University of Strathclyde Glasgow

Fraser of Allander Institute

Economic Commentary

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Deloitte.

Foreword

Last winter, the UK's economic outlook appeared bleak –rampant inflation, a dramatic fall in living standards, and a looming recession were creating uncertainty across the country. The outlook remains challenging but good news over the last few months in the form of lower energy prices, resilient economic activity and an improved outlook for other major economies has prompted upgrades to UK growth forecasts. Earlier this month, the Office for Budget Responsibility delivered its forecasts at the UK government's Spring Budget, which showed the UK economy would suffer a milder contraction this year than previously thought, and inflation would drop sharply to 2.9% by the end of the year.

The latest growth forecasts from the Fraser for 2023 and 2024 are also slightly less negative than at the time of the last Commentary in early February. Scotland's economy is now forecast to contract by -0.7% in 2023 (-1.0% forecast in Feb) and see growth in 2024 of 0.9% (0.6% forecast in Feb).

However, the economic backdrop is volatile and highly changeable. This has been demonstrated by February's unexpected increase in inflation (to 10.4%), announced just seven days after the Spring Budget, and the current turbulence in the banking sector, which has increased risks to growth.

The Bank of England raised interest rates to 4.25% earlier this month, their highest level for 14 years. Speaking after February's surprise jump in inflation the Bank's governor, Andrew Bailey, highlighted the risk of price pressures becoming embedded. He urged businesses to bear in mind inflation is expected to fall sharply this year when setting prices "…I would say to people who are setting prices - please understand, if we get inflation embedded, interest rates will have to go up further…".

My colleague Ian Stewart, Deloitte's Chief Economist in the UK, has commented that the events in the banking sector over the last few weeks represent what some see as the most challenging moment for the global banking system since the early days of the financial crash in 2008, with a combination of rising interest rates and slowing growth testing the financial system.[1] Banking problems are growth problems, material stress in the banking system tends to lead to a tightening of financial conditions, potentially dampening business confidence. The scale of the real economic impact will depend on whether other problems emerge and on the skill of policymakers.

The outlook is therefore complex, and this quarter's Commentary demonstrates many of the challenges facing our economy. Labour shortages and public sector strikes have resulted in 99 working days lost per 1,000 employees in Scotland between June and September 2022, contributing to mounting pressure on both our government and our public services.

Meanwhile consumers remain concerned about high inflation levels and the ongoing cost-of-living crisis, with expectations that living standards will not return to 2022 levels until 2026/7 at the earliest. Moreover, Scottish consumer sentiment[2] about current conditions was particularly low for household finances and spending, with expectations for household finances falling in Q4 of 2022. Also, that 42% of those surveyed by Consumer Scotland cited being unable to adequately heat their homes is very concerning.

1 Deloitte UK - Banking problems are growth problems
2 Scottish Government - Scottish Consumer Sentiment Indicator: 2022 Quarter 4

Yet, the Commentary also points to some recent positive signs from Scottish businesses. Despite the large majority of firms also seeing an increase in costs, overall business sentiment[3] has started to gradually recover, with slightly more businesses than not expecting an increase in the volume of business over the next six months.

With this in mind, the Chancellor's announcement at the Spring Budget for at least one Investment Zone in Scotland, focused on innovation-led growth, will be welcomed by many. Scotland's regions are full of businesses, entrepreneurs and innovators that can be helped by a catalyst of this type to unlock investment and, in turn, create productive jobs, attract talent, support sustainable communities and, ultimately, grow.

Of course, Investment Zones are just one of the ways the UK government is encouraging innovation and investment across the UK. Green freeports are another significant programme announced recently in Scotland, being led jointly by the UK Government and Scottish Government. Along with the increases in capital allowances, also announced in the Spring Budget, it is vital that businesses are aware of the wider grants and other tax incentives landscape when considering the location of their investment.

While there is some cross over in the reliefs available, the UK Government has been clear that these regimes are intended to complement each other, and an organisation's profile and stage in its lifecycle will be key factors together with existing footprint in Scotland when evaluating the opportunities and incentives available.

In addition, on the Fraser's call in this Commentary for more transparency around money allocated for the Scottish Budget (Barnett Consequentials) we would add two important points: firstly, self-evident, is that transparency aids scrutiny and good government. Secondly, Deloitte's own research has found that there is a link between an individual's understanding of the tax system and that individual's perceptions of fairness.[4] An understanding of the wider public finances is an extension of this acceptance, contributing to better compliance.

As this Commentary goes to print, the pace of change in our economy continues. A 'Green Day' is expected to take place this week, containing details of the UK Government's package of climate policies, not least of which is an updated Net Zero Strategy on the delivery of the UK's climate commitments. In Scotland, the appointment of a new First Minister, Humza Yousaf, is one of the most significant developments in Scottish politics for a decade and potentially provides the opportunity for a relationship re-set between business and government. There is no doubt that the implications of this moment for politics, public policy and businesses will be great. To ensure organisations remain agile and adaptive, it will be crucial for government and business to work together to plan for the long-term and invest for the future of the country.

Angela Mitchell
Senior Partner for Deloitte in Scotland
March 2023

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3 FAI - 25 years of the Scottish Business Monitor
4 Deloitte UK - The tax education gap: Majority of the UK don't understand personal tax

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Deloitte supports the production of the Fraser Economic Commentary. It has no control over its editorial content, including in particular the Institute's economic forecasts.

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ECONOMIC COMMENTARY

For regular analysis on the Scottish economy and public finances please see

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Summary

Uncertainty has increased in the outlook for the economy, as more positive economic news is mixed in with more worrying signs from the global banking system.

We are now forecasting a contraction of -0.7% in 2023, before returning to annual growth in 2024 of 0.9%. This is a slight revision up from our previous set of forecasts in February, reflecting the more positive than expected economic data at the beginning of 2023.

High inflation will be with us throughout 2023, and although we still expect it to come down as we compare to the much higher price levels of 2022, significant price rises, particularly in food, are continuing to put pressure on household budgets.

And, while the approach of the Bank of England to interest rate rises may be softening, they are still showing that they will be prepared to raise rates further to deal with persistently high inflation. This measure will weigh on demand as we move through 2023.

All of this means that the outlook is exceedingly uncertain, and there are a number of risks to the forecasts – many of which are to the downside.

The analysis we publish today covers some of the key headlines of the UK Spring Budget, which was presented on 15th March, focussing in particular on the impacts of the announcements on Scotland.

The outlook for the UK economy published by the Office for Budget Responsibility which accompanied the Budget was significantly more positive than in November. Two-thirds of the resultant fiscal wiggle room was used by the Chancellor for new announcements – although all of them were well trailed in advance, leaving many commentators wondering where the usual surprise announcements had gone.

One thing that was disappointing was the lack of clarity on the annual impacts on the Scottish Budget. Whilst a figure was announced in the Chancellor's speech, it was not clear how many years this covered or which years were affected. This is both unnecessary and unhelpful.

