

# Finance and Public Administration Committee

32<sup>nd</sup> Meeting, 2022 (Session 6), Tuesday 6  
December 2022

## Scrutiny of the Scottish Budget 2023-24: UK context

### Purpose

1. The Committee is invited to take evidence from David Phillips, Associate Director, and Ben Zaranko, Senior Research Economist, at the Institute for Fiscal Studies, on the UK Government Autumn Budget Statement 2022 and wider UK context, with a view to informing its scrutiny of the Scottish Budget 2023-24.

### Background

2. The Committee will take evidence on the Scottish Budget 2023-24 document, which is to be published on 15 December, at its meetings on 20 December 2022 and 10 January 2023, before reporting its findings in late January.

### UK context

#### UK Government's Autumn Budget Statement

3. In his [Autumn Budget Statement](#) on 17 November 2022, the Chancellor of the Exchequer, The Rt Hon Jeremy Hunt MP, set out the UK Government's priorities of stability, growth, and public services and its plan to ensure that national debt falls as a proportion of the economy over the medium term. This, he argued, would "reduce debt servicing costs and leave more money to invest in public services; support the Bank of England's action to control inflation, and give businesses the stability and confidence they need to invest and grow in the UK". He went on to state that "the government's approach to delivering fiscal sustainability is underpinned by fairness, with those on the highest incomes and making the highest profits paying a larger share".

4. To achieve these aims, the Chancellor announced that he would:

- reverse "nearly all the measures in the Growth Plan 2022", announced by the previous Chancellor on 23 September 2022,
- maintain income tax, national insurance, and inheritance tax at current thresholds until April 2028,
- reduce the income tax additional rate threshold from £150,000 to £125,140, increasing taxes for those on higher incomes (not applicable to Scotland),
- raise corporation tax to 25% from April 2023,

- increase the minimum wage for people over 23 from £9.50 to £10.42 an hour from April 2023,
- increase state pension payments and means-tested disability benefits by 10.1%, in line with inflation,
- reduce tax-free allowances for dividend and capital gains tax in 2023 and 2024,
- scale back the household energy price cap. This will now be in place for one year beyond April 2023, with typical bills capped at £3,000 a year rather than £2,500 as announced by the previous Prime Minister,<sup>1</sup>
- increase windfall tax on profits of oil and gas firms from 25% to 35% until March 2028 and introduce a temporary Electricity Generator Levy at 45% from January 2023, and
- increase spending in England on the NHS and schools, which he stated were the UK Government's priority for public spending. This has an impact on devolved budgets.

5. The Chancellor explained that “by taking difficult decisions on tax and spending, the Autumn Statement sets out a clear and credible path to get debt falling and deliver the economic stability needed to support long-term prosperity”.

6. The Autumn Statement did not reverse all the measures in the former Chancellor's Growth Plan 2022. The reversal of the increase in national insurance contributions rates and cancellation of the health and social care levy has already been legislated for, and cuts to stamp duty land tax were introduced immediately after they were announced on 23 September. The [Chancellor intends to proceed with the abolition of the cap on bankers' bonuses](#) and [the Office for Tax Simplification confirmed on 17 November that it will formally close when the next Finance Bill received Royal Assent](#).<sup>2</sup>

## Office for Budget Responsibility Forecasts

7. The Autumn Statement was accompanied and informed by the [Office for Budget Responsibility \(OBR\) Economic and Fiscal Outlook – November 2022](#). In the [OBR Chair's presentation on the November Outlook on 17 November](#), Richard Hughes, noted that:

- rising energy prices, inflation, and interest rates have “taken the wind out of a UK economy which had not quite regained its pre-pandemic level”, and tipped it into a recession expected to last just over a year from the last quarter of this year,
- inflation is expected to peak at 11% in the last quarter 2022, driven in particular by higher global energy and food prices. It is expected to fall back sharply over the course of next year, moving into negative territory in the middle of the decade, before returning to its 2% target by the end of the forecast period,

<sup>1</sup> Commentary on the impact of the UK Government's revised plans in relation to the Energy Price Guarantee can be found in the FAI blog: [Energy Price Guarantee is now less generous but will play a role in fighting inflation](#).

<sup>2</sup> These announcements were made by the former Chancellor.

- unemployment is expected to rise from 3.6% to 4.9% in 2024.
- the UK will experience a fall in living standards by a record 7% over the next two years. The OBR expects real incomes in 2027-28 to be 1% below their pre-pandemic peak of three years ago.
- the share of government resources consumed by the cost of servicing debt is at its “highest level in a generation”, leaving the UK’s public finances “more sensitive to movements in interest rates than they have been for decades”, and
- the government is “giving itself five years to hit debt and spending targets, instead of the current time of three years”.

8. While the OBR notes that this economic position is largely due to external influences, it also suggests that “fiscal policy here at home has also been a key source of uncertainty since March”, when the OBR’s previous forecasts were published. Mr Hughes argued that “the past six months have witnessed a series of dramatic swings in the direction of fiscal policy with five major fiscal statements delivered by three successive governments”, adding that, “taken together, and including their indirect effects via the economy, the net impact of this series of announcements and reversals has been to add over £40 billion of borrowing by 2027-28”.

