Social Justice and Social Security Committee
Thursday 19 December 2024
34th Meeting, 2024 (Session 6)

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An t-Ionad Fiosrachaidh

Social security spending forecasts

Introduction

The Committee will hear from:

- Professor Graeme Roy, Chair, Scottish Fiscal Commission
- Professor Francis Breedon, Commissioner, Scottish Fiscal Commission
- Michael Davidson, Head of social security and devolved taxes, Scottish Fiscal Commission

This paper provides background and suggests five themes for discussion.

Background

The Scottish Fiscal Commission have published their latest forecasts of social security spending up to 2029-30. The SFC do not look at operating or administrative costs. They only forecast the amount paid out in benefits and employability services.

Scale of spend
In 2025-26 social security makes up 14% of the Scottish Budget (SFC fig 2.10). Total devolved social security spending is forecast to increase from £5,330 million in 2023-24 to £8,754 million in 2029-30 (SFC fig 5.1).

Funding
Under the fiscal framework, the UK Government adds to the Scottish block grant to reflect social security devolution. For each benefit that is devolved, the block grant changes in proportion to the change spend in England and Wales. (i.e if PIP spending increases by 1%, the BGA for PIP increases by 1%, adjusted for differences in rate of population growth). Very broadly, this means that funding is sufficient to mirror UK Government policy. The Scottish Government is spending around £1.3 billion more on social security than it received in BGAs in 2025-26. Over half of this is explained by just two benefits – Adult Disability Payment

(additional £314m, SFC fig S5.12) and the Scottish Child Payment (£471m, SFC fig 5.10).

New policies
There have been several new policies announced since the last forecasts in December 2023.

New Uprating Duty – adds £2m in 2025-26
The Social Security (Scotland) Amendment Bill, passed on 3 December, includes a new duty to uprate all Social Security Scotland benefit payments by inflation each year.

Most benefits are already subject to an uprating duty so this new duty doesn't increase forecast spend by very much. The main cost of uprating comes from uprating duties that already exist for disability, carer, funeral benefits and the Scottish Child Payment. In total uprating adds around £0.7 billion to social security spending between 2025-26 and 2029-30 (SFC para 75). The effect of the new duty is small in comparison. The table below shows SFC forecast of an additional £2 million in 2025-26 rising to an additional £19 million in 2029-30.

Table 1: Cost of new uprating policy

£m	2025-26	2026-27	2027-28	2028-29	2029-30
uprating	2	7	11	15	19

SFC figure 5.4.

Pension age winter heating payment – adds £67m in 2025-26
In December, the Scottish Government announced that it would extend Pension Age Winter Heating Payment to provide £100 to those who did not qualify via receipt of Pension Credit. This adds £67m to forecast spend in 2025-26 compared to the policy announced in August of restricting eligibility to those in receipt of Pension Credit. However, it is £83m less than would have been spent under the initial policy of providing £200 or £300 to each pensioner household.

Table 2: Winter Heating Payment – comparing policy costs

£m	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
December 2023: Pensioner households get £200/£300	180	184	185	184	187	n/a
September 2024. Pension Credit only	32	33	32	30	29	29
December 2024. Pension Credit get £203.40/£305.10, others get £100.	32	101	103	102	104	108

SFC fig 5.6

Carer Support Payment earnings threshold – neutral budget impact
The Scottish Government have confirmed to the SFC that they will increase the earnings threshold for Carer Support Payment from £151 to £196 per week. The

Scottish Government had already been planning to increase the earnings threshold once case transfer from Carer's Allowance was completed in 2025. This plan was already factored into forecasts and so has a neutral impact on the budget. Now that it is UK Government policy, there will now also be a BGA uplift.

Introduction of Scottish Adult Disability Living Allowance – neutral budget impact
In November, the Parliament passed regulations introducing Scottish Adult Disability Living Allowance in March 2025, administered by Social Security Scotland. It is not open to new claims. Anyone in Scotland still in receipt of Disability Living Allowance when SADLA launches will be transferred across.

