

The logo for SPICe (The Information Centre) is a purple rounded rectangle with the text 'SPICe' in white. To the right of this rectangle, the text 'The Information Centre' and 'An t-Ionad Fiosrachaidh' is written in white on a dark blue background.

The Information Centre
An t-Ionad Fiosrachaidh

Social Justice and Social Security Committee

**18th Meeting, 2022 (Session 6), Thursday, 9
June**

Social Security Spending Forecasts

Introduction

On 31 May the Scottish Fiscal Commission (SFC) [published updated forecasts for spending on devolved social security benefits up to 2027-28.](#)

The SFC forecast the amount to be paid out in benefits. They do not forecast administration or development costs.

The Committee will hear from:

- Dame Susan Rice, Chair;
- Professor David Ulph, Commissioner; and,
- Claire Murdoch, Head of Social Security and Public Funding.

SFC forecasts are used in the [Resource Spending Review](#) and [Medium Term Financial Strategy](#), also published on 31 May. Today's session will inform discussion later this month with the Cabinet Secretary on these documents.

Previous Committee Consideration

The Committee last heard from the SFC on [23 December](#) (and prior to that in September on the August 2021 forecasts). At that meeting, the main issue discussed was the 'funding gap' largely driven by the additional cost of Adult Disability Payment (ADP) compared to Personal Independence Payment (PIP).

The Committee [wrote to the Cabinet Secretary in March](#) highlighting issues for the spending review. In relation to social security the main points were:

- The ‘funding gap’ between UK funding and Scottish Government spending
- Uncertainty – particularly on ADP and those benefits yet to be launched.

Overview

Overall spend on devolved social security is forecast to increase from £4.2 billion this year to £6.8 billion in 2027-28. Most of this spending is on ADP/PIP which increases from £2 billion this year to £3.8 billion by 2027-28.

Social security is taking up an increasing share of the Scottish budget. The SFC state:

“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.” (p.13, SFC May forecast).

Spend has increased with each successive forecast. The chart and table below illustrate this growth. In February 2020, the SFC forecast that social security spending in 2024-25 would be £4.0 billion. It is now forecast to be £5.7 billion – 45% higher.

Chart 1: Total devolved social security spending: how successive forecasts have been revised upwards. £m.