The UK government's response to climate change had limited coverage in the announcements. We understand that the UK government will be putting out more information this week on how they plan the meet their climate obligations, including their response to the Skidmore report.

What is not clear is to what extent these announcements will be accompanied with new funding, given the constraints against the Chancellor's fiscal rules.

Fraser of Allander Institute
March 2023

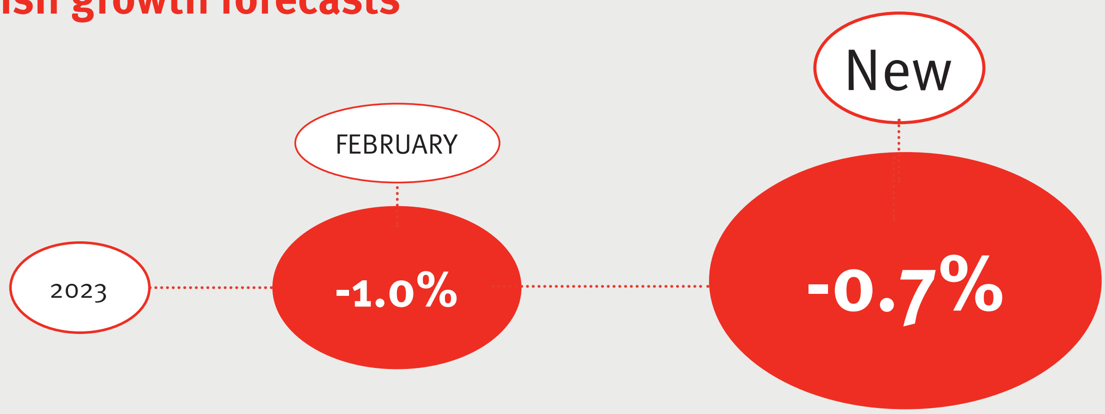
Fraser of Allander Institute

State of the economy

Indicator	% of 2019 Q4	Change on previous quarter	Performance	Latest data
Scottish GDP	99.7%	0.1%	▲	2022 Q4
Production	96.2%	0.2%	▲	
Construction	108.4%	0.6%	▲	
Services	99.7%	0.0%	▲	

Indicator	Level	Change on previous year, same month/ quarter	Trend	Latest data
Inflation (CPI)	--	10.4%		February 2023
Employment rate	76.5%	2.0 pp	▲	Nov 22 - Jan 23
Unemp. rate	3.1%	-0.7 pp	▼	
Inactivity rate	21.0%	-1.4 pp	▼	

Scottish growth forecasts



	2023	2024	2025
FAI *MARCH 2023*	-0.7%	0.9%	1.7%
FAI *FEBRUARY 2023*	-1.0%	0.6%	1.7%
FAI *OCTOBER 2023*	-0.6%	0.8%	0%

Outlook and Appraisal

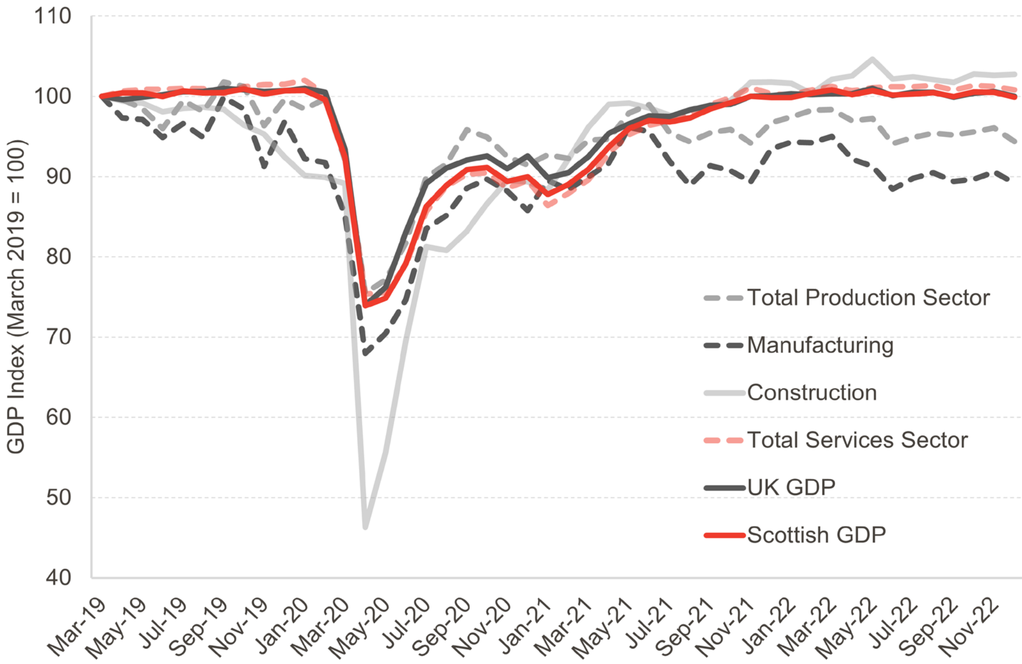
A new year

2023 started with a bit of optimism after the economy narrowly avoided a technical recession in the fourth quarter of last year.

Despite slightly improved forecasts for the Scottish and UK economies in the medium term, households and businesses continue to fight an uphill battle against the cost-of-living crisis.

Scottish GDP returned to pre-pandemic levels over the course of 2022, Chart 1.

Chart 1: Scottish and UK GDP growth indices with selected Scottish sectors March 2019 – December 2022

