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Social Justice and Social Security Committee

20th Meeting, 2022 (Session 6), Thursday, 23 June

Resource Spending Review

Introduction

On 31 May the Scottish Government published its [Resource Spending Review](#) setting out high level spending plans up to 2026-27.

This was accompanied by:

- [Medium Term Financial Strategy](#)
- [Equality and Fairer Scotland Statement](#)
- Scottish Fiscal Commission (SFC) [updated forecasts for spending on devolved social security benefits up to 2027-28.](#)

The spending review is not a budget – for example it doesn't set tax policy - but can be used to set the general outlook and inform the Committee's pre-budget scrutiny in the autumn.

The Committee will hear from:

- Kate Forbes, MSP, Cabinet Secretary for Finance and the Economy
- Shona Robison, MSP, Cabinet Secretary for Social Justice, Housing and Local Government

Previous Committee Consideration

Following an evidence session on the Spending Resource Review Framework on [17 March 2022](#), the Committee wrote to the Cabinet Secretary for Finance and Economy on [25 March 2022](#). The letter discussed the ‘funding gap’ in Social Security and the uncertainty in those costings. The Committee asked that the spending review should:

- include the sum total of spend committed to tackling child poverty over the review period
- be more transparent about the difficult choices around increasing taxes or reducing services to meet fiscal challenges.
- include more explicit analysis on preventative spend – especially in relation to child poverty

The Committee held a session on the child poverty delivery plan on [21 April 2022](#). The plan was welcomed by witnesses, but there was a desire to see further detail on implementation given the interim targets are due to be achieved in 2023-24. The focus on employability was welcome and was linked to childcare and getting a good job rather than simply getting any job.

On [9 June](#) the Committee heard from the SFC on its social security spending forecasts. Key points made included that:

- the uncertainty in forecasts has increased, including the outlook for inflation
- forecast spend in 2026-27 has increased by around £1 billion since December due to; adding ‘indicative forecasts’ for benefits yet to start, data updates, inflation and policy announcements.
- the effect of policy decisions made now builds up over time and increases spending across future years

On [7 June the Finance and Public Administration Committee](#) heard from the SFC and the Cabinet Secretary for Economy and Finance. The Committee discussed how choosing to prioritise health and social security means deprioritising other areas.

Overview

The spending review and medium-term financial strategy set out the broad direction of public finances and policy choices over the next few years.

“It offers a strategic funding framework for the Scottish Government and our many partners to plan for the future, rather than detailed budget information” ([Equality and Fairer Scotland Statement](#))

This is the first multi-year spending review in Scotland since 2011. The four priorities for spending are:

- Tackling child poverty
- Addressing the climate crisis
- Securing a strong, fairer, greener economy, and
- Delivering excellent public services

The Scottish Government is required to present a balanced budget. Therefore, in prioritising social security and health spending other budget lines face 'flat cash' or reduced allocations. The [Medium Term Financial Strategy](#) states:

“With limited resources, increased investment in the Scottish Government's priorities will require efficiencies and reductions in spending elsewhere: we need to review long-standing decisions and encourage reform to ensure that our available funding is delivering effectively for the people of Scotland.”

