



Date	10 January 2023
Agenda Item	10

Report to West Lothian Integration Joint Board

Report Title: AUTUMN STATEMENT AND SCOTTISH BUDGET ANNOUNCEMENTS

Report By: CHIEF FINANCE OFFICER

Summary of Report and Implications The purpose of this report is to provide the Board with an update in relation to the Chancellor of the Exchequer's UK Autumn Statement and on the Scottish Budget announced on 15 December 2022. The report also provides an update on the IJB's medium term financial plan for 2023/24 to 2027/28.

Purpose	This report: (tick any that apply).
	- seeks a decision <input checked="" type="checkbox"/>
	- is to provide assurance <input type="checkbox"/>
	- is for information <input checked="" type="checkbox"/>
	- is for discussion <input type="checkbox"/>
Recommendations	<p>It is recommended that the Board:</p> <ol style="list-style-type: none"> 1. Notes the latest economic position outlined in the Autumn Statement 2022 2. Notes the issue of the Scottish Draft Budget 2023, which includes departmental spending plans for 2023/24; 3. Notes the key economic and financial implications at a Scottish public sector wide level resulting from the Budget 4. Notes the initial funding implications for Local Government and Health Boards resulting from the 2023/24 Scottish budget 5. Agrees that the IJB Chief Officer and Chief Finance Officer should work with NHS Lothian and West Lothian Council to further assess the impact of the Scottish Budget and the funding related to the 2023/24 financial contribution to the IJB from partner bodies. 6. Notes the adverse movements in the projected medium term budget position since the issue of the IJB public consultation, with the increased estimated gap of £14.4 million for the period 2023/24 to 2025/26
Directions to NHS Lothian and/or West Lothian Council	A direction is not required.

Resource/ Finance/ Staffing	The Scottish Budget sets out funding for Health and Social care services.
Policy/Legal	None
Risk	No new financial risks arise from this report although there remains a risk that funding will be inadequate to deliver the IJB's new Strategic Plan.
Equality, Health Inequalities, Environmental and Sustainability Issues	The report has been assessed as having little or no relevance with regard to the Public Sector Equality Duty. As a result, an equality impact assessment has not been conducted.
Strategic Planning and Commissioning	Financial resources set out in the Scottish Budget will be used to support the delivery of the strategic plan and strategic commissioning plans.
Locality Planning	Financial resources set out in the Scottish Budget will be used to support the delivery of locality planning.
Engagement	This update is part of the ongoing briefing and consultation with Board members on financial issues.

Terms of Report	
1.	Background
1.1	The Chancellor of Exchequer delivered his Autumn Statement 2022 to the House of Commons on 17 November 2022. It included an assessment and forecast from the Office for Budget Responsibility (OBR) on borrowing, growth and employment.
1.2	The Cabinet Secretary for Finance, in a statement to the Scottish Parliament on 15 December 2022, announced the Scottish Draft Budget 2023/24. The draft Scottish Budget will be considered by the Scottish Parliament at readings of the Bill in early 2023. This process may potentially result in some changes to the final Scottish Budget approved for 2023/24.
2.	Autumn Statement 2022
2.1	<p>The Chancellor's Autumn Budget 2022 included the OBR's updated projections for the economy, growth and UK government borrowing. In summary, the economic announcements were as follows:</p> <ul style="list-style-type: none"> The OBR expects inflation to peak at 11.1% in quarter four 2022, compared with the peak of 8.7% in its March forecast. The OBR expects inflation to then fall over 2023 to 3.8% in quarter four 2023 and to fall below the 2% target by quarter two 2024. Inflation then turns negative between quarter three 2024 and quarter two 2026 as energy and food prices fall. Driven by falling consumption, the OBR forecasts a recession starting in quarter three 2022, with output falling 2.1% in total. The economy then forecast to grow by 1.3%, 2.6%, 2.7% and 2.2% in 2024, 2025, 2026 and 2027. Public sector net borrowing (PSNB) reached a post-war high of £312.6 billion in 2020/21. While PSNB fell back to £133.3 billion in 2021/22, this remained more than double the level seen in 2019/20. The government is expected to borrow £177 billion this year, which is £77.9 billion

higher than the OBR forecast in March. Borrowing is expected to fall by the end of the forecast. The OBR forecasts that, by 2027/28, PSNB will be reduced to £69.2 billion.