## Block Grant Adjustments

9. The OBR also published on 17 November [Devolved Taxes and Spending Forecasts - November 2022](#), which the UK, Scottish and Welsh Governments use as part of their agreed block grant funding mechanisms.

10. The Deputy First Minister wrote to the Committee on 29 November setting out the Block Grant Adjustments (BGAs) for the Scottish Budget 2023-24 as informed by the OBR’s November forecasts. This letter is attached as an Annexe to this paper and includes the BGAs for income tax, land and buildings transaction tax, Scottish landfill tax, and devolved social security benefits. Current forecasts are showing a BGA for 2023-24 of -£11,741m. This comprises a negative BGA for devolved taxes of -£16,101 million and a positive BGA for devolved social security of £4,360 million. However, the Deputy First Minister explains that “the full impact on Scotland’s Budget will not be known until the SFC publish their final forecasts in December”. The forecasts will show whether the SFC expects tax receipts and social security spending to be higher or lower than the BGAs in 2023-24.

11. The updated position currently shows a positive reconciliation of £42 million to be added to the 2022-23 Budget in year. However, the Deputy First Minister explains that this is only one side of the equation and “as things stand, the net impact on the financial position for 2022-23 is ... expected to be nil” after “adjustments expected to equivalent forecasts for fully devolved Scottish taxes and social security payments [and] changes to resource borrowing capacity (to offset forecast errors)”. He states that “a more complete picture of the net budget position will be available on receipt of final SFC revenue forecasts to be published alongside the 2023-24 Scottish Budget”, and that “the forecast position will continue to evolve between now and the end of the year”.

## Commentary on the UK Autumn Statement and wider context

12. In a [presentation providing early analysis on the Autumn Statement](#) on 18 November, Paul Johnson, Director of the Institute for Fiscal Studies, suggested that, “in sum, this is a Chancellor erring on the side of caution in terms of protecting spending and the economy in the short run, rather than erring on the side of prioritising shoring up the public finances”. He suggests that borrowing will take the strain in the near-term, with “the great majority of the planned consolidation ... due only after the next election”, adding “what we are really doing is reaping the costs of a long-term failure to grow the economy, the effects of population ageing, and high levels of past borrowing”. He concludes, by saying “we are in for a long, hard, unpleasant journey; a journey that has been made more arduous than might have been by a series of economic own goals”.

13. The Fraser of Allander Institute (FAI) published its [first thoughts on the Autumn Statement and the implications for Scotland](#) on 17 November, noting that the measures in the Statement “are not enough to offset the grimmest outlook for living standards on record”. Its analysis indicates that, if the Scottish Government was to follow the UK Government’s policy of reducing the threshold for the Additional Rate of Income Tax to £125,140 in Scotland, this “would bring up to as many as 12,000 additional Scottish taxpayers into the ‘top rate’ in 2023-24, up from 22,000 currently, and raising around £40m in revenue for the Scottish Budget”. However, the FAI suggests that, even if the Scottish Government did decide to follow suit, “Scotland is still likely to face a negative net tax position due to this change, as the deduction off the block grant is likely to be larger than additional revenues given the higher earnings in Scotland”. Increased departmental spending in devolved areas, including health and social care and schools in England, will lead to Barnett consequentials for the Scottish Government, though there are questions around whether they will fully offset the effect of higher inflation in years 2023-24 and 2024-25. In their [podcast on 18 November](#), David Eiser and Mairi Spowage from the FAI discuss this issue in more detail, explaining that, while it is “good news budgets are being topped up”, this “only just” offsets the impact of inflation (using usual measures for calculating inflation). However, “if inflation is measured in a slightly different way”, the Scottish Government’s resource spending budget is “a bit less than it thought it would be” during its Spending Review in May 2022.

14. [The SPICe blog on the UK Autumn Budget 2022 – Winter is Coming](#) also explores this point, highlighting the HM Treasury view that the Scottish Government will receive an additional £1.5bn over the next two financial years (2023-24 and 2024-25)<sup>3</sup>, the Deputy First Minister’s view that “inflation is eating away at the Scottish Budget”. The Deputy First Minister in a press statement responding to the Autumn Statement goes on to note that he is faced with “the difficult task of setting Scotland’s Budget for 2023-24 with no hope of financial flexibility to make a real difference in the lives of those who need it most”. He also makes the point that, “due to the lack of additional funding in 2022-23 and the financial restrictions of devolution, we have had no choice but to make savings of more than £1 billion”.<sup>4</sup> These savings have been used to fund increased pay offers for the public sector to

<sup>3</sup> [Autumn Statement 2022 HTML - GOV.UK \(www.gov.uk\)](#)

<sup>4</sup> [Households ‘paying a steep price for UK economic mismanagement’ - gov.scot \(www.gov.scot\)](#)

reflect inflation rises, as well as increased support for individuals and businesses during the cost-of-living crisis.<sup>5</sup> These fiscal challenges continue as the Scottish Government's prepares for its Budget for 2023-24.

