

Scottish Budget 2022/23 Accounts Commission briefing

February 2022

The context of the 2022/23 Scottish budget

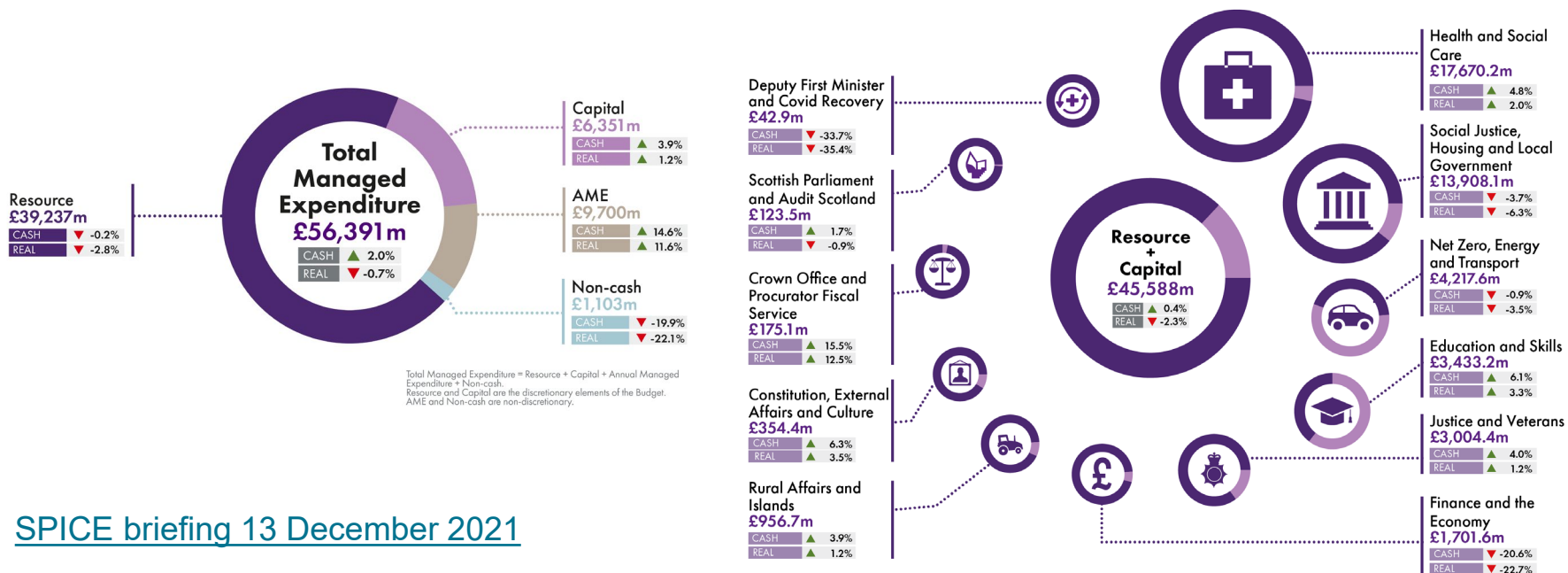
- The 2022/23 budget process is less disrupted than in recent years.
- The 2022/23 Scottish budget was published on 9 December 2022, which is in line with the planned budget process. The Local Government Financial Settlement was published on 20 December 2021, rather than alongside the budget. This delayed its scrutiny. The [Finance and Public Administration Committee](#) has sought assurances that the Scottish Government will engage with COSLA at the earliest opportunity about any remaining concerns regarding settlement.
- Previous 2021/22 and 2020/21 Scottish budgets were published later in the financial year, in January 2021 and February 2020 respectively. This posed challenges for Scottish Parliament's scrutiny and for local authorities planning their budgets. These timing issues do not apply to 2022/23.
- The 2022/23 Scottish budget was published after the UK Autumn budget (27 October 2021). As such, Barnett consequentials, which make up the majority of the funding to the budget, are largely known. This was not the case in the previous two years, where the UK budget published after the Scottish budget, requiring larger adjustments during and after the Scottish budget stages.
- The Scottish budget contains anticipated income, some of which is subject to negotiation with the UK Government'. The Scottish Fiscal Commission has reservations about the likelihood and amount of income available from these sources, but considers the overall budget balance reasonable given the likelihood of underspends in other areas.
- The UK Government has also published a three-year Comprehensive Spending Review (CSR). This gives some assurance over likely levels of Barnett consequentials for Scotland over a three-year period. The Scottish Government plans to publish a Revenue Spending Review (RSR), by the end of May 2022, as well as an updated MTFs. This is expected to provide more information to local government about its potential funding levels in future years.