- Public sector net debt (PSND) increased from 85.0% of GDP in 2019/20 to 97.8% of GDP in 2021/22, and is now at its highest level since the 1960s.

2.2 The Autumn Statement confirms that total departmental spending will grow in real terms at 3.7% a year on average over the current Spending Review period. Within this, departments will identify savings to manage pressures from higher inflation, supported by an Efficiency and Savings Review.

2.3 To help reduce debt levels, for the years beyond the current Spending Review period, planned departmental resource spending will continue to grow, but slower than the economy, at 1% a year in real terms until 2027/28. Total departmental capital spending in 2024/25 will be maintained in cash terms until 2027/28, delivering £600 billion of investment over the next five years. This includes maintaining the UK government's commitments to deliver major infrastructure projects.

2.4 While delivering overall spending restraint, the UK Government is prioritising further investment in the NHS and social care, and in schools. Supporting these two public services is the UK government's priority for public spending.

2.5 The main spending commitments for public services in England included:

- Additional £3.3 billion in each of 2023/24 and 2024/25 to support the NHS in England.
- £1 billion of additional central government funding in England in 2023/24 for adult social care and discharge funding, increasing to £1.7 billion in 2024/25 to get people out of hospital on time and into social care.
- The core schools budget in England will receive an additional £2.3 billion of funding in 2023/24 and £2.3 billion in 2024/25. This restores 2010 levels of per pupil funding in real terms and provides an average cash increase for every pupil of more than £1,000 by 2024/25, compared to 2021/22.

3. Main Implications for Scotland of the Autumn Statement 2022

3.1 Scotland will receive an additional £1.5 billion over the next two years (2023/24 and 2024/25) through the Barnett consequentials. Fraser of Allander are reporting this is around £800 million in 2023/24 and £600 million in 2024/25. The additional Barnett consequentials for Scotland are from the increase in the NHS budget of £3.3 billion in each of the next two years, and the £2.3 billion that schools in England will receive in each of the two years.

3.2 The Scottish Government is free to spend these additional monies on any area of devolved competence, and does not need to replicate the UK Government's choices. There are no changes to the financial settlement for the current financial year (2022/23), meaning that the Scottish Government will have no additional flexibility in 2022/23 from the Autumn Statement.

4. Scottish Draft Budget - Total Spending in Scotland

4.1 In overall terms Scotland's total proposed spending plans, as set out in the Budget 2023/24, amount to £59,813 million, an increase of £3,471 million compared to the Scottish Budget 2022/23. The allocations per portfolio are set out in Table 1 below.

4.2 In terms of Table 1, funding for Health Boards is contained within the Health and Social Care portfolio, while funding for local authorities is largely included in the Social Justice, Housing and Local Government line, although some elements of IJB funding are presented in the Health and Social Care portfolio.

Table 1 – Total Scottish Budget by Portfolio

Portfolio	2022/23 Budget £'M	2023/24 Draft Budget £'M	Movement £'M
Health and Social Care	18,044	19,161	1,117
Social Justice, Housing & Local Government	16,844	18,297	1,453
Finance and Economy	8,051	8,401	350
Education & Skills	4,146	4,241	95
Justice and Veterans	3,146	3,366	220
Net Zero, Energy & Transport	4,413	4,648	235
Rural Affairs & Islands	966	965	(1)
Constitution, External Affairs & Culture	370	347	(23)
Deputy First Minister & Covid Recovery	43	45	2
Crown Office and Procurator Fiscal Service	180	197	17
Scottish Parliament and Audit Scotland	140	146	6
TOTAL	56,343	59,813	3,470

- 4.3 The Scottish Budget suggests that devolved public service spending will increase by 1.9% in real terms between 2022/23 and 2023/24. This is an improvement compared to the May Spending Review, which indicated that spending was set to fall by 1.0% in real terms. This improvement is largely a result of additional funding from the UK government for the next two years in last month's Autumn Statement, as well as upgrades in the Scottish Fiscal Commission's forecasts for Scottish tax revenues relative to the rest of the UK.

