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Social Justice and Social Security Committee

**36th Meeting, 2022 (Session 6), Thursday,
22 December**

Social Security spending forecasts

Introduction

The Committee will hear from the Scottish Fiscal Commission on their forecasts for social security spending. The Committee will hear from:

- **Professor Graeme Roy**, Chair, Scottish Fiscal Commission
- **Professor David Ulph**, Commissioner, Scottish Fiscal Commission
- **Michael Davidson**, Head of Social Security and Public Funding, Scottish Fiscal Commission

The Scottish Fiscal Commission (SFC) published new [spending forecasts on 15 December](#). These set out the forecast spend on devolved social security benefits. They do not forecast the administration. These figures are used to set the Scottish Government social security budget, also published on 15 December.

Overview

The SFC forecast that social security spending will increase from £5.2 billion in 2023-24 to £7.3 billion by 2027-28. Table 1 shows forecast spend by individual benefit in 2023-24 and 2027-28. It shows £2 billion spending on benefits administered by Social Security Scotland in 2023-24 growing to £7 billion by 2027-28 as DWP benefits are converted.

Table 1: Social Security spending 2023-24 and 2027-28

£ million	2023-24	2027-28
Social Security Scotland:		
Adult Disability Payment	1,191	4,116
Scottish Child Payment	442	457
Child Disability Payment	328	427
Carer's Allowance Supplement	50	66
Winter Heating Payment	24	24
Best Start Grant	20	19
Best Start Foods	17	20
Funeral Support Payment	12	14
Child Winter Heating Assistance	5	5
<i>Payments yet to start</i>		
Pension Age Disability Payment	n/a	802
Scottish Carer's Assistance	n/a	589
Scottish Adult Disability Living Allowance	n/a	294
Pension Age Winter Heating Payment	n/a	185
Employment Injury Assistance	n/a	81
Total Social Security Scotland	2,088	7,098
Department of Work and Pensions		
Personal Independence Payment	1,498	n/a
Attendance Allowance	614	n/a
adult Disability Living Allowance	438	n/a
Carer's Allowance	372	n/a
Industrial Injuries Disablement Benefit	84	n/a
Severe Disablement Allowance	6	4
Total DWP	3,012	4
Local Authorities		
Discretionary Housing Payments	84	105
Scottish Welfare Fund	36	36
Total Local authorities	119	140
Employability Services		
Employability Services (includes replacement for Fair Start Scotland)	25	25
Total spending	5,244	7,267

A big change in 2023-24 is the large increase in spending administered directly by Social Security Scotland – up from £0.6 billion in 2022-23 to a forecast £2.1 billion in 2023-24. This is mainly due to the extension to the Scottish Child Payment and the transfer of clients onto Adult Disability Payment and Child Disability Payment.

How forecasts have changed

The chart below shows how successive social security forecasts have been revised upwards.

