Seventh Annual Report on the Implementation of the Scotland Act 2016

May 2023

Scottish Government
Riaghaltas na h-Alba

Seventh Annual Report on the Implementation of the Scotland Act 2016

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1. Introduction

1. This is the seventh report on the implementation of the Scotland Act 2016. It is intended to inform Parliament of the implementation work that has been carried out on fiscal powers in the Scotland Act 2016 as required by paragraph 107 of the Fiscal Framework.

2. The UK Government produces a separate report on the implementation work they have carried out, which is published on the same day.

3. Previous reports informed on implementation of both Scotland Act 2012 and 2016 fiscal powers, with a report on the former required by Section 33 of the 2012 Act. Section 33 called for a 'final report' on or as soon as practicable after 1st April 2020, or if later, the first anniversary of the day on which the 2012 Act provisions came into force.

4. All provisions of the Scotland Act 2012 have now come into force, save for consequential amendments in Schedule 2 relating to the Scottish rate of income tax. Therefore, last year's Implementation Report was the last to inform on the Scotland Act 2012, with this report being the first to only inform on the 2016 Act.

5. The Scotland Act 2016 received Royal Assent in March 2016 and devolved a range of further powers to the Scottish Parliament. These included:
   - Further income tax powers, including the power to set rates and bands
   - Assignment of Value Added Tax
   - Certain social security benefits
   - Provisions to introduce a new Scottish tax on the carriage of passengers by air from Scottish airports, and to disapply Air Passenger Duty in Scotland
   - Provisions to introduce a new Scottish tax on the commercial exploitation of aggregates, and to disapply the UK Aggregates Levy in Scotland
   - Fines, forfeitures and fixed penalties

6. This report provides an update on these sections, as well as non-legislative elements in the Fiscal Framework[1] including:
   - Block Grant Adjustments
   - Administration and implementation costs
   - Policy Spillover effects
   - Borrowing
   - Scotland Reserve

[1] Fiscal framework: agreement between the Scottish and UK Governments - gov.scot (www.gov.scot)

7. The report provides an update on all legislative, policy and implementation work that has been carried out since the previous report on 28th April 2022 and outlines any forecast administration and implementation costs incurred in 2022-23.

8. Administration costs are the ongoing costs incurred in supporting the delivery of the Scottish Government's responsibilities under the Scotland Acts 2012 and 2016. Implementation costs are one-off costs associated with the initial investment to set up all the necessary systems and other elements required for the delivery of the powers under the Scotland Acts 2012 and 2016, whether through setting up a body or a service or implementing IT systems.

9. The next report on the Scotland Act 2016 will be published in 2024.

2. Fully Devolved Taxes

The Scotland Act 2016 provided for the devolution of powers to introduce a tax charged on the carriage of passengers by air from airports in Scotland and on the commercial exploitation of aggregates in Scotland. Devolved taxes drawing on these powers have not yet been introduced.

Table 2.1: Implementation and Administrative Costs

£m	2020-21	2021-22	2022-23
Implementation	-	-	0.1
Administration/Operation	-	-	-

10. Consistent with the approach taken for previous reports, the figures in Table 2.1 above relate only to Revenue Scotland. For this report, the 22-23 figure relates solely to staff costs incurred in work to prepare for the future introduction of a devolved replacement for the UK Aggregates Levy.

Aggregates Levy

The Scotland Act 2016 provided the Scottish Parliament with the power to legislate for a tax to replace the Aggregates Levy in Scotland. Aggregates Levy is a tax paid on the commercial exploitation of primary aggregates, i.e. crushed rock, sand and gravel.

11. The Scottish Government committed to introduce a Scottish Aggregates Levy Bill in the 2022-2023 Programme for Government, published in September 2022.

12. The Bill will draw on the powers in the Scotland Act 2016 by setting out the key arrangements for a devolved tax on the commercial exploitation of aggregates in Scotland, including to provide for its administration by Revenue Scotland

13. A public consultation to inform the development of the Bill ran from September to December 2022. A stakeholder advisory group was subsequently convened from March 2023.

14. The British Geological Society was commissioned in December 2021 to undertake a survey of aggregate minerals in Scotland, which will provide up-to date information on the quantities, reserves, sales and movement of aggregate minerals in Scotland. Work related to the survey has progressed throughout 2022-23. The Scottish Government will publish a report this year.

Air Departure Tax

15. The introduction of Air Departure Tax (ADT) in Scotland remains deferred to allow the issues raised in relation to the exemption for flights departing from the Highlands and Islands to be resolved. The UK Government will maintain application of Air Passenger Duty in Scotland in the interim.

16. The Scottish Government remains committed to the introduction of ADT and to finding a solution that remains consistent with our climate ambitions.

3. Scottish Income Tax

Since 6 April 2017, the Scottish Parliament has had the power to set the Income Tax rates and bands applicable to Scottish taxpayers on their non-savings and non-dividend income, but powers over the personal allowance and savings and dividend income are reserved to the UK. The rates and bands are set each year by a parliamentary motion known as a Scottish Rate Resolution.

Costs

Table 3.1: Administrative Costs

£m	2020-21	2021-22	2022-23
Administration/Operation	0.7	0.6	0.6

Move to business as usual administration costs

17. His Majesty's Revenue and Customs (HMRC) completed the majority of the implementation work to deliver Scottish Income Tax by 2019-20, and therefore there are no implementation costs for the last three years reflecting the move to a business as usual delivering of Scottish Income Tax.

