

Scottish Budget 2023/24 Accounts Commission Briefing

February 2023

 AUDIT SCOTLAND

A budget of uncertainty, volatility and complexity

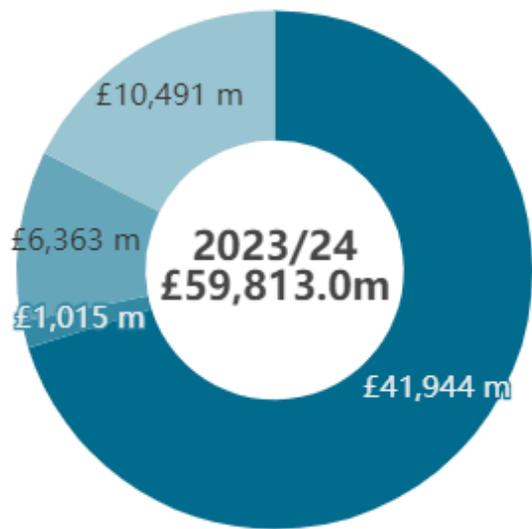
- The Scottish Budget was announced 15 December, in a context of tremendous pressures on public spending, industrial action, and the cost of living crisis
- It followed on from a period of UK fiscal uncertainty, with two fiscal events (the ‘mini budget’ and the Autumn Statement) held within two months
- The funding for local government has been widely discussed, at a time when councils are having to deal with a number of significant financial challenges
- The budget process is ongoing – parliamentary committees are holding budget scrutiny sessions, and the stage 1 debate is planned for 2 February
- The bill is expected to pass in February and receive royal assent in March
- The UK budget is expected 15 March, and this could have implications for Scotland’s funding for 2023/24
- This pack sets out the key facts, figures and messages included in the budget, and sets out the links between the 2023/24 budget and the Commission’s work programme

The Scottish Budget 2023/24

The Scottish Budget in 2023/24

The budget grew by over six per cent in cash terms and by 2.8 per cent in real terms

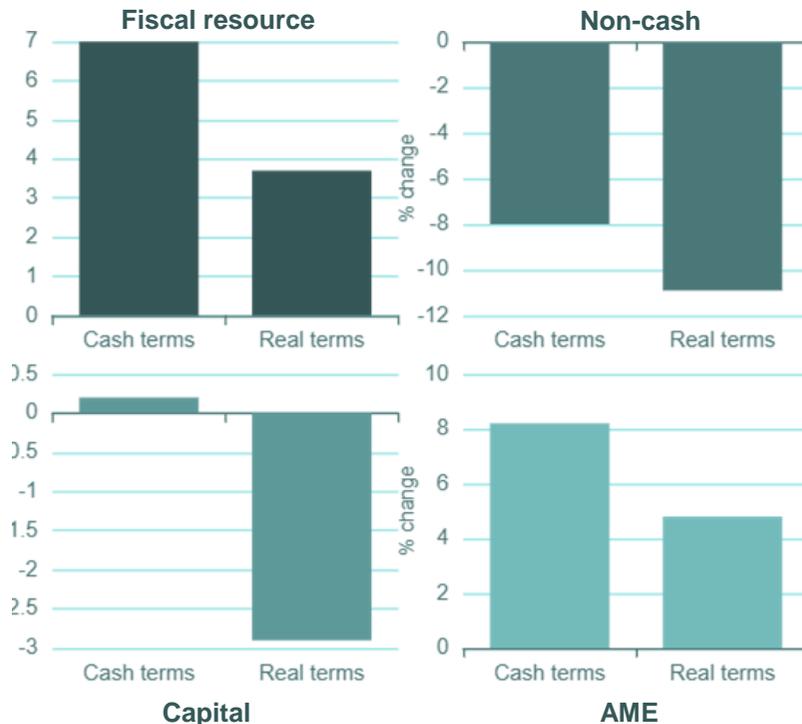
Funding by type in 2023/24



The Scottish Budget nearly hits £60 billion for the first time in 2023/24

Resource budgets grew by 3.7% in real terms in 23/24 compared to last year: while capital decreased by 2.9%

% change since last year in cash and real terms



Source: [Audit Scotland Budget dashboard](#), Dec 22

Budget for local government (1)

LG funding 2023/23 (figures in £ million)	2022/23	2023/24	£ change cash	% change cash	% change real
General Revenue Grant	7,094.6	7,133.9	39.3	0.6%	-2.6%
Non-Domestic Rates Income	2,766.0	3,047.0	281.0	10.2%	6.7%
<i>Total GRG & NDR</i>	9,860.6	10,180.9	320.3	3.2%	0.0%
Specific resource grants	752.1	752.1	0	0.0%	-3.1%
Support for capital	510.5	607.6	97.1	19.0%	15.3%
Specific capital grants	139.0	139.0	0	0.0%	-3.1%
<i>Core funding to local government</i>	11,262.20	11,679.60	417.40	3.7%	0.5%
Revenue funding in other portfolios to be transferred to LG	1,302.1	1,471.8*	169.7	13.0%	9.5%
Capital funding in other portfolios to be transferred to LG	30.0	80.0	50.0	166.7%	158.3%
Total LG Settlement	12,594.3	13,231.4	637.1	5.1%	1.8%

Source: 2023/24 Scottish Budget, Tables 5.12 and 5.16; AS analysis (real terms in 22/23 prices)

Note: SG include £4.5m of administration costs under core funding to local government in the Budget document. We have excluded this here.