[Scottish budget 2022/23](#)

Overview of the budget

- The total proposed budget for 2022/23 is £56,391m, an increase of 2% in cash terms, and a reduction of 0.7% in real terms compared to 2021/22 (including Covid-19 funding).
- The amount of the 2022/23 budget that is under the direct control of the Scottish Government is £45,588m. The remainder of the budget is allocated to AME (such as NHS pensions) and non-cash items (such as depreciation charges), which are not under the direct control of the Scottish Government.



Presentation of total spending

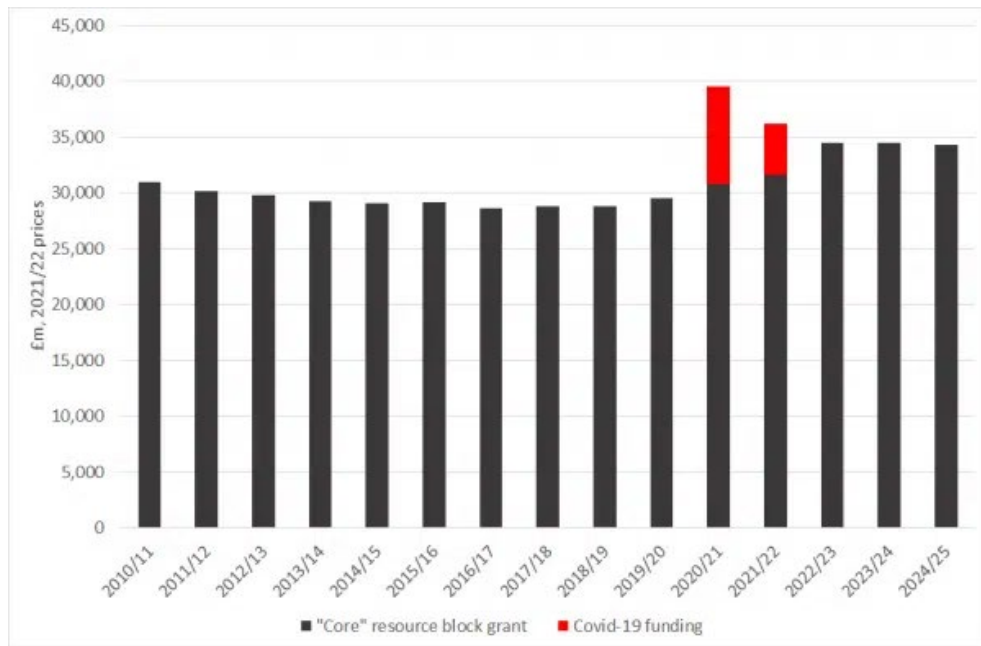
- Barnett consequentials have increased funding to the 2022/23 Scottish budget by £4.6 billion (£4.1 bn revenue and £0.5 bn capital). This is the average increase expected over the period of the spending (i.e. levelling out in subsequent years).
- However, there is debate around whether the budget for 2022/23 has gone up or down because of the impact of additional funding for Covid-19.
- The Scottish budget states that after all 2021/22 COVID-19 and other one-off funding from the Block Grant is stripped out, between 2021/22 and 2022/23, resource funding is 7.1% less in real terms.



- The Scottish Fiscal Commission's view is that while there is no longer any funding allocated specifically for COVID-19, the Block Grant will include within it funding in line with pandemic-related spending in the UK Government Spending Review.
- The SFC expects the budget to increase by 10 per cent in cash terms between 2022/23 and 2026/27. After adjusting for inflation, this is an increase of 1 per cent.