18. HMRC estimate the total costs charged to the Scottish Government for implementing the Scottish Income Tax powers from the Scotland Act 2012 and Scotland Act 2016 to be £24.3 million during the period 2012-13 to 2019-20. The costs of altering systems and processes in the future, for example to accommodate significant changes to rates and thresholds, will be recharged to the Scottish Government.

19. For the financial year 2022-23, the Scottish Government has been invoiced costs of £0.6 million for the administration of Scottish Income Tax.

Assurance from National Audit Office and Audit Scotland

20. The National Audit Office (NAO) published its report[2] on the administration of Scottish Income Tax 2021-22 on 12 January 2023. The report stated that "HMRC has adequate rules and procedures in place to ensure the proper assessment and collection of Scottish income tax and that those rules are being complied with". Audit Scotland reviewed the approach taken by the NAO, as requested by the Scottish Parliament when Income Tax powers were devolved, and endorsed the NAO findings in their own report[3] also published on 12 January 2023.

[2] Administration of Scottish income tax 2021-22 - National Audit Office (NAO) report
[3] Administration of Scottish income tax 2021/22 | Audit Scotland (audit-scotland.gov.uk)

Scottish Taxpayer Identification

21. HMRC estimate that there were around 2.5 million Scottish taxpayers in 2020-21. Scottish Government and HMRC agree on the importance of the correct identification of Scottish taxpayers to enable the successful implementation of Scottish Income Tax powers. HMRC undertake regular address assurance activity on its customer data to ensure that its identification of the Scottish taxpayer population is as accurate as possible.

22. In 2021, HMRC undertook an exercise to match their Scottish taxpayer records to a third party data source (known as a 'data clash'). The aim of this exercise is to test whether HMRC's identification of Scottish taxpayers is corroborated by other data sources. HMRC's analysis of the results show that their identification of Scottish taxpayers is correct in 98-99 per cent of cases. HMRC undertakes the data clash exercise every two years and will next do so in 2023-24.

Outturn Data

23. HMRC published the 'Scottish Income Tax Outturn Statistics: 2020 to 2021'[4] in July 2022. This showed that receipts from Scottish Income Tax were £11.9 billion in 2020-21.

24. These figures were formally signed off after the NAO had completed their annual audit of HMRC Annual Report and Accounts, and Trust Statement in July 2022. This was the third publication of outturn data that included receipts from the five band Scottish Income Tax System implemented in 2018-19.

Correction to historical income tax outturn data

25. In 2021, HMRC discovered a discrepancy whereby a small number of non-resident taxpayers were flagged incorrectly as being Scottish taxpayers. Legally, it is not possible to be a Scottish taxpayer while being non-resident, meaning the Income Tax revenue generated from these taxpayers should have been allocated to rUK outturn. No taxpayers paid the incorrect level of tax as a result of this discrepancy.

26. This led to outturn figures being corrected for 2020-21 outturn, with the historic series (2016-17 to 2019-20) also being updated in HMRC's 2020-21 statistical release. The process for producing the outturn figures has been updated by HMRC to ensure this is not repeated.

[4] Scottish Income Tax Outturn Statistics: 2020 to 2021 - GOV.UK (www.gov.uk)

27. This inconsistency had funding implications for the Scottish Government. While the correction reduced the Scottish Income Tax revenue from 2017-18 on, it also affected the 2016-17 figures, the year from which the BGA is baselined. The impact of this was that the Scottish Government had to manage a larger negative reconciliation in each of the years 2020-21 to 2022-23 (relating to outturn for 2017-18 to 2019-20 respectively). Use of the corrected outturn statistics would have reduced the negative reconciliation applied to the Scottish Budget by about £7 million each year.

28. HMT proposed to correct this error by increasing the 2022-23 Scottish Budget by £21 million, but with a one-off reduction to the Scottish Government's available borrowing for Income Tax forecast error in 2022-23 by the same amount, reducing that limit from £34 million to £14 million. In September 2022 the Scottish Government accepted the proposal of the £21 million transfer, with arrangements made for this addition to be transferred as part of the supplementary estimates process.

Rates

29. Scottish Income Tax rates and bands for 2022-23 are as follows:[5]

Table 3.2: Scottish Income Tax Rates and Bands for 2022-23

Scottish Income Tax Bands	Name	Rate
£12,571*- £14,732	Starter Rate	19%
£14,733 - £25,688	Scottish Basic Rate	20%
£25,689 - £43,662	Intermediate Rate	21%
£43,663 - £150,000**	Higher Rate	41%
Above £150,000**	Top Rate	46%

*Assumes individuals are in receipt of the Standard UK Personal Allowance.
**Those earning more than £100,000 will see their Personal Allowance reduced by £1 for every £2 earned over £100,000.

30. A Scottish Rate Resolution setting the Scottish Income Tax rates and bands for 2023-24[6] was approved by MSPs on 9 February 2023. The rates and bands are detailed in Table 3.3.

Table 3.3: Scottish Income Tax Rates and Bands for 2023-2024

Scottish Income Tax Bands	Name	Rate
£12,571* – £14,732	Starter Rate	19%
£14,733 - £25,688	Scottish Basic Rate	20%
£25,689 - £43,662	Intermediate Rate	21%
£43,663 - £125,140**	Higher Rate	42%
Above £125,140**	Top Rate	47%

*Assumes individuals are in receipt of the Standard UK Personal Allowance. **Those earning more than £100,000 will see their Personal Allowance reduced by £1 for every £2 earned over £100,000.