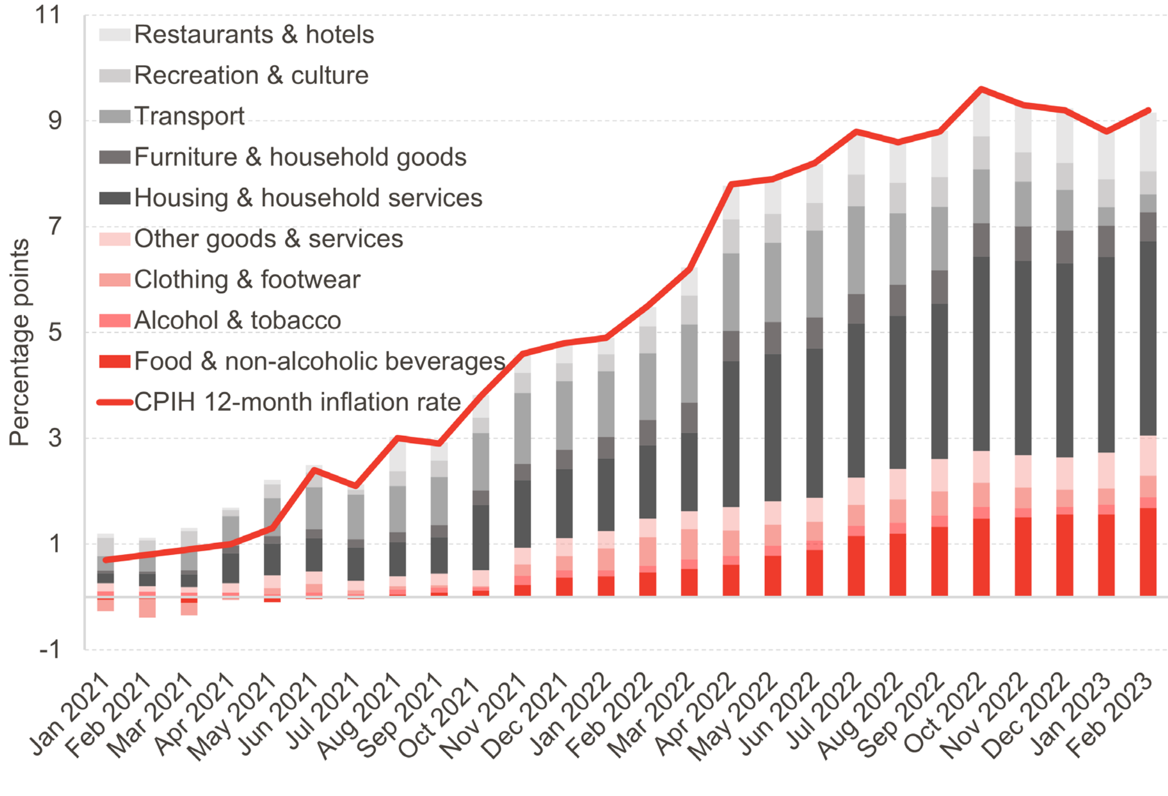


Source: Scottish Government, ONS

Growth was limited by the stagnation of the production and manufacturing sectors, both of which declined in early 2022 and have not risen above pre-pandemic levels.

The consumer price index including housing costs (CPIH) 12-month rate fell from its peak at 9.6% in October to 8.8% in January, but then unexpectedly increased to 9.2% in February, Chart 2.

Chart 2: Price change indices of top contributors to CPIH, January 2021 – January 2023



Source: ONS

The largest component of the rise in prices over the last year has been housing and household services, which includes both housing costs and household fuels such as electricity and gas.

In February, however, the rise in inflation was driven by contributions from restaurants and hotels, food and non-alcoholic beverages, and clothing and footwear. The majority of the change in the contribution of restaurants and hotels was from alcohol served in these businesses.[1]

Pressure on households

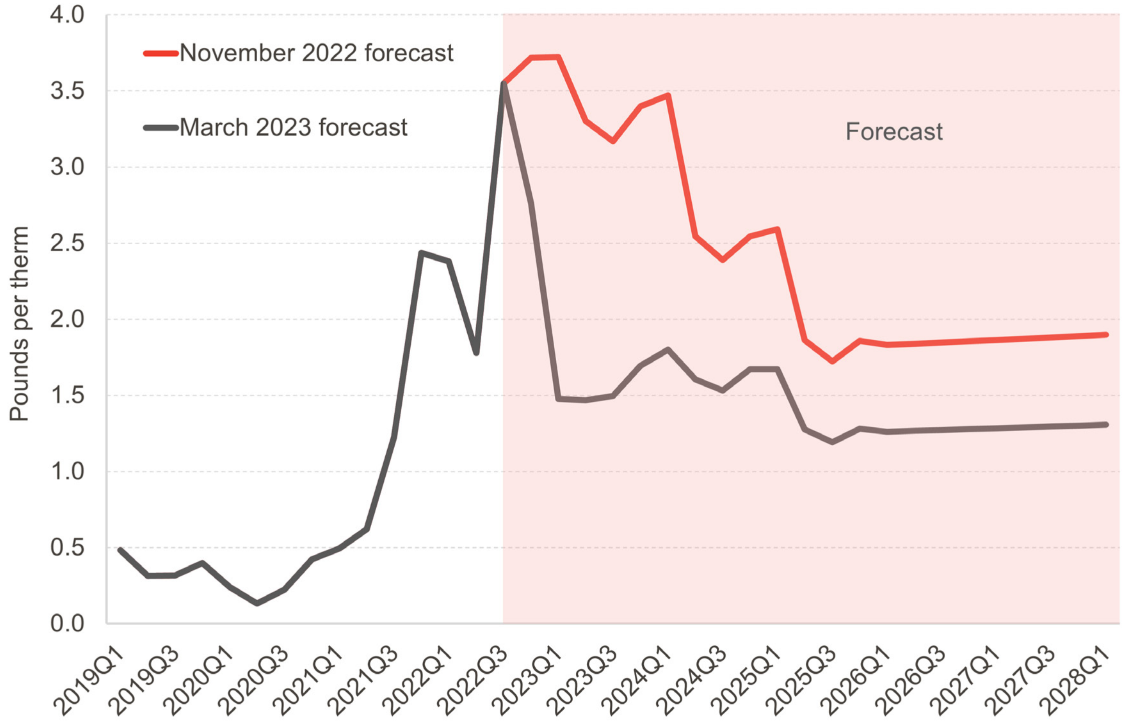
While inflation remains high, forecasts of factors affecting the price level have improved.

The Office of Budget Responsibility (OBR) released a new set of forecasts alongside the Chancellor's spring budget. Forecasts for consumer gas prices have significantly decreased since those in November, including a sharp decrease going into the second quarter of this year, Chart 3.

As the price of fuels starts to fall, inflationary pressures should begin to ease, although the rise in inflation in February from other sources was unexpected.

1 ONS - Consumer price inflation, UK: February 2023

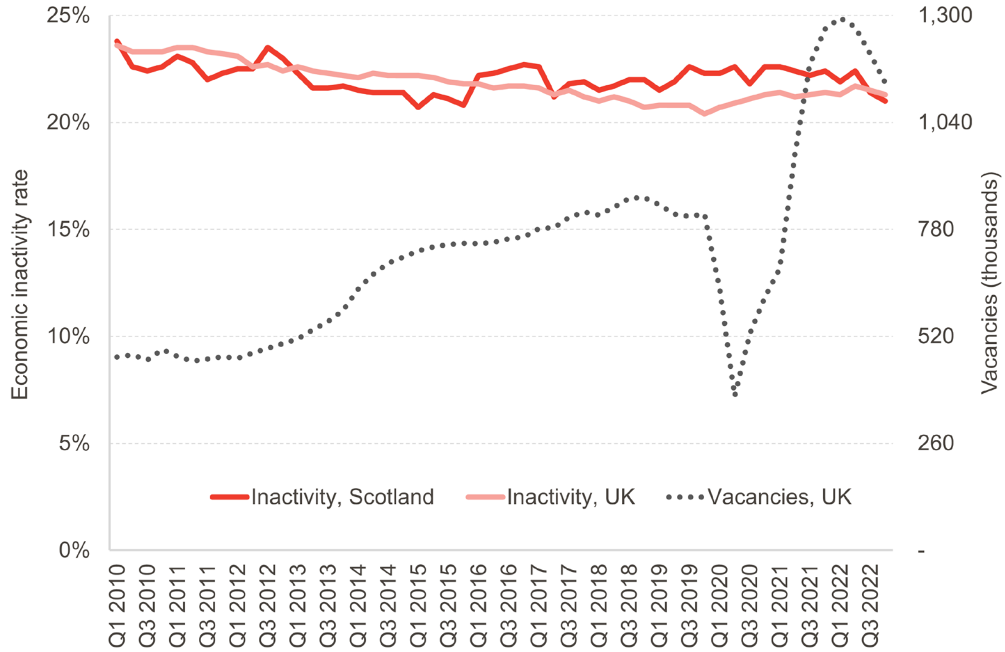
Chart 3: UK consumer gas price forecasts, 2019 Q1 - 2028 Q1



Source: *OBR*

While growing economic inactivity has become a concern for the UK as a whole, inactivity in Scotland fell over the course of 2022, Chart 4.