Portfolio allocations

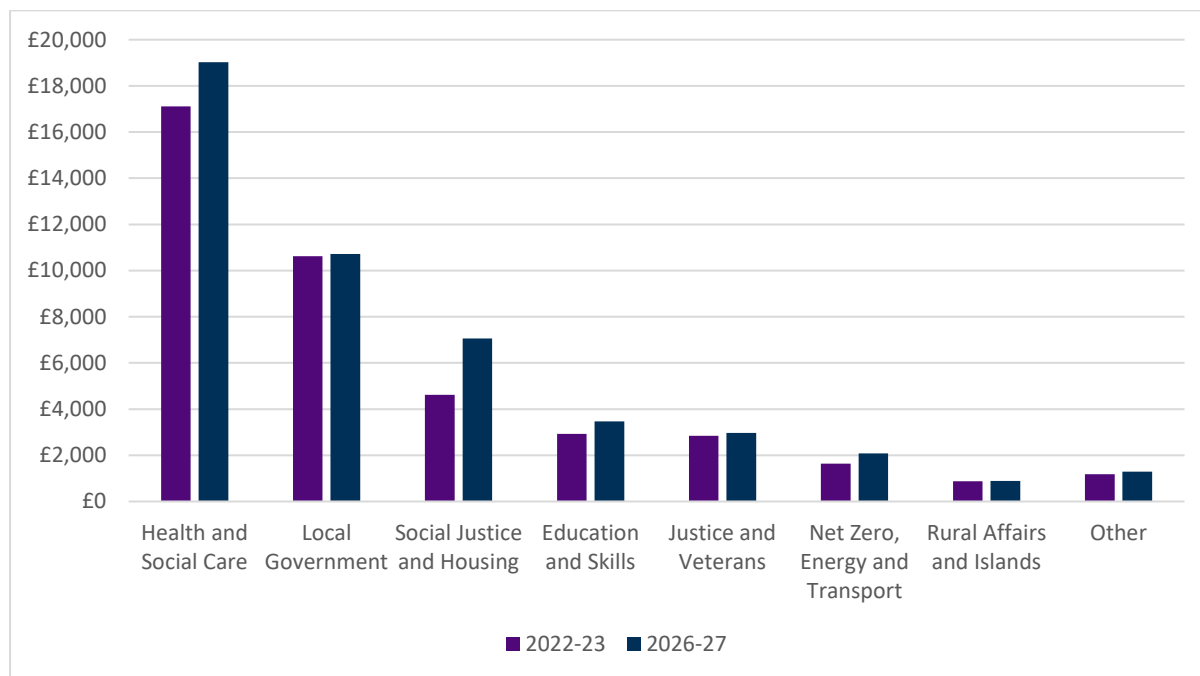
Table 1 and chart 1 below shows how increases in spending are focused on the Social Justice and Health portfolios.

Table 1: Resource Spending Envelopes, £ million (current prices)

	2022-23	2023-24	2024-25	2025-26	2026-27
Constitution, External Affairs and Culture	294	314	294	294	294
Crown Office and Procurator Fiscal Service	170	170	170	170	170
Deputy First Minister and Covid Recovery	43	43	43	43	73
Education and Skills	2,927	2,943	2,943	2,963	3,472
Finance and Economy	553	556	561	566	629
Health and Social Care	17,106	17,550	17,995	18,536	19,029
Justice and Veterans	2,839	2,839	2,839	2,954	2,969
Net Zero, Energy and Transport	1,633	1,669	1,704	1,793	2,088
Rural Affairs and Islands	881	879	879	884	885
Social Justice and Housing	4,619	5,621	6,274	6,658	7,053
Local Government	10,616	10,616	10,616	10,616	10,716
Scottish Parliament and Audit Scotland	122	122	122	122	122
Total	41,802	43,322	44,440	45,599	47,500

Chart 1 below shows the main allocations, in order of spending, in 2022-23 and 2026-27. This illustrates the growth of health and social justice budgets (within the latter the growth is almost entirely in social security).

Chart 1: Portfolio allocations, 2022-23 and 2026-27. £m. Current prices



Source: Scottish Government, spending review

See annex for a comparison of cash and real terms.

Table 2 below gives the allocations within the social justice portfolio.

Table 2: Social Justice, Housing and Local Government Portfolio Spending Plans

Level 2*	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
Social Security Assistance	3,949	4,958	5,604	5,983	6,359
Local Government	10,616	10,616	10,616	10,616	10,716
Social Security (excluding Social Security Benefits)	404	392	349	323	324
Building Standards	4	4	4	4	4
Housing	149	152	165	172	184
Tackling Child Poverty and Social Justice	34	37	72	96	97
Connected Communities	5	5	5	5	5
Equalities	45	44	44	44	45
Third Sector	22	21	24	24	27
Office of the Scottish Charity Regulator	3	3	3	3	3
Scottish Housing Regulator	5	5	5	5	5
Total	15,235	16,237	16,890	17,274	17,769

Source: Scottish Government spending review, table 3.

The majority of this budget is local government (flat in cash terms until 2026-27) and social security (increasing from £4bn to £6.3bn). The other budget lines make up a very small proportion of total spend in this portfolio. Notably the 'social security (excluding benefits)' line is falling. The £404m for 2022-23 corresponds to the social security administration, policy, programme and development line in the 2022-23 budget. i.e it's the funding for implementation and administration of devolved social security.

Social Security

Social security is taking up an increasing share of the Scottish budget. The Scottish Fiscal Commission (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).