[5] Scottish Income Tax 2022-2023: rates and bands - gov.scot (www.gov.scot)
[6] Scottish Income Tax 2023-2024: rates and bands - gov.scot (www.gov.scot)

4. VAT Assignment

The Scotland Act 2016 provided for the first 10 pence of the Standard Rate of Value Added Tax (VAT), and the first 2.5 pence of the Reduced Rate, to be assigned to the Scottish Government. VAT rates will continue to be set at a UK-wide level.

Costs

Table 4.1: Implementation and Administrative Costs

£m	2020-21	2021-22	2022-23
Implementation	0.4	0.4	0.3
Administration/Operation			

31. As part of the Fiscal Framework agreement, the Scottish and UK Governments agreed to share equally all costs incurred as a result of the implementation and administration of VAT assignment. In 2022-23, total costs incurred by HMRC and the Scottish Government were £0.3 million.

Implementation

32. VAT assignment had been expected to commence from April 2021. However, due to uncertainty surrounding the impact of COVID-19 and EU Exit on VAT receipts, the Scottish and UK Governments agreed to delay implementation and to establish how and when VAT assignment is implemented as part of the Fiscal Framework review.

33. Work on developing the VAT assignment methodology was largely paused in 2022-23, pending the outcome of the review.

34. Data on VAT assignment, up to 2020, was published by HMRC on 29 September 2022[7].

Scottish VAT Assignment Forecasts

35. The Scottish Fiscal Commission (SFC) has responsibility for producing illustrative forecasts of the VAT that will be assigned to Scotland. Their latest forecast of VAT revenue assigned to Scotland was published in December 2022[8].

7 Scottish VAT assignment – Experimental Statistics 2020 - GOV.UK (www.gov.uk)

8 Scotland's Economic and Fiscal Forecasts – December 2022 | Scottish Fiscal Commission

36. This forecast has no impact on the Scottish Government's budget as this is a transitional period, where VAT assignment will be forecast and calculated, but not applied to the budget.

5. Block Grant Adjustments, Reconciliations and Indexation

As part of the Fiscal Framework Agreement, it was decided that the Scottish Government's Block Grant would be adjusted to represent the impact of the transfer of greater fiscal powers to the Scottish Government. Deductions to the Budget reflect that the Scottish Government now retains revenues from some devolved taxes, with the devolved social security benefits that the Scottish Government is responsible for reflected through additions to the Budget. These adjustments are called Block Grant Adjustments (BGAs).

Forecast BGAs

37. Under the Fiscal Framework, two indexation mechanisms are used to calculate BGAs – the Indexed per Capita (IPC) mechanism and the Comparable Model (CM). The latest forecast IPC and CM BGAs, are set out in the Scottish Government's Fiscal Framework Data Annex[9].

38. BGAs which underpin the Scottish Budget use the IPC model. For the 2022-23 Scottish Budget, IPC-calculated BGAs were based on forecasts published by the Office for Budget Responsibility (OBR) alongside the 2021 UK Autumn Statement that preceded the Scottish Budget.

39. These forecast BGAs were subsequently used to calculate the in-year reconciliations, on the basis of the comparison between the BGAs which underpinned the 2022-23 Scottish Budget and the BGAs agreed at the 2022 UK Autumn Statement. The in-year reconciliations compared BGAs on LBTT, SLfT and social security, resulting in a positive £42 million reconciliation.

Data update: Fiscal Framework Outturn Report 2022 and Scottish Government's Medium Term Financial Strategy

40. As established in the Written Agreement between the Scottish Government and the Finance and Constitution Committee[10], the Scottish Government published its annual Fiscal Framework Outturn Report on 27th September 2022. The report outlines tax and expenditure outturn data and the implications of this data on the following Scottish Budget.

41. Due to the Office for National Statistics (ONS) mid-year population estimates being delayed until December 2022, all outturn BGAs detailed in the Outturn Report are provisional, with the exception of the 2020-21 income tax BGA which is final.

[9] Fiscal framework data annex: December 2022 - gov.scot (www.gov.scot)
[10] Written Agreements - Parliamentary Business : Scottish Parliament

42. Table 18 of the Outturn Report shows the total provisional reconciliations for the 2023-24 for the Scottish Budget of £22.5 million. This is the net impact of the revenue and BGA reconciliations for Income Tax for 2020-21, and for the BGA reconciliations for fully devolved taxes, Fines, Forfeitures and Fixed Penalties, and Social Security Benefits Expenditure for 2021-22.

43. The Scottish Government's Medium-Term Financial Strategy (MTFS)[11] was published in May 2022. Annex B (Fiscal Framework) outlines the forecasts for tax revenues and BGAs, social security benefits expenditure and BGAs, and forecast reconciliations for tax, social security and non-tax revenue.

Impact of ONS population delay on Scottish Budget 2022-23

44. Due to the delay of the ONS population estimates for 2021, it was agreed that the provisional final reconciliation of £22.5 million would be applied to the Scottish Budget, with potential for a further reconciliation once ONS figures were published in December 2022.

45. On 21st December 2021 ONS published their mid-year estimates for 2021 and HM Treasury provided a corresponding set of updated BGAs for devolved taxes and social security expenditure.

46. However, Scottish Government and HM Treasury officials identified potential for the inclusion of census data within the latest ONS statistics to distort BGA calculations. Specifically the impact of census data on relative population growth rates and the fact that census data is available for the rest of the UK (rUK) but not Scotland because of Scotland's delayed census publication.

47. Latest ONS data suggests that Scotland enjoyed higher population growth than rUK, a reversal of a long-term trend which is more likely to be down to inconsistent data. Officials from SG and HMT are considering how best to manage the impact of census data in ONS forecasts, and mitigate any distortion of BGA calculations or unnecessary volatility in the Scottish Budget.

