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An t-Ionad Fiosrachaidh

## **Social Justice and Social Security Committee**

### **1<sup>st</sup> Meeting, 2024 (Session 6), Thursday, 11 January**

## **Social Security spending forecasts**

### **Introduction**

The Committee will hear from the Scottish Fiscal Commission (SFC) 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 Devolved Taxes, Scottish Fiscal Commission

The SFC published new [spending forecasts](#) on 19 December 2023. These set out the forecast spend on devolved social security benefits. They do not forecast the administration costs. These figures are used to set the Scottish Government's social security budget, also published on 19 December.

The Committee last heard from the SFC in [December 2022](#). This paper also considers the [evaluation report on the SFC's 2022-23 forecasts](#).

## Overview

The SFC forecast that devolved social security spending will increase from £5.3 billion in 2023-24 to £8.0 billion by 2028-29. Table 1 shows forecast spend by benefit and agency. The value of benefits administered directly by Social Security Scotland is expected to double next year as disability and carer benefits are transferred and the value of devolved benefits administered by the Department of Work and Pensions (DWP) decreases.

**Table 1: Total social security spend, 2023-24, 2024-25, 2028-29**

| £ million                                  | 2023-24      | 2024-25      | ... | 2028-29      |
|--|--------------|--------------|-----|--------------|
| <b>Social Security Scotland:</b>           |              |              |     |              |
| Adult Disability Payment                   | 997          | 2,585        |     | 4,496        |
| Scottish Child Payment                     | 427          | 457          |     | 492          |
| Child Disability Payment                   | 378          | 450          |     | 642          |
| Carer's Allowance Supplement               | 48           | 55           |     | 74           |
| Carer Support Payment                      | n/a          | 206          |     | 564          |
| Winter Heating Payment                     | 22           | 24           |     | 24           |
| Best Start Grant                           | 22           | 21           |     | 21           |
| Best Start Foods                           | 14           | 18           |     | 20           |
| Funeral Support Payment                    | 13           | 12           |     | 14           |
| Child Winter Heating Payment               | 7            | 9            |     | 11           |
| Pension Age Winter Heating Payment         | n/a          | 180          |     | 187          |
| Pension Age Disability Payment             | n/a          | 189          |     | 918          |
| <i>Payments starting after 2024-25</i>     |              |              |     |              |
| Scottish Adult Disability Living Allowance | n/a          | n/a          |     | 272          |
| Employment Injury Assistance               | n/a          | n/a          |     | 83           |
| <b>Total Social Security Scotland</b>      | <b>1,928</b> | <b>4,207</b> |     | <b>7,820</b> |
| <b>Department of Work and Pensions</b>     |              |              |     |              |
| Personal Independence Payment              | 1,680        | 641          |     | n/a          |
| Attendance Allowance                       | 660          | 566          |     | n/a          |
| Disability Living Allowance                | 444          | 420          |     | n/a          |
| Carer's Allowance                          | 359          | 206          |     | n/a          |
| Industrial Injuries Disablement Scheme     | 84           | 87           |     | n/a          |
| Severe Disablement Allowance               | 6            | 5            |     | 3            |
| <b>Total DWP</b>                           | <b>3,233</b> | <b>1,925</b> |     | <b>3</b>     |
| <b>Local Authorities</b>                   |              |              |     |              |
| Discretionary Housing Payments             | 82           | 90           |     | 115          |
| Scottish Welfare Fund                      | 36           | 36           |     | 36           |
| <b>Total Local authorities</b>             | <b>117</b>   | <b>126</b>   |     | <b>150</b>   |
| <b>Employability Services</b>              |              |              |     |              |
| Employability Services                     | 21           | 25           |     | 25           |
| <b>Total spending</b>                      | <b>5,299</b> | <b>6,283</b> |     | <b>7,999</b> |

NB - SPICe assumption on case transfer for 24/25: CA/CSP split 50:50 and PADP/AA split 25:75. All other figures from SFC Forecasts December 2023 tables 5.2, S5.4.

The shift from DWP to Social Security Scotland isn't happening quite as quickly as forecast last year. Last year it was expected that Social Security Scotland would administer around £2.1 billion of payments in 2023-24. Updated forecasts suggest it may be a bit less than this at £1.9 billion. However, the overall pattern remains unchanged – a very large increase in Social Security Scotland activity over the next couple of years along with continued growth in total devolved social security spend.