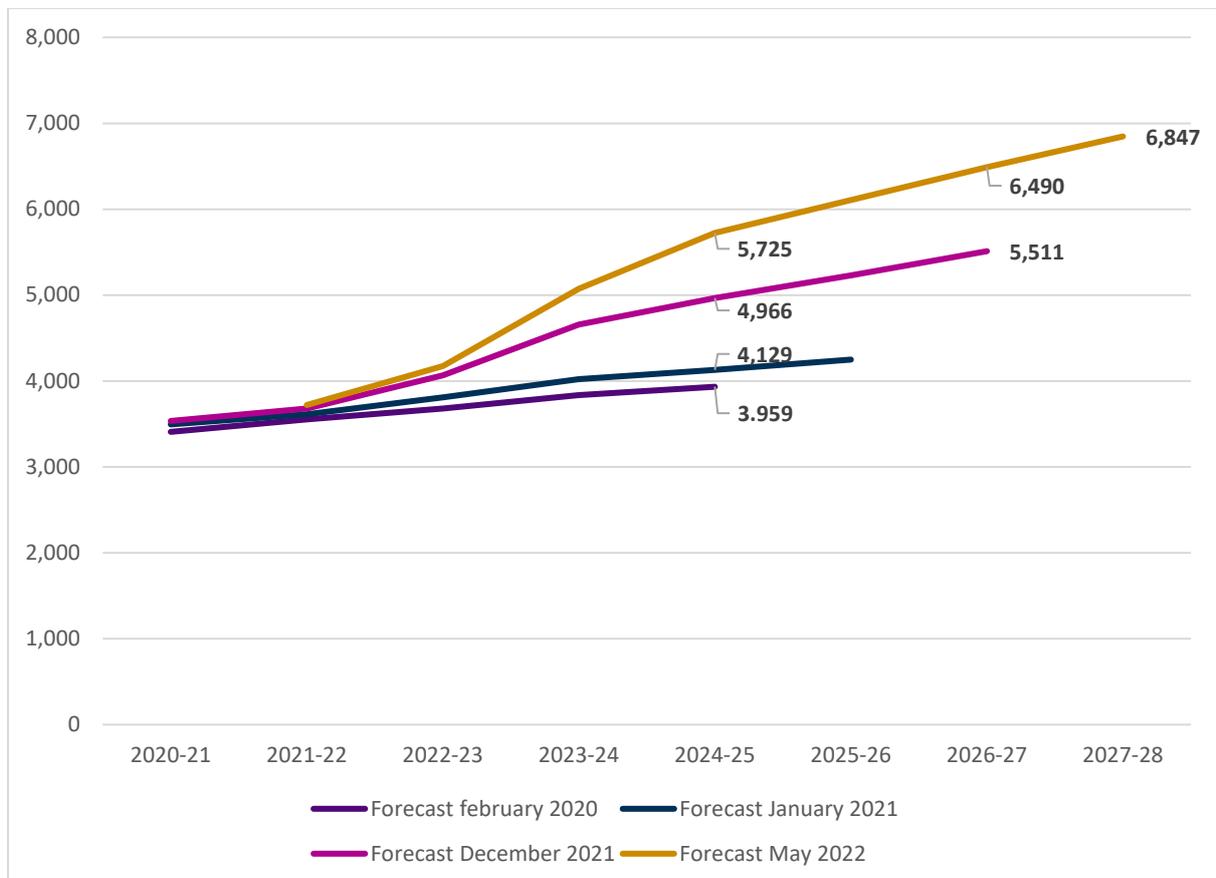


Table 1: Change in forecast spend

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Forecast Feb 20	3,435	3,578	3,704	3,857	3,959			
Forecast Jan 21	3,495	3,614	3,810	4,020	4,129	4,249		
Forecast Dec 21	3,535	3,679	4,065	4,657	4,966	5,230	5,511	
Forecast May 22		3,720	4,173	5,072	5,725	6,108	6,490	6,847

Source: Scottish Fiscal Commission forecasts since February 2020.

Uncertainty

Forecasts are always uncertain. In this forecast:

“The biggest uncertainties are still around the additional spending on the new Adult Disability Payment. [...] our estimate of over £700 million additional spending by 2027-28 is still largely based on subjective assumptions.” (SFC, May forecast p.99)

Other areas of uncertainty highlighted in the report include:

- Outcomes of the independent review of ADP
- Indicative forecasts for replacements for Carer’s Allowance, Attendance Allowance and Industrial Injuries Disablement Scheme

Inflation is a risk, but SFC note that;

“The net budget position for social security would be protected from most of this effect, as the higher uprating would also apply to England and Wales, leading to similar increases in funding through the BGAs”¹

Suggested themes for discussion

The following four themes are suggested:

- **Theme 1: Comparison with December forecasts**
- **Theme 2: ‘Funding Gap’**
- **Theme 3: Indicative Forecasts**
- **Theme 4: Cost of living and economic context**

¹ Block Grant Adjustment: additions to the Scottish block grant to reflect social security devolution.

Theme 1: Comparison with December forecast

Devolved social security spending is now forecast to reach £6.5 billion by 2026-27, up 18% from the forecast made in December.

The main reasons for the increases are: data updates, policy changes, the inclusion of 'indicative costings' and inflation. The following compares the December and May forecasts for spending in 2026-27.

Data updates add £512m to spend by 2026-27. This is almost entirely a result of data updates to ADP which add £504m in 2026-27. In particular:

- Data showing higher caseloads for particular client groups in PIP – adding £230m to spend by 2026-27. (This is partly due to data on people moving from DLA to PIP. The SFC had stated in their December report that the previous figures might be an underestimate – these changes largely resolve that data issue) (SFC May forecast p.91)
- Stronger growth in the average PIP award (SFC May forecast p.91)