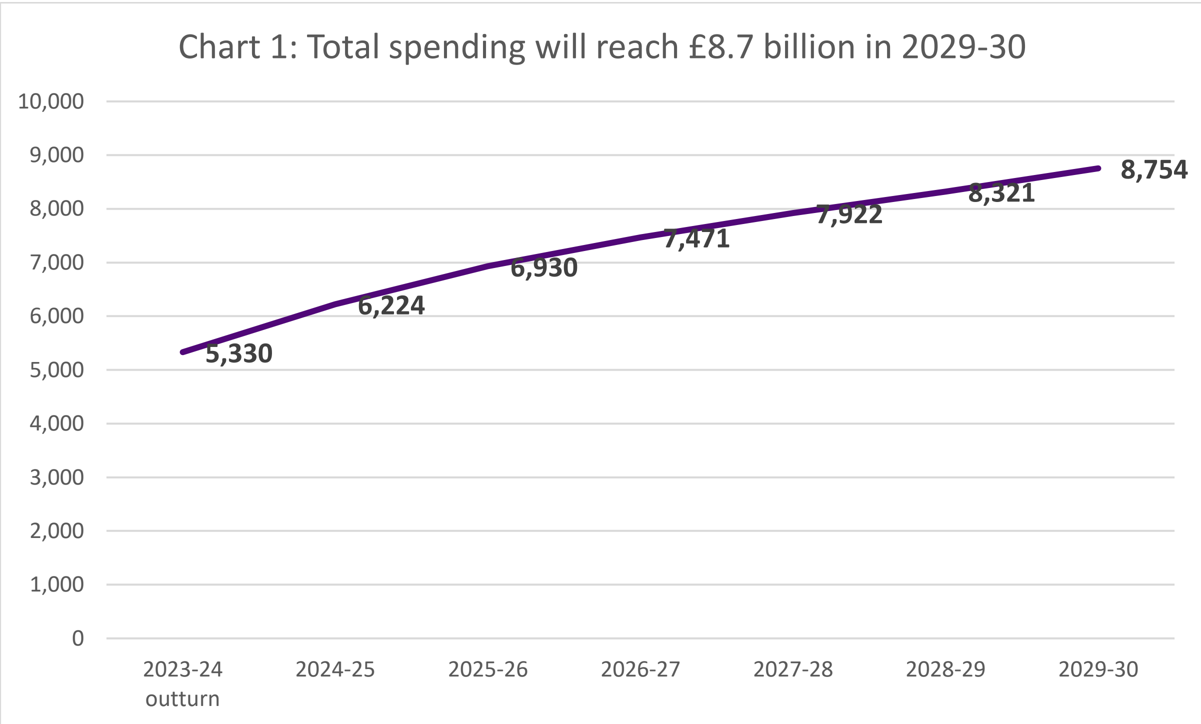
Themes for discussion

Theme 1: Scale of spend and forecast uncertainty

Total forecast spend
The Scottish Fiscal Commission estimate that Social Security will take up 14% of the Scottish Budget this year.

Social security spending is forecast to continue to grow, albeit at a slower rate than than in 2023-24 and 2024-25, reaching £8,754 million by the end of the decade.

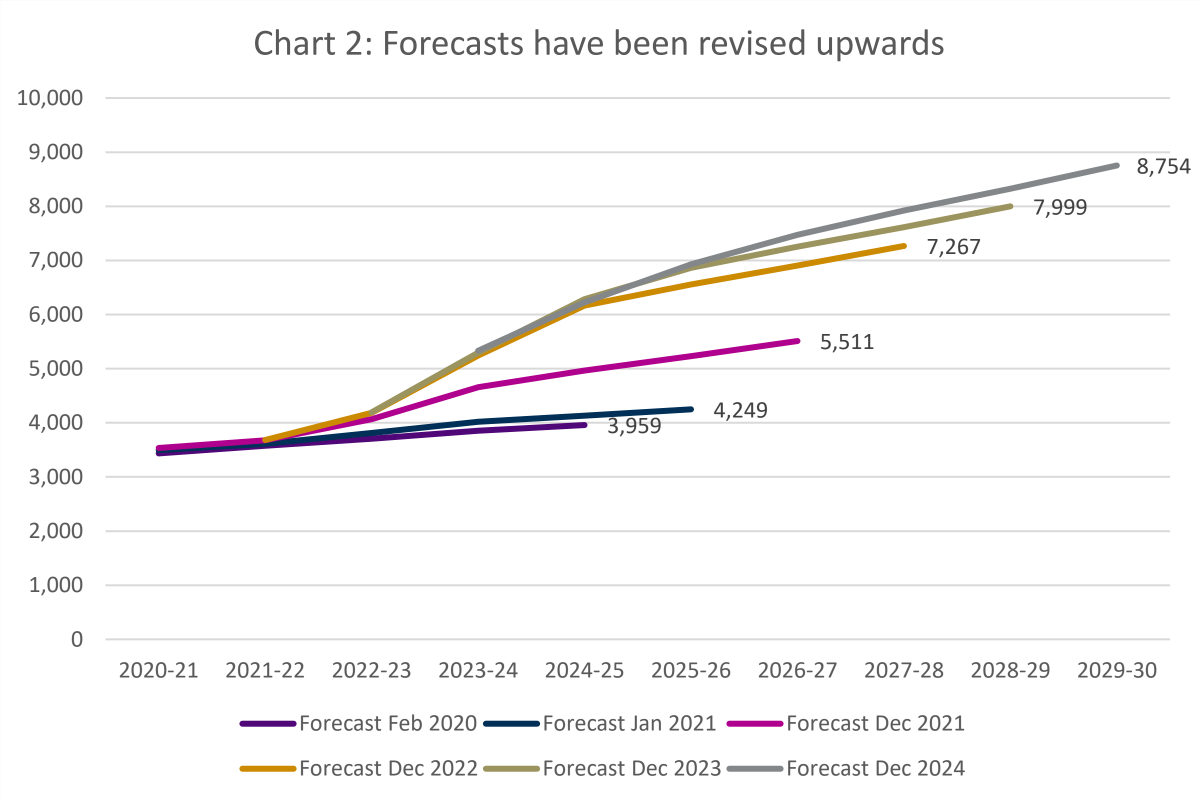
The chart below shows total forecast spend to 2029-30.