5. Devolved Taxation

- 5.1 The Scottish Government spending plans are underpinned by revenue raising tax powers devolved by the Scotland Act 2016. In 2022/23, tax revenues raised in Scotland will fund around £19.7 billion of Scottish Government expenditure. The Scottish Fiscal Commission (SFC), which is an independent statutory body, is responsible for producing revenue forecasts for fully devolved taxes and non-savings non dividend (NSND) income tax. All forecast revenues underpinning the Scottish Budget are produced by the SFC.

5.2 Scottish Income Tax

The Scotland Act 2016 confers on the Scottish Parliament the power to set all income tax rates and the threshold of bands (above the Personal Allowance) that apply to the NSND income from Scottish taxpayers. The Scottish Government will receive all the revenue raised from NSND income tax in Scotland as a consequence of rates and bands set by the Scottish Parliament.

- 5.3 The thresholds of the proposed Scottish Income Tax bands for 2022/23 are as follows:

Table 2 – Scottish Income Tax Rates

Scottish Income Tax Rates	Scottish Bands
Scottish Starter Rate 19%	Over £12,570 to £14,732
Scottish Basic Rate 20%	Over £14,732 to £25,688
Scottish Intermediate Rate 21%	Over £25,688 to £43,662
Scottish Higher Rate 42%	Over £43,662 to £125,140
Scottish Additional Rate 47%	Over £125,140

- 5.4 The Scottish Government have decided to freeze the Scottish basic, intermediate and higher rate thresholds in cash terms, and to reduce the threshold at which the top rate of tax becomes payable, from £150,000 to £125,140. Both these changes are in line with UK Government decisions made at the Autumn Statement. The Scottish Government have also announced increases in the top rates of income tax in Scotland, with 1p increases in both the additional and top rates of tax, to 42p and 47p, respectively.

5.5 Other devolved taxes to Scotland are the Land and Buildings Transaction Tax (LBTT) and the Scottish Landfill Tax. The Scottish government have also announced an increase in LBTT paid on additional properties from 4% to 6% which the SFC suggest will generate an additional £34m in 2023/24.

6. Public Sector Pay Policy

6.1 Departing from tradition, the Scottish Government has at this time chosen not to publish formal guidelines for public sector pay in 2023/24. The Deputy First Minister highlighted the uncertain outlook for inflation and a need to conclude ongoing pay negotiations as the key reasons for holding back until the new year. Given that public sector pay accounts for over £22 billion in spending each year, the lack of a clear position on pay in next year's budget represents a significant area of uncertainty.

7. Welfare Changes

7.1 The Scotland Act 2016 devolved various areas of social security to Scotland – mainly related to carers and disability benefits. The Social Security (Scotland) Act 2018 received Royal Assent on 1 June 2018, with Scottish social security benefits now being delivered. The Scottish Government has been implementing the devolved powers on a phased basis and new social security powers over Attendance Allowance, Disability Allowance, Industrial Injuries Disablement Allowance, Personal Independence Payments and Severe Disablement Allowance commenced in 2020/21.

7.2 Social security powers transferred to Scotland need to be managed within HM Treasury budget control limits and this has introduced increased volatility into the Scottish Budget. Any increase in demand against what has been forecast by the SFC needs to be managed through a combination of drawing down funding from the Scotland reserve, utilising resource borrowing powers or in-year adjustments to other budgets.

7.3 The SFC forecast social security will increase from £4.2 billion in 2022/23 to £7.3 billion in 2027/28. The SFC expects social security spend to be £0.8 billion above the Block Grant Adjustment (BGA) next year and rise to £1.4 billion more than the BGA by the end of the forecast period in 2027/28

8. Scottish Economic Growth

8.1 The SFC contributes to the Scottish Budget process by providing independent and official forecasts for the economy and labour market, devolved tax revenues and devolved social security spending. As income tax has been devolved to Scotland, economic forecasts have an impact on income tax estimates. The Scottish Budget is based on forecasts and, as information on actual revenues and spending becomes available, the Scottish Government's funding is altered in response.