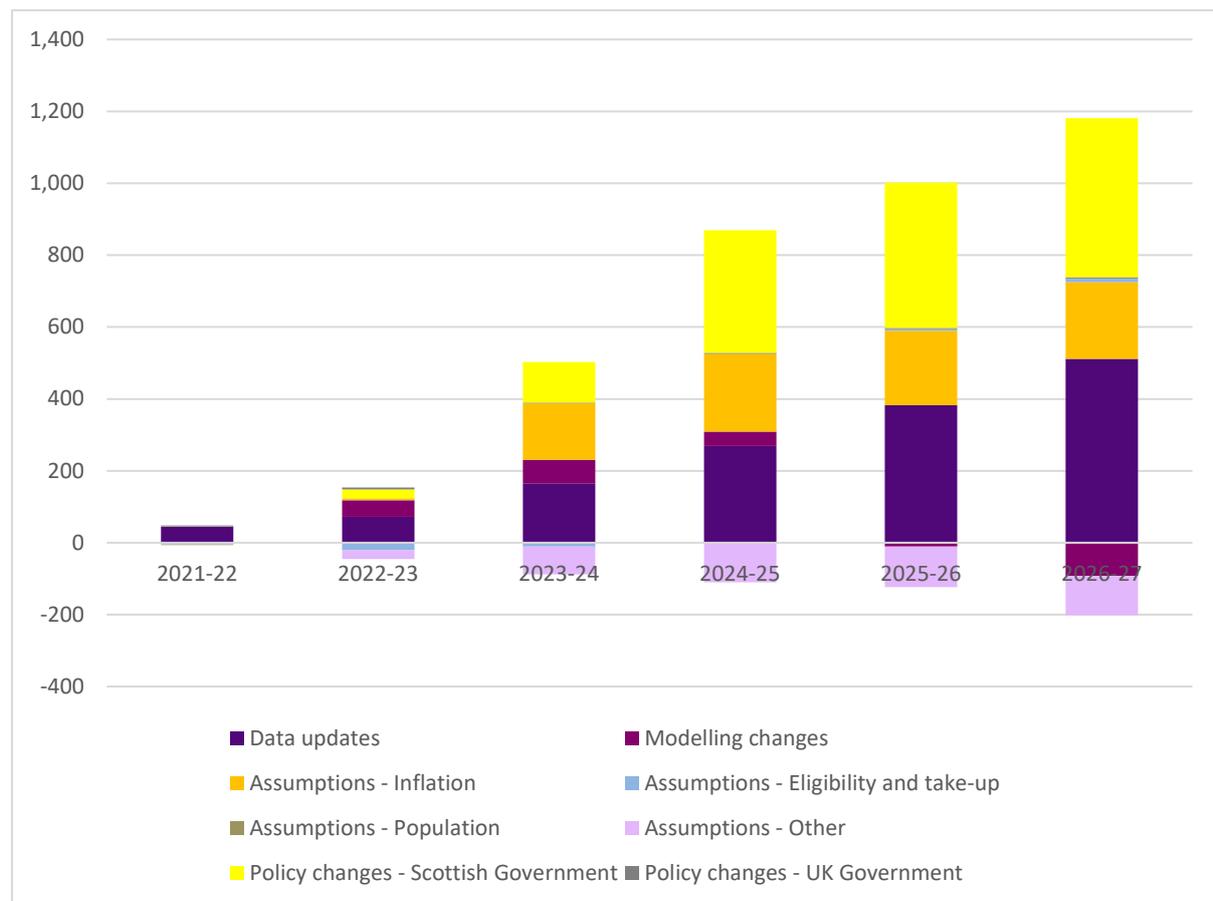
Scottish Government policy announcements since December add £98m to the forecast in 2026-27 (SFC figure 5.8). The largest additions are:

- £62m addition to Scottish Child Payment (increase from £20 to £25 per week)
- £20m addition to Discretionary Housing Payments (DHPs - benefit cap mitigation)

The new forecasts also include 'indicative' forecasts for the benefits that remain to be transferred to Social Security Scotland. These are discussed further under theme 3. The largest additions are:

- Scottish Carer's Assistance costing £75m more in 2026-27 than continuing with Carer's Allowance
- Pension Age Disability Payment costing £50m more in 2026-27 than continuing with Attendance Allowance
- Pension Age Winter Heating Assistance will cost £191m in 2026-27, but this should be covered by the Block Grant Adjustment

Inflation adds £213m to spend in 2026-27 as a result of changed assumptions about benefit uprating.

Chart 2: Change since December forecast by reason. £m**Table 2: Change since December forecast by reason**

£ 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: SFC table 5.11. Policy changes include the indicative forecasts as well as announced policies since December.

Members may wish to discuss:

1. **Data updates since December have had a significant impact on these forecasts – (adding £512m to spend in 2026-27). Can the SFC explain the reason for this?**
2. **Forecasts for the near future are generally more accurate. The forecast for next year (2023-24) has increased by £414m since December. Why?**
3. **Which Scottish Government policies are having the greatest impact on forecasts? Which are having the least impact?**
4. **What factors are putting downward pressure on spending and why?**

Theme 2: ‘Funding Gap’

The forecast ‘funding gap’ is now higher than it was in December. The funding gap is the difference between what the Scottish Government receives in the Block Grant Adjustment (BGA) for social security and the amount it spends. Social Security Scotland benefits cost more than their DWP equivalent (eg ADP costs more than continuing with PIP) and it has also launched entirely new benefits such as the Scottish Child Payment.