Source: SFC. Fig 5.10.

How forecasts have changed

The chart below shows how forecasts have changed. It compares the forecasts made each year since December 2020. This shows large increases between forecasts made in 2021 and 2022, but smaller increases in the last two years.



Source: SFC forecasts since December 2020

Effect on the Scottish Budget

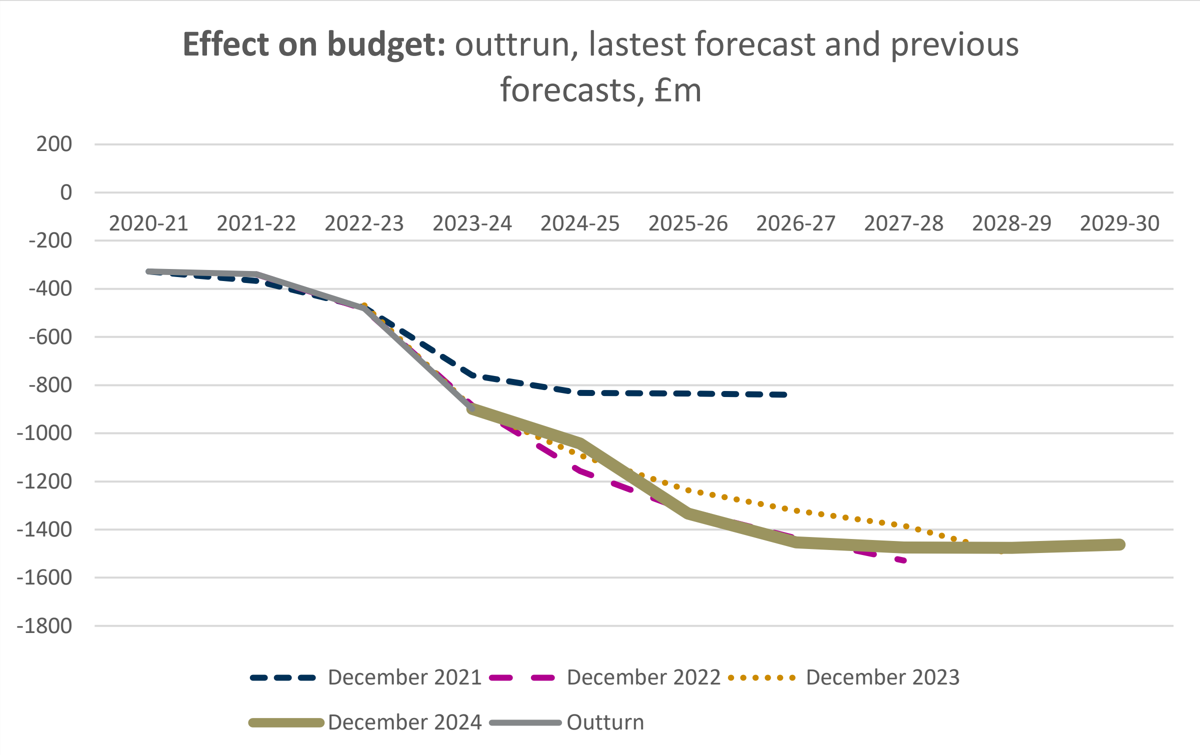
The real impact on the Scottish budget is the difference between what is funded via Block Grant Adjustments and what is spent on devolved social security. This is made up of three elements:

- Additional spend on benefits with a BGA (this is known as the 'net position')
- Spending on 'Scotland-only' benefits,
- Spending on some smaller benefits that are included in the general block grant

The sum of these elements makes up the total effect on the Scottish budget. It is the difference between total BGA received from the UK Government and total social security spending in Scotland.