## How forecasts have changed

The table and chart below show how successive social security forecasts have been revised upwards. In February 2020, SFC forecast that devolved Social Security spending in 2024-25 would be £3.9 billion. They now expect it to be £6.3 billion. Reasons for this increase include:

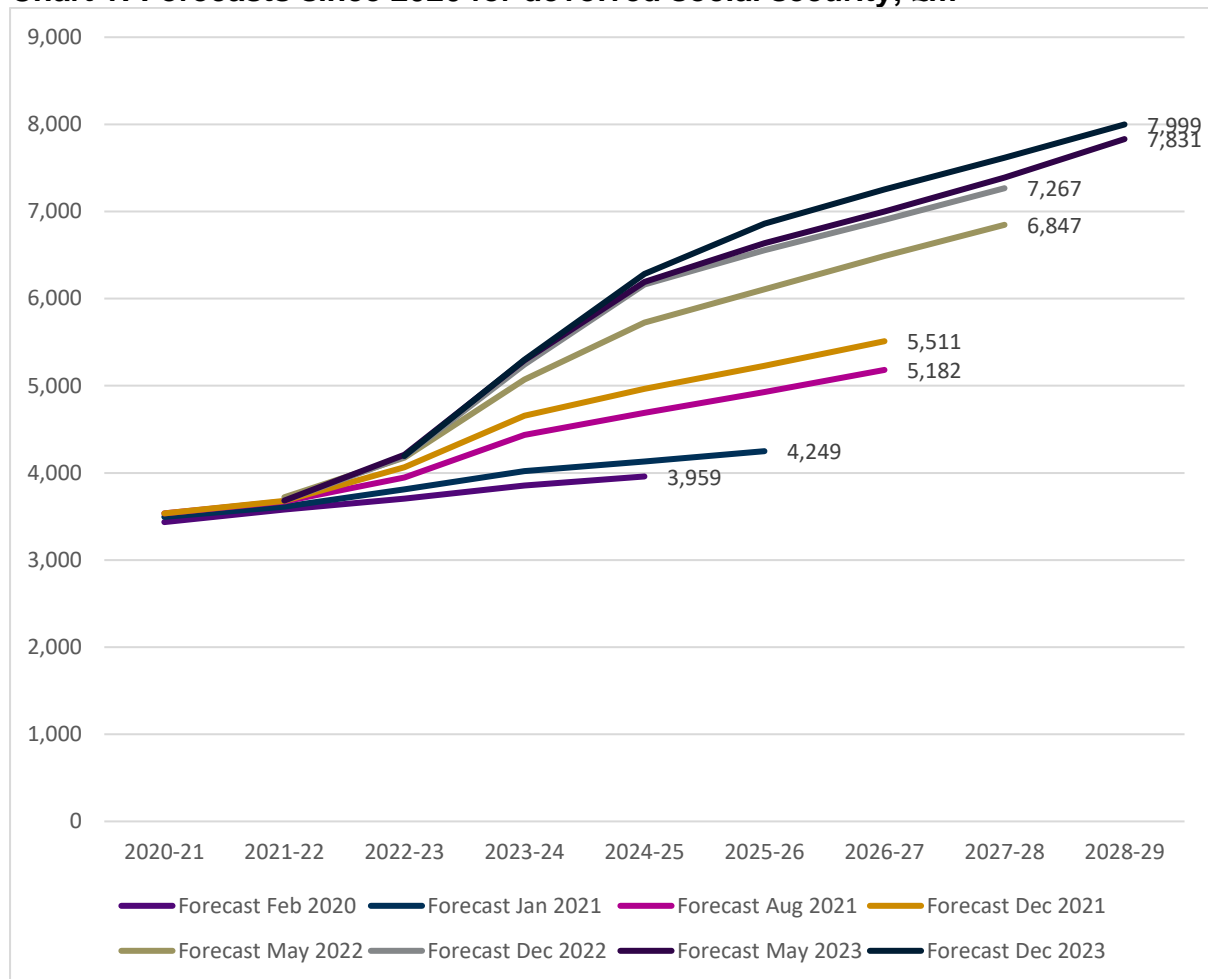
- New policy – such as increasing the Scottish Child Payment to £25 per week (SCP forecast spend of £457m in 2024-25)
- The planned devolution of Pension Age Winter Fuel Payment (£184m) to replace the DWP's Winter Fuel Payment
- Rising spend on disability benefits across the UK
- Adding in the estimated effect of Scottish Government changes to disability benefits. Estimates for the policy impact of the Adult Disability Payment were first included in forecasts in August 2021 and Pension Age Disability Payment in May 2022.
- Higher than anticipated inflation.