Chart 1: How forecasts for devolved social security have changed

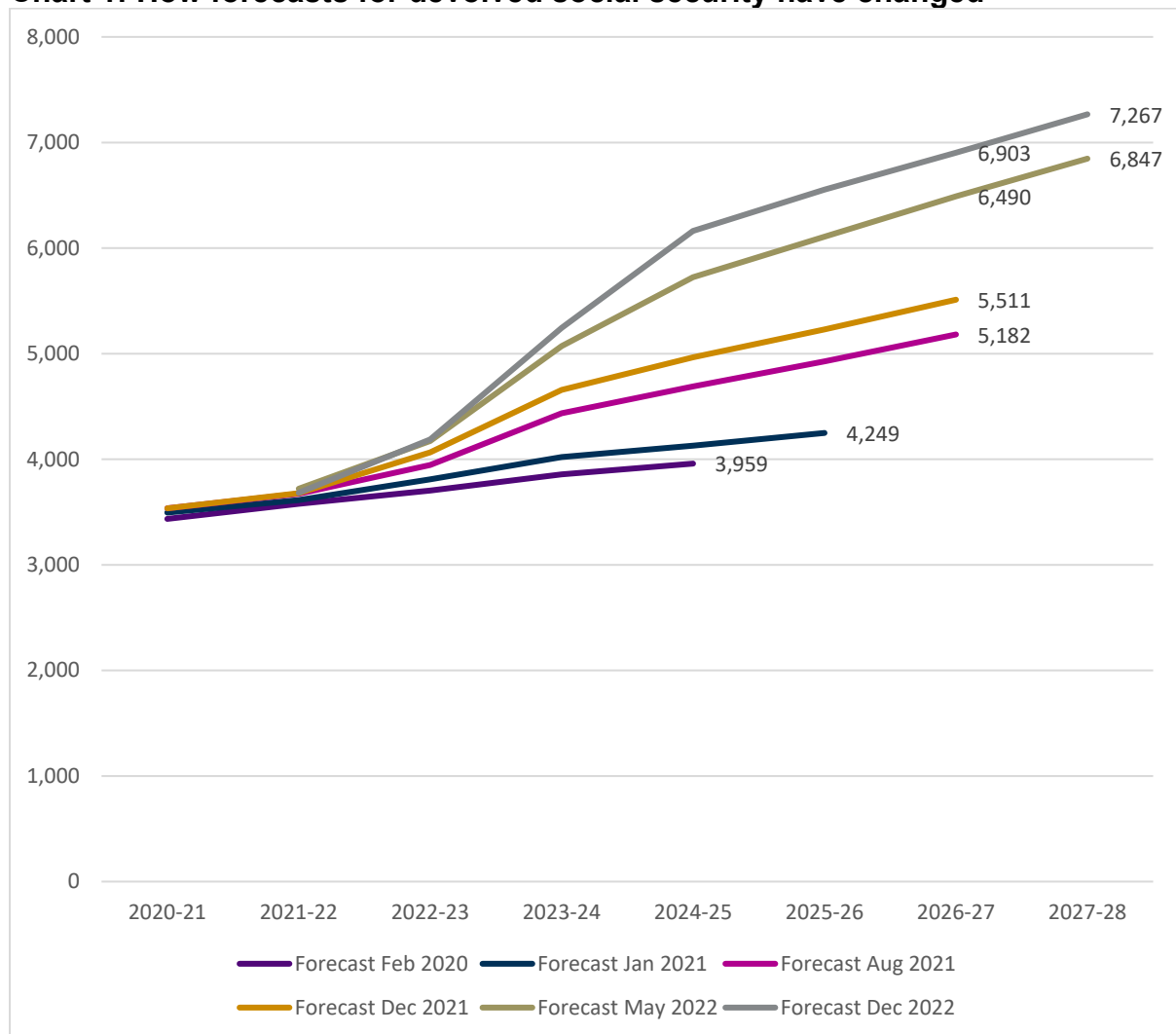


Table 2: Change in forecast spend

£ million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Forecast Feb 2020	3,435	3,578	3,704	3,857	3,959			
Forecast Jan 2021	3,495	3,614	3,810	4,020	4,129	4,249		
Forecast Aug 2021	3,535	3,672	3,945	4,436	4,689	4,927	5,182	
Forecast Dec 2021	3,535	3,679	4,065	4,657	4,966	5,230	5,511	
Forecast May 2022		3,720	4,173	5,072	5,725	6,108	6,490	6,847
Forecast Dec 2022		3,682	4,187	5,244	6,163	6,554	6,903	7,267

Source: Scottish Fiscal Commission forecasts since February 2020.

Changes since December 2021 forecast

Last December the SFC forecast that social security spending would be £5.5 billion in 2026-27. It now considers that spending will be £6.9 billion that year, rising to £7.3 billion in 2027-28. The major factors leading to a higher forecast are:

- **Higher inflation** – adding £352million in 2026-27. The Committee discussed this in June, but inflation has continued to rise.
- **Future policy** - Indicative forecasts of the extra cost of future policy (such as devolution of Winter Fuel Payment) – adding £345m in 2026-27.
- **Child Poverty Delivery Plan** – included an additional £75m from increasing SCP to £25, further benefit cap mitigation, plans to remove the Best Start Foods income threshold and introduce further automation to Best Start Grant. The Committee discussed this with the SFC in June.
- **More awards for disability benefits** – a UK wide trend, adding £186 million to devolved benefit spending in 2026-27