The chart below compares the current forecast effect with previous forecasts. This shows that the effect on the Scottish Budget in 2025-26 has worsened compared to previous forecasts. However, rather than continuing to worsen, as had previously been expected, this effect on the budget is now expected to stabilise at around -£1.5 billion. In other words, from 2026-27 until the end of the decade, the Scottish

Government is forecast to spend around £1.5 billion more each year on social security than it receives in BGA.



Source: SFC fig 5.9

Later themes look in more detail at individual benefits, but this first theme provides an opportunity to explore overall trends in the forecasts.

Members may wish to discuss:

1. **Why have forecasts for total social security spending continually been revised upwards? Do you see any sign of this trend changing?**
2. **The Scottish benefit system is still relatively new. Are trends now emerging that give you more certainty in your forecasts?**
3. **The affordability of social security is strongly dependent on the spend ‘above BGA’. What is the overall trend on ‘spend above BGA’? What are the key risks and uncertainties in forecasting it?**

Theme 2: Child Disability Payment

One clear trend across the UK has been an increase in the number of children in receipt of disability benefits. This increase has been greater in Scotland.

The SFC report:

- Combined Child Disability Payment and child Disability Living Allowance caseload aged 15 and under increased by 60% in Scotland compared to 47% in England between February 2020 and February 2024.

- In August 2024, the caseload aged 15 and under in Scotland was 78% higher than it was in February 2020.

When CDP was launched, forecasts were based on a number of assumptions about how the Social Security Scotland payment would differ from the benefit it replaced. These included:

- Assumption of initial spike in applications.

- Higher average payment (i.e more likely to be awarded benefit at the higher care and mobility rates).

- Lower ‘outflows’ – the different approach to review was expected to result in people staying on the benefit for longer.

CDP outturn in 2023-24 was £98m above forecast. (Forecast of £328 million compared to outturn of £425 million, SFC forecast evaluation fig 4.1). This was the largest forecast error that year. Evaluating their 2023-24 forecasts, the SFC commented that:

- Applications grew at a faster rate than forecast, but

- the average payment was lower than forecast.

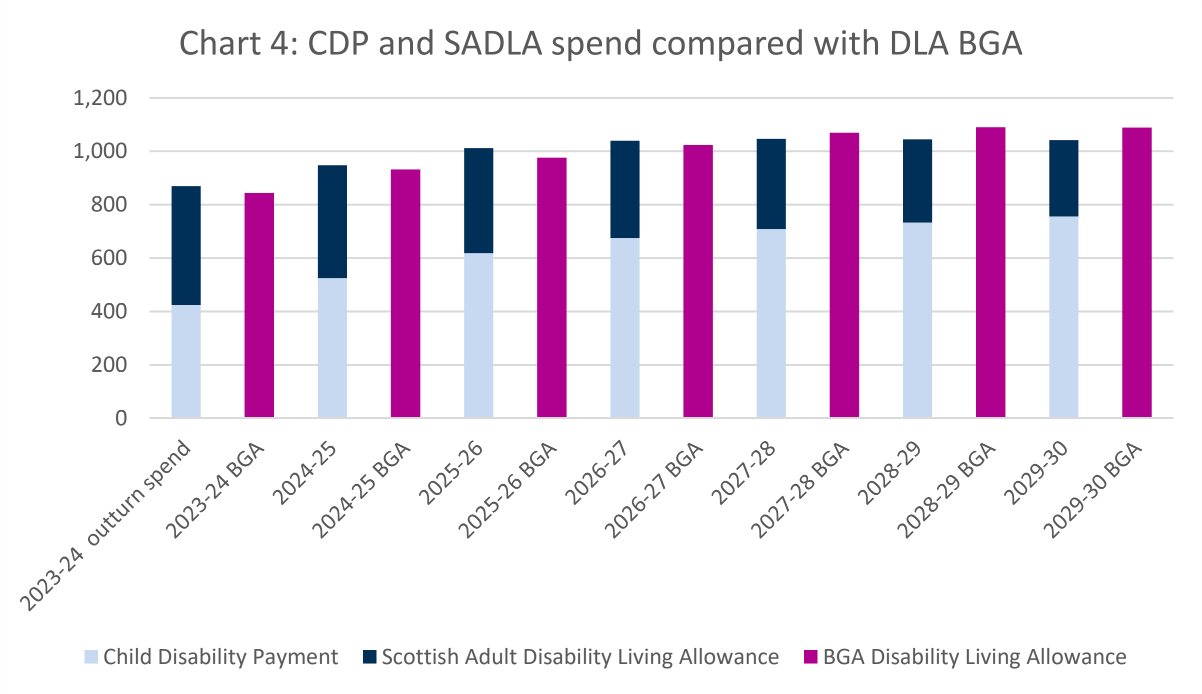
Because spending on some other benefits was below forecast the total forecast error that year was only £56 million, representing just 1% of total benefit spend.