**Table 2: Change in forecast spend**

| £ million         | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25      | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
|-------------------|---------|---------|---------|---------|--------------|---------|---------|---------|---------|
| Forecast Feb 2020 | 3,435   | 3,578   | 3,704   | 3,857   | <b>3,959</b> |         |         |         |         |
| Forecast Jan 2021 | 3,495   | 3,614   | 3,810   | 4,020   | <b>4,129</b> | 4,249   |         |         |         |
| Forecast Aug 2021 | 3,535   | 3,672   | 3,945   | 4,436   | <b>4,689</b> | 4,927   | 5,182   |         |         |
| Forecast Dec 2021 | 3,535   | 3,679   | 4,065   | 4,657   | <b>4,966</b> | 5,230   | 5,511   |         |         |
| Forecast May 2022 |         | 3,720   | 4,173   | 5,072   | <b>5,725</b> | 6,108   | 6,490   | 6,847   |         |
| Forecast Dec 2022 |         | 3,682   | 4,187   | 5,244   | <b>6,163</b> | 6,554   | 6,903   | 7,267   |         |
| Forecast May 2023 |         | 3,682   | 4,208   | 5,290   | <b>6,192</b> | 6,638   | 7,000   | 7,389   | 7,831   |
| Forecast Dec 2023 |         |         | 4,193   | 5,299   | <b>6,283</b> | 6,861   | 7,253   | 7,616   | 7,999   |

Source: Scottish Fiscal Commission forecasts since February 2020

**Chart 1: Forecasts since 2020 for devolved social security, £m**



**Changes since December 2022 forecast**

While forecasts have changed considerably since 2020, there has not been major change over the past year. Last December, the SFC forecast that social security spending would be £6.2 billion in 2024-25 rising to £7.3 billion in 2027-28. It now considers that spending will be £6.3 billion in 2024-25, rising to £7.6 billion in 2027-28 and £8.0 billion in 2028-29.

The major factors leading to a higher forecast for 2024-25 are:

- Higher demand for disability payments than forecast last December, adding £128m in 2024-25
- More applications than expected for Child Disability Payment, adding £47m in 2024-25.

Looking further ahead, by 2027-28 higher inflation is the major growth factor – adding an additional £351 million compared to the forecast made in December 2022.

Dampening these effects are expectations that over the medium term both Adult Disability Payment and Carer Support Payment caseload will be lower than previously forecast, together reducing the forecast by £104 million in 2027-28.

In the short term, the SFC consider that the cost of living is contributing to higher demand for disability benefits over the next few years. They consider that as the cost of living eases, some of that additional demand will reduce (SFC forecasts para 5.13).

### **Funding Social Security**

The Scottish Government receives an increase in the Scottish block grant in recognition of the devolution of aspects of social security. Very broadly, if spending increases in England and Wales, then funding for the Scottish equivalent benefit increases by the same proportion (adjusted for differences in population growth). This is called the 'Block Grant Adjustment' (BGA). For example, if PIP spending in England and Wales goes up 2% then the BGA for Personal Independence Payment (PIP) will also increase by 2% (assuming no differences in the rate of population growth).

The intention is that social security is funded to the level it would have been if the DWP had continued to run it. Although the BGA is not 'ring-fenced' for social security spend, it can be useful to think of it as the additional funding received for that purpose. Scottish Government policies that cost more than the BGA need to be funded from elsewhere in the Scottish budget or by raising taxes. Spending 'above BGA' can be considered as the additional investment in social security resulting from its devolution. This is considered in Theme 3 below.

### **Previous Committee Consideration**

The Committee last heard from the SFC in [December 2022](#). At that meeting the key issues discussed included:

- The impact of inflation
- The UK wide trend of an increasing number of people receiving disability benefits. While the reasons weren't known, suggested explanations were the impact of NHS backlogs, long term impact of Covid and the increasing cost of living
- The data required from Social Security Scotland in order to make accurate forecasts
- Scottish Government additional spending on Social Security being mainly a result of the Scottish Child Payment and forecast additional spend on ADP compared to PIP.

Some key themes have persisted over several years. In particular:

- The additional cost of ADP compared to what is received from the UK Government through the block grant adjustment for PIP
- The uncertainty in forecasts where government policy has not yet been announced and in the early years of delivering a benefit.

## Suggested themes for discussion

### THEME 1: Inflation

The Scottish Government is increasing all devolved benefits by 6.7% as recommended in the Committee's pre-budget report. The Committee will consider uprating regulations in February.

Legislation requires certain benefits to be uprated to reflect inflation. This includes disability and carer benefits, funeral payments and the Scottish Child Payment.