*The budget document notes that this includes £13.9m currently held within General Revenue Grant which will be transferred to Transport Scotland Inter-Island Ferries specific revenue grant in-year

Budget for local government (2)

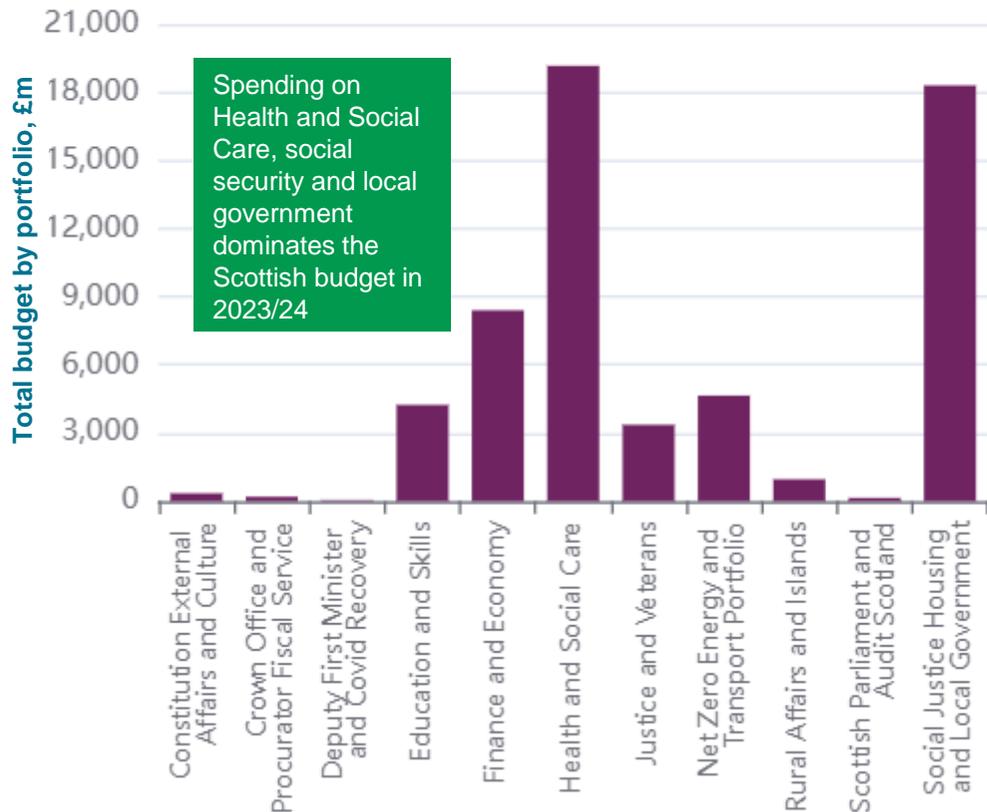
- In the budget statement, the Deputy First Minister (DFM) announced that instead of a flat cash position set out in the Resource Spending Review, LG funding increases by £550m
- The table above shows an increase of £637m. The difference between this figure and that used by the DFM is a result of the addition, during the 2022/23 budget process of £64m extra funding for school meals.
- This funding was not included in the comparable tables in the 22/23 Budget document last year, so are not included in this year's budget tables
- Taking this funding into account the underlying cash increase is £573m, and the real terms increase to 1.3%
- COSLA has undertaken analysis which it suggests show that the after additional commitments have been taken into account, there is only a £38m cash increase on last year's revenue funding, and a flat cash capital settlement
- These commitments include: recurring funding for pay (as agreed as part of 22/23 pay claim), Real Living Wage in Adult Social Care (raising rate to £10.90 per hour), free school meals for P6/7, amongst others.

Revenue Funding from other portfolios	£m
Living Wage	333.5
Health and Social Care	257.2
School Workforce	145.5
Care at Home	124.0
Health and Social Care and Mental Health	120.0
Discretionary Housing Payments	85.9
Carer's Act	60.5
Free School Meals Intervention	59.7
Free Personal and Nursing Care	42.3
Scottish Welfare Fund	40.9
Whole Family Wellbeing Fund	32
Homelessness Prevention Fund	30.5
Additional Adult Social Workers	22

- The largest transfers from other portfolios included in the £1,471.8m are set out in the table
- There are 37 transfers from different portfolios in total in 23/24
- The smallest addition to the budget is for sensory impairment (£0.3m)
- Transfers for social care are the largest category

Breakdown by portfolio

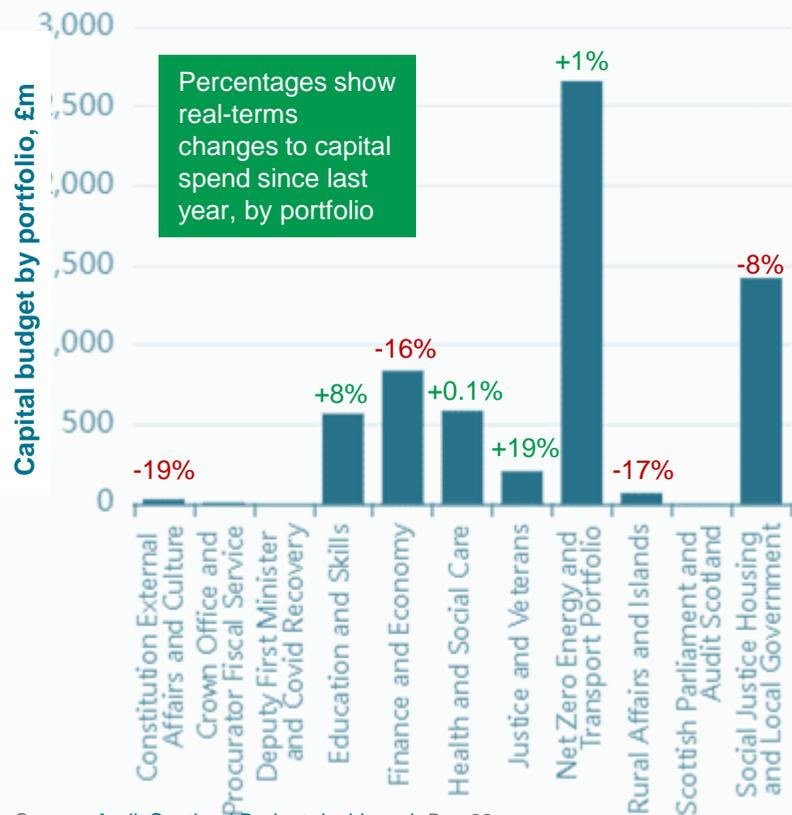
The local government settlement accounts for just over a quarter of SG discretionary spend