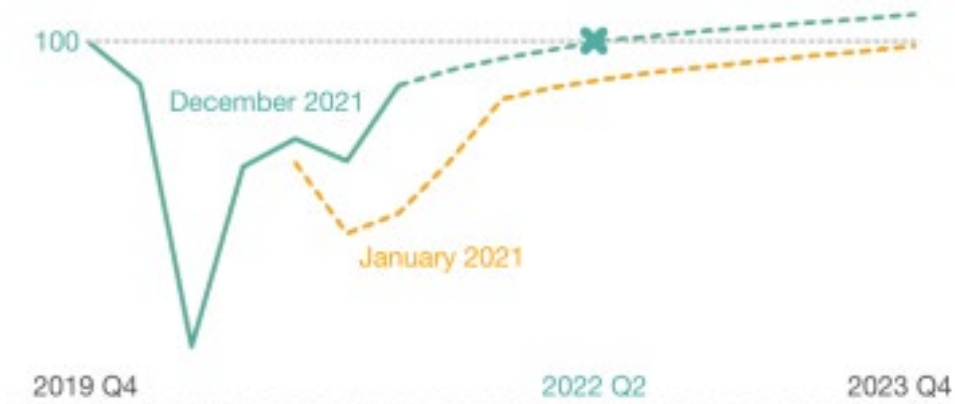
Is the budget going up or down?

- The [Fraser of Allander Institute](#) mapped out the trend of resource spending (day-to-day spending rather than capital) to show the difference that Covid-19 specific funding made in the previous two years as well as the overall changes in budget over several years.

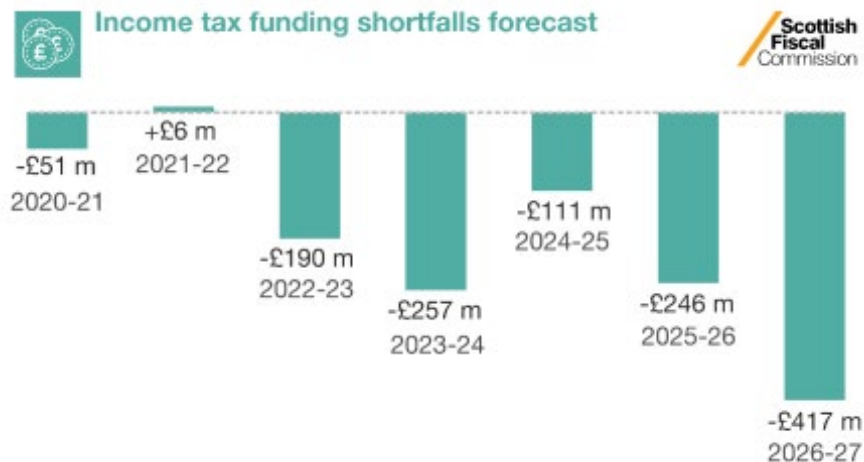


- [Latest data](#) shows that the Barnett consequentials arising from Covid-19 measures in 2020/21 and 2021/22 were around £9.6 billion and £4 billion respectively.
- Looking further ahead, the overall picture is of budget levels over the coming years which are expected to be relatively static.
- The UK budget also included a [Regions and nations factsheet](#) which includes (p20) other UK Government spending on projects which relate to various Scottish local authority areas. This is reserved spending and so not included in the Scottish Government's budget figures.

- The [Scottish Fiscal Commission](#) expects Scotland's GDP to recover to pre-pandemic levels by the second quarter of 2022. At the time of the last budget, it was not expected to recover to pre-pandemic levels until the start of 2024.
- Scotland's GDP is forecast to increase by 10.4% in 21/22. The economy is expected to recover strongly in 21/22, though longer term GDP growth rates for 2025/26 have been adjusted down by the SFC.
- SFC forecasts were finalised before the emergence of the Omicron variant. It remains to be seen how the emergence of this new variant will affect the economy, future forecasts and tax receipts.