Table 3 below, shows how, once social security and health and social care spending are removed, the resource available for all other portfolios falls next year and doesn't recover to current levels until 2026-27.

Once inflation is taken into account the situation is even more constrained.

Table 3: Scottish Government spending allocations (current prices)

£ million	2022-23	2023-24	2024-25	2025-26	2026-27
Total resource funding available	42,607	43,321	44,439	45,600	47,498
Social security spending	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: SFC May 2022 forecasts, figure 2.9. 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

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.

Much of this is covered by the Block Grant Adjustment. However, as the Committee has discussed previously, additional measures must be funded from elsewhere in the Scottish budget or from increased taxes. Table 4 below gives the 'net position' – i.e the funding for social security that needs to be found from elsewhere in the Scottish Budget.

Table 4: Social security ‘net position’

£ 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: SFC, figure 5.14. Shown as negative figures as its the funding that needs to be found from elsewhere in the Scottish Budget.

Child Poverty

Tackling child poverty is one of four priorities guiding the spending allocations. [Best Start, Bright Futures](#) – the second child poverty delivery plan – includes a wide range of policies that contribute to reducing child poverty. In addition to social security measures, these include:

“enhanced employability and skills support, alongside the connectivity and childcare to enable parents to take up good quality employment, will sustainably increase incomes for families across Scotland.”

Some relevant budget lines increase – there is additional funding for employability in the Economy and Finance portfolio and the health and social care budget increases.

However a number of budget lines that might be expected to contribute to these aims have ‘flat cash’ allocations for much of the spending review period. This includes:

- Local government
- Higher education and student support
- Scottish Funding Council
- Skills and Training

It is also unclear how proposals for public sector service reform might impact on parents’ employment opportunities. Further detail on these proposals are expected at the 2023-24 budget.

Equality and Fairer Scotland Statement

The [Equality and Fairer Scotland](#) (EFS) statement:

“considers nine strategic opportunities and challenges flowing from previous Equality and Fairer Scotland Budget Statements, and how we will address them.”

As the spending review provides high level allocations the EFS notes that:

“many of the proposals for reform are at an early or conceptual stage. As such, it has not been possible to undertake meaningful individual impact assessments on a portfolio-by-portfolio basis,”

Instead, the document provides a “framework for future impact assessments”.

The nine opportunities and challenges are listed below. While almost all are relevant to this Committee’s remit, challenge 2 (adequate social security) and 5 (meeting the child poverty targets) are perhaps the most relevant.

1. Support an economic recovery which continues to progress action to tackle structural inequality in the labour market, including through good green jobs and fair work.
2. Ensure that the devolved taxation system is delivered in a way which is based on ability to pay and that **the devolved social security funding increases the resources available to those who need it.**
3. Ensure that inequalities in physical and mental health are tackled through the effective delivery of health and social care services as well as broader public health interventions.
4. Build digital services that are responsive to individuals and address inequality of access to digital participation.
5. Deliver greater progress towards meeting **statutory child poverty targets.**
6. Deliver greater progress towards closing the attainment gap.
7. Improve the availability and affordability of public transport services, to ensure those more reliant on public transport can better access it.
8. Ensure that policies, action and spend necessary to mitigate and adapt to the global impacts of climate change deliver a just transition for people in Scotland.
9. Better realise the right to an adequate home that is affordable, accessible, of good quality, and meets individual need whilst ensuring that progress on tackling current inequality of housing outcome is addressed.

This summer the Scottish Government will respond to the [Equality Budget Advisory Group](#) (EBAG) recommendations on measures to improve the budget process.

Fiscal Framework Review

The Block Grant Adjustment for Social Security is calculated under the terms of the Fiscal Framework. The basic approach is to fund what would have been spent had social security not been devolved. Detail on how the calculation works is set out in the Scottish Government’s [“Fiscal Framework Technical Note”](#).

Issues in the Fiscal Framework that impact on social security include:

- The limited ability to borrow makes it difficult to budget for demand-led spend.
- Because devolved and reserved social security are closely linked, it could easily happen that policy decisions by one government result in increased spending by the other government – i.e ‘spill-over effects’. There is a mechanism to address this, but the one spill-over issue that has arisen (on tax) has not yet been resolved.