- The largest portfolios are Health & Social Care and Social Justice, Housing & Local Government (SJHLG)
- Spending in SJHLG is split 64% local government, 31% social security, and 5% housing and other spend.
- The Constitution, External Affairs and Culture (CEAC) and Rural Affairs and Islands (RAI) portfolios both saw real terms drops in their budgets (9.2% and 3.3% respectively, see next slide)
- The drop in CEAC spending reflects the completion of the census
- The RAI portfolio spend is held flat in cash terms

Changes in capital spending

The capital budget has fallen in real terms, and this has led to prioritisation of programmes



Key changes in programme spend includes:

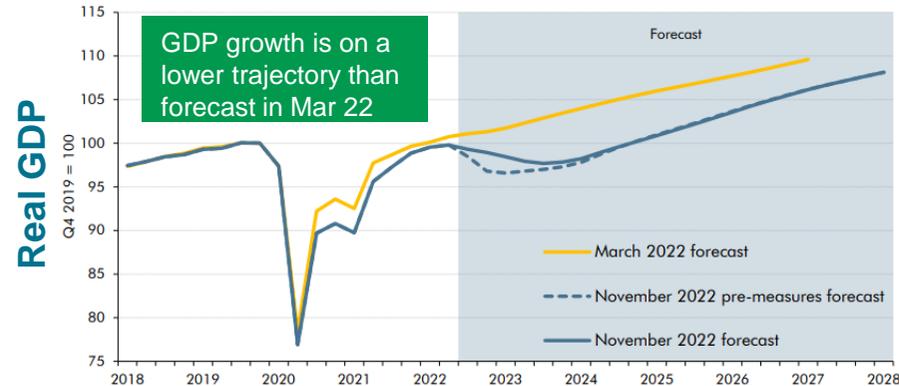
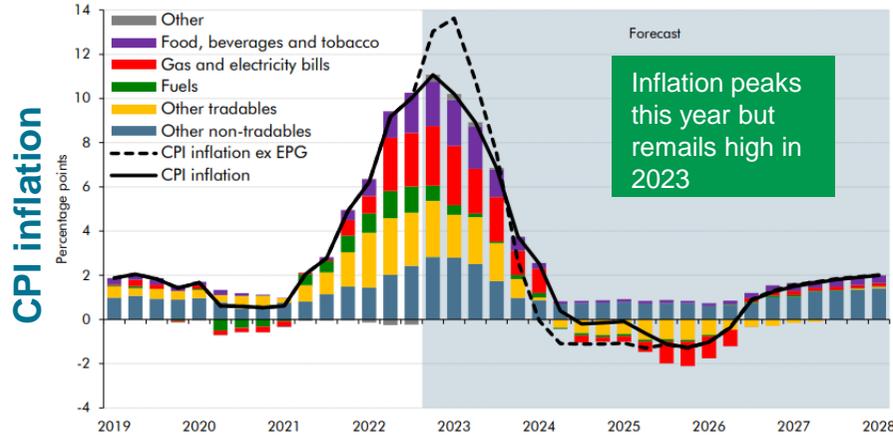
- **SJHLG** - Capital funding for councils increased by 15% (cash)
- Housing capital investment decreased by 18% (cash). This is a reduction of £116m on the 22/23 capital budget and £54.5m less planned as part of the Capital Spending Review. SG suggest 'this reflects wider budgetary pressures across Scottish Government.'
- **Finance and Economy** - £65m decrease for cities investment and strategy and £34m decrease for digital connectivity spending
- **Net Zero, Energy and Transport** - capital spend increased to >£2.5bn.

- The DFM recently reiterated the SG's commitment (through the Bute House agreement) to reform council tax
- Councils have full discretion for setting rates of Council Tax following the lifting of the freeze in the 2022/23 Budget
- As shown in the Financial Bulletin, 16% of councils intended to raise council tax in 2022/23 to meet their budget gap
- The Scottish Government has frozen the NDR Basic Property Rate for 2023/24 at an additional cost of £308 million
- The number of properties liable for the NDR Higher Property Rate have been reduced - by increasing the threshold at which this rate applies to £100,000
- Responsibility for Empty Property Reliefs will be devolved to local authorities in April 2023
- There are some changes to NDR relief, including adjustments to the Small Business Bonus Scheme and new exemptions for elements of onsite renewable energy generation and storage

Context for the Scottish Budget 2023/24

COSLA have calculated a funding gap for local government of £1 billion going into 2023/24

- In December, COSLA began its [Save our Services Campaign](#)
- It warned that the flat cash settlement for local government in the Resource Spending Review (RSR), alongside the cost of living crisis and other pressures would lead to:
 - services being reduced or stopped
 - poorer living environments
 - less support for the most vulnerable in our communities
 - 'inevitable' job losses (70% of budgets spent on staff)
- In the autumn, a pay deal was agreed with council workers. SG provided £260m to support this in the [Emergency Budget Review](#)
- £120m of this was capital funding, which aims to release revenue related aspects of reserves to help fund LG pay awards (see [Circular 11/22](#))
- Negotiations with teaching unions are ongoing, with industrial action being undertaken and schools closed in late 2022 and early 2023