Chart 4: Labour market inactivity (Scotland) and vacancies (UK), 2010 Q1 - 2022 Q4



Source: *ONS (Inactvity, vacancies)*

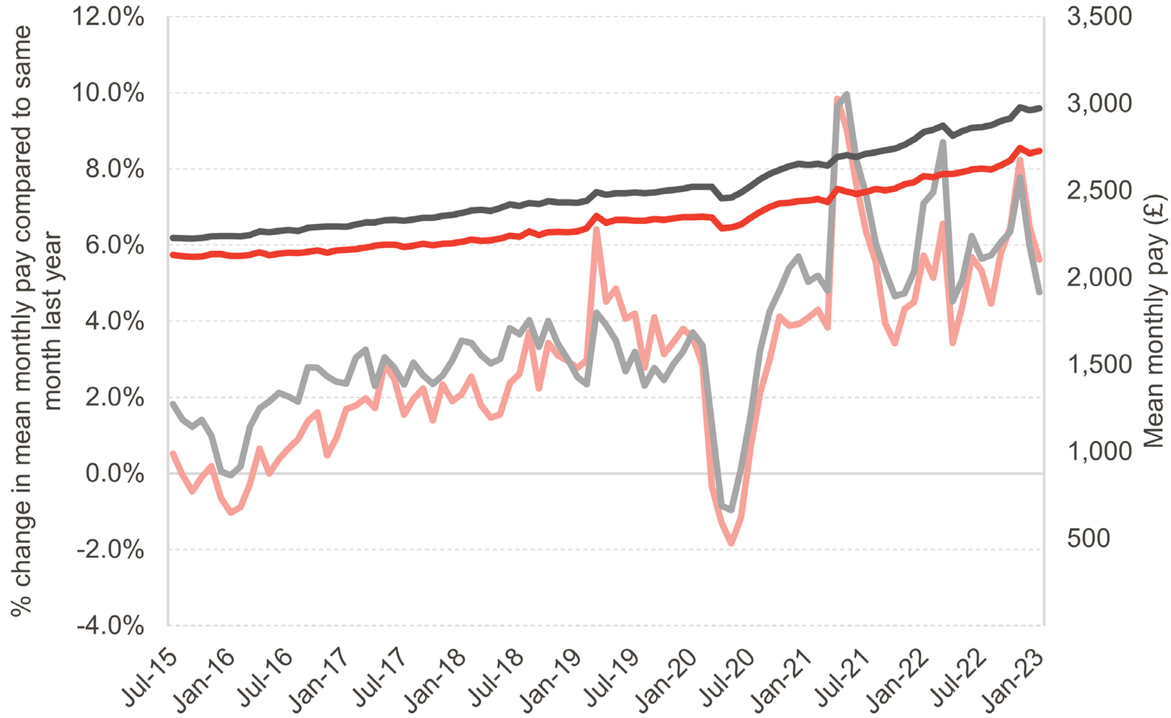
New FAI analysis shows that although the proportion of inactive people who are inactive due to ill-health is persistently higher in Scotland than in the rest of the UK, increases in inactivity are unlikely to be driven by ill-health associated with the pandemic.[2]

After peaking at nearly 1.3 million vacancies in the first quarter of 2022, the number of vacancies in the UK fell in each successive quarter in 2022 to end the year at just over 1.1 million.

Fewer vacancies have started to ease off upward pressure on wages, although concerns about high inflation and the cost of living remain.

Growth in mean monthly pay has slowed since October but remained higher for Scotland than for the whole of the UK, Chart 5.

Chart 5: Average monthly pay and pay growth, Scotland vs. UK, July 2015 - January 2023



Source: ONS

Mean monthly pay growth for January compared to the same month last year was 5.6% for Scotland and 4.8% for the UK.

Although pay growth is relatively high compared to pre-pandemic, it did not match the 8.8% rise in the CPIH over the same period,[3] resulting in real-terms decreases in pay.

Pay disputes have driven widespread strike action, resulting in 99 working days lost per 1,000 employees in Scotland from June to December 2022.[4] These figures were only exceeded in two other regions: Northern Ireland (129 working days per 1,000 employees) and the North West (105).

As prices rose and real pay fell, households continued to face financial pressures.

2 FAI - Economic inactivity and ill-health in Scotland
3 ONS - Consumer price inflation, UK: January 2023
4 ONS - The impact of strikes in the UK: June 2022 to February 2023

A new survey commissioned by Consumer Scotland found that 68% of consumers rationed their energy this winter, and 42% said they couldn't afford to heat their homes to a comfortable level.[5]

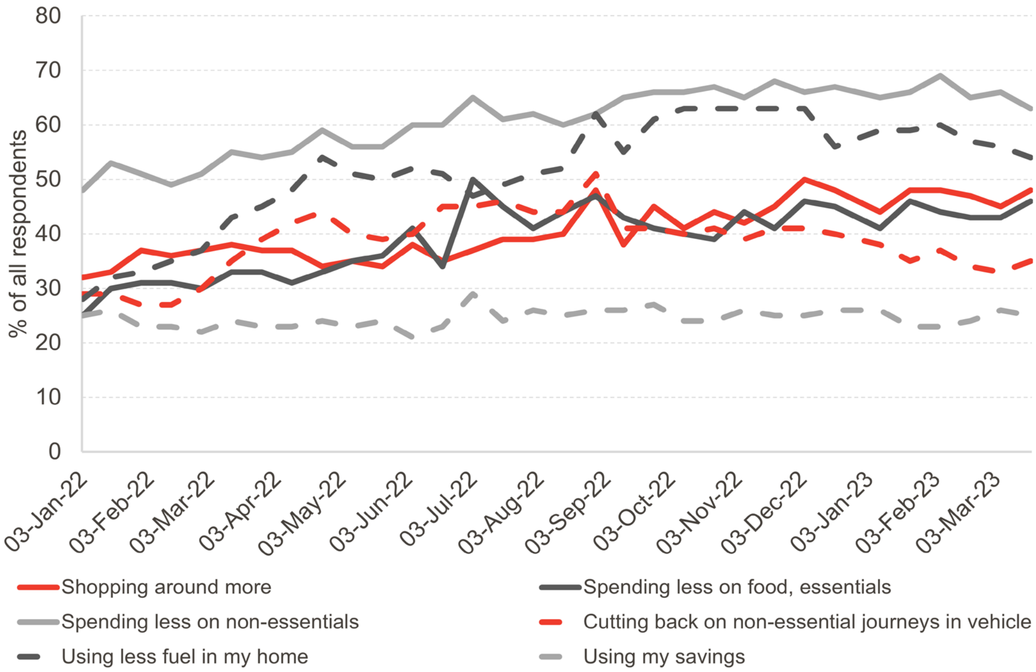
Those worst affected were those on prepayment meters, younger people, women, and those using electric heating.