8.2 The SFC forecasts, published alongside the draft Scottish Budget, predict a shallow recession with a return to the early 2022 peak by early 2025, along with higher inflation than previously expected. In the medium term, growth in the Scottish economy (GDP), and in real terms earnings, is higher than before while inflation falls well below target and turns negative in 2025/26. Both shifts are in line with UK forecasts made by the Office for Budget Responsibility (OBR). The decline in GDP is due to drops in consumption, trade, and private investment over 2023/24, given the high cost of living, higher interest rates, and ongoing trade difficulties due to the UK's exit from the EU.

8.3 The SFC's income tax forecast for 2023/24 has increased by £1.497 billion compared to their December 2021 forecast. SFC expect high inflation leading to increased nominal earnings growth to generate a significant increase in income tax revenue. The Scottish Government's policy decision to freeze thresholds and increase the higher and top rate of tax will also increase tax revenue.

- 8.4 The SFC state, when the global energy price shock arrived in early 2022, the Scottish economy was still recovering from the impact of health restrictions, labour shortages and supply chain disruptions associated with Covid-19. Throughout 2022, the impact of higher energy prices and the acceleration of wage pressures has worsened. The economy has also been adjusting to Brexit as well as the long-term evolution of the oil and gas industry in the North East of Scotland. The SFC note there is no comparable period in recent economic history when the economy has been hit by two global shocks in immediate succession while adjusting to other significant domestic pressures.

9. Local Government Funding Implications

- 9.1 In 2023/24, the published Scottish Budget shows the total managed expenditure available within the local government portfolio is £11.684 billion. This figure includes general revenue and capital grant funding, specific revenue and capital grants, as well as an estimate of non-domestic rate income. There are a number of other funding allocations linked to individual policy initiatives held within other spending portfolios that are also made available to Local Government. The formula share of the revenue grant, non-domestic rate income and capital grant for each council was set out in Finance Circular 11/2022, published on 20 December 2022 although it should be noted that at the time of writing a revised circular is due to be issued in early January 2023 as errors in funding require to be corrected.
- 9.2 Analysis by COSLA has set out that the overall revenue provided by the Scottish Government to local government in 2023/24 will increase in cash terms by £498 million. Much of the increase in revenue funding is attributed to the addition of ring-fenced funding which is earmarked for the additional costs of delivery of Scottish Government priorities. After accounting for ringfenced funding the actual movement in core revenue funding has been estimated at this stage to increase by £71 million, as set out in COSLA's budget reality analysis below:

Table 3 – COSLA's Budget Reality – 2023/24 Revenue Budget

	£M
Cash Increase in Revenue Funding for Local Government	498.0
<u>Less: Scottish Government Commitments</u>	
Recurring 2022/23 Pay	(140.0)
Health and Social Care	(115.0)
Whole Family Wellbeing Support	(32.0)
Other Commitments	(35.0)
<u>Less: Other</u>	
Devolution of Empty Property Relief	(105.0)
Cash Increase in Revenue Funding for Local Government	71.0

- 9.3 In terms of additional funding for Social Care, an additional £115 million will be transferred from the Health and Social Care portfolio to Local Authorities to support social care and integration. This funding relates to £100 million to increase the real living wage to £10.90 per hour for adult social care and £15 million to support the costs associated with uprating Free Personal and Nursing Care rates.
- 9.4 This funding is to be additional to each council's 2022/23 recurring budgets for social care and not substitutional. This means that the full benefit of this additional funding of £115 million is to be allocated to Integration Authority delegated functions.

10. West Lothian Council Funding Implications

10.1 The current draft 2023/24 Scottish Government funding for West Lothian Council is £406.005 million, which is currently estimated to be £14.8 million greater than the equivalent figure in 2022/23 and includes assumptions regarding funding for items which have yet to be distributed and therefore are subject to change.

10.2 It is important to note that much of this funding increase relates to costs associated with additional Scottish Government policy and 2022/23 pay award commitments and that the Local Government Settlement is still subject to confirmation. The council's most recently reported budget gap for the period 2023/24 to 2027/28 showed an estimated budget gap of £57.7 million and a revised position taking account of confirmed funding is anticipated to be reported to Council Executive on 17 January 2023.