Previous Committee Consideration

The Committee last heard from the SFC on [9 June](#) on their May forecasts. At that meeting the [key issues discussed](#) included:

- Social security will account for a growing proportion of the Scottish budget – 14% in 2026-27.
- The uncertain economic outlook, including the risk that inflation might become entrenched. At that point they expected 7.5% benefit uprating in April 2023. In fact it will be 10.1%.
- The indicative forecasts for the cost of replacing the remaining benefits such as Scottish Carer's Assistance. As neither policy nor timetables are yet finalised these remain highly uncertain.
- The large scale of ADP and how Scottish Government policy means the cost of this benefit is likely to continue to rise.
- Data needs for forecasting – particularly Child Disability Payment – and the iterative process of improving forecasts as data becomes available for each benefit
- The spending review providing a baseline for considering priorities

Suggested themes for discussion

The following five themes are suggested:

1. Inflation and uprating
2. Increased demand for disability benefits
3. The 'Funding Gap'
4. Forecast accuracy and data needs
5. Economic outlook

THEME 1: Inflation and uprating policy

The SFC has set out how inflation is a major factor driving up benefit spending. Most benefits increase in April by the rate of Consumer Price Index Inflation in the previous September.

Last December the SFC forecast uprating of 3.9% in April 2023 and 2.4% in April 2024. In fact, benefits will be uprated by 10.1% in April 2023.

SFC now expect inflation to fall rapidly in 2023. As a result they expect that benefits will be uprated by 6.9% in April 2024 and not uprated at all in the subsequent two years.

Uprating and 2023-24 budget

Uprating decisions since December 2021 have added £273 million to social security spending in 2023-24 (SFC forecast fig 5.4). However, because benefits in the UK

are also uprated, much of this is covered by the Block Grant Adjustment. Scottish Government policy on uprating cost:

- £3 million to uprate by 6.1% instead of 3% in April 2022
- £6 million to uprate by 10.1% in April 2023 (Refers to cost of uprating those benefits, such as Best Start Grant, where there is no legal requirement to do so).

Longer term trends

Uprating decisions become 'baked in' to social security costs – as the increase one year becomes the baseline for increases the next year. Longer term, the SFC has forecast that uprating will add £1.1 billion to the cost of social security by 2026-27.

Again, much of this is covered by block grant adjustments.

Uprating is forecast to add £185 million to spending above what is received in Block Grant Adjustments. This covers the cost of uprating 'Scotland only' payments as well as additional spend on replacements for DWP benefits (SFC para 5.61, fig 5.10).

Members may wish to discuss:

- 1. Considering that much of the cost of uprating is included in the Block Grant Adjustment - to what extent does inflation create a risk to the Scottish Budget?**
- 2. Is this level of risk likely to change over time as more devolved benefits become subject to Scottish Government policy?**
- 3. What is the current level of uncertainty in inflation forecasts?**

THEME 2: Increasing demand for disability benefits

There have been increasing awards of disability benefits across the UK. In Scotland, the SFC have forecast that this will increase social security spending by £186 million by 2026-27. They say:

“we assume that the increasing NHS waiting list for diagnoses and treatment, the increasing number of people economically inactive because of long-term sickness, and the financial pressures because of the current cost of living crisis will sustain a higher demand for the payment.” (summary para 36)

This trend has been noted by others. The Office For Budget Responsibility forecast in November that they expect the number of PIP claims to continue to increase and for claims to be of longer duration. They note increases in both older and younger claimants, saying:

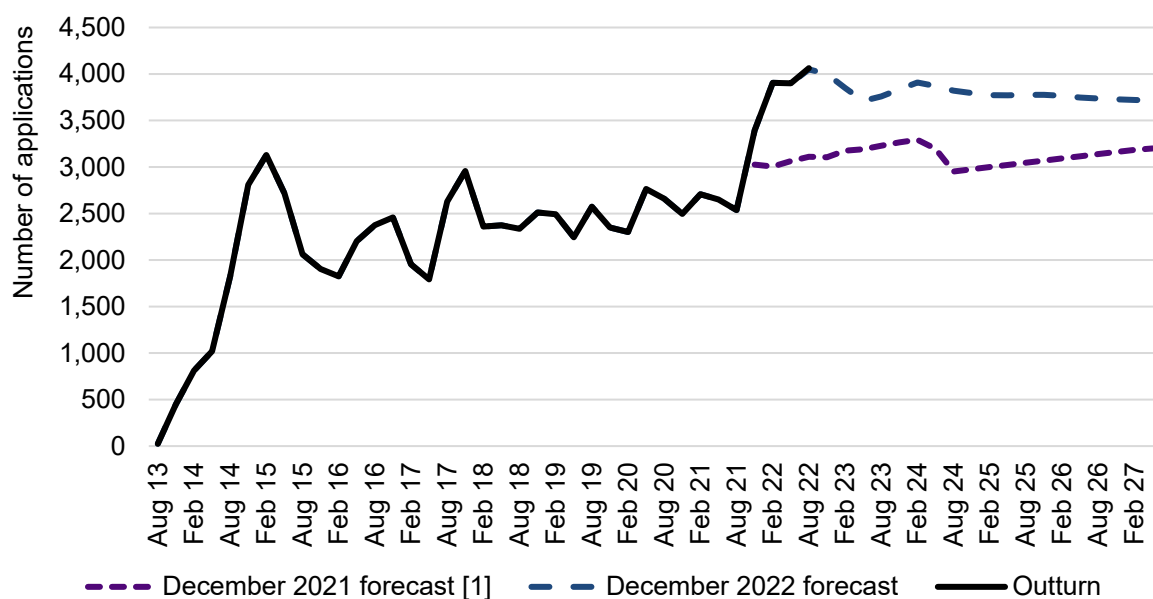
“It is possible that these trends among both age groups could be linked to the rising waiting lists for NHS elective treatments and for mental health treatments in the aftermath of the pandemic.” ([OBR supplementary release November 2022](#))

The Institute of Fiscal Studies looked at the increasing number of PIP claims in England and Wales, saying that:

“The spike in new PIP awards simply driven by more people in ill health and making claims.” [...] Consistent with that interpretation, survey data on the working-age population as a whole show that health has been getting worse, with 9.6% (4.0 million) now reporting that their health limits their daily activities “a lot”, up from 8.5% (3.5 million) at the start of 2021.” ([IFS report R233, December 2022](#))

The chart below shows how the number of successful PIP applications in 2021-22 was above the level forecast.

Chart 2: Successful applications to PIP and ADP baseline forecast



Source: *Scottish Fiscal Commission fig 5.5*

The SFC had already forecast that a different policy approach in Scotland would result in higher spending on ADP compared to PIP. Rather than increasing this gap further, they:

“assume that the increase in the current demand for disability payments across the UK will dampen the growth in the additional number of applications received for ADP relative to our previous forecasts.” (SFC forecast para 5.23)

Members may wish to discuss;

4. What might be causing the increasing applications for disability benefits – are there similar trends in Scotland as in the rest of the UK?
5. How does this change your estimate of how much more ADP will cost compared to continuing with PIP?
6. Do you expect to see similar patterns in other disability benefits?

THEME 3: The funding gap and Scottish Government policy

By 2027-28 the Scottish Government is expected to be spending £1.4billion more on social security than it receives in Block Grant Adjustment from the UK Government. It is this 'funding gap' rather than the total amount of social security spending which puts pressure on other areas of the Scottish budget.