The Energy Price Guarantee and Energy Bill Support Scheme look to have helped to mitigate challenges as affordability issues did not increase from autumn to winter, but overall, the position for consumers in Scotland has not significantly improved.

The impact of the high cost of living is similarly felt across the UK.

The latest data from the Opinions and Lifestyle Survey show that the proportion of people in the UK that report using less fuel in their homes as a result of rising costs started to fall in December, although it remains well above 50%, Chart 6.

Chart 6: Responses to rising cost of living, UK, January 2022 - March 2023



Source: ONS

The decision to extend the Energy Price Guarantee for another three months and a commitment to reduce the costs of prepayment meters will help consumers, although concerns about affordability and the wider cost of living remain.

The proportions of people using other strategies for mitigating the higher cost of living, like shopping around more and spending less on food, essentials, and non-essentials, have risen since the beginning of 2022 but remained high in the first quarter of 2023.

Concerns about one potential source of additional costs to households were allayed as Scottish local authorities confirmed their council tax rates for 2023-24.

5 Consumer Scotland - Consumers 'struggling' with energy bills throughout the winter

In 2021, local authorities were given the power to set rates freely for the first time since 2007, and most restricted themselves to no more than a 3% rise. This year, most councils agreed to rate increases of at least 5%, with the highest being 10% (Orkney Islands) and 7% (East Lothian, Falkirk, and Stirling). Although these increases are larger than last year, they are lower than the rate of inflation, and therefore reflect a real-terms decrease in council tax bills.

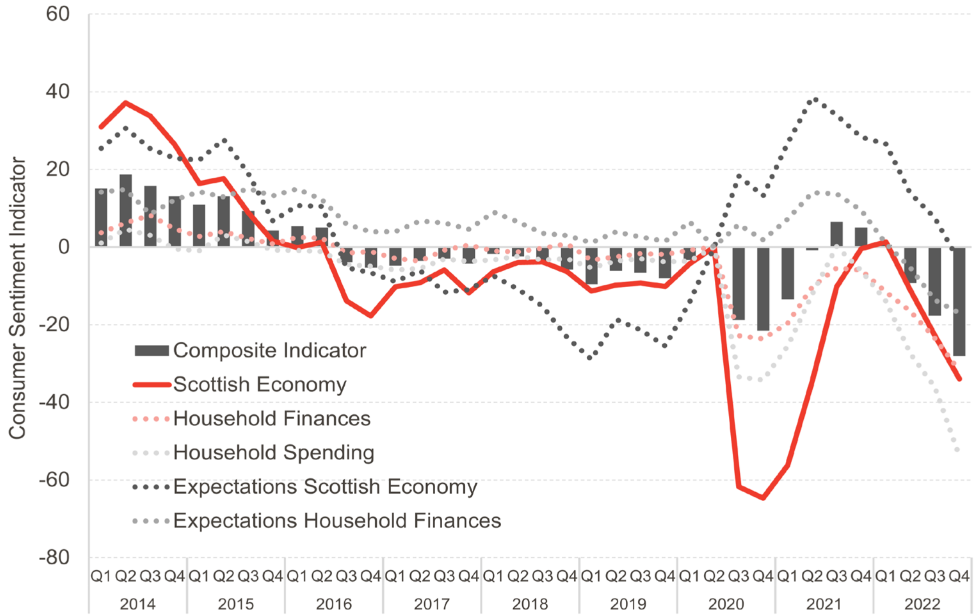
Households will, however, face higher income tax bills. In the Autumn Statement, the Chancellor announced that the personal allowance for income will be frozen until 2027-28. In real terms, this means more people will have income above the personal allowance and will pay some tax.

In the budget announced in December, the Scottish Government froze tax bands thresholds for the Basic, Intermediate, and Higher Rates, and reduced the threshold for the Top Rate. This will mean higher income tax bills in cash terms across the board.

Looking to the future

Future expectations for the Scottish economy among consumers fell sharply through 2022 after optimism for the post-pandemic recovery in 2021, Chart 7.

Chart 7: Consumer sentiment indicator, Scotland, 2014-2022



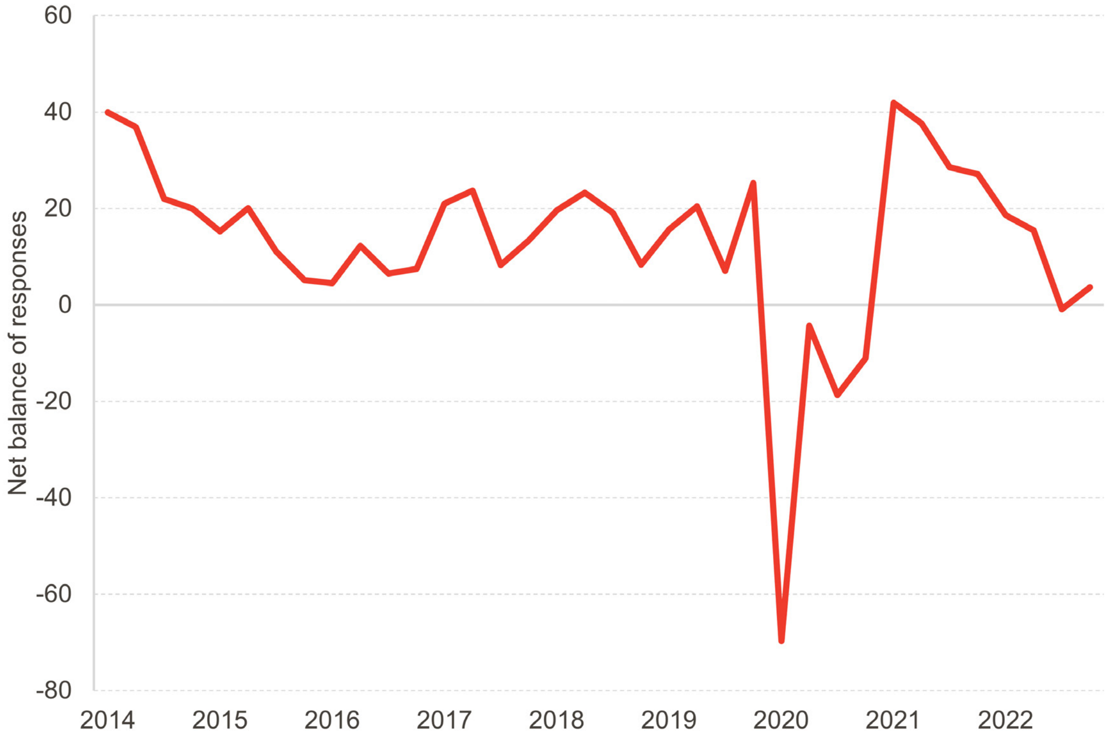
Source: Scottish Government

Consumer sentiment about current conditions was particularly low for household finances and spending. Expectations for household finances also fell in the fourth quarter as the cost-of-living crisis continued.