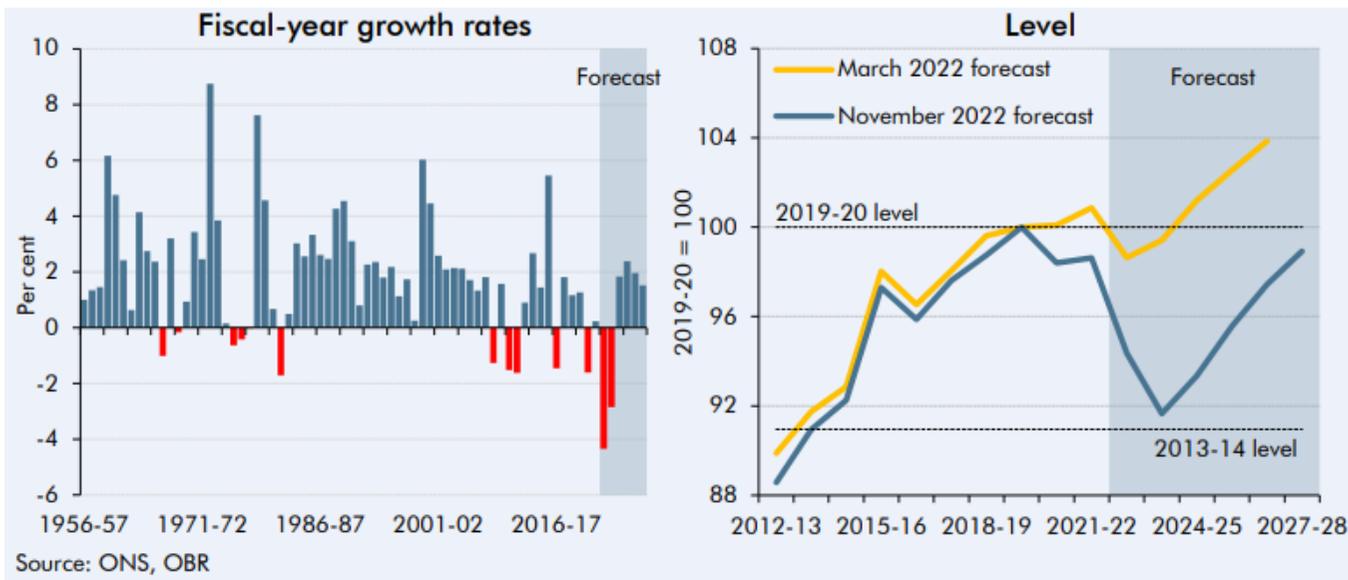


Source: ONS, OBR

- The OBR published its *Economic and Fiscal Outlook* alongside the Autumn Statement
- This forecast that Consumer Price Index (CPI) inflation will peak at a 40-year high of 11 per cent in Q4 2022
- The peak would have been higher without the UK Government's energy price guarantee
- OBR forecast that the economy will go into recession for over a year from Q3 2022
- This will lead to an overall fall in GDP of 2 per cent
- Annual GDP growth is forecast to be positive again and increase to 1.3 per cent in 2024

Source: *OBR Economic and Fiscal Outlook*, Nov 22

Real household disposable income (RHDI) per person



The fall in disposable income this year will be much larger than that seen during the financial crisis

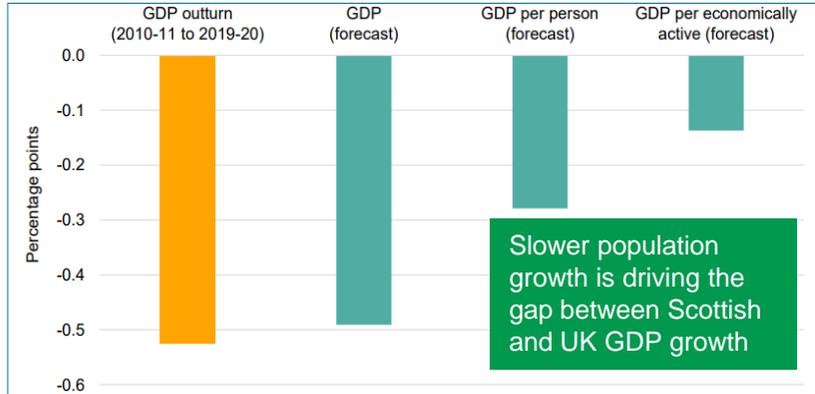
Real disposable income is not forecast to return to pre-pandemic levels until after 2027/28

- RHDI per person is forecast to fall by 4.3% in 2022/23, the largest since records began, followed by the second largest fall in 2023/24 at 2.8%
- The 7.1% cumulative fall takes RHDI per person to its lowest since 2013/14
- This will put **huge pressure** on individuals and families across the UK

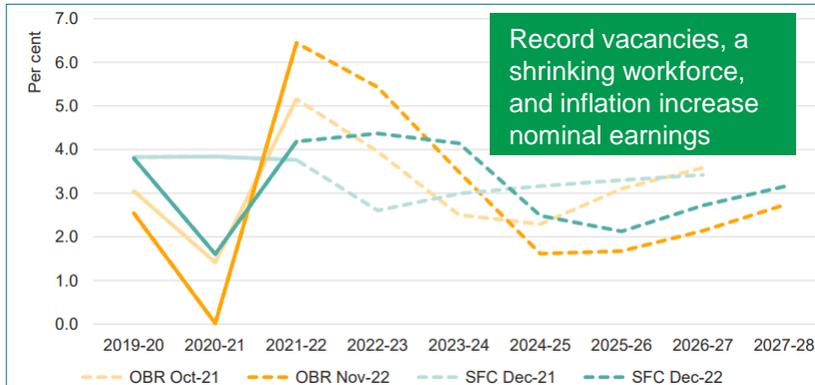
Economic context - Scotland

“There is no comparable period in recent economic history when the economy has been hit by two global shocks in immediate succession while adjusting to other significant domestic pressures” – SFC