The Medium Term Financial Strategy (MTFS) summarises the plans for a review of the Fiscal Framework to be preceded by an independent report:

“In October 2021, the Scottish and UK Governments agreed to commission an independent report focusing on the Block Grant Adjustments, including a call for stakeholder input, prior to a broader review of the Fiscal Framework. Both governments are working towards the Review beginning as early in 2022 as possible.

Views from stakeholders other than the two Governments will be sought as part of the process.”

The MTFS sets out issues the Scottish Government’s priorities for the review. These include:

“how we minimise friction in interactions between the two governments' tax and social security regimes to ensure that the Scottish Government has maximum flexibility in its policy choices and ability to manage the impacts of UK policy choices through the Fiscal Framework and vice versa.”

[and]

“Removal of the restriction on resource borrowing to fund day-to-day costs, an increase in the borrowing cap for forecast errors to £600 million, and an increase in the Scotland Reserve drawdown to £700 million per year.” (MTFS)

Committee Recommendations in Session 5

In Session 5 the Scottish Government, the Finance and Constitution Committee and the Social Security Committee agreed a joint report [to the UK Government](#) looking at which issues should be included in the fiscal framework review.

The report’s recommendations included:

- The review should consider the limits and caps on the resource borrowing powers and reserve to ensure they are sufficient to manage the volatility created by the Fiscal Framework.
- At the same time, the Review should consider whether the Scottish Government’s borrowing and reserve powers should be protected in real terms, and if so, whether this should also apply retrospectively

- The review should re-examine how policy spillover effects¹ are accounted for through the Fiscal Framework and should consider the flexibilities and constraints of the Fiscal Framework in responding to policy changes at Scottish or rUK level.

The [response from the Chief Secretary to the Treasury](#) indicated that the independent review would consider the Block Grant Adjustment, but that the review itself would have a broader remit.

Suggested themes for discussion

The following four themes are suggested:

- **Prioritising social security**
- **‘Flat cash’ allocations and child poverty**
- **Public sector reform**
- **Equality and Fairer Scotland statement**

Prioritising Social security

The requirement to set a balanced budget means that, unless taxes increase, increasing spending on social security puts pressure on other budget lines. (n.b Tax policy is not included in the spending review and will be set out at the next Scottish Budget).

By 2026-27 spend on devolved social security benefits will be £1.3 billion higher than the funding received through the social security block grant adjustment (BGA). It is this additional spend that creates the pressure on the rest of the Scottish budget.

Next year, around half the additional spend is going on the Scottish Child Payment (£204m of a total £462m) but this proportion falls to 35% by the end of the spending review period (£449m out of a total £1,277m) (table 5).

Table 5: Social Security spend above BGA: 2022-23 to 2026-27

£ million	2022-23	2023-24	2024-25	2025-26	2026-27
Social security spend above BGA	462	881	1,042	1,173	1,277
<i>Of which;</i>					
SCP	204	428	439	444	449
PIP/ADP	90	280	355	396	469

Chart 2 below shows additional spend by benefit. The largest components of this are SCP and ADP.

In 2023-24 the additional cost of disability benefits (ADP and CDP combined) is forecast to be much lower than the cost of SCP (£293m compared to £428m).