Business sentiments, however, started to recover in the last quarter of 2022,[6] Chart 8.

6 FAI - Scottish Business Monitor Q4 2022

Chart 8: Business sentiments indicator, 2014 Q1 - 2023 Q1



Source: *FAI Business Monitor*

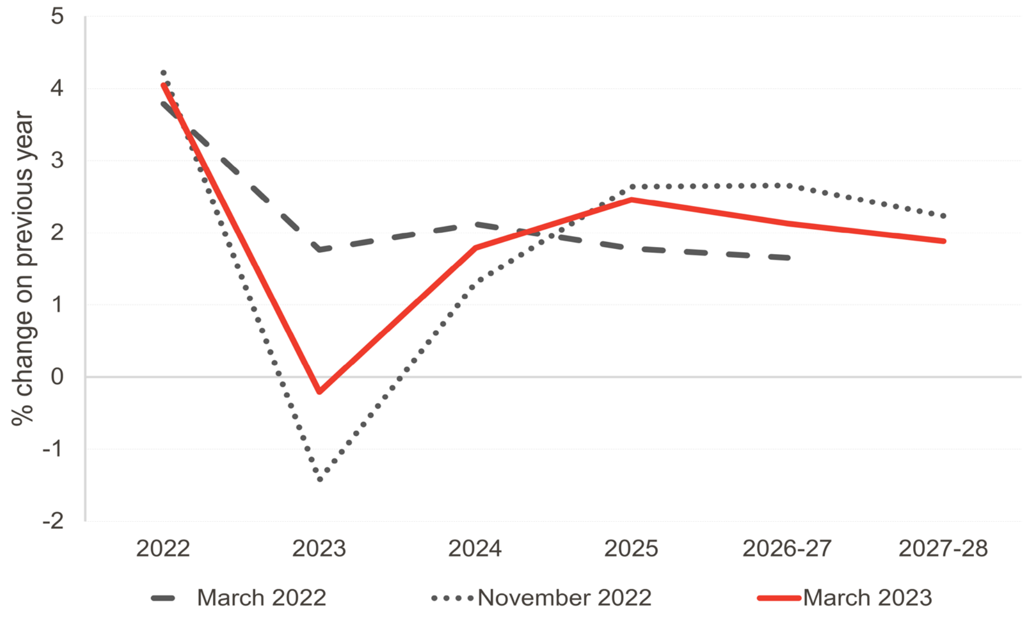
These responses from businesses indicate that slightly more businesses than not expect an increase in the volume of business over the next six months.

This is despite over 90% of firms seeing an increase in costs over the fourth quarter of 2022, with 77% reporting increases of up to 50%.[7]

Increased optimism about the economy was also reflected at least in the short-term in the updated OBR forecasts that accompanied the Chancellor's spring budget statement, Chart 9.

7 FAI - Scottish Business Monitor Q4 2022

Chart 9: UK GDP growth forecasts and outturn, 2018 - 2027/28



Source: [OBR]

Global economy

OECD forecasts show the UK rate of inflation falling below that of the Euro area rate in the second quarter of 2023 for the first time since the beginning of 2022.[8]

Global inflation rates in general are projected to fall through 2023 and stabilise in 2024, with the UK and the Euro area ending 2024 around 3% inflation compared to 2.3% in the United States, 2.0% in China, and 5.1% across all OECD countries.

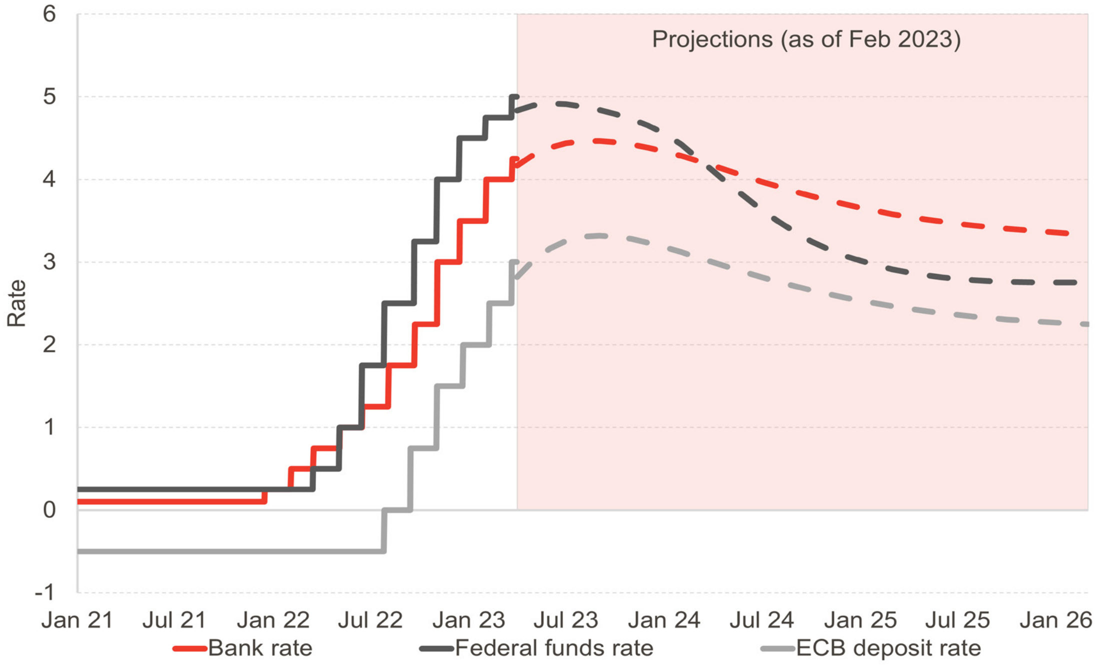
As in the UK, central banks have had to increase interest rates to combat inflation.

The UK bank rate has been raised from 0.10% in December 2021 to 4.25% as of 23rd March, 2023, Chart 10. This is the highest rate since the 2008 financial crisis.

The UK rate now falls between the US federal funds rate (which rose from 0.25% to .50% over the last 14 months) and the European deposit rate (-0.50% to 3.00%).