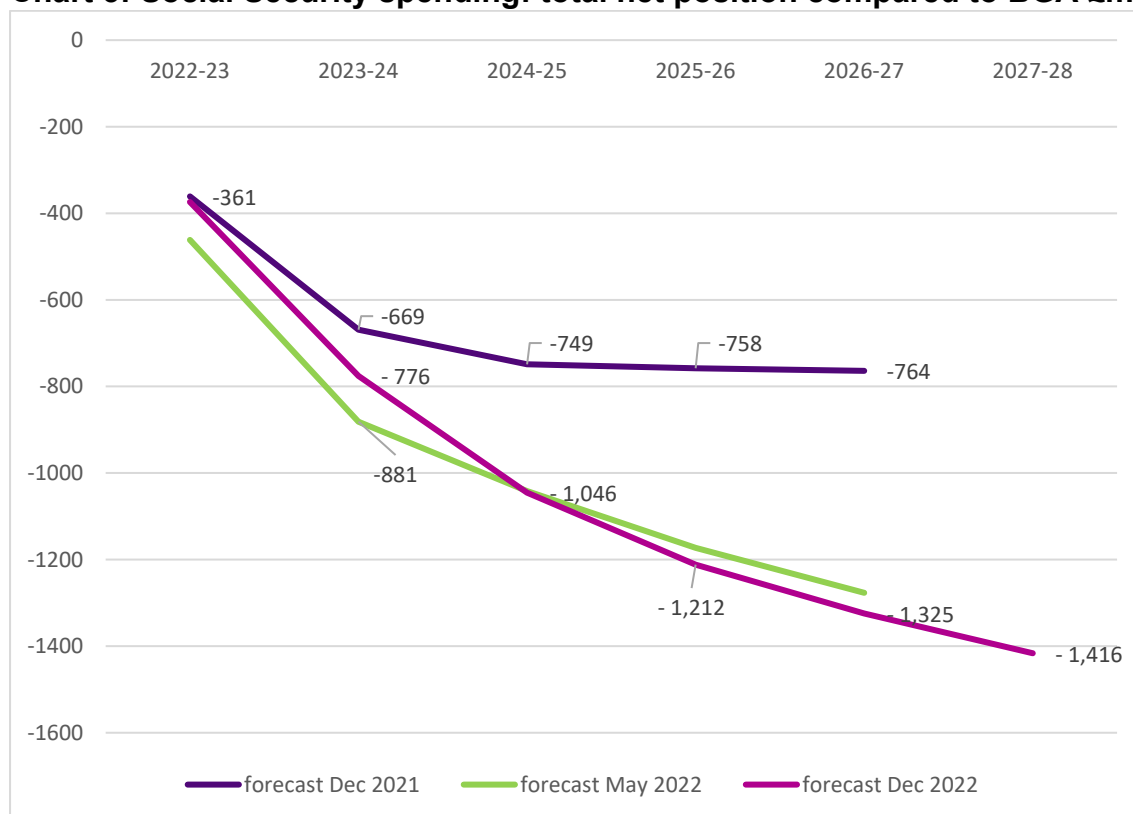
Funding Gap in 2023-24

The 'gap' for 2023-24 is £776m. While this is a significant amount, it is less than they had expected. In May the funding gap for 2023-24 had been forecast as £881m.

Funding Gap in future years

The 'gap' for subsequent years continues along much the same trajectory as had been expected in May, reaching £1 billion in 2024-25 and £1.4 billion in 2027-28.

The chart below shows how forecasts for this 'net position' have changed.

Chart 3: Social Security spending: total net position compared to BGA £m

Source: SFC December 2021 fig 6, May 2022 fig 5.14, December 2022 fig 5.8

Table 3 below shows how that 'funding gap' is split between additional spend on benefits which have a DWP equivalent and the full cost of those benefits that are unique to Scotland.

Table 3: Social security net BGA position, new payments and other payments

Benefit	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Net position for those payments with a BGA	- 11	- 194	- 422	- 589	- 696	- 782
Payments unique to Scotland	- 363	- 582	- 624	- 623	- 629	- 634
Total	- 374	- 776	- 1,046	- 1,212	- 1,325	- 1,416

Source: Scottish Fiscal Commission. Figures are negative as they represent required spending above the amount received in BGA. **Notes: BGA includes** Adult Disability Payment, Child Disability Payment, Attendance Allowance, Carer's Allowance, Industrial Injuries Disablement Scheme, Low Income Winter Heating Assistance and Severe Disablement Allowance. **Payments unique to Scotland includes:** Carer's Allowance Supplement, Scottish Child Payment, Child Winter Heating Assistance, Best Start Grant Early Learning Payment and Best Start Grant School Age Payment and spending on bedroom tax mitigation through Discretionary Housing Payments. The table does not include Job Start Payment, Young Carer Grant, BSG pregnancy and baby payment, Funeral Support Payment, Best Start Foods, Other DHPs or Scottish Welfare Fund

Most of this additional spending is because of the Scottish Child Payment and the additional spending on Adult Disability Payment compared to PIP as illustrated in chart 3 and table 4 below.