48. In the interim, the provisional reconciliation applied at the 2023-24 Scottish Budget will continue to be used. HMT took the same approach to calculating its 2023 Budget.

[11] Scotland's Fiscal Outlook: The Scottish Government's Medium-Term Financial Strategy - gov.scot (www.gov.scot)

Income Tax Reconciliation

49. Outturn data for Income Tax for 2020-21 was published by HMRC on 7 July 2022 and a reconciliation of positive £50.4 million was applied to the Scottish Budget 2022-23. This was the fourth income tax reconciliation since the implementation of the Fiscal Framework. Further information on the reconciliation can be found in the Fiscal Framework Outturn Report[12].

[12] Fiscal framework outturn report: 2022 - gov.scot (www.gov.scot)

6. Borrowing and Scotland Reserve

Capital Borrowing

50. Since 1 April 2017, the Scottish Government has had the power to borrow up to £450 million each year, up to a maximum total of £3 billion, to support investment in capital infrastructure.

2022-23 drawdown

51. The Scottish Government borrowed £300 million in 2022-23 to support Infrastructure and Investment expenditure.

52. The borrowing was drawn down from the National Loans Fund on 30th March. This will be repaid over fifteen years at an interest rate of 3.48%.

2023-24 borrowing plans

53. The 2023-24 Scottish Budget, outlined plans to allow for £450 million of Capital funding to be made available from borrowing and other funding sources. In line with the Scottish Government's Capital Borrowing policy, the initial assumption is that £250 million of this will be funded through borrowing at a tenor of fifteen years.

54. The Scottish Government's medium term financial strategy details the Scottish Government Capital Borrowing Policy. Borrowing £250 million at a tenor of fifteen years is almost indefinitely sustainable in long term under the fiscal framework even within the £3 billion cumulative limit imposed by the fiscal framework agreement.

55. Final decisions on the specific borrowing arrangements for 2023-24 are taken over the course of the year, reflecting an on-going assessment of programme requirements and value for money assessment of the options available. Final borrowing decisions for 2023-24 will not therefore be taken before March 2024.

Capital debt stock

56. The Scottish Government has accumulated £2,026 million in capital debt as at the end of 2022-23, 68% of its overall limit. Details of the capital borrowing and repayment schedule can be found in Table 6.1.

Table 6.1: Capital Borrowing and Repayment Schedule (£ million)

£million	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2031-32
Debt stock at start of Year	607	1,036	1,258	1,617	1,744	1,814	2,026	2,177	2,312	2,434	2,541	2,633	2,710	2,784
New In Year Borrowing	450	250	405	200	150	300	250	250	250	250	250	250	250	250
Principal Repayments	-	7	26	52	60	67	79	88	89	91	92	94	82	70
Interest Repayments	-	8	11	13	14	16	24	24	23	22	19	18	16	15
Total Resource Cost	-	**15**	**37**	**64**	**74**	**83**	**103**	**112**	**112**	**112**	**111**	**111**	**98**	**85**
Resource Cost of Projected Borrowing	-	-	-	-	-	-	-	15	38	61	84	107	130	154
Projected Total Resource Cost	**0**	**15**	**37**	**64**	**74**	**83**	**103**	**127**	**150**	**173**	**195**	**218**	**229**	**239**
Notional Borrowing Repayments	9.4	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5
Debt Stock at end of Year	1,036	1,258	1,617	1,744	1,814	2,026	2,177	2,312	2,434	2,541	2,633	2,710	2,784	2,855
Percentage of Debt Cap	35%	42%	54%	58%	60%	68%	73%	77%	81%	85%	88%	90%	93%	95%
Headroom	1,964	1,742	1,383	1,256	1,186	974	823	688	566	459	367	290	216	145

Projected Borrowing based on Scottish Government Capital Borrowing Policy with interest calculated on forward rates as of 27/04/2023. A 50 basis point premium is applied to all interest rate assumptions

Resource Borrowing

57. Since 1 April 2017, the Scottish Government has had the power to borrow up to £600 million each year within a statutory overall limit for resource borrowing of £1.75 billion.

58. The Fiscal Framework sets out the conditions and limits for elements of resource borrowing:
   i. for in-year cash management, an annual limit of £500 million;
   ii. for forecast error in relation to devolved and assigned taxes and social security benefits expenditure, and corresponding BGAs, an annual limit of £300 million; and
   iii. for any observed or forecast shortfall in relation to devolved and assigned taxes or social security benefits expenditure incurred where there is or is forecast to be a Scotland-specific economic shock, an annual limit of £600 million.
   iv. Resource Borrowing must be drawn down from the National Loans Fund and the term structure must be between 3 and 5 years.

59. A Scotland Specific Economic Shock was triggered in 2021-22 and therefore the annual Resource Borrowing Limit for forecast error reconciliations increases to £600 million for the period between 2021-22 and 2023-24.

2022-23 drawdown

60. In 2022-23 the Scottish Government borrowed £47 million from the National Loans Fund at an interest rate of 3.68% over a five-year repayment period. This was in respect of final reconciliations relating to 2019-20 Scottish Income Tax, 2020-21 fully devolved taxes and social security BGA reconciliations, and in-year variances on 2022-23 social security and devolved tax positions. This represented an increase of £32 million against the plans outlined at the 2022-23 Scottish Budget.

2023-24 borrowing plans

61. In the 2023-24 Scottish Budget Scottish Ministers plan to borrow £41 million to address adverse tax and social security reconciliations.