- Growth in the Scottish economy is forecast to be less than the rest of the UK. In 2022, SFC forecasts Scotland's growth rate at 3.8%, compared to the forecast for the rest of the UK by the OBR of 6.0%.
- The largest devolved tax in Scotland is Scottish Income Tax. Because of the differences between Scottish and rUK in forecasted growth and earnings, the Scottish budget for 2022/23 is reduced by £190 million, because the receipts generated from the tax are expected to be less than the block grant foregone from devolving the tax. The SFC forecasts that reductions to the budget could continue and increase future years.



- In 2022/23, there are minimal changes to income tax rates and bands. There will be an inflationary increase (CPI of 3.1%) in the starter and basic rate tax bands. The Higher and Top Rate thresholds will remain frozen in cash terms at £43,662 and £150,000.
- There is also a downward adjustment to the budget in 2022/23 year of £34 million. This accounts for the actual Scottish income tax outturn for 2019/20 being lower than the UK Block Grant Adjustment. Further details are included in the [Administration of Scottish Income Tax](#) report for 2020/21.

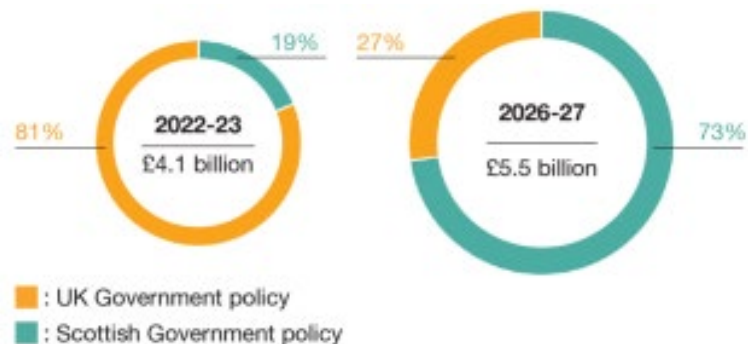
**Administration of
Scottish income tax
2020/21**



AUDITOR GENERAL

Prepared by Audit Scotland
January 2021

- Over recent years, the amount of social security spending being administered in Scotland has increased, and this is set to continue.
- Where Scottish social security spending replaces previous UK spending, the Scottish Government receive a block grant adjustment. This adds to the Scottish budget the spending that the UK Government no longer bears, which the Scottish Government can use towards its own spending.
- Where the Scottish social security spending is based on new policy with no UK Government equivalent, the Scottish Government must meet the cost through its budget, with no additional block grant received.
- The Scottish Government will also bear any risk that the devolved social security costs per head grow at a different rate to the rest of the UK.
- Due to several new expansive policies, social security spending is rising significantly above block grant funding. These new payments include the Carer's Allowance Supplement, Scottish Child Payment, Child Winter Heating Assistance, Best Start Grant Early Learning Payment and the Best Start Grant School Age Payment.
- The SFC forecast that the amounts not covered by block grant that the Scottish Government must cover from its own budget will be £361 million in 2022/23, rising to over £760 million in five years time.

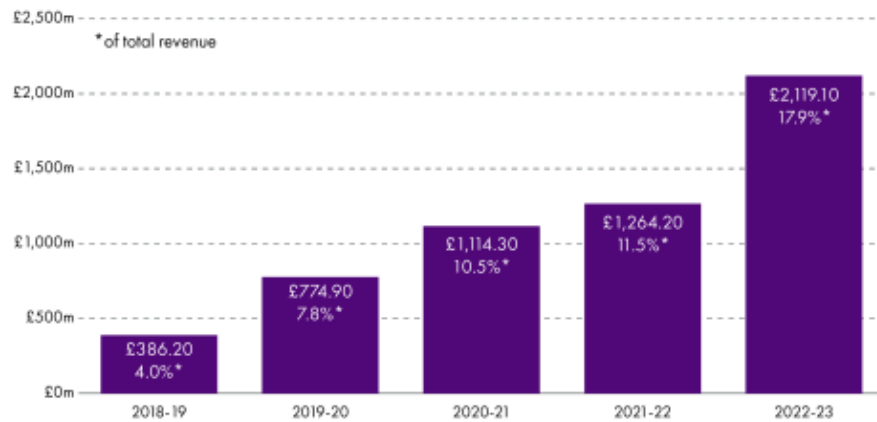


- Total local government funding rose from £12.3bn in 2021/22 to £12.5bn in 2022/23. In cash terms, the budget remains broadly consistent in 22/23, while experiencing a real-terms decrease of 2.6%. Of the £12.5bn, the total core funding allocation to local government is £11.1bn. The remainder that makes up the total financial settlement to local government (£1.4bn) is revenue funding in other portfolios to be transferred to local government.