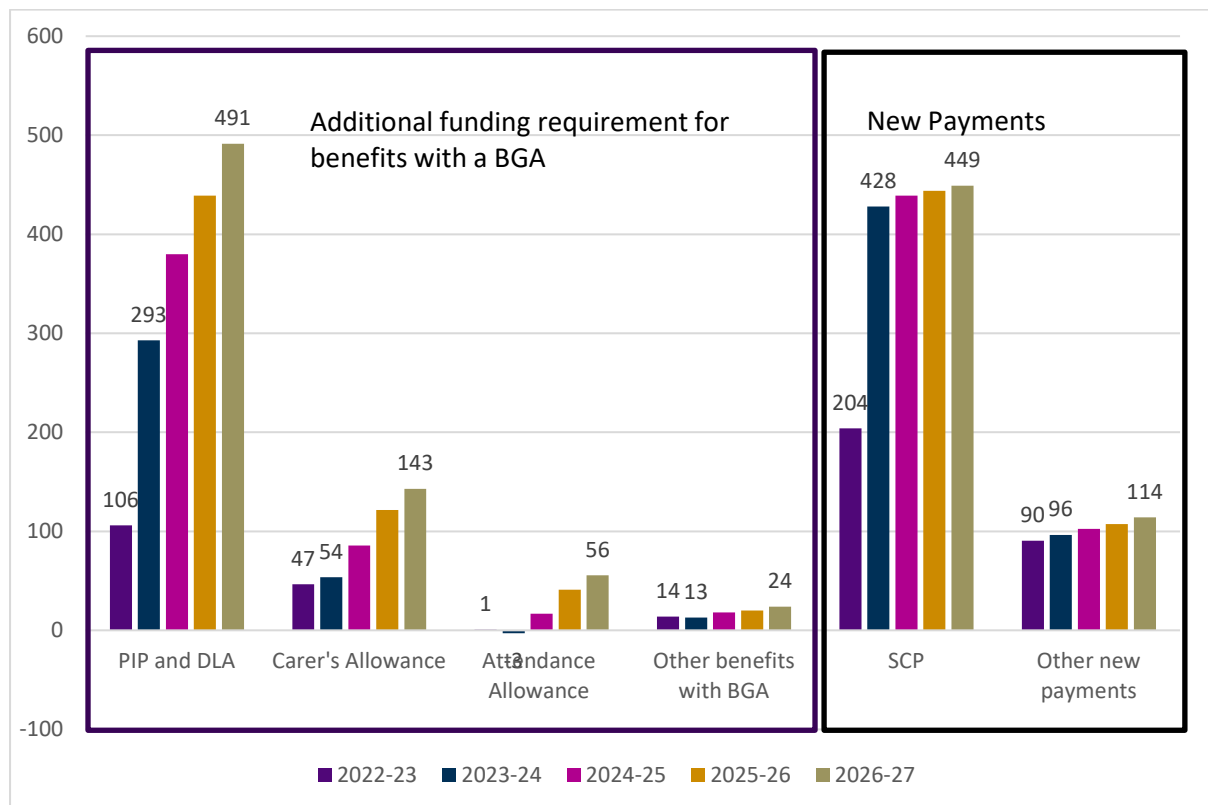
¹ Where the policy choices of one government result in increased spending for the other government.

However, by the end of the spending review, the additional cost of ADP/CDP outstrips spending on the Scottish Child Payment.

Therefore, although most of the additional Scottish spend is currently focused on child poverty, by the end of the period the focus of this additional funding requirement is on disability benefits.

This is before taking into account any further spending that may result from the independent review of ADP.

Chart 2: Growth in social security 'above BGA' £m.



Source: Scottish Fiscal Commission. Social security new payments include Scottish Child Payment, Child Winter Heating Assistance, Best Start Grant Early Learning Payment, Best Start Grant School Age Payment, Discretionary Housing Payments on bedroom tax and benefit cap mitigation. Payments with a BGA are: PIP, DLA, Attendance Allowance, Carer's Allowance, Industrial Injuries Disablements Benefits, Severe Disablement Allowance, Cold Weather Payment and Winter Fuel Payment

The Equality and Fairer Scotland Statement says:

“The level of funding allocated to Social Security shows the strength of the Scottish Government's commitment towards building a new system for the people of Scotland with dignity, fairness, and respect at its heart.”

Kate Forbes told the Finance and Public Administration Committee that:

“You should not set out to invest in social security over the extreme long term because, if you manage to tackle child poverty and you meet your child

poverty targets, you should see that spending figure coming down, because there will be fewer families in need of that additional support.” [Kate Forbes, Finance and Public Administration Committee, 7th June, col 37](#)

Members may wish to discuss:

1. After 2023-24, the forecast cost of SCP rises fairly slowly. In contrast, the additional funding requirement for disability benefits increases sharply, and by the end of the period outstrips SCP. Does the Scottish Government expect that this rate of growth in disability benefits will continue in the long term?
2. The Independent Review of ADP will raise expectations of increased spending. Given the challenging outlook for the spending review – what is the realistic prospect for making disability benefits more generous?

Impact of ‘flat cash’ allocations on child poverty

The spending review delivers ‘flat cash’ allocations for some of the portfolios that are relevant to tackling child poverty in particular education and local government. Tertiary education and skills funding can improve parents’ employment prospects. [Best Start Bright Futures](#), the child poverty delivery plan, has a strong emphasis on employability as a way of tackling child poverty. Local government delivers a number of policies linked to tackling child poverty.

Employability

Although the funding for ‘employability’ within ‘finance and economy’ is increasing substantially from 2024-25 (table 6), funding for tertiary education and skills is ‘flat cash’ (table 7).