Comparison with BGA
It is difficult to ascertain the extent to which CDP spending is ‘above BGA’, because the BGA for Disability Living Allowance relates to two devolved benefits:

- Child Disability Payment

- Scottish Adult Disability Living Allowance

The chart below therefore shows the BGA for Disability Living Allowance compared to forecast spend for these two Scottish benefits. This shows increasing spend on Child Disability Payment largely offset by decreasing spend on Scottish Adult Disability Living Allowance. This is only a rough comparison because of the way DLA interacts with PIP in England and Wales and the way CDP and SADLA interact with Adult Disability Payment in Scotland.

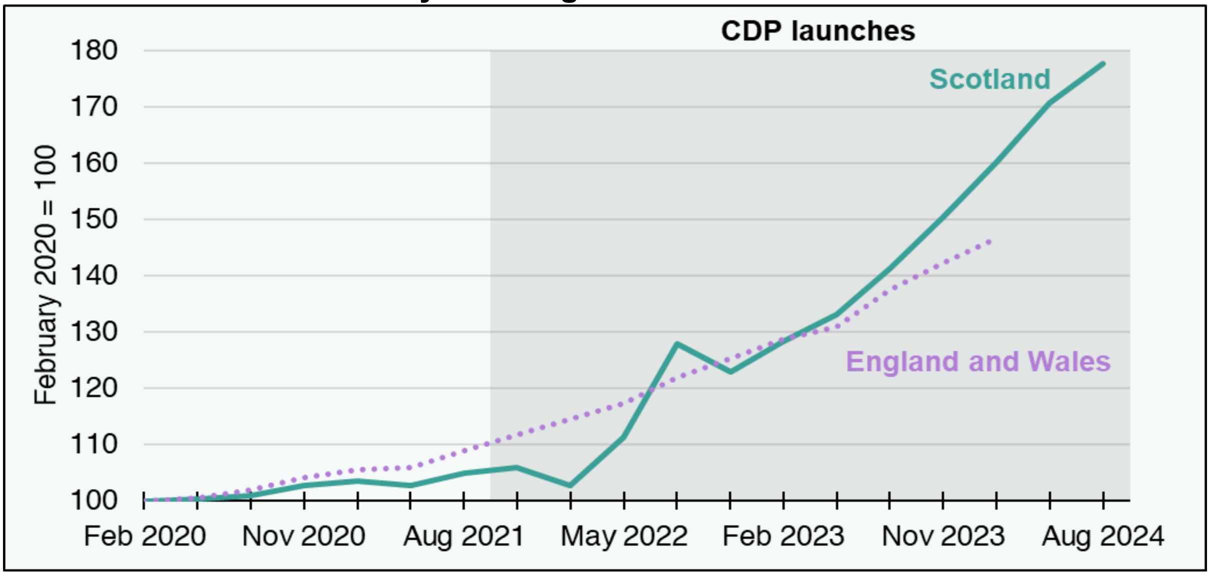


Source: SFC December 2024 forecasts. Figs 5.10 and S5.16.

Growing caseload
The Child Disability Payment caseload is forecast to grow but the 'spend per child' is forecast to grow more slowly. This means that budgetary impact of increasing caseload is dampened somewhat by slower growth in payments.

The chart below shows how the number of children getting disability benefits is increases across the UK, but increasing more quickly in Scotland.