This uprating adds £369 million to the social security budget in 2024-25. However, most of this is matched by increases to the Scottish Block Grant through the Block Grant Adjustment. This is because the UK Government is also increasing disability and carer benefits by 6.7%.

The SFC assume that over the next five years uprating will be:

- 2025-26      3.3%
- 2026-27      1.6%
- 2027-28      1.4%
- 2028-29      1.8%

The compounding effect of uprating is expected to add around £1 billion to the cost of devolved social security in 2027-28 compared to 2023-24.

Assuming the UK Government also uprated disability and carer benefits by the same amount, around 85% of this will be covered by increases to the Scottish Block Grant.

This year the Scottish Government has also uprated where it is not required to do so - for example Best Start Foods, Best Start Grant and Winter Heating Payment. The SFC estimate that this policy will cost around £5 million in 2024-25.

**Members may wish to discuss:**

- 1. Much of the cost of uprating is covered by the Block Grant Adjustment. To what extent does this year's uprating policy put pressure onto Scottish Government budget choices?**
- 2. How uncertain are the inflation forecasts?**

### THEME 2: Trends in Adult Disability Payment

A key driver of spend is the rising cost of disability benefits. Spending on ADP is forecast to increase to £4.5 billion in 2028-29, more than double the £2 billion spent on PIP/ADP in 2022-23. Two key elements of this are:

- Rising numbers of successful applications for disability benefits throughout the UK. This effect results in increased funding to the Scottish Government through Block Grant Adjustment.
- The additional cost of Scottish Government policy decisions and the operation of disability benefits in Scotland. The Scottish Government does not receive increased funding from the UK Government for this.

### ***UK-wide trends***

For the past couple of years, there has been an increasing number of successful applications for disability benefits across the UK. This contributes to an increase in the BGA for PIP which rises by almost £1.0 billion from £2.0 billion in 2022-23 to a forecast £2.9 billion in 2024-25 and £4.0 billion by 2028-29 (SFC fig S5.12).

In their forecasts for DWP disability benefits, the Office for Budget Responsibility consider that the current rate of growth will slow:

“While outturn data continues to show that new claims for PIP and UC health journeys have been increasing, we now assume that this growth is in part driven by the current cost-of-living pressures and therefore that caseload growth rates will slow as real household disposable incomes recover in the second half of our forecast.”([OBR Economic and Fiscal Outlook autumn 2023, p.107](#)).

Likewise, the SFC consider that in Scotland, cost of living pressures are leading to increasing numbers of applications for disability benefits. They say:

“We now place more weight on the role of the cost of living crisis. Therefore, in the future, as the cost-of-living pressures ease and real household income levels return to pre-pandemic levels, some of the additional demand for disability payments is expected to ease.” ([SFC p.20](#)).

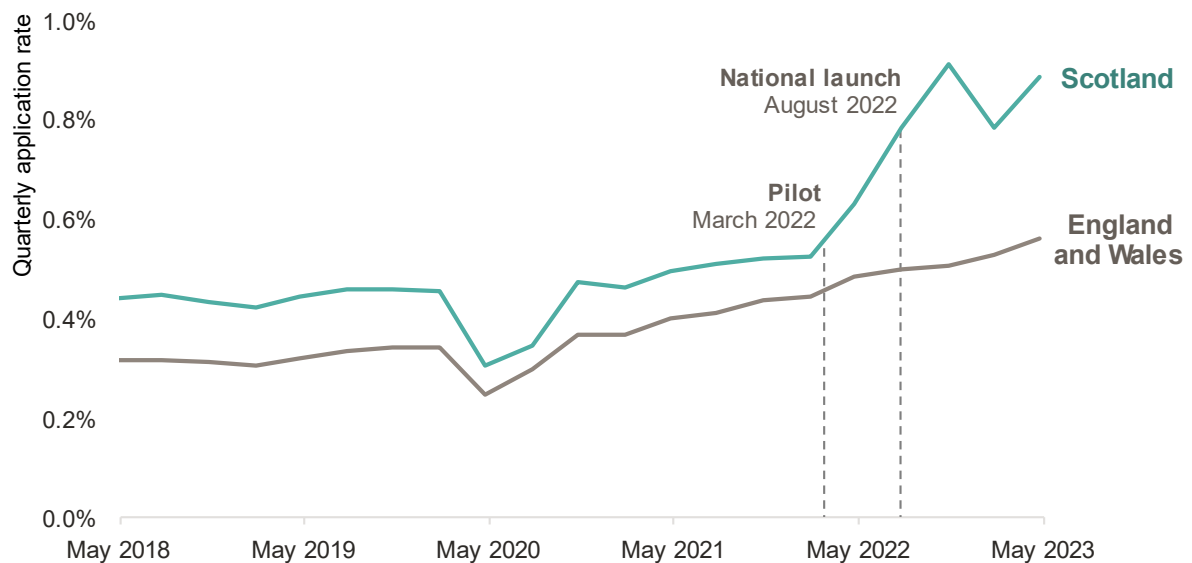
### ***Impact of Scottish Government policy***

The SFC assume that the different approach to disability benefits in Scotland will result in more successful applications and people being more likely to get higher rates of award.