62. Borrowing decisions for 2023-24 will be finalised in March 2024 given the revised reconciliation profile and in the context of the overall resource budget monitoring position and the latest forecasts of future year funding availability.

Table 6.2: Resource Borrowing and Repayment Schedule (£ million)

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Debt Stock at start of Year	207	505	480	414	596	446	286
New In Year Borrowing	319	47	41	300	0	0	0
Principal Repayments	21	72	108	117	150	160	110
Interest Repayments	0	4	6	6	15	13	9
Total Resource Cost	**21**	**77**	**114**	**124**	**166**	**174**	**120**
Debt Stock at end of Year	505	480	414	596	446	286	176
Percentage of Debt Cap	29%	27%	24%	34%	25%	16%	10%
Headroom	1,245	1,270	1,336	1,154	1,304	1,464	1,574

Scotland Reserve

63. The Scotland Reserve has applied since 1 April 2017. It replaces the Budget Exchange mechanism and enables the Scottish Government to manage volatility associated with its fiscal powers. The Scotland Reserve is capped in aggregate at £700 million, with annual drawdown limited to £250 million for resource and £100 million for capital. There are no annual limits for payments into the Scotland Reserve.

64. In years impacted by a Scotland Specific Economic shock, the drawdown limits are waived. Therefore there are no restrictions on drawdowns for the period between 2021-22 and 2023-24

2022-23 Reserve Position

65. The latest forecast Scotland Reserve position is detailed below. 2022-23 drawdown plans are unlikely to change materially however additions are subject to provisional and final outturn processes. The final Scotland Reserve position for 2022-23 will not therefore be confirmed until later in the calendar year.

Table 6.3: 2022-23 Forecast Reserve position (£ million)

	Resource	**Capital**	**FTs**	**Total**
2022-23 Opening balance	605	81	14	**700**
2022-23 Drawdowns	(605)	(81)	(14)	**(700)**
2022-23 Forecast Additions*	0	0	50	**50**
Forecast Balance	**0**	**0**	**50**	**50**

**2022-23 Additions will be determined by the outturn versus final HM Treasury budgets. Figures in this table are indicative (but in line with 2023-24 Scottish Budget assumptions) updates will be provided to the Scottish Parliament through Provisional and Final Outturn processes.*

7. Social Security

Part 3 of the Scotland Act 2016 contains 14 Sections relating to social security and employment support.

The Scottish Government is responsible for the implementation of these powers, ensuring the safe and secure transition of the benefits being devolved to Scotland and the design of new benefits as part of a Scottish social security system with dignity, fairness and respect at its heart. To achieve this, the Social Security Programme was established and a new agency, Social Security Scotland, created.

Social Security Scotland operates in accordance with the eight principles set out in the Social Security Charter and Social Security (Scotland) Act 2018. This sets the framework to ensure that social security in Scotland meets the needs of Scottish citizens.

Social Security Scotland is already successfully delivering thirteen benefits and, once fully transferred, the Scottish Parliament and Scottish Government will be responsible for the delivery of 16.5 million payments per year, worth £6 billion by 2024-25 to an estimated two million people in Scotland.

Costs

Table 7.1: Implementation and Administrative Costs

£m	**2020-21**	**2021-22**	**2022-23**
Social Security Scotland	131	206	308
Advice, Policy and Programme	123	148	177
Of which: Programme Implementation	*104*	*104*	*111*

66. The costs set out in Table 7.1 have been updated following last year's report and are either audited outturn or budget. Social Security Scotland includes a range of administration and operational costs to support the delivery of payments and services. The work that the Scottish Government undertakes is funded from the Advice, Policy and Programme budget line within the Scottish Government's Social Justice Portfolio. The table shows the Resource and Capital costs of the work that the Scottish Government undertakes, including the Implementation Costs of the Social Security Programme. The figure excludes the allocated share of the Scottish Government's Corporate Running Costs and ring-fenced non-cash Depreciation.

67. A more detailed breakdown can be found in the updated Social Security Programme Business Case (PBC), published in February 2023[13]. The costs detailed in the PBC reflect the necessary changes stemming from the pandemic including an additional year of delivery to support safe and secure benefit delivery and case transfer the awards of around 700,000 clients from DWP to Social Security Scotland, as well as adding the Scottish Child Payment extension into the Programme and providing increased functionality for our most complex benefits.

68. The PBC provides a view on the whole-life costs and benefits of the Scottish Government's Social Security Programme, over a 30-year timeframe to 2050. It shows the Scottish Government's investment in creating a new public service for Scotland, co-designed by those with lived experience and built from scratch with dignity, fairness and respect at its heart, which will deliver for the people of Scotland for years to come.

69. Executive competence for Carer's Allowance transferred to the Scottish Government on 1 September 2018, and for Attendance Allowance, Disability Living Allowance, Personal Independence Payment, Industrial Injuries Disablement Benefit, and Severe Disablement Allowance on 1 April 2020. The Department for Work and Pensions (DWP) continues to administer these benefits through Agency Agreements on behalf of Scottish Ministers, while Scottish benefits are launched and cases transferred from DWP. For 2022-23, Social Security Scotland has budgeted that £62 million for Agency Agreements. The Agency Agreement costs the Scottish Government accepts from the DWP are scrutinised to ensure validity, consistency and compliance with jointly agreed inclusions and exclusions. Agency Agreement costs will reduce over time as Social Security Scotland administers new Scottish benefits replacing the DWP benefits.