Chart 4: 'Funding gap' by benefit, £m

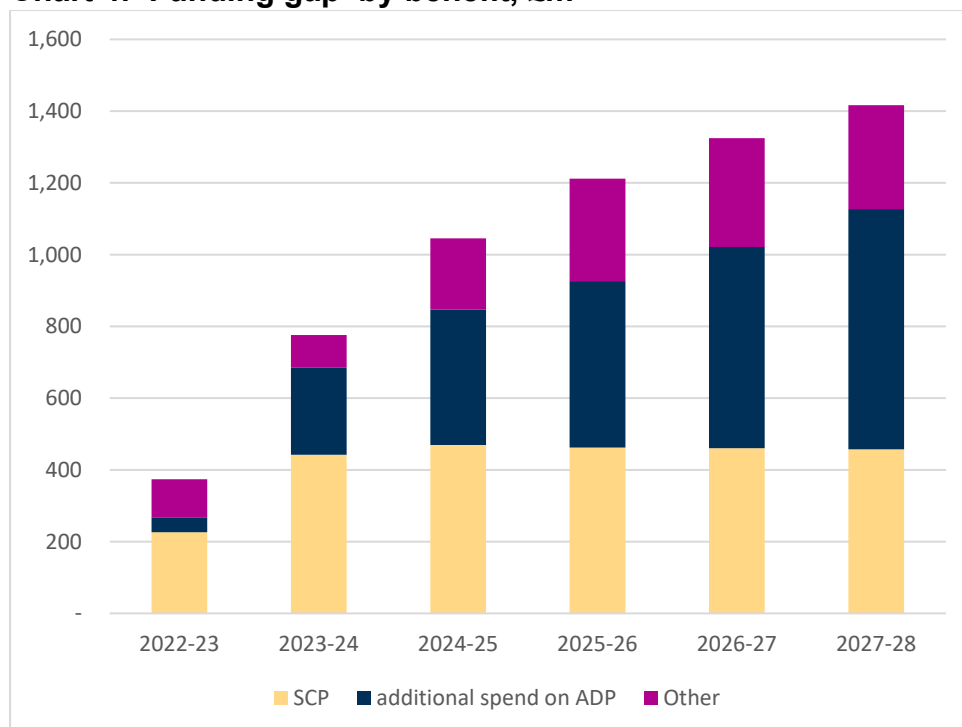


Table 4: 'Funding gap' by benefit

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
SCP	226	442	469	462	460	457
additional spend on ADP	40	244	378	464	561	670
Other	108	90	198	285	303	289
total	374	776	1,046	1,212	1,325	1,416

Source: Scottish Fiscal Commission fig 5.8, fig 5.9, fig S5.2

Members may wish to discuss:

7. The funding gap for 2023-24 is smaller than was forecast in May. (£776m rather than £881m) Why is that? To what extent might this relieve pressure on the 2023-24 Scottish budget?
8. Longer term the funding gap is large – reaching £1.4 billion by 2027-28. How uncertain is this figure?
9. To what extent is the 'funding gap' a consequence of Scottish Government policy decisions?

THEME 4: Forecast accuracy and data needs

SFC forecasts are used to set the Scottish social security budget, so their accuracy is crucial to effective budget management. It is particularly important when budgets are tight and relatively small errors – either positive or negative – could impact on decisions for other areas of the budget.

2021-22: Forecast error

Based on provisional accounts the SFC had initially found a forecast error of 4% for 2021-22. Once Social Security Scotland’s accounts were audited, the actual error reduced to 2% (£64 million). The revised forecast evaluation is available [here](#).