Forecasts will become more accurate as outturn data becomes available. ADP has been available nationally since August 2022. This has confirmed that more people are applying for and getting ADP than PIP, but it’s not yet entirely clear whether they are more likely to get higher payments.

- **More people are applying.** A higher proportion of the population is applying for ADP in Scotland than for PIP in England and Wales. Even though disability benefit applications have increased throughout Great Britain, the increase is greater in Scotland.

Chart 2: Application rate for PIP and ADP



Source: SFC Economic and Fiscal Forecasts December 2023, Figure 5.9

- Unclear whether people are getting higher awards.** Both PIP and ADP are available at lower and higher rates for the 'daily living' and 'mobility' elements of the award. The SFC note that when ADP first launched it was being awarded at a higher rate than PIP. This difference has been decreasing over time but the SFC consider it is too early to come to clear conclusions about this. They say:

“We believe the variation in ADP average payment award levels is related to the complexity and processing times of awards. For example, awards for terminal illness cases where people receive the highest awards are likely to be processed more quickly.” (SFC para 5.53)

#### Members may wish to discuss:

- The SFC suggest that the cost-of-living crisis may be causing a short term increase in applications for disability benefits across the UK. Can they explain further how this impact occurs, and why they consider this will be short term?
- There has been a sharp increase in applications for ADP compared to PIP. Do you expect this gap to continue to widen?
- SFC note that “the average award level for new applications has not yet stabilised”. When do you expect to see clearer data on this?



## THEME 3: Additional spending by Scottish Government on social security

In 2024-25 the Scottish Government is expected to spend around £1.0 billion more on social security than it receives in Block Grant Adjustment from the UK Government. By 2028/29, this additional spending is forecast to increase to £1.5 billion (SFC fig 5.8).

This is additional spending based on current policy commitments. The current rules and policies for devolved social security will result in increasing spend in future years – particularly on disability benefits. It is this ‘spend above BGA’ rather than the total amount of social security spending which puts pressure on other areas of the Scottish budget. This is because this spending needs to be found from elsewhere in the Scottish budget or by revenue raising.

### Spend above BGA in 2024-25

The additional £1.0 billion spend ‘above BGA’ on social security in 2024-25 is made up of:

- £368 million additional spend on benefits which have a BGA. Most (£300 million) of this is additional spend on PIP compared to ADP (discussed above).
- £614 million spend on benefits unique to Scotland. Most (£457 million) of this is the cost of the Scottish Child Payment.
- £110 million on benefits that do have a DWP equivalent but are included in the Barnett formula rather than being funded by a BGA. It includes elements of:
  - Discretionary Housing Payments
  - Best Start Foods
  - Funeral Expenses Payment
  - Best Start Grant – pregnancy and baby payment
  - Scottish Welfare Fund
  - Fair Start Scotland.

### Spend above BGA is less than previously forecast

Spend above BGA has consistently been forecast to increase over time. However, this ‘gap’ between BGA funding and forecast spend in 2027-28 is around £100 million less than previously forecast. Chart 3 shows how forecasts for additional spending have changed. In December 2022, the SFC forecast a ‘gap’ of £1.4 billion by 2027-28 (blue line on chart 3 overleaf). It is now expected to be closer to £1.3 billion by 2027-28, rising to £1.4 billion in 2028-29 (pink line on chart 3).