In December, Dame Susan Rice told the Committee that;

“a significant funding gap is expected to open up between the forecast spending on social security and the devolved funding received from the UK Government. That gap reaches three quarters of a billion pounds by 2024-25. The money must be found from elsewhere in the Scottish budget. That is in the context of a resource budget that is under pressure, which is not helped by a negative net tax position for the next five years.

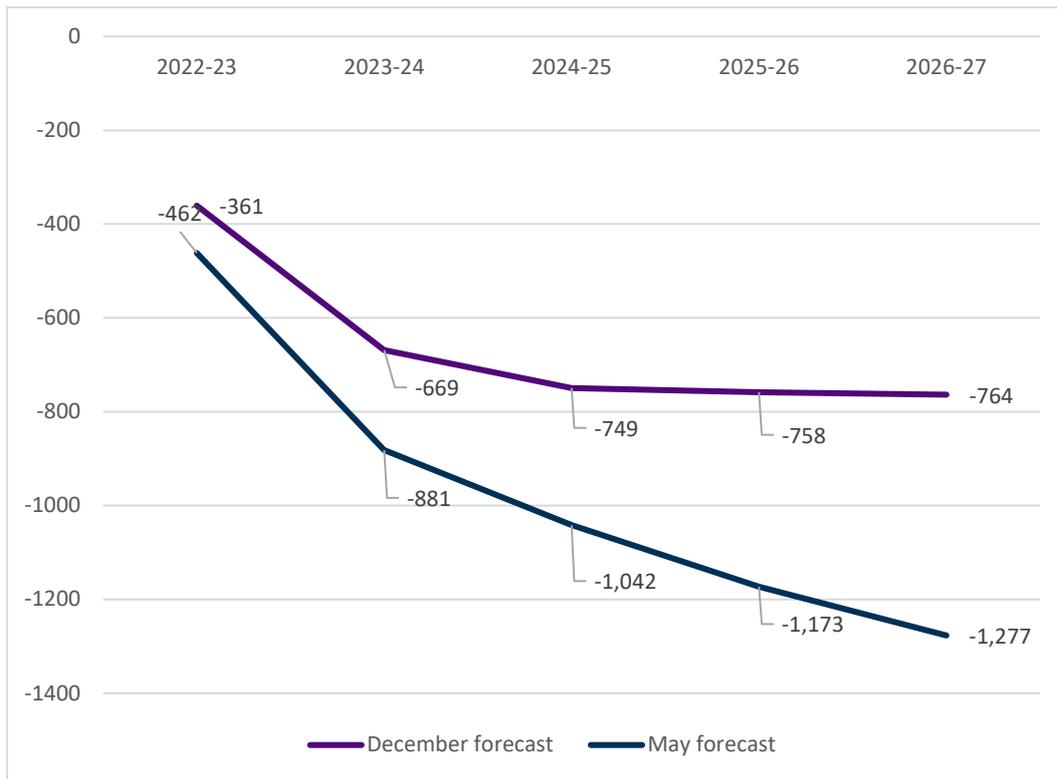
That ‘funding gap’ is now expected to reach £1 billion by 2024-25 and continue to grow to £1.3 billion in 2026-27. (Chart 2).

The main change is how much more the Scottish benefits are forecast to cost compared to continuing with DWP benefits. In particular, the additional cost of disability benefits and adding in indicative costings for Scottish Carer benefits, Pension Age Winter Heating Assistance and Pension Age Disability Payment. The indicative costings are discussed under theme 3. On disability benefits, the SFC state:

“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.”

Scotland only benefits also contribute to this ‘funding gap’ as there is no BGA for them. The largest ‘Scotland only’ benefit is the Scottish Child Payment which is now forecast to cost £428m in 2023-24 rising to £451m by 2027-28.