Av. annual gap in GDP growth, Scot. vs UK, 23/24 to 27/28

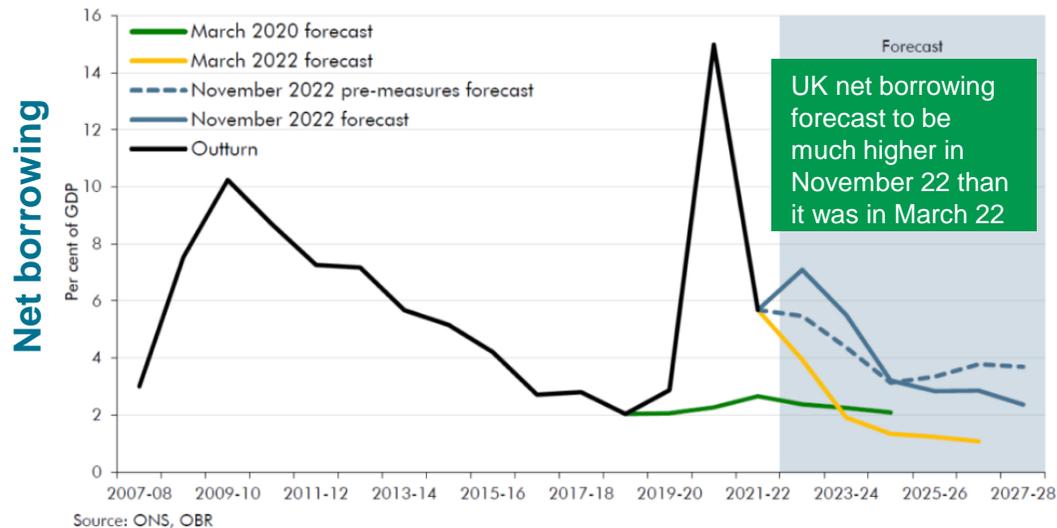


Nominal average earnings growth, Scotland and UK



- SFC expect the Scottish economy to shrink by 1.8% - vs 2.1% for the UK
- Scotland will recover to pre-recession levels by Q1 2025, one quarter after the UK
- Scottish GDP is forecast to be an average of 0.5 percentage points lower than the UK in the next 5 years
- SFC expect nominal earnings to grow by 4.1% - faster than previously expected, but below inflation
- In the next 5 years, Scottish nominal average earnings recover slightly vs UK – though still below historical standards

Scottish Budget follows on from a six-month period of political and fiscal uncertainty in the UK



- The UK Autumn statement aimed to reassure markets and return public finances to a more sustainable path, following the 'mini budget'
- The Statement set out the UK Government's plans for income tax and uprating benefits
- These impact on the Scottish 23/24 budget via the Block Grant Adjustment

- Additional UK Government health and education spending generates £1.5 billion in Barnett consequentials for Scotland in 23/24 and 24/25
- Spending beyond 2024/25 is forecast to rise by 1% a year in real terms, lower than expected before (OBR, [Economic and Fiscal Forecasts](#), p38)

Links between the 2023/24 budget and the Commission's work programme

- In the budget, SG have set three priorities:
 - Eradicating child poverty
 - Transforming the economy to deliver a just transition to Net Zero
 - Providing sustainable public services
- There is a degree of alignment between the Scottish Government's strategic priorities and that of the Accounts Commission's four priority areas (inequalities, funding, recovery and communities)
- SG's priorities have evolved over the course of 2022/23:
 - from 'recovery from the pandemic' to a 'just transition to net zero'
 - from 'reducing' to 'eradicating' child poverty
 - from 'protecting and rebuilding' to 'sustainable' public services
- The focus on funding and sustainable public services has come more to the fore, linking with the Account Commission's priority around funding and financial sustainability
- Below we set out selected SG spending plans which connect to their priorities, and highlight how these link to the Account Commission's planned outputs in the work programme.

What are SG's priorities? (1)

The Scottish Government has identified three priority areas for 2023/24

1. Eradicating child poverty

The SG continues to direct resources towards reducing inequality and eradicating child poverty. The budget recognises the importance of education, providing additional funding to improve children's opportunities, reduce the attainment gap and keep The Promise.

Areas of spending on child poverty include:

- £244.7m additional funding for the increase in Scottish Child Payment
- £67.5m for expansion of free school meals
- £48.7m concessionary travel (including young people)
- £73.0m to support ongoing commitment to keep The Promise
- £62.4m increase in child disability payment for 23/24
- £5.9m additional funding for Best start grant and Best start foods
- £1.1m additional funding for raising attainment

Links to planned outputs: resourcing the benefit service (thematic study); tackling child poverty (joint briefing); digital exclusion and connectivity (joint performance audit)

The Scottish Government has identified three priority areas for 2023/24

2. Transforming the economy to deliver a just transition to Net Zero

SG aims to shape Scotland's longer term future in line with its vision for a wellbeing economy that serves people and the planet first and foremost, for current and future generations.

Areas of spending on Net zero include:

- £244m additional funding for the Scottish National Investment Bank
- Investment in EV charging and active travel
- £50m in the Just Transition Fund for the North East and Moray
- increase investment to over £366m to deliver the Heat in Buildings Strategy in 23/24
- £44m for agricultural programmes to support sustainable and regenerative agriculture
- Over £100m for peatland restoration and woodland creation
- A pilot project looking at the removal of peak time rail fares

Links to planned outputs: Local government in Scotland Overview 2023; digital exclusion and connectivity (joint performance audit)

The Scottish Government has identified three priority areas for 2023/24

3. Providing sustainable public services

SG aim to deliver public services that meet the needs of citizens, now and in the future. SG has committed to a process of reform designed in line with Christie principles, focussing on early intervention, prevention and local delivery. Areas of spending include:

- Additional funding for local government
- £731m additional support for NHS Boards
- £51.8m additional funding to improve primary health care services
- £12m to support cross government action Drug Deaths Taskforce
- £81m additional resource for the Police Authority, £11m Fire and Rescue Service, £40m Scottish Prison service, £9m Courts and Tribunal Service, £8.2m Education reform
- £22.4m additional resource for Ferry Services