The SFC explains the two main factors causing the error:

“The overall error of £64 million can be attributed to two external one-off factors, in the higher spending on the Self-Isolation Support Grant and the in-year policy change doubling the December 2021 payment of Carer’s Allowance Supplement.”

The 2021-22 budget was forecast in January 2021, and outturn figures were only available in autumn 2022. Over the intervening period the forecast for 2021-22 was revised several times. SFC note that:

“when compared against the audited outturn, our later forecasts in 2021 were very close to outturn, but that by May 2022 our forecast was slightly too high, by around 1 per cent.”

Table 5: Forecasts for 2021-22 devolved social security compared to outturn

Forecast for 2021-22	Forecast (£ million)	Error (£ million)	Relative Error (%)
January 2021	3,618	64	2
August 2021	3,672	10	0
December 2021	3,679	3	0
May 2022	3,720	-38	-1

Source: Scottish Fiscal Commission

Uncertainty

Uncertainty in forecasts increase the chances of error. The SFC state that:

“One of the main areas of uncertainty is the effect of operational and policy changes as the Scottish Government introduces new payments and its replacement payments for those devolved from the UK Government. The uncertainty attached to the implementation of new policies and approaches for complex demand-led payments and the behavioural response to these will

continue to be a feature of our forecasts until we have multiple years' worth of outturn data available" (SFC December 2022 para 5.8).

In May the SFC published 'indicative forecasts' for those replacement benefits. They update them in these new forecasts noting that:

"These forecasts have greater uncertainty than other parts of our forecast as the key policy details, for example on launch dates, are yet to be confirmed." (SFC December 2022 forecast para 5.41).

In total, these 'indicative forecasts' add £361 million to social security spending by 2027-28 (SFC fig 5.7). A large proportion of this (£185 million) relates to Pension Age Winter Heating Payment which will have a Block Grant Adjustment and so is not an extra cost to the Scottish Government.

Data needs

Another aspect of forecast accuracy is having access to the required data. This Committee has discussed SFC's data needs previously and written to the Scottish Government on the matter. In a letter to this Committee on 15 December, Professor Graeme Roy updated the Committee on progress. He stated that:

"lack of detailed data means that we have not been able to refine our forecast in the way we would like."

However, work is underway to produce the required data in time for the next forecast:

"officials have confirmed to us that work is in progress and that data on both Adult and Child Disability Payments should be available by next March in order to allow us to incorporate in our forecasts."

There is an additional data issue for CDP. The sex/gender of a child is collected through the, voluntary, equalities monitoring form rather than through the application form. This means SFC do not have reliable data on sex/gender. While management information is expected in February 2023, there is no timeline for the publication of new data from the equalities forms.

Members may wish to discuss:

- 10. The forecast error for 2022-23 was 2% - down from the 4% initially calculated. Can you explain why the error was less than you first thought?**
- 11. To what extent have you had to make assumptions about future government policy in developing your 'indicative' forecasts? What impact do you think this is having on the potential for forecast error?**
- 12. Uncertainty increases the further forward you look. How would you describe the level of certainty in each year going forward to 2027-28?**

- 13. What impact has lack of data had on your forecasts?**
- 14. Are you now re-assured that you will have the data you need for your next forecast?**
- 15. From 2023-24 Social Security Scotland is administering a substantial proportion of devolved social security spending. Does the shift from DWP to Social Security Scotland impact on your ability to forecast future spend accurately?**

THEME 5: Economic outlook

The SFC's economic outlook is relevant to this Committee's broader remit for social justice. In their letter to this Committee they set out that:

“over this year and next Scottish households will see the biggest fall in their real disposable income since records began in 1998. Even once inflation returns to lower levels, and real household incomes start to grow again in 2024-25, living standards will take time to recover to the pre-crisis 2021-22 level. Our forecast suggests that, by 2025-26, real disposable income per person will be no higher than its level a decade earlier.”

Members may wish to discuss:

- 16. How can SFC economic forecasts shed light on the pressures felt in low income households?**

**Camilla Kidner
SPICe
19 December 2022**