Chart 2: Social Security spending: total net position compared to BGA £m



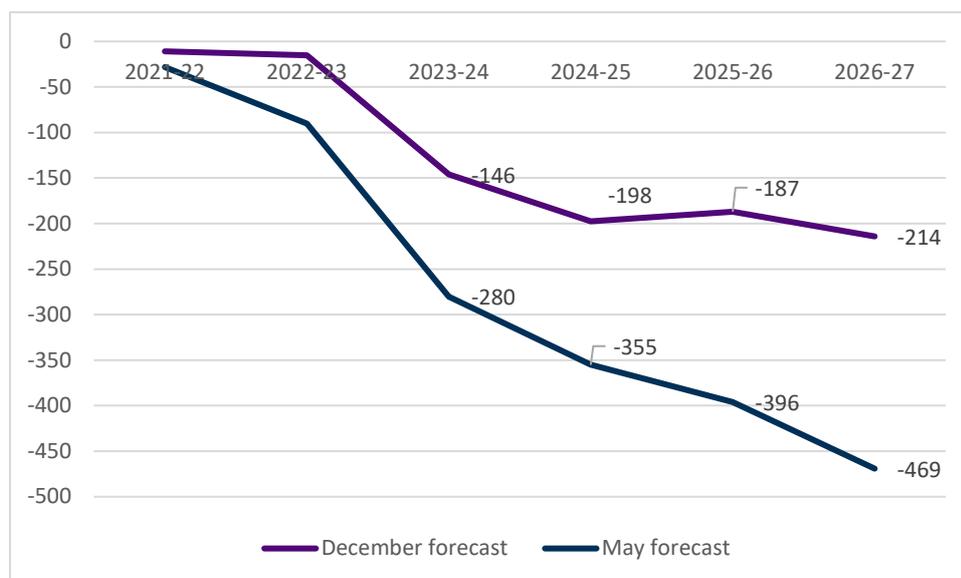
Source: SFC December forecasts fig 6, May forecasts table 5.14.

Forecast spend on PIP/ADP is higher than the BGA for PIP and this 'gap' has increased since the December forecast. (Chart 3 and Table 3 below).

Table 3: PIP BGA minus forecast spend. December and May forecasts.

£millions	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
December forecast	-11	-15	-146	-198	-187	-214
May forecast	-28	-90	-280	-355	-396	-469

Source: SFC December forecast table S5.11, May forecast table S5.15

Chart 3: PIP BGA minus forecast spend on ADP. £m.**Members may wish to discuss:**

- 5. Why is the ‘funding gap’ growing? To what extent is it due to Scottish Government policy decisions?**
- 6. The gap between the BGA for PIP and forecast spend on ADP has increased since the last forecast in December. To what extent is this due to data and methodology issues?**
- 7. In December, the Committee discussed how uncertainty would reduce as payments are launched. Are forecasts for disability benefits any more certain now than they were in December?**

Theme 3: Indicative forecasts

The SFC has published forecasts for those benefits that haven’t yet been ‘converted’ into Social Security Scotland benefits. These cover the replacements for:

- Carer’s Allowance,
- Attendance Allowance
- Industrial Injuries Disablement Benefits
- Winter Fuel Payment

They have made assumptions about start dates and policy decisions. In the timeline below, SFC assumptions are in *italics*.

Summer 2024

- *assume **Pension Age Disability Payment** replaces Attendance Allowance in 2024. Assume different rules on terminal illness and an increase in successful applications will increase spending.*

Spring 2024

- **Scottish Carer's Assistance** due to launch nationally. *SFC include the proposed policies of: £10 Carer's Additional Person Payment, increasing the earnings limit, removing education restrictions, extending payment run-ons and allowing carers to add together hours spend caring for two people.*

Winter 2024

- **Pension Age Winter Heating Assistance** due to replace Winter Fuel Payment. *SFC assume no changes to current DWP policy.*

Winter 2025

- *Assume **Employment Injury Assistance** replaces Industrial Injuries Disablement benefits.*

The forecasts add £249m in 2024-25 and increase spending by £344m in 2026-27 (Table 4, below). Most of this addition reflects the inclusion of Winter Fuel Payment for the first time. However, this will largely be covered by the BGA. The main additional costs to the Scottish Government are forecast to be from Carer's Assistance and Pension Age Disability Payment.

Table 4: Additional spending from indicative forecasts

£ million	2023-24	2024-25	2025-26	2026-27	2027-28
Scottish Carer's Assistance (SCA)	-	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: SFC, figure 5.9. SCA: Scottish Carer's Assistance

On introduction, in 2024-25 Scottish Carer's Assistance is forecast to cost £25m more than continuing with Carer's Allowance. This is expected to increase to an additional £78m by 2027-28. This includes the five policies from the consultation (listed above).

On introduction, in 2024-25, Pension Age Disability Payment (PADP) is forecast to cost an additional £18m, rising to an additional £59m by 2027-28. This is based on

assumed higher level of successful applications and changes to the terminal illness rules.