Links to planned outputs: Local government in Scotland Overview 2023; joint performance audits including - adult mental health; drug and alcohol services; early learning and childcare follow up; health and social care integration; social care; sustainable alternatives to custody

Focus on: spending on NCS in the 2023/24 budget

It is not clear how much funding has been allocated to the National Care Service (NCS) for 2023/24

- The budget document states that SG will provide £1.7bn for social care and integration - “to improve services while paving the way for the introduction of the National Care Service”
- The budget sets out that £1.2bn will be spent on ‘NCS / Adult Social Care’
- Supplemental information to the budget sets out that £1.1bn will be spent on Social Care support and NCS delivery: ‘to meet the full year impact of the real living wage pay uplift for adult social care staff, and additional investment on Free Personal Nursing Care’
- FAI have highlighted that “most of the 5.4% increase in the care service line item is likely allocated to the £100m for supporting a £10.90 real living wage for adult social care”
- SPICe noted that the financial memorandum for the NCS Bill identified funding of £63-95m for 23/24, “but it is not clear whether this is in line with what has been allocated this year”
- In response to the budget, COSLA called for ministers to “invest in change now and pause their plans for structural reorganisation” in social care.
- The DFM committed to providing an updated financial memorandum on ‘the logistical arrangements around the national care service’ – the timings for this are unknown

Appendix A: Analysing the Scottish Budget 2023/24

Technical issues relating to the budget highlight the challenges SG faces in managing its spending

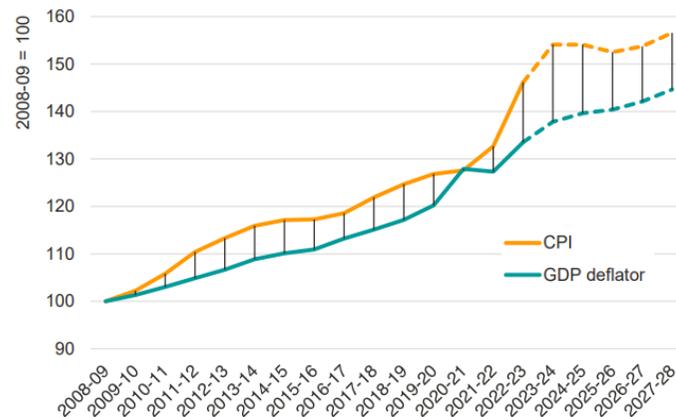
Inflation – GDP deflator vs CPI

FAI, SFC and IFS noted the challenges inflation causes to assessing the value of the budget.

The GDP deflator is used to calculate the year-on-year real terms changes in public spending. **This may understate the inflation faced by public bodies:** the GDP deflator is a measure of inflation in the domestic economy, and does not include the costs of imported commodities like energy, which public services do buy.

Energy costs are in the Consumer Price Index (CPI) which measures household inflation. But public bodies do not buy the same goods and services as households. Using CPI to calculate the real terms value of the budget **would likely overstate the inflation faced.**

Evolution of GDP Deflator and CPI



Source: [SFC Economic and Fiscal Forecasts](#), Dec 22

Technical issues relating to the budget highlight the challenges SG faces in managing its spending

Presenting year-on-year changes in spend

The [IFS](#) argues the 2023/24 budget ‘overstates increases in public-service spending next year compared to this’.

This is because SG compare the planned spending in the 2023/24 budget to the plans in the 2022/23 budget – rather than the most up-to-date 2022/23 spend. The IFS highlight that this doesn’t take into account that additional funding is often added to the budget in-year.

For example, £260 million was provided to councils to fund increased pay awards in 2022/23. The costs for this will continue into 2023/24, but the funding has been excluded from year-to-year comparisons in the budget.

The approach taken by SG is a longstanding convention to compare plans at the same point of time in the year, reflecting that the funding added in year (e.g. additional funding from UK Government) is not known in advance. Comparing planned spending before transfers between portfolios also shows which portfolio has primary responsibility for the spending in the budget.

It is currently not possible to compare the final spending position in 2022/23 to the 2023/24 spending plans, and this poses challenges for transparency and scrutiny of the budget.

SPICe have analysed SG's progress on the 3 principles of human rights budgeting. We summarise this here

Transparency

Annex D of the budget sets out where specific funding within portfolio areas support equities and human rights.

This includes more detail on evidence and notes on annual changes than before, but this repeats different funds against different characteristics which makes it hard to analyse.

Participation

SPICe note: "little information is given on how people can and have participated in the budget-setting process"

SG published a separate document on attitudes to tax alongside the budget, which provides detail on public opinions on tax.

Accountability

The budget provides an overview of how each portfolio links to the National Performance Framework (NPF), but it does not set out how spend contributes to achieving it.

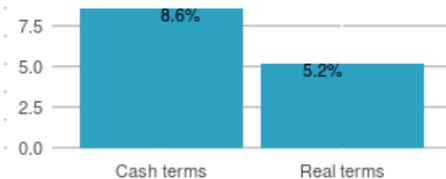
Some evidence of the effectiveness of policy is presented, but: "but the detail is inconsistent, and the direct links to outcomes and tangible measures are sporadic" (SPICe)

Appendix B: Other portfolios

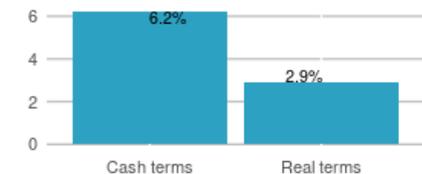
Portfolio changes and key announcements (1) AUDIT SCOTLAND

% change

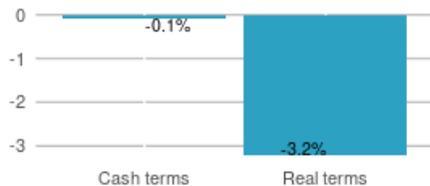
Social Justice Housing and Local Government