8 OECD - Inflation forecast

Chart 10: UK bank rate outturn and forecasts vs. other countries, January 2021 - January 2026



Source: *Bank of England*

The US federal funds rate is expected to fall faster than the UK bank rate, while the ECB deposit rate is forecast to fall at the same pace as the bank rate.[9]

These forecasts, however, do not reflect the recent failure of Silicon Valley Bank (SVB) – the largest failure of a bank in the US since the 2008 financial crisis.

SVB is a key bank for tech firms, which experienced significant growth in 2020/21 due to the COVID-19 pandemic. SVB deposits from these companies almost tripled, and SVB used these deposits to invest in long-term fixed-income securities (i.e., US Government bonds).

However, the period of significant growth in the tech sector ended just as inflationary pressures heightened in the US towards the end of 2021. Rising prices caused the Federal Reserve to increase their base rate from 0.25% in March 2022 to 4.75% by February 2023.

As the tech boom ended, SVB's deposits fell and hikes in the interest rate lowered the value of SVB's securities. Firms then panicked and withdrew their funds from SVB (known as a 'bank run'), causing the bank to fail.

SVB was taken over by regulators in early March and all depositors received funds held with the bank, including those with funds above the $250,000 deposit insurance limit. This rescue was carried out to avoid the bank's failure spilling over into the tech sector. The UK arm was sold to HSBC for £1, with customer deposits also protected.[10]

9 Bank of England projections are based on instantaneous forward overnight swap rates from October 2022-January 2023.
10 Financial Times - HSBC buys Silicon Valley Bank's UK unit for £1 in rescue deal

A recent Economics Observatory article explores the reasons for SVB's failure, including a more detailed explanation of why banks are prone to failure.[11]

SVB is not the only bank that has faced trouble this month.

Credit Suisse, a global investment bank headquartered in Switzerland, has faced a number of challenges over the past few years.

Earlier this month, Credit Suisse reported weaknesses in its 2021 and 2022 financial reporting process, including poor risk assessment. The chairman of its largest backer, the Saudi National Bank, then said that the Saudi bank would not be increasing its stake in Credit Suisse.

This statement, alongside Credit Suisse's rocky performance over the past few years and fears of a banking crisis following the downfall of SVB, caused the share price of Credit Suisse to fall quickly.

Another bank, UBS, was urged by regulators to buy the bank to avoid a banking crisis as Credit Suisse was deemed "too big to fail". UBS purchased the bank for $3bn.

Shares in the San-Francisco-based bank First Republic also crashed this month after its credit rating was downgraded due to liquidity issues.

This turmoil could lead to lower business confidence and tighter financial conditions, including tighter credit conditions and reduced lending by banks.

11 Economics Observatory - Why did Silicon Valley Bank fail?

UK Spring Budget 2023-24

OBR forecasts

Chancellor Jeremy Hunt presented his first Budget on 15th March 2023. The backdrop to this fiscal event felt much calmer than the chaos of the Autumn.

One of the things that stood out was how many of the announcements were trailed in advance. We have grown used to many of the Budget measures being leaked in advance, but there wasn't much in this statement that hadn't been put into the public domain beforehand.

This Budget had some interesting implications for Scotland. Some of these were highlighted by the Chancellor in his speech (additional funding for the Scottish Budget) and some were not really acknowledged, which we'll cover in this section.

OBR forecasts

The OBR's forecasts set the backdrop for the Chancellor's announcements. As discussed above, the OBR's outlook for the economy (for 2023) improved compared to their forecast in November, and the Chancellor made much of the fact that the OBR were no longer forecasting a technical recession (i.e., not 2 consecutive quarters of contraction in the economy).

However, there are a few important things to note. First, the OBR are forecasting that Q1 2023 will be a contraction, followed by flat (zero) growth in Q2. It would not take much for this to turn into a technical recession.

Second, the OBR are still forecasting a contraction overall for 2023 of 0.2%. A technical recession may be avoided, but we are still in for a difficult period for the economy.

Inflation is also forecast to come down more quickly than the previous set of forecasts, ending 2023 at 2.9% rather than 3.8%.

The overall slight improvement in the outlook did give the Chancellor some more headroom against his fiscal rules. The OBR said in their report that he had used two-thirds of this up in the announcements made in the Budget.

Jeremy Hunt set out two new fiscal rules when he became Chancellor:

- To have underlying debt falling as a share of GDP by year five of the forecast;
- To have the deficit not exceed 3% of GDP in that same year.

These rules were met in the Budget presented on 15th March. Indeed, the deficit is under 3% by year 3 of the forecast, which is a better outlook for the deficit than had been the case when forecasts were published alongside the Autumn Statement.

There is an interesting and growing phenomenon in recent fiscal events of temporary tax or spending measures that the Chancellor makes clear he would like to make permanent "when fiscal conditions allow". Examples in this budget were the 100% capital allowance and increases in defence spending. By having these measures fall out of the forecast in year 3 or 4, it improves the fiscal situation and therefore allows the Chancellor to meet these fiscal rules.

But, as the OBR flag, this is a risk to the fiscal outlook, as it seems clear that the government would look to continue these measures in some form. We'll be looking out for this in future events, as it adds further risks above increases in duty that always get cancelled, like fuel duty. These areas of risk are now far bigger than the Chancellor's current fiscal headroom.

Indeed, the OBR show in their publication that the fiscal headroom that Hunt has as Chancellor is much lower than the wiggle room enjoyed by previous Chancellors.

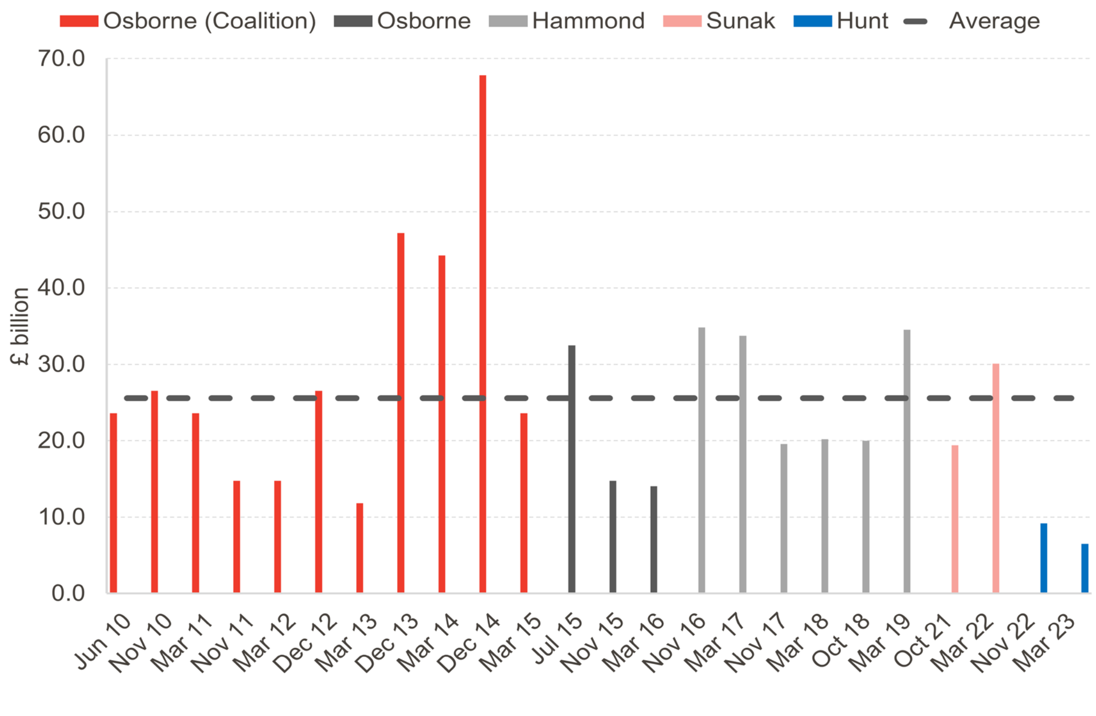
The Chancellor announced that there was extra money for the Scottish Government in his speech, saying that there would be "an additional £320 million for the Scottish Government".