15. The [Institute for Public Policy Research Scotland published a briefing on Funding Social Renewal](#) in November setting out the following steps that could be taken to increase public revenue in Scotland in the year ahead:

- “matching the UK Government’s decision to reduce the top tax rate threshold to £125,140 and freezing remaining thresholds, raising £400m.
- protecting lower earning individuals by increasing the basic and intermediate rate thresholds by inflation would reduce this overall revenue by just £20m,
- every half percentage point increase on the higher and top rates of income tax – or two-percentage point increase on the top rate only – would raise an extra £100 million, and
- a ‘progressive’ increase in council tax rates (i.e. higher increases for higher bands) while still protecting against rising inflation could bring in around £40m”.

16. It further calls on the Scottish Government to commit to: (a) “a root and branch review of the tax system ahead of the 2024-25 Scottish budget to examine reforms to rates and bands, and how local tax raising powers could be used to address wealth inequality in Scotland and (b) replacing council tax and non-domestic rates with a new, fairer system that is either property or land value based”. It argues that its “modelling shows how, even with ‘progressive’ increases across bands, the current system remains highly regressive”.

## Next steps

17. The Committee will take evidence from the Office for Budget Responsibility in relation to the UK context to the Scottish Budget 2022-23 at its next meeting on 13 December.

Committee Clerking Team  
December 2022

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<sup>5</sup> The Deputy First Minister wrote to the Committee first on [7 September 2022](#) and again on [7 November 2022](#) setting out identified savings for 2022-23 and which areas these would now fund.

## Letter from Deputy First Minister and Cabinet Secretary for Covid Recovery to the Committee dated 29 November 2022

Dear Kenneth,

The Office for Budget Responsibility (OBR) published updated UK Government tax revenue and social security expenditure forecasts on 17 November. These forecasts inform the Block Grant Adjustments (BGAs) for the Scottish Budget 2023-24. Table A in the annex to this letter sets out the BGAs for Income Tax, Land and Buildings Transaction Tax (LBTT), Scottish Landfill Tax (SLfT), and the devolved Social Security benefits.

The full impact on Scotland's Budget will not be known until the SFC publish their final forecasts in December.

As the 2022-23 BGAs for the Fully Devolved Taxes and Social Security benefits have been updated to reflect the latest forecasts of corresponding tax receipts and social security expenditure in the rest of the UK, we have calculated the in-year reconciliations required to the 2022-23 Scottish Budget, as outlined at Table B in the Annex. Although a positive reconciliation of £42 million will be added to the 2022-23 Block Grant, this is only one side of the equation. Adjustments expected to the equivalent forecasts for fully devolved Scottish Taxes and Social Security payments, along with changes to resource borrowing capacity (to offset forecast errors) effectively negate any positive impact. As things stand, the net impact on the financial position for 2022-23 is therefore expected to be nil. A more complete picture of the net budget position will be available on receipt of final SFC revenue forecasts to be published alongside the 2023-24 Scottish Budget. The forecast position will continue to evolve between now and the end of the year.

The final reconciliation applying to the 2023-24 Scottish Budget relating to previous years' outturn will be finalised once outturn mid-year population data for 2021 is published by the ONS. I will update the Committee when the data is available.

I hope you have found this update helpful, and my officials would be happy to provide any further information on the BGAs to Committee Members, as required.

John Swinney

## ANNEX A

Table A: Block Grant Adjustments - OBR forecasts  
November 2022 (£m)

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
<b>Income Tax</b>	-13,594	-14,681	-15,485	-15,932	-16,455	-17,179	-18,105
<b>LBTT</b>	-642	-717	-517	-509	-604	-735	-830
<b>SLfT</b>	-102	-103	-99	-93	-87	-92	-94
<b>Total Tax</b>	-14,338	-15,501	-16,101	-16,535	-17,146	-18,006	-19,028

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
<b>AA<sup>4</sup></b>	517	545	621	679	700	716	735
<b>PIP</b>	1,738	2,024	2,481	2,808	3,009	3,221	3,457
<b>DLA</b>	707	732	802	851	842	828	830
<b>CA</b>	294	315	365	396	410	434	454
<b>IIDS</b>	81	78	82	84	80	76	73
<b>SDA</b>	7	6	6	5	4	4	3
<b>CWP</b>	N/A	3	3	3	3	3	3
<b>TOTAL SS</b>	3,343	3,703	4,360	4,825	5,048	5,283	5,556

indicates outturn data

All BGAs are calculated using the IPC method

Figures may not sum due to rounding

Table B In-year reconciliations to the 2022-23 Budget

	2022-23 BGAs set at 2022-23 Scottish Budget in January (£m)	2022-23 BGAs based on OBR November 17 forecast (£m)	Change in the forecast BGA from Scottish Budget (£m)
LBTT	-664	-717	-53
SLfT	-82	-103	-21
Social Security Benefits with a BGA*	+3,587	+3,703	+116
<b>Total</b>	<b>+2,841</b>	<b>+2,883</b>	<b>+42</b>

\* CA, DLA, PIP, IIDS, SDA, AA and CWP