	2021-22 £ million	2022-23 £ million	% change cash
General Revenue Grant	7,108.2	<u>6,973.2</u>	-1.9%
Non-Domestic Rates Income	2,631.0	<u>2,766.0</u>	+5.1%
	9,739.2	9739.2	0%
Specific resource grants	752.0	<u>752.1</u>	+0.01%
Support for capital	478.0	540.5	+13%
Specific capital grants	139.1	<u>139.1</u>	0%
	11,108.2	11,170.9	+0.6%
Revenue funding in other portfolios to be transferred to LG	1,162.6	<u>1,368.0</u>	+17.7%
Total Local Government Settlement	12,270.782	12,538.9	+2.2%

Source: [SPICe Briefings on Local Government Finance and the Scottish budget 2021-22 & 2022-23](#)

- £1,368 million of the local government settlement is transferred from other portfolios. The Scottish Government regards this funding as General Revenue Grant (GRG), available to allocate to local needs and priorities. Specific Resource Grant is about 7% of the total revenue settlement.
- COSLA has argued that these transfers are effectively ring-fenced as they are for achieving a prescribed policy intention and come attached with conditions for their use (page 12 of SPICe [LG Budget 2022-23 Briefing](#)).
- Based on Specific Resource Grants being the only "ring-fenced" revenue element of the Finance Circular, SPICe analysis (SPICe Briefing 5 January 2022) shows that ring-fenced funds as a proportion of total revenue grew from 2.7% in 2018-19 to 6.6% in 2022-2.
- If the broader definition of ring-fencing is used - i.e. Specific Resource Grants plus transferred revenue from within other portfolios – SPICe analysis shows ring-fencing as a proportion of total revenue grew from 4.0% (£386.2 million) in 2018-19 to 17.9% (£2,119.1 million) in 2022-23.



- COSLA contends that 60% of the Local Government is effectively ring-fenced, which extends the definition of what constitutes ring-fenced funding (page 12 of SPICe [LG Budget 2022-23 Briefing](#)). There has been ongoing correspondence between COSLA and the Scottish Government on this matter.

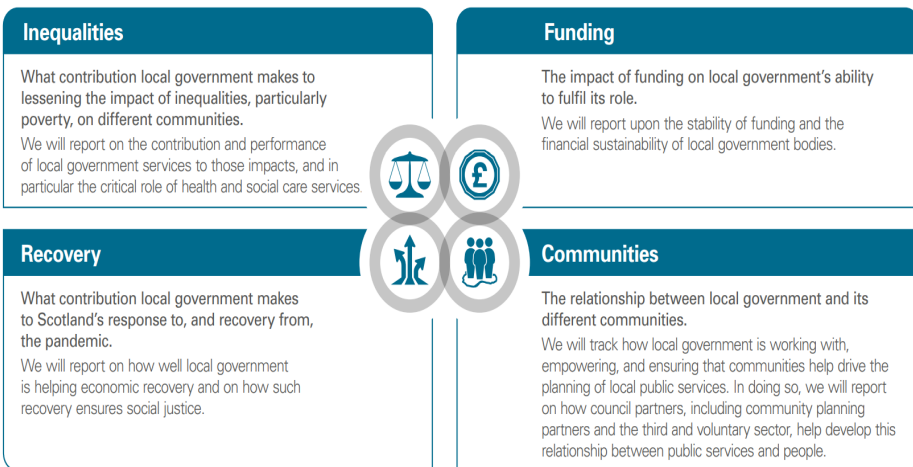
- The largest transfers from other portfolios included in the £1,368 million are included in the following table.
- Around 40% is transferred from the Health and Social Care Portfolio, the largest single portfolio by value of transfers to Local Government.
- The increase in revenue funding from other portfolios is the main driver behind the increase in broader-definition ring-fenced funding, and is often linked to specific national initiatives.