Chart 5: Children's disability benefit growth



Source: SFC fig 5.3

Members may wish to discuss:

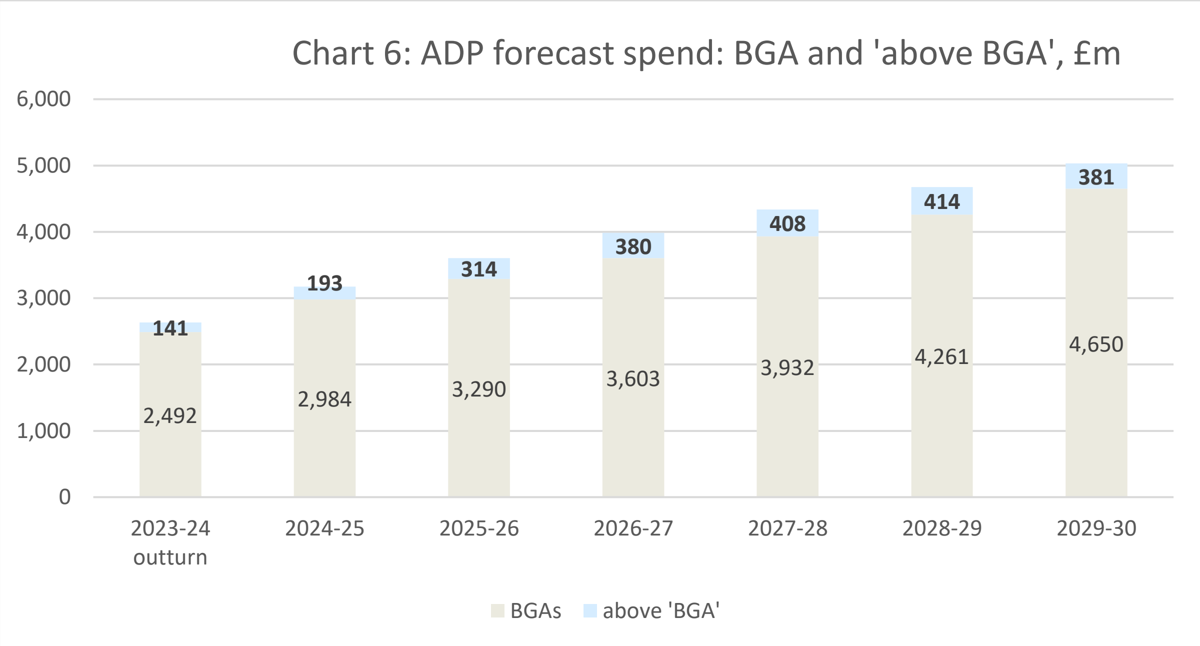
4. **What 'Scotland-specific' factors are driving the growth in spending in Child Disability Payment? How do these differ from your initial assumptions when the benefit was launched?**
5. **To what extent have clear trends emerged in CDP spending? Has this increased the level of certainty in your forecasts?**

Theme 3: Adult Disability Payment

The largest single devolved social security payment by far is Adult Disability Payment. Forecast spend is £3,605 million in 2025-26 rising to £5,030 million by 2029-30.

ADP makes up around half of all spending on devolved social security, so policy changes and changes in caseloads and decision making have a big impact on the budget.