70. The Scottish Government funds implementation costs incurred by the UK Government as a result of the devolution of welfare powers. For 2022-23 the PBC includes a forecast of £14 million for implementation recharges.

The Social Security (Scotland) Act 2018

71. The over-arching framework for use of the Scottish Government's Social Security powers is set out in the Social Security (Scotland) Act 2018. The rules relating to individual benefits are set out in regulations made under enabling powers in the 2018 Act. In 2022-23 regulations have been made covering the introduction of Winter Heating Payment, extension of Scottish Child Payment and for case transfer from working age Disability Living Allowance to Adult Disability Payment. In addition, regulations were amended relating to Best Start Foods, Best Start Grant and Child Winter Heating Assistance, as well as the annual legislation relating to the uprating of devolved benefits.

[13] Social Security Programme Business Case: February 2023

Social Security Scotland

72. Social Security Scotland was established to deliver on the Scottish Minister's obligations under the 2018 Act and the Agency delivers its services in accordance with the eight principles set out in the Act and a Social Security Charter. The Agency is founded on the values of treating people with dignity, fairness and respect.

73. In November 2022 Social Security Scotland published its annual Client Survey, covering the period from March 2021 to April 2022, which showed that people continue to have a very positive experience of Social Security Scotland. 89% of people responding to the survey said their overall experience was 'very good' or 'good'; and 94% of people who had been in touch with a member of staff at Social Security Scotland reported that they had been treated with kindness.

74. Social Security Scotland recruited extensively over 2021 and 2022 to support the delivery of existing benefits and planned service growth, delivering on the First Minister's pledge in September 2021 to create 2,000 new jobs over the following 12 months. As of 31 December 2022 the Agency directly employed over 3,800 Full Time Equivalent staff across its various sites. It delivered over £4 billion of benefit payments in 2022-23; £3.4 billion through Agency Agreements and around £0.6 billion directly. Further details of this spending will be provided in Social Security Scotland's Annual Report and Accounts for 2022-23, which will be published in October 2023, in accordance with statutory timescales.

75. With the launch of Winter Heating Payment in February 2023, Social Security Scotland's service has now expanded to thirteen separate benefit payments, seven of which are entirely new forms of financial support available only in Scotland. Social Security Scotland will continue to build capacity and capability with a focus on efficiency in 2023-24 as it prepares for the launch of the remaining Scottish Government benefits, including beginning to roll out Carer Support Payment by the end of 2023.

Benefits Launched

Adult Disability Payment

76. Adult Disability Payment (ADP) is the Scottish Government replacement for Personal Independence Payment. Our new, person-centred decision making process is intended to ensure everyone is treated with dignity, fairness and respect. Following a phased pilot rollout, which began on 21 March 2022, Adult Disability Payment opened for new applications in all areas across Scotland on 29 August 2022. This benefit will support an estimated 414,000 people in 2023-24.

77. As of 31 January 2023, 23,660 people were in receipt of Adult Disability Payment. Between 21 March 2022 and 31 January 2023, the total value of payments issued was £33.3 million.

Scottish Child Payment

78. We have invested £226 million in 2022-23 in Scottish Child Payment – the most ambitious child poverty reduction measure in the UK. In April 2022 the value of Scottish Child Payment was doubled to £20. On 14 November 2022 this payment was further increased to £25 per eligible child, per week, and extended to eligible children up to under the age of 16 in Scotland.

79. This increased and extended payment could lift 50,000 children out of poverty, reducing overall child poverty by an estimated 5 percentage points in 2023-24. In 2023-24 the Scottish Fiscal Commission forecasts up to 338,000 children to be in receipt of Scottish Child Payment and benefit expenditure to reach up to £442 million.

80. We know that having to apply for benefits can be a barrier and prevent some families from accessing the support they are entitled to. That is why on 28 November 2022 we began to award Best Start Grant Early Learning Payment and School Age Payment automatically to eligible families in receipt of Scottish Child Payment, without the need to apply. Taking this action not only makes it easier for families but also helps us to maximise take-up and is expected to help reduce processing times.

81. Together with Best Start Grant and Best Start Foods, Scottish Child Payment will provide a package of financial support worth over £20,000 by the time an eligible family's first child turns sixteen.

Winter Heating Payment

82. Our new Winter Heating Payment was launched in February 2023 and replaces the UK Government's Cold Weather Payment providing stable, reliable annual support to around 400,000 low-income individuals with their heating expenses each winter. In winter 2022-23 the payment was £50. This will be increased in winter 2023-24 by 10.1%, to £55.05, to recognise the significant impact the cost of living crisis is having on these households. Payments started in February 2023 and were made automatically to eligible households throughout February and March.

83. We consulted between December 2021 and February 2022 on the proposed Winter Heating Payment policy. The consultation responses showed broad support for the introduction of Winter Heating Payment. Removing the cold spell requirement to provide a stable, reliable benefit has been welcomed by people with lived experience of the benefits system.

84. This benefit is an investment of more than £20 million each year (£23.6 million in 2023-24). For the majority of people, our payment will provide more support than they have received on average previously through the UK Government benefit.

Case Transfer

85. A joint project between the DWP and the Scottish Government will see the disability and carer benefit awards of around 700,000 Scottish clients transferred to Social Security Scotland and onto new Scottish forms of assistance.

86. We began transferring the awards of approximately 48,000 children and young people from Disability Living Allowance for children to Child Disability Payment on 11 October 2021. As of 31 December 2022, 41,370 children and young people were in receipt of Child Disability Payment as a result of our successful case transfer process. We aim to have the transfer process completed for over 99% of those in receipt of Disability Living Allowance for children in Spring 2023.