Revenue Funding from other portfolios	£m
Health and Social Care	257.2
Living Wage (for care workers)	233.5
Additional Teachers and Support Staff	145.5
Care at Home	124.0
Health and Social Care and Mental Health	120.0
Discretionary Housing Payments	80.2
Child Bridging Payments	68.2
Free School Meals expansion	64.0
Carer's Act	60.5

- The [Local Government Finance Circular](#) details how funding is distributed to councils. At the point of producing the circular, there is often a balance of funds which is part of the settlement but is yet to be distributed among councils. In 2022/23 this undistributed revenue funding has increased to £482.9 million (£36.0 million in 2021/22). The Finance and Constitution Committee has noted this in its [budget scrutiny](#) as standard practice although the sums involved this time are higher than usual.

- The budget is presented around 3 strategic spending priorities. These are:
 - Tackling inequalities
 - Ending Scotland's contribution to climate change
 - Supporting Scotland's recovery.

Accounts Commission priorities for the next five years (Strategy 2021-26)



- There is a degree of alignment between the Scottish Government's strategic priorities and that of the Accounts Commission's four priority areas for the next five years.
- The upcoming Resource Spending Review in May 2022 will focus on these three priorities.
- The [Scottish Government's framework document](#) outlines its aim to set out spending plans in May 2022 for the remainder of the Parliamentary term (4 years to 2025/26).
- The following slides outline some of the key budget announcements relating to these priorities which may be of particular relevance to the Accounts Commission.

Tackling inequalities

- £197 million on the Scottish Child payment, doubling the payment to £20 per week and increasing eligibility by December 2022 and bridging payments until that increase eligibility is introduced.
- £41 million to the Scottish Welfare fund and £80.2 m for discretionary housing payment.
- Devolved social security payments have increased from £3.34bn in 2020/21 to £3.95 bn in 2022/23.
- Included in the health budget was almost £200m for adult care workers to be paid £10.50 per hour, bringing them in line with the public sector pay floor set out in the MTFS and Public Sector Pay Policy 22/23.
- Additional £1.2bn invested in mental health, looking to shift focus from acute services to prevention and early intervention, reducing demand and waiting times.

Climate change

- The first tranche (£20m) of the £500 million Just Transition Fund to support efforts to decarbonise the North East economy.
- £414 million for emergency efficiency measures.
- £370 million in supporting the enterprise agencies to drive forward plans for a Net Zero economy.
- £150 million in active travel.
- £53 million for industrial decarbonisation projects.
- £23.5 million for the Green Jobs Fund.

Scotland's recovery

- Full flexibility for LG to set their own Council Tax rates. This brings an end to the freezing of Council Tax at 2020/21 rates that was implemented for 21/22 in light of the pandemic, and effective limits on increases over many years.
- Record funding of £18bn for health and social care which is now 32% of the overall budget. This represents an increase of £805m (4.7%) in the Health and Social Care budget from the restated 21/22 figures.
- Total investment of £1.6bn for social care and integration, includes a transfer to local government of £847m and lays groundwork for National Care Service.
- The budget maintains Small Business Scheme and expands Business Growth Accelerator relief.
- £205.9 million directed to the Scottish National Investment Bank.
- £51 million to help deliver the National Islands Plan and introduce a new Islands Bond Fund.
- £225.6 million to deliver a range of national training interventions through Skills Development Scotland.
- Non-Domestic Rates relief will be withdrawn in July 2022. After a period of 100% NDR relief for Retail, Hospitality and Leisure, this will be reduced to 50% relief in the first quarter of 2022/23, before being withdrawn altogether. In England, 50% relief will be available for the whole financial year for eligible businesses. The poundage rate has been increased from 49p in 21/22 to 49.8p. The rate in England is 49.9p.