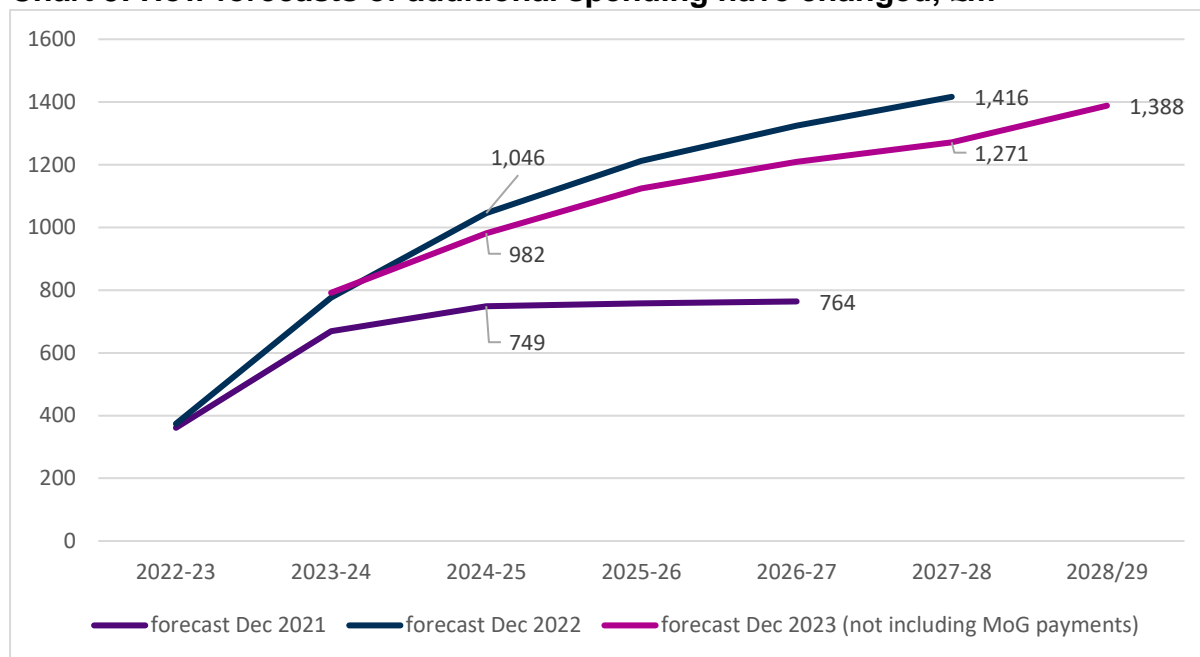
**Chart 3: How forecasts of additional spending have changed, £m**

Table shows spending on devolved social security in excess of the total social security BGA received from the UK Government. Source: SFC December 2021 fig 6, May 2022 fig 5.14, December 2022 fig 5.8, December 2023 fig 5.8. NB In order to be consistent with previous forecasts this does not include the c£100m 'other payments' included in fig 5.8 in December 2023.

Table 3 below shows how additional spending is split between additional spend on benefits which have a DWP equivalent and the full cost of those benefits that are unique to Scotland. In addition (and not shown in chart 3) there is around £100m spent on payments that are included in the Barnett formula.

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

| Benefit                                 | 2023-24    | 2024-25      | 2025-26      | 2026-27      | 2027-28      | 2028-29      |
|---|------------|--------------|--------------|--------------|--------------|--------------|
| Additional spend on payments with a BGA | 225        | 368          | 478          | 540          | 590          | 694          |
| Payments unique to Scotland             | 566        | 614          | 646          | 669          | 682          | 694          |
| <b>Total (chart 3)</b>                  | <b>792</b> | <b>982</b>   | <b>1,124</b> | <b>1,209</b> | <b>1,271</b> | <b>1,388</b> |
| Other payments                          | 103        | 110          | 112          | 113          | 113          | 113          |
| <b>Total</b>                            | <b>894</b> | <b>1,092</b> | <b>1,236</b> | <b>1,322</b> | <b>1,384</b> | <b>1,502</b> |

**Source:** Scottish Fiscal Commission. **Notes:** BGA Adult Disability Payment, Child Disability Payment, Attendance Allowance, Carer's Allowance, Industrial Injuries Disablement Scheme, Winter Heating Payment, Pension Age Winter Heating Payment and Severe Disablement Allowance. **Payments unique to Scotland:** Carer's Allowance Supplement, Scottish Child Payment, Child Winter Heating Payment, Best Start Grant Early Learning Payment and Best Start Grant School Age Payment and spending on bedroom tax and benefit cap mitigation through Discretionary Housing Payments. **Other payments:** BSG pregnancy and baby payment, Funeral Support Payment, Best Start Foods, Other DHPs, Scottish Welfare Fund, FairStart Scotland.