Health and Social Care



Rural Affairs and Islands



Key announcements

Social Justice, Housing and Local Government

- deliver the Scottish Child Payment, available to ~387,000 children
- uprate all other devolved benefits by CPI (10.1%), costing £428m
- >£550m of additional funding to the Local Government settlement

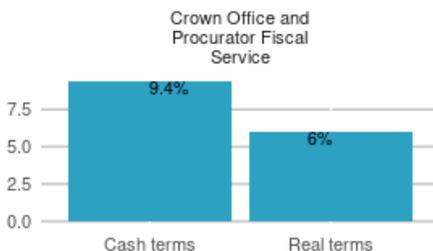
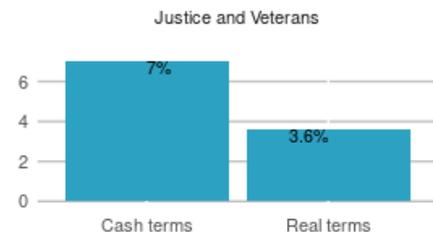
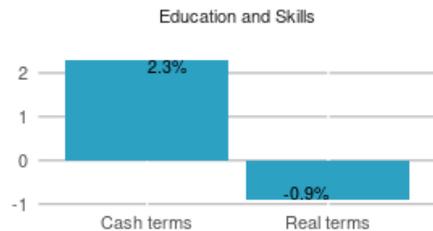
Health and Social Care

- £13bn for NHS Boards and £1.7bn for social care and integration
- £100m to deliver the £10.90 real living wage for adult social care
- £160m to reduce the avoidable harms from drugs and alcohol

Rural Affairs and Islands

- £44m for agricultural programmes to support sustainable and regenerative agriculture
- Over £100m for peatland restoration and woodland creation

% change



Key announcements

Education and Skills

- Capital funding to support the expansion of free school meals
- £50m for preventative holistic family support
- £30m to #KeepThePromise to care-experienced children & young people

Justice and Veterans

- an additional £80 million in the Scottish Police Authority
- Increased funding for community justice
- Increased funding for prison service capital programme

Crown Office and Procurator Fiscal Service

- Ongoing commitments to reduce Covid-19 trial backlog
- Reform of the management of sexual offence cases
- Additional funding to support the Covid-19 inquiry

Portfolio changes and key announcements (3)

% change

Key announcements

Finance and Economy

- Additional funding to the Scottish National Investment Bank
- Increased funding for the Low Carbon Economy
- Ongoing support for Ferguson Marine

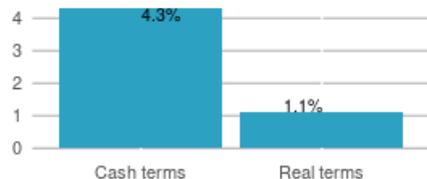
Net Zero, Energy and Transport

- Investment in EV charging infrastructure
- Investment in Heat in Buildings Strategy
- Additional funding for ferries and ferry infrastructure

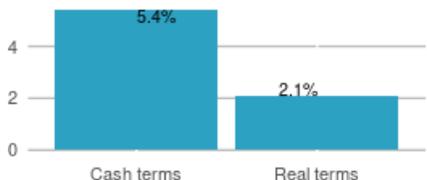
Constitution, External Affairs and Culture

- Additional funding for events such as the Cycling World Championships and the Athletics Championships
- Increased funding for HES and other bodies to cover higher costs

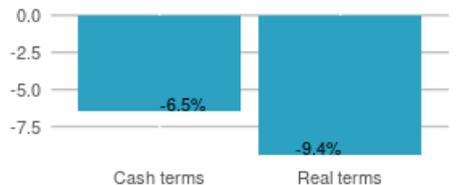
Finance and Economy



Net Zero Energy and Transport Portfolio



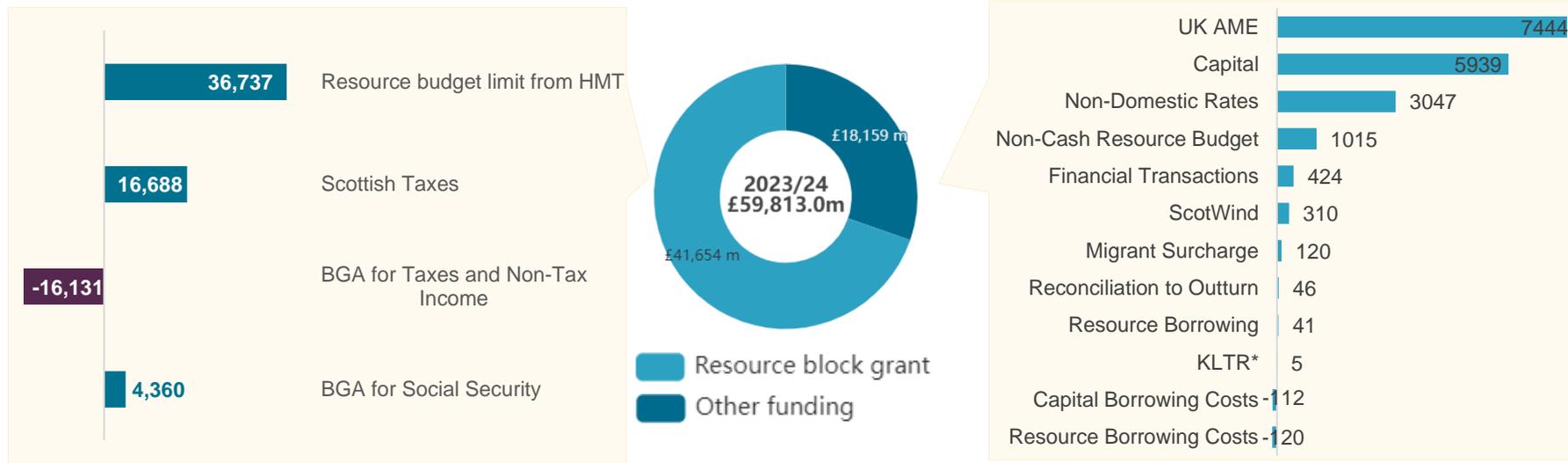
Constitution External Affairs and Culture