11. Initial Implications for NHS Boards

11.1 Along with the 2023/24 Scottish Budget announcement on 15 December 2022, a letter was issued from the Director of Health Finance and Governance at the Scottish Government setting out further information on 2023/24 budget allocations to NHS Boards.

11.2 Budget Uplift

Compared to 2022/23 budgets, Boards will receive a total increase of 5.9% for 2023/24. This includes recurring funding for current 2022/23 pay assumptions and a baseline uplift of 2% for 2023/24. Those Boards furthest away from NRAC parity will receive a share of £23.2 million, which will continue to maintain all Boards within 0.8% of parity. This will result in a cash terms uplift of £252.2 million in 2023/24 in baseline funding for NHS Territorial Boards, equivalent to an overall 2.28% uplift.

11.3 In terms of pay, given the challenging and uncertain outlook for inflation, the need to conclude some pay deals for the current year and the associated implications for spending baselines, the Government has not set out a public sector pay policy alongside the 2023/24 budget and intends to provide an update on this at an appropriate point in the new year. The letter also confirms that the £19.1 million allocated in 2022/23 to support Boards with the costs of the additional National Insurance levy will remain with Boards and can be determined locally how this resource is to be utilised.

11.4 Covid-19 Funding

While the scale of Covid-19 costs has reduced significantly in 2022/23 and is projected to reduce further in 2023/24, the letter notes that there are specific legacy costs that will require additional funding support in the new financial year. This includes funding for:

- Vaccinations staffing and delivery
- Test & protect activities including Regional Testing facilities
- Additional PPE requirements
- Some specific Public Health measures

11.5 The Scottish Government have advised that they will seek to provide further clarity as to the total funding that will be provided to support these costs. However, beyond the above costs, the Scottish Government expects NHS Boards and Integration Authorities to meet remaining Covid-19 costs from baseline funding and to continue to drive these costs down as far as possible.

11.6 Policy Funding

In addition to the baseline uplift noted above, funding aligned to policy commitments and recovery of health and social care services will be allocated to Boards and Integration Authorities in 2023/24. It is intended to provide early indication of allocations, where possible, and to align this

to the planning guidance that will be issued in relation to Annual Delivery Plans, setting out the priorities for health and social care in the coming year.

11.7 2023/24 Financial Planning

The letter notes that NHS Boards will be asked to submit financial recovery plans in the new year, setting out a return to financial balance over a three year period. It is noted that a significant financial challenge is faced and that longer term work is required to move out of recovery, towards transformation and renewal of service delivery which will reflect work being progressed through the Sustainability and Value (S&V) programme that all Boards are engaging in.

12. **NHS Lothian Funding Implications**

12.1 In terms of NHS Lothian, the funding letter from the Director of Health Finance and Governance sets out an overall cash increase of £49.6 million (3%) compared to 2022/23 baseline funding. This reflects a 2% funding uplift (£33.9 million) plus an additional £15.7 million of NRAC funding. This increases total baseline funding for NHS Lothian to £1,743.3 million in 2023/24.

12.2 Further work is currently progressing to assess the implications for the 2023/24 NHS Lothian budget and for those functions delegated to the IJB.

13. **High Level Considerations and Implications for West Lothian IJB**

13.1 Based on the 2023/24 Scottish Budget, Partner bodies are now in a more informed position to consider their 2023/24 financial plan, subject to a revised Local Government Circular being received. The implications of the budget announcement on previous 2023/24 budget and funding assumptions are currently being assessed by both partner bodies. The impact of Covid-19 during 2023/24 also remains a significant uncertainty with no funding amounts being confirmed to date.

13.2 An important element of partner body 2023/24 budget planning will be the delegated budget contributions made to the IJB for 2023/24. With regard to this, the IJB Chief Officer and Chief Finance Officer are liaising closely with both partner bodies as part of the due diligence and financial assurance assessment that will be undertaken on the annual contribution to the IJB. It is proposed that the 2023/24 budget contributions to the IJB will be reported to the Board on 21 March 2023 along with a proposed medium term financial plan.