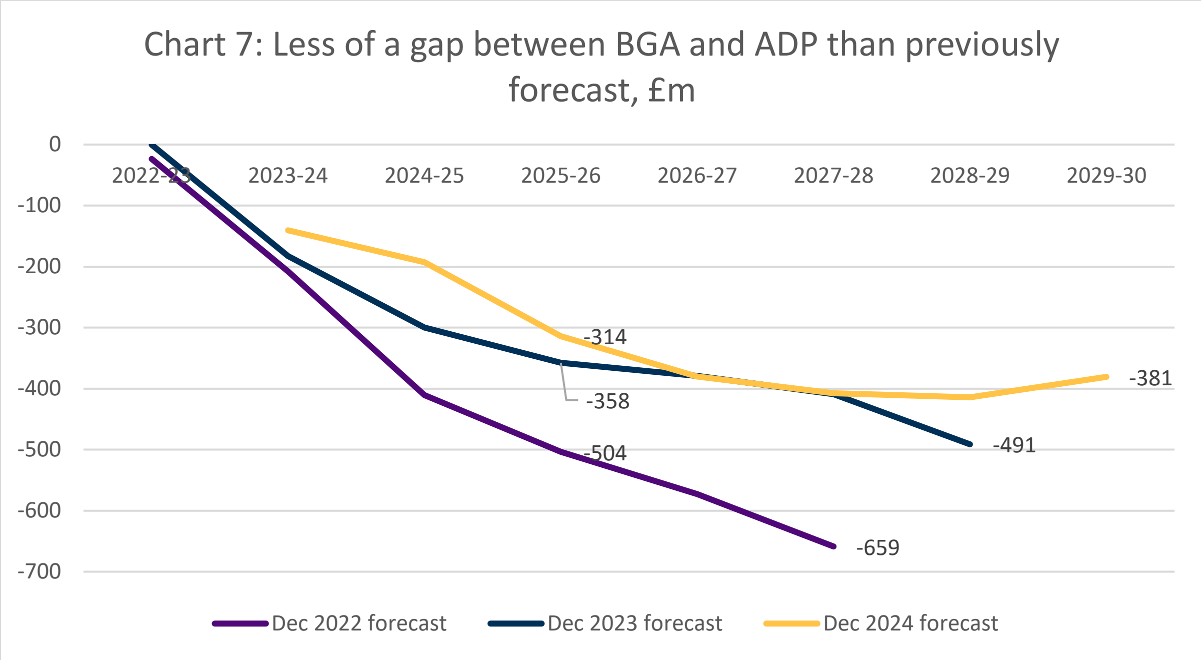
In 2025-26 total spending on ADP is forecast to be £314 million more than is received from the UK Government in block grant adjustment for Personal Independence Payment. This gap is forecast to continue to widen until 2028-29 when it reaches £414 million. After that, the difference between spending and BGA is forecast to shrink to £381 million.



Source: SFC fig S5.12

This gap between BGA and spend is considerably less than was previously forecast. The chart above shows the latest, December 2024, forecast. The next chart shows how forecasts have changed over the past two years.

In December 2022, the SFC forecast that in 2025-26 the gap between PIP BGA and ADP spend would be £504 million. The latest forecasts put that gap at £314 million.



Source: SFC forecasts December 2022, 2023, 2024.

Emerging trends are:

- Increasing number of people on disability benefits across the UK.
- A decrease in 'success rate' for ADP compared to when the benefit first launched.
- Lower than expected 'average payment' for ADP.
- Fewer ADP awards end at review compared to PIP.

Members may wish to discuss:

6. **To what extent is the reason for increased disability spending across the UK well understood?**
7. **The forecasts for the 'Scottish effect' on adult disability benefit spend have been very uncertain. To what extent are clear patterns now emerging?**
8. **The estimated gap between the PIP BGA and your forecast spending on ADP has got smaller. Why is that?**
9. **The UK Government is planning to reform health and disability benefits. How might this affect the Scottish budget?**

Theme 4: New policy: winter heating

The policy for Pension Age Winter Heating Payment has been changed twice this year from:

- Planning to introduce a universal payment of £200 for pensioner households (or £300 if the household includes someone aged 80+).

- September 2024: In 2024/25 restricting eligibility to those in receipt of Pension Credit or similar benefits. Regulations came into force in November.

- December 2024: From 2025/26 providing either £203.40 or £305.10 for those households in receipt of Pension Credit (dependent on age) and £100 to all other pensioner households. These payments will be uprated with inflation. This will require regulations to be passed by the Scottish Parliament before November 2025.

The table below show the forecast additional cost of providing £100 to pensioner household not eligible via Pension Credit. Payments will be uprated annually by inflation. The SFC forecast that 83% of households will receive the £100 payment in 2025/26, with the remainder qualifying via Pension Credit.

Table 3: Forecast additional spend on Pension Age Winter Heating Payment

£ million	2025-26	2026-27	2027-28	2028-29	2029-30
Spending	67	70	71	74	78

Source: SFC, annex A.

The table below shows the full forecast spend, as well as the forecast 'spend above BGA' which is almost entirely the cost of providing £100 to those not on Pension Credit. This is the additional cost that will be met by the Scottish Government.

Table 4: Pension Age Winter Heating Payment: Gap between spending and BGA

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
BGAs	32	31	30	29	29	29
SFC forecast	32	101	103	102	104	108
Difference (BGA minus spending)	0	-69	-72	-73	-75	-78

Source: SFC, fig S5.12

The more take-up of Pension Credit increases, the smaller will be the difference that has to be met by the Scottish Government.

The restriction to Pension Credit has led to a big emphasis on increasing Pension Credit take-up. For Great Britain as a whole, between July and November 2024, DWP made 81,000 new awards of Pension Credit, out of 161,800 claims processed. In total 215,000 claims were received.