87. We began natural case transfer for Personal Independence Payment, following a successful pilot, and for Working Age Adult Disability Living Allowance awards when Adult Disability Payment launched nationally on 29 August 2022. Under the natural case transfer processes, people's awards are being selected for transfer where they report a relevant change of circumstances or when their award is due to be reviewed or come to an end. As of 31 January 2023, 12,010 people were in receipt of Adult Disability Payment as a result of our successful natural case transfer processes. A process of managed case transfer for all other people in receipt of Personal Independence Payment will begin in late Spring 2023.

Scottish Government policy development and implementation

88. During the reporting period we have launched Adult Disability Payment and Winter Heating Payment as well as extended Scottish Child Payment to under 16s and increased its value to £25, while continuing to develop systems and capability to support delivery of the remainder of the devolved benefits outlined in the Social Security (Scotland) Act 2018.

89. The Scottish Government also uprated all Scottish social security payments by 10.1% in April 2023 (except Scottish Child Payment which had already been uprated). This uprating included payments where this is a statutory requirement, as well as those where uprating is discretionary, in recognition of the difficulties being faced by many due to the increased cost of living. Scottish Child Payment was increased by 25% in November 2022 thereby bringing forward its uprating by four months and increasing its rate above inflation.

90. Further work on benefit delivery is also underway, including to commence roll out of Carer Support Payment with a pilot by the end of 2023, an independent review of Adult Disability Payment and continuing work with DWP to deliver the remaining Scottish Government benefits.

91. We are working towards national delivery of Carer Support Payment, our replacement for Carer's Allowance, by spring 2024, with roll out beginning with a pilot from the end of 2023, ensuring that it works better for the people of Scotland. Carer Support Payment will provide an improved service, designed with carers to meet their needs, and in line with our principles of fairness, dignity and respect. Our consultation on the benefit ran from February until May 2022, and we published our response on 27 March 2023, setting out our plans for Carer Support Payment from launch and future improvements. We are continuing to work with DWP to develop the processes needed to set up the benefit and start to transfer carers' benefits from Carer's Allowance.

92. Adult Disability Payment is now available across all of Scotland. We are committed to an independent review of Adult Disability Payment, commencing in autumn 2023, a year after national launch. A consultation about the eligibility criteria for the mobility component of ADP has recently closed and the findings will be published for the independent review to consider later in 2023.

93. Pension Age Disability Payment will replace Attendance Allowance, a benefit for people aged over state retirement age, with a pilot beginning from Autumn 2024. Attendance Allowance is awarded to help with extra costs if a disabled person needs someone to look after them. It is the Scottish Government's intention to provide this form of assistance for the same purpose – to mitigate costs associated with care needed as a result of being disabled.

94. Employment Injury Assistance (EIA), which replaces the UK Government's Industrial Injuries Scheme, will be one of the most complex disability benefits to deliver. In the next few months we intend to consult on the subject of EIA and the replacement of the current UK Government Industrial Injuries Disablement Benefits. The consultation will consider a range of issues relating to the delivery and administration of EIA.

95. A refreshed Programme Business Case setting out delivery plans for the current Programme to 2025 was published, and the updated delivery timetable presented in a Parliamentary Debated.

8. Employability

The Scotland Act 2016 gave Scottish Ministers the powers to deliver employability support that helps disabled people or those at risk of long-term employment to seek, obtain, and retain employment

£m	2019-20	2020-21	2021-22	2022-23
Implementation	0	0	0	0
Administration/Operation	18.7	25.7	30	£25.8m

Main Developments

96. Fair Start Scotland was launched in April 2018 and provides tailored, person-centred support to people who need help to find and stay in work, and to achieve their full potential. Unlike previous UK Government initiatives, participation in Fair Start Scotland is voluntary.

97. The service is currently delivered by a mixed economy of public, private, and third sector service providers, covering all of Scotland in nine regional "Lots".

98. The Scottish Government regularly publishes national statistics releases on Fair Start Scotland service performance, alongside independent evaluation reports and an annual report to the Scottish Parliament. The latest statistics release[14], covering the period from launch to end December 2022 shows that there were 54,030 starts and 18,819 job starts.

99. In January 2023, the Scottish Government published the fourth Fair Start Scotland Annual Report[15] alongside research reports[16] which provided an insight into participants experiences of the support they received while on the service.

100. The Annual Report highlights how the service adapted in the face of the emerging economic and cost crisis challenges, and in response to feedback from participants and partners. Performance analysis, research evidence and feedback from providers demonstrates how Fair Start Scotland continued to be a positive intervention for those who wish to move into fair and sustainable employment, through the provision of individualised tailored support.

[14] Scotland's Devolved Employment Services: Statistical Summary February 2023
[15] Fair Start Scotland - Year 4: Annual Report
[16] Fair Start Scotland Employability Service - Year 4: Online Survey Results
Fair Start Scotland Employability Service - Year 4: Focus Group Discussions

101. The report also details the increased demand for support with non-work-related barriers to employment during 2021/22. Mental health, housing and debt were all increasingly prominent challenges because of the economic climate and COVID-19.

102. An economic evaluation[17] of the service published in November 2021 demonstrated that Fair Start Scotland provides value for money and a positive return on investment, with benefit-cost ratios of 1.4, 1.6 and 2.0 from the perspective of participants, public finances, and society respectively.