14. **Medium Term Financial Outlook 2023/24 to 2027/28**

14.1 Based on the assumptions used for the IJB consultation, a budget gap of £22.9 million was identified over the five year period but this has now increased to £25.7 million based largely on recently updated social care inflation and demographic assumptions. The IJB Consultation and potential saving areas covered the three year period to 2025/26 over which the gap was estimated to be £13.2 million but this has now increased to £14.4 million.

14.2 The financial outlook highlights the very significant additional costs associated with staff pay increases, inflationary costs and increasing demands and demographic pressures, and that although the overall budget funding resources available each year to meet core pressures are forecast to increase by on average just over £4 million per year it will not be sufficient to cover the increased average annual costs of over £9 million based on current staffing numbers and all models of care delivery continuing to be delivered as they are currently. Actual annual funding increases are a key risk and could be lower than assumed given the UK and Scottish Government fiscal positions and ongoing risks to the economy.

14.3 The updated financial outlook is summarised below.

Table 4 – Five Year Outlook	23/24 £'m	24/25 £'m	25/26 £'m	26/27 £'m	27/28 £'m	Total £'m
Health Functions						
Staffing	1.7	1.7	1.7	1.7	1.7	8.5
Inflation and Indexation	0.4	0.4	0.4	0.5	0.5	2.2
GP Prescribing	1.3	1.3	1.4	1.4	1.4	6.8
Other Growth and Demands	0.7	0.7	0.7	0.7	0.8	3.6
Gross Expenditure Increases	4.1	4.1	4.2	4.3	4.4	21.1
Additional Funding	(1.5)	(1.5)	(1.6)	(1.6)	(1.6)	(7.8)
Health Estimated Budget Gap	2.6	2.6	2.6	2.7	2.8	13.3
Social Care Functions						
Staffing	1.0	0.6	0.6	0.7	0.7	3.6
Inflation and Indexation	2.5	2.1	2.2	2.4	2.5	11.7
Demographics and Demands	2.0	1.9	2.0	2.2	2.3	10.4
Gross Expenditure Increases	5.5	4.6	4.8	5.3	5.5	25.7
Additional Funding	(3.3)	(2.5)	(2.5)	(2.5)	(2.5)	(13.3)
Social Care Estimated Budget Gap	2.2	2.1	2.3	2.8	3.0	12.4
Total IJB Estimated Budget Gap	4.8	4.7	4.9	5.5	5.8	25.7
Total IJB Estimated 3 Year Budget Gap			14.4			

- 14.4 In terms of pay costs, the assumptions above are based on 2% each year. There is a particular risk around the pay award for 2023/24 given that inflation is forecast to remain high during 2023. The table below shows the impact on the budget gap of higher % pay awards for 2023/24 should additional funding remain the same as current assumptions. As can be seen, if pay awards to this level were agreed with no additional funding, the implications could be significant. It would be hoped that as in previous years, Health staff pay awards would be fully funded by the Scottish Government although this would be subject to confirmation. Based on past years it is highly unlikely to be the case that the Scottish Government would fully fund social care staff pay costs should these exceed the current assumptions.

2023/24 Pay Award	2023/24 Potential Additional Budget Gap
%	£m
2	0
3	1.1
4	2.2
5	3.3

- 14.5 As outlined in the recent IJB consultation, officers have been identifying potential areas where savings could be made to help address the estimated budget gap. Comparing the estimated budget gap over the three year period (£14.4 million) to potential savings set out in the consultation of £9.7 million leaves a remaining budget gap of £4.7 million over the 3 years. Assumptions will continue to be updated to reflect further clarity required on the Scottish Budget and on agreed partner budget contributions to the IJB for 2023/24, and assumptions for future years. It will also be important that work continues to progress on developing budget saving proposals and identifying additional saving options, as necessary, over the three year period that can be reflected in the 2023/24 budget and three year budget plan presented to the Board in March 2023.

Appendices

None

References	Draft Scottish Budget 2023/24 published by the Scottish Government on 15 December 2022
Contact	Patrick Welsh, Chief Finance officer, West Lothian Integration Joint Board Email: Patrick.welsh@westlothian.gov.uk Tel. No: 01506 281320