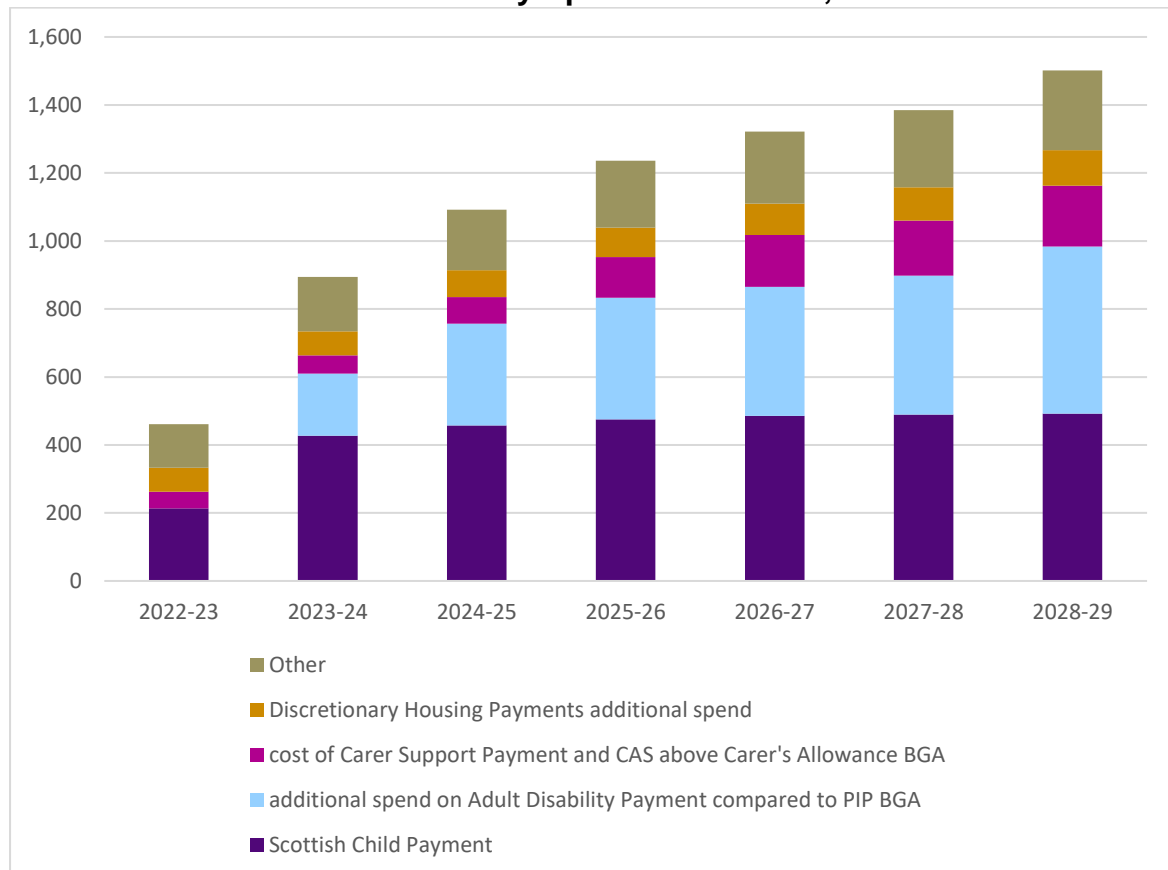
Most additional spending is on the Scottish Child Payment and ADP as illustrated in chart 4 and table 4 below. Future growth in additional spend is largely due to the expected growth of ADP compared to PIP BGA. While the Scottish Child Payment makes up a considerable proportion of additional spend, it is not expected to grow significantly in future.

**Table 4: Additional spend by benefit, £m**

| £ million                                       | 2022-23    | 2023-24    | 2024-25      | 2025-26      | 2026-27      | 2027-28      | 2028-29      |
|---|------------|------------|--------------|--------------|--------------|--------------|--------------|
| Scottish Child Payment                          | 213        | 427        | 457          | 475          | 486          | 489          | 492          |
| additional spend on ADP compared to PIP BGA     | 0          | 183        | 300          | 358          | 379          | 409          | 491          |
| Cost of CSP and CAS above Carer's Allowance BGA | 50         | 54         | 77           | 120          | 152          | 162          | 179          |
| Discretionary Housing Payments additional spend | 70         | 71         | 80           | 87           | 92           | 98           | 104          |
| Other   | 128        | 160        | 177          | 197          | 212          | 226          | 235          |
| <b>Total</b>                                    | <b>461</b> | <b>894</b> | <b>1,092</b> | <b>1,236</b> | <b>1,322</b> | <b>1,384</b> | <b>1,502</b> |

Source: Scottish Fiscal Commission, fig 5.2, fig 5.7, fig 5.8. CAS is Carer's Allowance Supplement, CSP. Carer Support Payment. Assumes £10.9m of DHP budget is included in baseline UK funding.