103. Individual Placement and Support (IPS)[18] and Supported Employment[19] are integral parts of the Scottish employability support landscape. Independent reviews of each model within Fair Start Scotland were commissioned by the Scottish Government. The Supported Employment review was published in September 2022 and the IPS review was published in January 2023. These reviews will allow for success factors to be built upon, whilst identifying areas for improvement to ensure the continuation of this vital element of support for individuals as they move towards and into work.

104. Fair Start Scotland continuous improvement activity continues to focus on enhancing engagement with under-represented and under-supported groups and developing better support for individuals with more complex needs. The Fair Start Scotland delivery model has been developed in response to the easing of COVID restrictions and feedback to ensure that participants can work with their provider to establish what mode of service delivery works best for them and their individual needs.

105. Scottish Ministers are committed to supporting the continued development and delivery of devolved employability services. To realise our No One Left Behind ambitions, we are taking a collective approach to employability where Scottish and Local Government are working in partnership with third and private sectors and with service users to design, deliver and improve the Scottish approach to employability, ensuring that support is more flexible and responsive to individual and local labour market need.

106. Fair Start Scotland contracts are due to end in March 2023. However Scottish Ministers made the decision to extend Fair Start Scotland referrals for a final 12 months, commencing on 1 April 2023. Referrals will continue to be accepted to the service until 31 March 2024. The decision to extend Fair Start Scotland will support stability within the system and continue to provide employability support to people at risk of long-term unemployment over the next 12 months.

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[17] Fair Start Scotland: economic evaluation - gov.scot (www.gov.scot)

[18] Approach - Fair Start Scotland - individual placement and support review: findings - gov.scot (www.gov.scot)

[19] Supported employment: review report and Scottish Government response - gov.scot (www.gov.scot)

9. Fiscal Framework Implementation

The Fiscal Framework is an agreement made by the Scottish and UK Governments that determines how the Scottish Government is funded, as well as underpinning the powers set out in the Scotland Act 2016. This chapter covers further areas of Fiscal Framework implementation relevant to this report; progress on policy spillovers, the review of the Fiscal Framework and the scope of the review.

Progress on policy spillovers

107. The Fiscal Framework includes a provision for policy spillovers. This is when one government makes a policy decision that has an impact on the tax receipts or expenditure of the other. When this happens, the government that made that decision should reimburse the other in cases of additional costs, or receive a transfer in the case of a saving. Both governments must jointly agree on any decision or transfer relating to a spillover.

Personal Allowance Spillover

108. The Scottish and UK Governments sought a resolution to the dispute regarding a spillover claim in relation to UK Government increases to the income tax Personal Allowance.

109. Both parties agreed that above inflation increases to the Personal Allowance reduced Scottish Income Tax receipts since 2017-18, constitutes a policy spillover.

110. An agreement was reached in July 2022, with a settlement of £375 million made to the Scottish Government, settling the historic liabilities[20].

Social Security Spillovers

111. After carrying out analysis using the jointly agreed Social Security spillovers methodology, Scottish Government and DWP analysts agreed in November 2022 that the devolution of Scottish benefits produced no material spillover effects for either Government in 2021/22.

112. This analysis is underway for financial year 2022/23 and will again use the Social Security spillovers methodology to investigate if any passporting interactions between devolved and reserved benefits has led to any costs or savings for either Government.

[20] Update on income assumed at the 2022 23 Scottish Budget | Scottish Parliament Website

Fiscal Framework Review

113. The Fiscal Framework agreement states that a review of the Fiscal Framework should be undertaken by the Scottish and UK Governments after the Scottish Parliament elections in 2021, informed by an independent report.

114. It was agreed between the UK Chief Secretary to the Treasury and the Scottish Cabinet Secretary for Finance and the Economy in 2021 that the independent report would focus on the Block Grant Adjustments (BGA) arrangements only. Both ministers agreed that the review will have a wider scope than the report and that preparations for the review can be conducted alongside the independent report.

115. Both governments were clear that the report should not explicitly make recommendations on the BGA options, but instead assess the underlying risks relating to different options, in line with the Smith Commission principles.

116. The Scottish and UK Governments jointly commissioned the independent report on 27th June 2022. A first draft of the report, written by Professor David Bell, David Eiser and David Phillips has been submitted to both governments. No date has yet been agreed for publication of the independent report.

Scope of the Review

117. While the Scottish Cabinet Secretary for Finance and UK Chief Secretary to the Treasury have confirmed the review will be broader in scope, the exact details and timings of arrangements are still to be set, including the extent to which issues outwith the operation of the current framework are covered.

118. A key objective of the review for the Scottish Government is to ensure that Scotland has the required powers to manage the risks faced within the devolved responsibilities of the Scottish Government and Scottish Parliament, and to support economic recovery.

119. An important example of the limitations of the current arrangements, is the constrained borrowing and reserved limits, set at a £300 million annual borrowing for forecast error and a £700 million annual reserve limit with a £250 million drawdown cap. Forecast error can exceed these limits, and they are essentially being eroded over time by inflation. The Scottish Government are therefore keen to revisit these limits as part of the review.

120. The BGA methodology will be part of the scope of the review. The Scottish Government's position is that the current Index per Capita (IPC) BGA arrangement is effective in mitigating the impact of differential population growth, in line with the Smith Principle of 'no detriment'.

121. The 2016 agreement was clear that the BGA arrangements should be considered as part of the review of the framework, and that the ‘two governments will jointly agree’ the future BGA method as part of the review. The Scottish Government is clear that until such agreement is reached, the IPC model remains the default and continues as the basis for calculating the BGAs.

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Any enquiries regarding this publication should be sent to us at

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