For Employment Injury Assistance, SFC assume a 1 per cent increase in spending in 2025-26 rising to 4 per cent by 2027-28. As there are no specific policy proposals for EIA, this is based on the assumed effect of the different ethos and approach of Social Security Scotland.

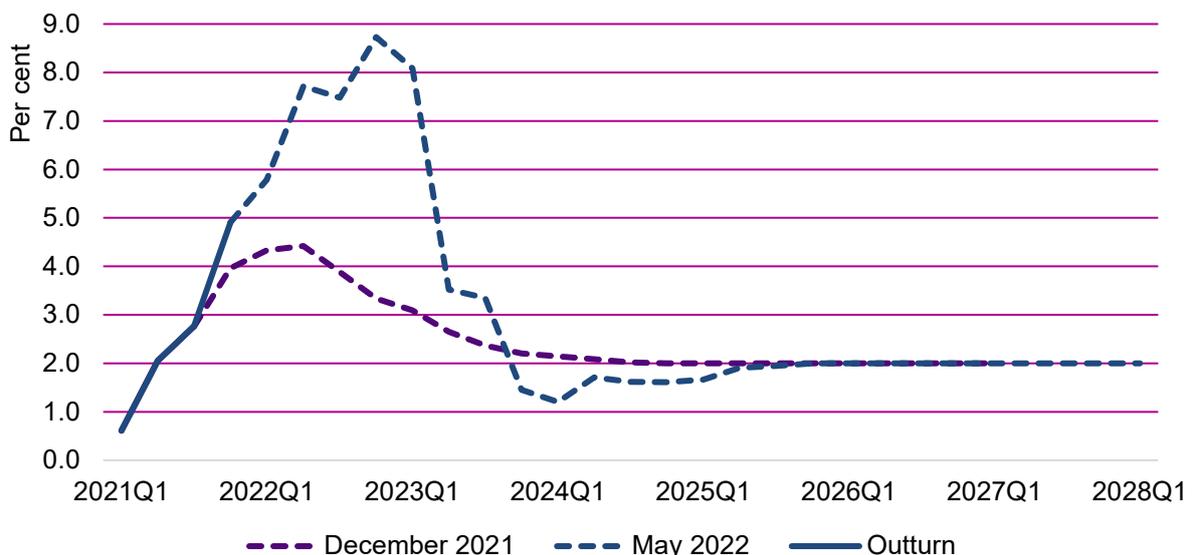
Members may wish to discuss:

- 8. Can the SFC expand on what is taken into account in these indicative forecasts?**
- 9. What isn't covered?**
- 10. There is more policy detail for Carer's Assistance than the other benefits. Which of the Scottish Government's proposed new policies for Carer's Assistance is likely to be the most costly and why?**
- 11. How uncertain are these forecasts?**

Theme 4: Cost of living and economic context

The SFC published updated inflation forecasts, suggesting that inflation will return to 2% in 2024.

Chart 3: CPI inflation, year on year growth



Source: SFC figure 3.3

The SFC's economic forecasts also provide useful context for discussion of the cost of living. They note that:

- 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.
- Prices in 'essential items' are rising fast. (IFS show that the 'bottom ten per cent' of earners face inflation above 10 per cent).
- Pay for low earners is rising more slowly than for higher earners
- Benefits are expected to increase by 7.5% in April 2023 (based on current forecast for September CPI)
- Pressure on households could drive higher take-up of social security benefits.

The Scottish Government's policies to tackle child poverty are being implemented in a changing economic context. ['Best Start:Bright Futures'](#) (the second child poverty delivery plan) emphasised the wider economy and public services in tackling poverty:

“as the impact of the economic situation becomes clearer, this Government will continue to consider further actions required over the lifetime of this plan to achieve these targets, to support families, and break the cycle of child poverty.

In addition to their direct impact on the child poverty targets, the actions set out in this plan will lay the foundation for the transformation in our economy and public services that will be required to meet the 2030 targets, and to set Scotland on a path for sustained poverty reduction.”

Members may wish to discuss:

- 12. How can the SFC economic forecasts shed light on the pressures felt in low income households?**
- 13. Given that inflation forecasts have been repeatedly revised upwards, how confident is the SFC that inflation will fall back to 2% relatively quickly?**
- 14. What do SFC economic forecasts suggest about the prospects for reducing poverty (whether by increasing social security, economic growth, improved employment or changes to public services)?**

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6 June 2022