**Chart 4: Additional Social Security Spend in Scotland, £m**



Source: Scottish Fiscal Commission, fig S5.8, fig 5.2, fig 5.8. CAS is Carer's Allowance Supplement

Members may wish to discuss:

6. What are the main factors leading to additional social security spending in Scotland?
7. By 2028-29 the Scottish Government is expected to spend around £1.5 billion more on social security than it receives in funding through the block grant adjustment. How uncertain is this figure?

## THEME 4: Forecast accuracy

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.

### 2022-23 Forecast error

The [Forecast Evaluation Report for 2022-23](#) reported a 3% error (£127 million). The SFC explain that this is similar to previous years:

“Total spending on devolved social security in 2022-23 was £4.2 billion. This is 3 per cent higher than our forecast of £4.1 billion. This is a similar scale of error as in the last two years. The two biggest factors this year are higher spending on disability payments and in-year decisions by the Scottish Government, both of which are recurring themes from previous years.”

Higher than forecast spend in 2022-23 was due to:

- Additional £111 million on benefits funded through BGA. The Scottish Government received additional BGA, as it reflected UK-wide trends in disability benefit spending.
- Additional £20 million on benefits not available elsewhere. This is largely due to policy decisions to increase the Scottish Child Payment which resulted in spending £16 million above forecast.
- £3 million less on benefits administered by local authorities. This was mainly due to changes in the Self-isolation Support Grant.

For details by individual benefit see [Figure 4.1 of the Forecast Evaluation Report](#).

The table below looks how the forecast for spending in 2022-23 was revised over time. It shows that although there was 3.1% error in the forecast made in December 2021, by the time of the forecast made in May 2022 (just after the start of the 2022-23 financial year to which the forecast related) the error had reduced to 0.5%.

**Table 5: Forecasts for 2022-23 devolved social security compared to outturn**

| Forecast for 2022-23                | Forecast (£ million) | Error (£ million) | Relative Error (%) |
|-------------------------------------|----------------------|-------------------|--------------------|
| Forecast in December 2021 for 22-23 | 4,065                | 127               | 3.1                |
| Forecast in May 2022 for 22-23      | 4,173                | 19                | 0.5                |
| Forecast December 2022 for 22-23    | 4,187                | 6                 | 0.1                |
| Forecast May 2023 for 22-23         | 4,208                | -16               | -0.4               |
| Actual                              | 4,193                |                   |                    |

Source: Scottish Fiscal Commission

### Members may wish to discuss:

8. The forecast error for 2022-23 was 3% or £127 million. As the social security budget grows, a 3% error will represent increasingly large sums of money. Does the SFC think that a 3% error is what we might continue to expect?

## THEME 5: New Policy Costings

The SFC include policy costings for the two benefits starting this year. These are:

- Pension Age Disability Payment to replace Attendance Allowance as the main disability benefit for older people
- Pension Age Winter Heating Payment to replace Winter Fuel Payment as the annual heating payment for older people.

Pension Age Disability Payment is forecast to cost £26 million more than Attendance Allowance in 2025-26 rising to £87 million more in 2028-29. Most of this additional spend due to the expectation that more people will apply. The SFC describe their costing as 'highly uncertain'.

**Table 6: Pension Age Disability Payment costing.**

| £ million                       | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
|---------------------------------|---------|---------|---------|---------|---------|
| Baseline                        | 749     | 791     | 805     | 819     | 831     |
| Additional spending.            | 6       | 34      | 56      | 79      | 87      |
| <i>of which:</i>                |         |         |         |         |         |
| <i>Increased applications</i>   | 3       | 26      | 36      | 45      | 52      |
| <i>Average award increase</i>   | 4       | 8       | 12      | 16      | 17      |
| <i>Terminal illness costing</i> | 0       | 0       | 8       | 18      | 19      |

Source: SFC, fig A11

Regulations for Pension Age Disability Payment are expected in the spring.

The other new benefit to start next year is Pension Age Winter Heating Payment (PAWHP). A [consultation closes on 15 January](#). The SFC expect the Scottish Government will introduce PAWHP on a 'like for like basis', with no policy changes from the current Winter Fuel Payment. As almost all payments are made automatically there is little potential to increase take-up. The SFC forecast that PAWHP will cost £180 million in 2024-25 rising to £187 million in 2028-29. The two areas of uncertainty for this costing are population forecast and whether the current consultation will lead to policy change.

**Members may wish to discuss:**

- 9. How has the SFC's experience of forecasting other disability payments informed the costings for Pension Age Disability Payment?**
- 10. What are the main elements of uncertainty in the costings for Pension Age Disability Payment and Pension Age Winter Heating Payment?**

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5 January 2023**