If more people than already assumed by the SFC qualify for Pension Age Winter Payment via Pension Credit, the more the cost of this benefit will be met through the BGA. Because of the way the fiscal framework works, it is the change in Pension Credit take-up in England and Wales which impacts on the BGA.

The SFC costing notes that:

> “We also include an adjustment for the anticipated increase in Pension Credit take-up in response to the 2024-25 eligibility restriction”

Members may wish to discuss:

10. **What is you expectation of increased take-up of Pension Credit? How will this impact on the affordability of the Scottish Government’s policy on Pension Age Winter Heating Payment?**

Theme 5: New policy: two-child limit

The Scottish Government has announced that it will mitigate the impact of the two-child limit in Scotland. This policy was announced too late to be included in the forecasts published on 4 December. The Scottish Fiscal Commission will publish a costing in the new year.

The Scottish Government has announced that it will work to implement this in 2026, and earlier if possible. SFC forecasts are based on implementation from 2026-27.

The Scottish Government hasn’t yet (at time of writing) announced a detailed policy design.

Two-child limit policy

Since 6 April 2017, families on Universal Credit or Child Tax Credit have been able to claim support for up to two children.

Because it only affects children born since 2017 it only currently applies to children under 7 ½. It will be 2035 before it is fully rolled out, although it will be close to fully rolled out by the end of the current forecast period in 2030.

There are four categories of exception:

- additional children in a multiple birth where an extra amount will be payable for all children in a multiple birth other than the first child
- likely to have been born as a result of non-consensual conception, which for this purpose includes rape or where the claimant was in a controlling or coercive relationship with the child’s other biological parent at the time of conception

An exception also applies for any children in a household who are:

- adopted when they would otherwise be in local authority care
- in non-parental caring arrangements when they would otherwise be at risk of entering the care system, including where a child (under 16) has a child

In April 2024 there were 27,000 households in Scotland affected by the two-child limit. This will increase over time as a higher proportion of children included in claims are born after April 2017.

Costings

The Scottish Fiscal Commission will publish a costing in the new year, but their indicative costing is that it could add £150 million in 2026-27 rising to over £200 million in 2029-30.

In July 2023, the IPPR estimated that mitigating the two-child limit – using Scottish Child Payment as a model – would cost around £100m, providing around £65 per child impacted.

The Institute of Fiscal Studies considered the impact of abolishing the two-child limit across the UK estimating that it would eventually cost £2.5 billion a year – or a cost of £4,500 per child brought out of poverty.

(They also point out that for some families, gains would be wiped out by the benefit cap. The Scottish Government is already using Discretionary Housing Payments to mitigate the benefit cap. Spending on this is forecast to be £9m in 2025-26 rising to £18m in 2029-30).

The Fraser of Allander's modelling suggests an initial cost of around £130 million.

The Institute for Fiscal Studies suggest it could add £250 million per year. That higher estimate would increase the total additional spending in Scotland on social security above what it provided in BGA to around £1.7 billion. This would make mitigating the two-child limit the third most expensive element of additional spend on social security – after the Scottish Child Payment and additional spend on ADP compared to PIP.

Benefit design

In 2025-26 the 'child element' of Universal Credit is £292.81 per month. For comparison, in 2025-26 the Scottish Child Payment will be £108.60 every four weeks.

Issues in developing a mitigation include:

- Identifying which children have been excluded from benefit claims – i.e 3rd and subsequent children born after April 2017, not covered by an exception. (In future years the policy will also need to identify qualifying young people as well). Social Security Scotland has data on the number of children included in a claim so that it can deliver the Scottish Child Payment. It may have some data on age, but it's unlikely that it has enough to work out whether a child is excluded under the two-child limit.

- How to take account of the benefit cap. The benefit cap means that some larger families, particularly those with high rents may not benefit from mitigation. As noted above, the Scottish Government already has a policy to mitigate that cap for those in receipt of help with rent through universal credit or housing benefit. It's not clear how these two mitigation policies would interact.

- As with other benefits consequential legislation would be needed in Westminster to ensure additional money provided was not clawed back through deductions elsewhere in the system. The Scottish Government has written to the UK Government requesting that mitigation would not be treated as income for benefit purposes. It is not entirely clear whether this would also mean not including the mitigation in the benefit cap.

Members may wish to discuss:

11. **What are the factors that influence the cost of mitigating the two-child limit? What data is required?**

12. **Do you have enough policy detail from the Scottish Government in order to develop a robust costing?**

Camilla Kidner
SPICe
11 December 2024