Table 6: Allocations for employability

Finance and Economy	2022-23	2023-24	2024-25	2025-26	2026-27
	£m	£m	£m	£m	£m
Employability and Training	124	125	154	168	224

Bright Start, Bright Futures also referred to the contribution of student support and skills policy to tackling child poverty. For example:

- We will make child poverty a central pillar of our Lifetime Skills Offer
- enhance the total student support package so that it reaches the equivalent of the Living Wage

The allocations for tertiary education and skills are flat in cash terms.

Table 7: Education Portfolio: tertiary education and skills allocations

£millions	2022-23	2023-24	2024-25	2025-26	2026-27
Higher education and student support	349	349	349	349	349
Scottish Funding Council	1,502	1,501	1,501	1,501	1,501
Skills and Training	271	270	270	270	270

Local Government and child poverty

The local government allocations are flat in cash terms for four years.

Table 8: Local Government allocation

£m	2022-23	2023-24	2024-25	2025-26	2026-27
Local Government	10,616	10,616	10,616	10,616	10,716

Local government delivers many policies relevant to the child poverty delivery plan. For example,

- Early learning and childcare expansion
- Closing the attainment gap in school education
- Free school meals
- Contributing to local employability approaches

Kate Forbes explained to the Finance and Public Administration Committee how funding allocations took account of key commitments to tackle child poverty across all portfolios:

“Much of the spend for that [child poverty] is in the social security line, as members will see, but there is also much of it in the education line, which covers, for example, the roll-out of free school meals and early learning and childcare expansion. We have tried to ensure that the trajectory of spend in each portfolio matches the plans for the roll-out or expansion of particular initiatives. [...] We have tried to match the funding to the commitments that have been made which are specifically tied in with core objectives.” (Kate Forbes, Finance and Public Administration Committee, 7 June, Col 30).

The £10,616m set out for local government for 2022-23 corresponds to the following elements of the 2022-23 local government budget:

- General revenue grant (c.£7 billion)
- Non-domestic rates (c.£2.8 billion)
- Specific grants (c.£0.7 billion including £521m for Early Learning and Childcare Expansion and £120m Pupil Equity Fund).

- Additional money added at Stage 3 Budget (£120 million)

The £10.6 billion doesn't include grants to be added in from other portfolios. These additions came to £1.3 billion in 2022-23 and include, for example:

- Scottish Welfare Fund
- Discretionary Housing Payments
- School Clothing Grant
- Removal of music tuition and curriculum charges
- Support for the living wage
- SCP bridging payments
- Additional teachers and support staff

[COSLA has commented](#) on the spending review:

“COSLA has stated that the implications of the Scottish Government's spending plans for the rest of the parliament are deeply concerning for communities across Scotland and fail to recognise the fundamental role Local Government has in addressing the Government's own priorities of child poverty, climate change and a stronger economy.”

Members may wish to discuss:

- 3. How might the 'flat cash' allocations for skills and tertiary education impact on the ability of those sectors to improve parents' employment prospects?**
- 4. How does a flat local government allocation take into account the likely future costs of, for example, early learning and childcare expansion and free school meal expansion?**

Public Sector Reform

The Spending Review sets out high level proposals for the public sector. This includes:

“a pathway to return the overall size of the public sector workforce broadly to pre-COVID-19 pandemic levels, while supporting expansion in key areas of service delivery, helping to hold total pay bill costs - as opposed to pay levels - at 2022-23 levels”

And

“Fresh consideration of the public body landscape, with further engagement ahead of the next Budget about a programme of reform.”

Following engagements with stakeholders further details will be set out at the next Scottish budget.

Public bodies

Public bodies and executive agencies within the social justice and housing portfolio include:

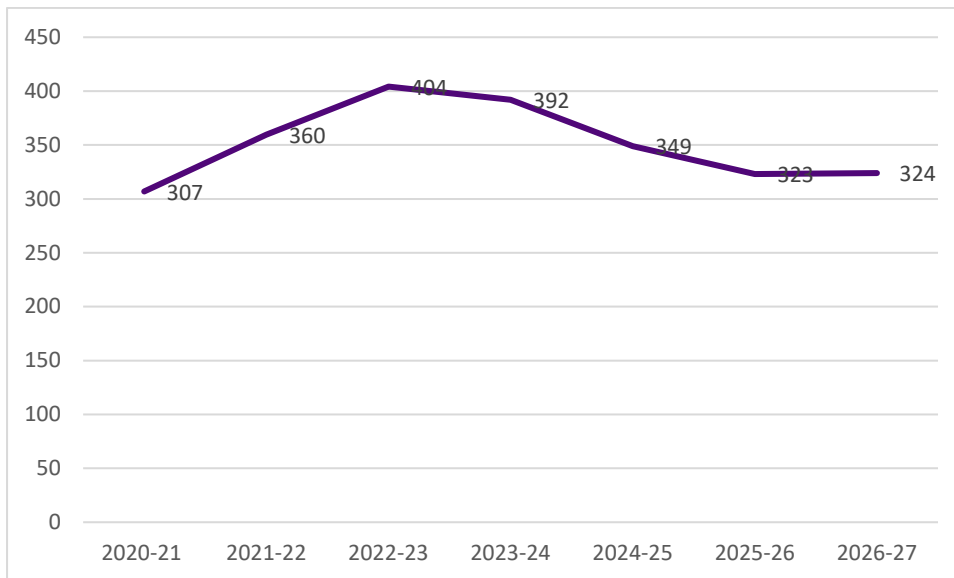
- Social Security Scotland – see below
- Scottish Housing Regulator - £3m flat allocation
- Office of the Scottish Charity Regulator - £5m flat allocation.

Social Security Scotland was created as an executive agency in late 2018 and [by March 2022](#) had 2,445 staff (2,376 FTE). The agency aims to employ '[more than 3,500](#)' by the end of this year. The Social Security Programme in the Scottish Government has also grown considerably to reflect the increased responsibility for social security.

The budget for administering and developing devolved social security reached £404m in 2022-23 (not including capital and 'non-cash'). The spending review shows that resourcing is due to fall over the next three years and stabilise in 2025-26 and 2026-27. It was always expected that the implementation and development costs for social security would start to come down as the agency reached 'steady state' and there was less development work required on new benefits. That said, Audit Scotland recently highlighted that the 'agile approach' meant that:

“It is likely that the need for development activity will last longer than the current expected lifespan of the implementation programme. Not all identified development options, whether system improvements or new features, will be delivered. Decisions will need to be taken about the costs and benefits of doing so. The Scottish Government will need to weigh up the investment needed for these against other priorities, such as delivering the proposed National Care Service.” ([Audit Scotland, Social Security: Progress on implementing the devolved benefits, May 2022](#))

Chart 3 below shows the combined advice, policy and programme and social security administration budgets up to 2022-23, and the allocations set out in the spending review to 2026-27.

Chart 3: Social security: administration, advice, policy and programme £m

Source: 2020-21 to 2022-23 from draft budget 2022-23 table 5.10. 'fiscal resource'. Figures for 2022-23 to 2026-27 from Spending Review allocation for "social security (excluding social security benefits)."

