Figure 5.9 because we do not expect it to result in additional spending.

Funding

37 Social security is funded differently to other parts of the Scottish Budget. The Scottish Government receives BGAs from the UK government for taking on the payment of devolved benefits but these are based on the UK payments they replace and do not include the effect of Scottish Government reforms. Any spending above the funding received through the BGAs must be met by the Scottish Government from its wider Budget. The net position, the difference between our forecasts of devolved social security payments and the BGAs, is forecast to be increasingly negative.

38 The Scottish Government has also introduced new payments which are only available in Scotland, and these must be entirely funded from the Budget. The difference between the funding received through the BGAs and our forecast for social security payments receiving these, plus the spending

on new unique Scottish payments represents the amount the Scottish Government must fund from the wider Scottish Budget.

Figure 12: Social Security net position and new payments

£ million	2022-23	2023-24	2024-25	2025-26	2026-27
Social security net position	-167	-357	-500	-622	-714
Social security new payments	-294	-524	-542	-551	-563
Total	-462	-881	-1,042	-1,173	-1,277

Source: Scottish Fiscal Commission
Figures may not sum because of rounding.
Social security net position include Adult Disability Payment (covered by the Personal Independence BGA), Child Disability Payment and Scottish Disability Living Allowance (covered by the Disability Living Allowance BGA), Pension Age Disability Payment (covered by the Attendance Allowance BGA), Scottish Carer's Assistance (covered by the Carer's Allowance BGA), Employment Injuries Assistance (covered by the Industrial Injuries Disablement Scheme BGA), Low Income Winter Heating Assistance (covered by the Cold Weather Payment BGA), Pension Age Winter Heating Assistance (covered by the Winter Fuel Payment BGA) and Severe Disablement Allowance.
Social security new payments include Scottish Child Payment, Child Winter Heating Assistance, Best Start Grant Early Learning Payment and Best Start Grant School Age Payment. We also include spending on bedroom tax and benefit cap mitigation through Discretionary Housing Payments.
In this report we have presented Carer's Allowance Supplement together with Scottish Carer's Assistance and Carer's Additional Person Payment as part of the net position comparison against the Carer's Allowance BGA.

39 The difference between social security funding and spending is forecast to increase each year, rising from £462 million in 2022-23 to £1.3 billion in 2026-27.

Social security payments with a Block Grant Adjustment

40 Spending on social security payments with associated BGAs is forecast to be greater than their corresponding funding in every year of the forecast horizon, by over £700 million by 2026-27.

41 In our December 2021 publication, we cautioned that the scale of the funding gap implied by our forecasts was likely to be an underestimate, largely because of our ADP baseline forecast being significantly lower than the OBR's PIP forecast. We explained that this was likely to be because of forecasting differences rather than an actual difference in spending. Since December, we have made a series of modelling changes to adjust our baseline forecast reflecting an additional six months of data.

42 Our ADP baseline forecast has increased by almost £390 million in 2026-27 while the corresponding BGA estimate has only increased by £195 million for the same year. This means that the difference between the ADP baseline forecast and the BGA estimate has reduced by approximately £200 million to £90 million in 2026-27.

43 To better understand the ADP funding position, we compare the combined PIP and DLA BGAs to our forecasts of ADP, CDP and Scottish Adult DLA. Adult clients in England and Wales will eventually be moved from DLA to PIP. Together we forecast spending on ADP, CDP and Scottish Adult DLA to be £480 million higher than the BGA funding for these payments in 2026-27.

44 We forecast spending on ADP will be £584 million higher than on PIP in 2026-27. The difference between the combined PIP and DLA BGAs and the spending on ADP, CDP and Scottish Adult DLA is now more similar to the forecast of additional spending on ADP over what would have been spent on PIP in Scotland. The uncertainties around the ADP forecast mean the net position could be more negative than we currently estimate if our additional spend on ADP is accurate. This is because our

estimate of spending on PIP still remains £90 million lower than the PIP BGA. In light of the latest forecast, this risk is not as great as it was in December 2021 when we highlighted that the discrepancy presented a likely underestimate of the net position.

45 Our forecasts now also include indicative estimates of additional spending on the replacement payments for Carer's Allowance, Attendance Allowance, Industrial Injuries Disablement Scheme, DLA Adult and Winter Fuel Payment. The introduction of the replacement payments further increases the funding gap. Spending on the replacement payments is forecast to be £209 million higher than the corresponding BGAs by 2026-27.