Appendix C: Funding and social security

Funding for the Scottish budget

Sources of funding for Scottish budget, 2023/24



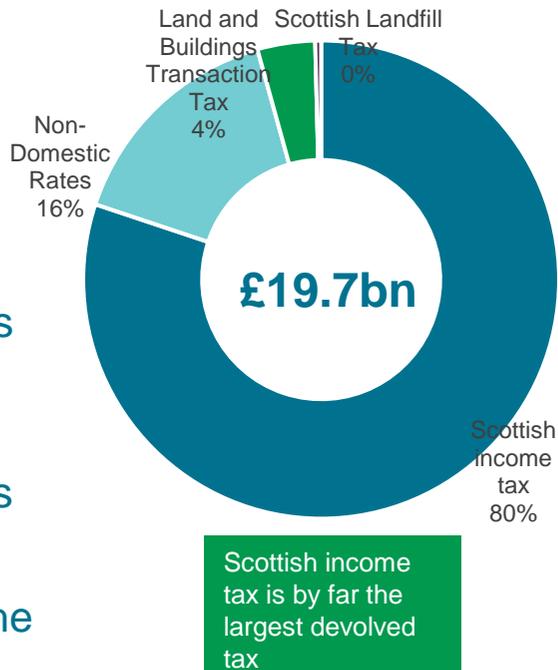
- The largest source of funding for the budget is the resource funding from UK Government. This is made up of the Barnett funding and £0.7bn ringfenced funding
- Scottish devolved taxes and other income brings a net benefit to the budget of £557m, once the Block Grant Adjustment is deducted

Scottish taxes in the 2023/24 budget (1)

SFC forecast that £19.7bn of taxes will be raised in 2023/24

- Changes in tax policy for 2023/24 include:
 - Changes to Non-domestic rates (NDR) - see next slide
 - Significant changes to income tax, including:
 - lowering the top rate threshold for income tax
 - freezing the higher, basic rate and starter rate bands
 - increasing the higher and top rates of tax
 - Land and Buildings Transaction Tax (LBTT) Additional Dwelling Supplement will increase from 4% to 6%, which is expected to raise £34 million in 2023/24.
- Since Scottish income tax, LBTT and Scottish Landfill Tax were devolved, a Block Grant Adjustment is deducted and it is the net position for these taxes that is important
- Taxes and other income are forecast to add a net £557m to the 2023/24 budget – income tax accounts for the majority of this

Tax revenue forecasts, 23/24

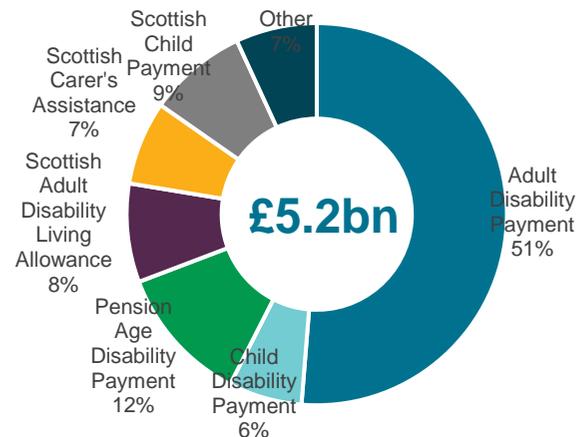


Social security in the 2023/24 budget

Forecast social security spending in 23/24 has increased by nearly £0.6bn since last year

- The SFC's forecasts for social security spending increased to £5.2bn for 23/24, and will reach £7.3bn by 2027/28
- SG receives Block Grant Adjustments from UK Government to cover devolved social security payments
- This is based on UK spend **and any extra spend must be covered by SG**
- The net cost of social security is forecast to be -£776m in 2023/24
- By 2027/28 the net cost is forecast to grow to -£1.4bn
- This is driven by:
 - changes to eligibility for existing benefits (the disability benefits)
 - the introduction of new benefits (such as the Scottish Child Payment)

Social Security expenditure, 2023/24



Disability benefits make up the majority of social security spend

- The AGS highlighted in his Scotland's public finances: challenges and risks briefing that there is a 'real risk' that SG overspend on the 22/23 budget. The DFM has said he is still working to balance this year's budget. For 23/24:
 - **Workforce** – not publishing the pay policy alongside the budget means we don't know the SG's approach to its most important input cost
 - **The medium-term financial strategy** – the SG's medium-term financial strategy has not been updated since May, although the financial position has changed significantly
 - **Forecast uncertainty** - the positive net tax position is a plus for financial sustainability, but the increasing negative net position for social security is a long-term risk for SG. Both medium term positions are uncertain.
 - **Reform** - the budget included no updates on the progress of the reforms set out in the Resource Spending Review. The DFM suggested at the Finance Committee that the reform work is 'an ongoing task' and it is not clear how on the reform process will be reported on to parliament and the public (col 38)

- This pack draws on data released in advance of the budget by the Office for Budget Responsibility (OBR), UK Government (UKG) and Fraser of Allander (FAI)
- It includes analysis of the Scottish budget as announced 15 December, and the Scottish Fiscal Commission (SFC) forecasts published alongside the budget, and the LG finance circular
- It also reflects commentary by the Institute for Fiscal Studies (IFS) and Scottish Parliament Information Centre (SPICe) published after the budget
- We have used Audit Scotland's new SG budget analysis dashboard developed by our data analytics team. This sets out trends for the overall budget, sources of funding, and of devolved taxes and social security
- We will share this more widely internally over the course of 2023
- The next phase of this work will be to add in more detail about individual areas of spend and how these change over time
- **We would welcome any feedback you may have on how we have presented this information or how we could develop this in the future**