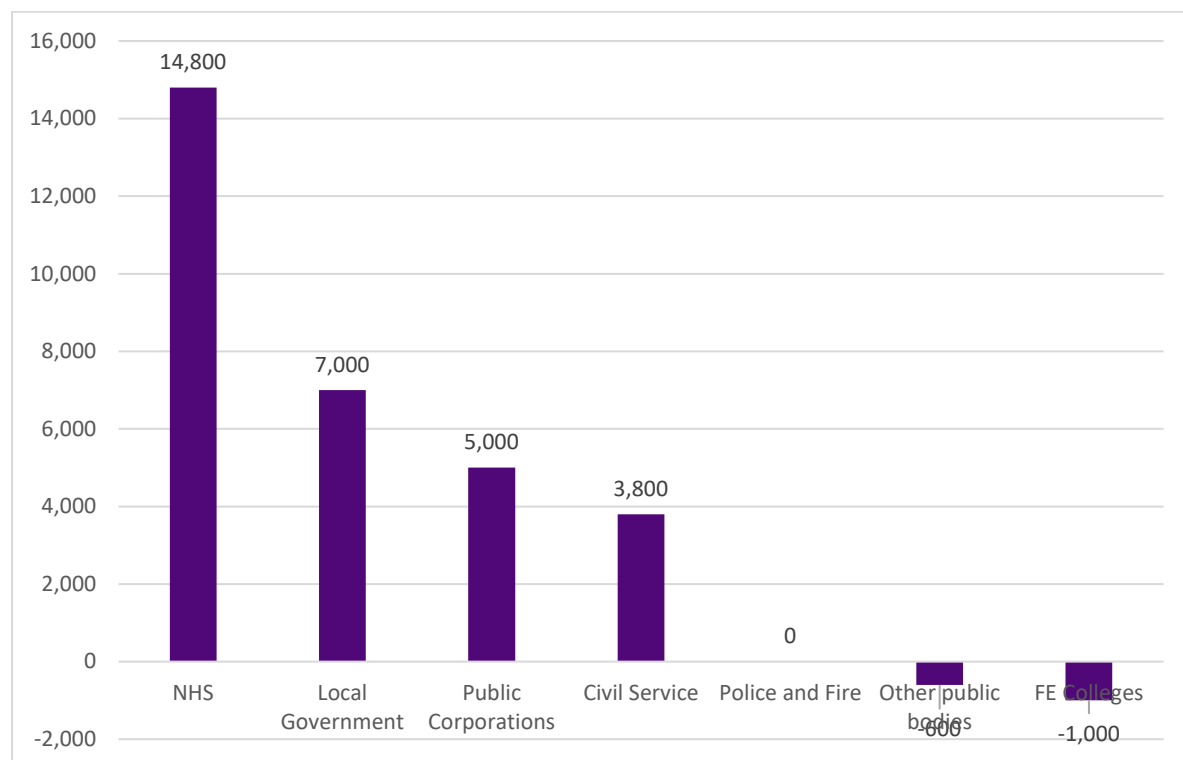
Public sector workforce

As at October 2021 the devolved public sector workforce comprises:

- 259,000 local government (including teachers)
- 180,700 NHS
- 28,100 police and fire
- 24,400 devolved civil service
- 15,300 other public bodies
- 13,200 further education
- 13,000 public corporations

Chart 4 below shows how, overall, the workforce has grown by around 30,000 people since 2019. Almost half that increase is in the NHS. Numbers employed in colleges and 'other public bodies' have decreased by 1,000 and 600 people respectively.

Chart 4: Devolved public sector workforce: change in headcount Q4 2019 to Q4 2021



Source: Scottish Government [Public sector employment in Scotland statistics quarter 4 2021](#).

Policy on the public sector workforce could impact on child poverty if it affects the number and type of employment opportunities available to parents.

Members may wish to discuss:

5. The administration and development budget for social security is due to reduce over the spending review period. How will that be achieved given the plans to both launch new benefits during this period and improve the efficiency of systems delivering existing benefits?
6. Social Security Scotland's workforce is expanding rapidly – with plans to reach over 3,500 this year. Is Social Security Scotland included in the proposals for reducing the size of the public sector workforce?
7. Has the Scottish Government considered whether reducing the size of the public sector workforce might impact on child poverty if it results in fewer employment opportunities?

Equality and Fairer Scotland Statement

The EFS sets out a 'framework' for how the impact of budget decisions can be assessed. For each of the nine opportunities and challenges it sets out:

- A description of the evidence (eg: “having paid work is not always enough to lift families out of poverty”)
- A description of relevant policies supported by the spending review. Eg Scottish Child Payment and enhanced employability for parents.

What it does not appear to do is consider the impact of prioritising certain policies or the extent to which those policies are effective in tackling the identified issues. In the context of a spending review where many budget lines are falling in real terms, the ‘efficiency’ of protected policies is an important consideration.

The Equality and Fairer Scotland budget statement due to be published alongside the 2023-24 budget will:

“set out progress on impact assessments related to the proposals outlined within the spending review. This will provide stakeholders with an opportunity for fuller scrutiny within the current financial year.” (EFS)

Members may wish to discuss:

- 8. The Spending Review presents difficult choices on budget allocations. In preparing the EFS statement, did analysts ask the question: “are there any Scottish Government policy choices that could have negative impacts”?**
- 9. Could the Scottish Government have gone further in the EFS statement by presenting, even in broad terms, how it has sought to minimise the impact of the real terms cuts it has had to propose across many portfolios?**
- 10. In addition to identifying the policies relevant to tackling child poverty has the Scottish Government analysed how well targeted each of those policies is?**

Camilla Kidner,
SPICe Research,
20 June 2022

Annex: Portfolio spending plans in cash and real terms