However, at the time of announcement it was not clear how many years this money covered and how it was profiled. This is extremely unhelpful for anyone trying to understand implications for Scotland, and we would like to encourage more transparency when this money is announced.

After going through the Budget documents, it has become clear that the money will cover the next two years, but the split between the years still isn't clear.

At the time of writing and to the best of our knowledge, no official numbers have been published, but we understand that the split will be £67m for 2023-24 and £252m for 2024-25, Chart 11.

Chart 11: Barnett consequentials for the Scottish Budget, June 2010 - March



Source: *OBR*

It is not unusual for there not to be an official source of publication for a few days; quite often these figures get into the public domain when the Scottish Parliament publishes figures provided to them by the Government.

But it is fair to ask why this has to be the case. We haven't heard a compelling reason that the consequentials can't be published alongside the Budget. There is a process for agreeing them with the Devolved Administrations, but if the total figure can be announced in the Chancellors' speech, then at the very least the detail of annual allocations should be in the documents published on the day.

Our calculations also suggest that an additional £400-£500m is likely to be generated for the Scottish Budget for the next few years if the UKG proceeds with its stated childcare policy (see more on this below). As far as we are aware, the Treasury has not calculated (or at least has not shared with Devolved Administrations) the Barnett consequentials for 2025-26 and won't for the foreseeable future as they fall outwith the current spending review period.

This obviously is not ideal for the Scottish Government planning for any expansion of childcare provision based on this funding. It may be safer for the Scottish Government not to assume anything given the likelihood of a Westminster election before 2025 and the uncertainty that will create.

Childcare

One of the big announcements in the Budget for England was a large expansion in childcare policy.

This is a devolved area of policy which operates very differently in Scotland.

Both Scotland and England have a 30-hour per week childcare offer for 3- and 4-year-olds. The difference in Scotland is that this is available to all parents, regardless of whether they are in work. In England, parents must be in work to get the full 30 hours and, if not, they get 15 hours of free childcare.

The announcements from the UK Chancellor extend this 30-hour weekly entitlement to children from the age of 9 months to 3 years. However, the in-work criteria remains—all adults must be working at least 16 hours a week to receive the entitlement. The additional hours will be rolled out in stages:

- April 2024: 15 hours for 2-year-olds
- September 2024: 15 hours for children 9 months to 2 years
- September 2025: 30 hours for all children under 3

As discussed above, Scotland will receive significant Barnett consequentials if this goes ahead. Although we expect SG to commit to further childcare expansion off the back of this, we may not see a carbon copy of the UK policy. For example, if SG wants to retain the principle of universal childcare with no work requirement in Scotland, it will need to find additional funds beyond these direct consequentials to ensure all parents are covered.

Alcohol duties

Some of the immediate reactions to the Budget in Scotland were more about what wasn't mentioned. The Chancellor may be delighted with his 'Brexit Pubs Guarantee', but the Budget also confirmed that an increase in most alcohol duties (in line with RPI) was going to go ahead in August 2023 as planned.

For spirits, and therefore for Scotch Whisky, the rate is £28.74 per litre of pure alcohol. The rate will rise to £31.64 from August – a 10.1% rise according to the forecast RPI figure for Q2 2023, which is traditionally used for this.

The UK Government were quick to point out how many times in recent years that Spirits had been protected from uprating, but those in the Scotch Whisky industry have expressed their displeasure at the increase in duties.

From a technical point of view, there are a number of interesting things about this method of uprating.

The 10.1% that will be used for the uprating is a forecast. This figure will be used no matter what happens to RPI between now and August, by which point the Q2 2023 outturn figure will be available. This is a very different approach from what is used for benefits, where the September outturn figure, not a forecast, is used to uprate benefits for the following April.

The default for future years is that further uprating will happen to alcohol duties every February, using the following year's Q2 RPI forecast from the preceding autumn.

So, alcohol duties are currently expected to be uprated again in February 2024 by RPI growth between Q2 2023 and Q2 2024 as forecast in October 2023 (currently forecast to be 1.6%).

The August 2023 uprating had been originally planned for February 2023 before being delayed by the UK Government. It may be the case that the increase is delayed again or even cancelled, as has happened in previous fiscal statements.

Finally, it is not clear why a discredited measure of inflation (which is well known to systematically overestimate inflation)[12] is being used by the Government to uprate duties. This is why benefits are uprated using CPI, not RPI.

Disability benefit reforms

A key announcement in the Budget was that the Work Capability Assessment (which determines a premium for Universal Credit for disabled people) will be abolished and the existing assessment for receipt of Personal Independence Payment (PIP) will be used instead as a passport.

This will not come into force until the next parliament, so there is some time to work out the details. UK-wide, there is the question of how to deal with the fact that close to a million people who currently get this premium are not PIP claimants.

In Scotland, though, it gets even more complicated. PIP is being replaced by a new devolved benefit called Adult Disability Payment (ADP). If ADP has more generous eligibility criteria than PIP, then there will be a question whether this can also be used to passport claimants onto the higher UC premium. It will also need to be decided how it will work for non-ADP claimants in Scotland.

Based on previous statements by the UK Government, we think there are 3 possible eventualities:

- ADP is used in Scotland as the 'passport' onto disability premiums in UC instead of PIP and the UK Government swallows the additional UC premiums in Scotland if ADP eligibility changes.
- The Scottish Government pays the difference in UC premiums claimed if ADP eligibility changes. The risk of this eventuality could be enough to prevent the Scottish Government from altering ADP eligibility further (i.e., it could alter the cost/benefit ratio quite considerably)

12 ONS - Shortcomings of the Retail Prices Index as a measure of inflation

- The UK Government could decide that ADP eligibility is likely to diverge too sharply from eligibility for PIP, prompting them to find another way of deciding eligibility for premiums in UC – keeping WCA capability in Scotland, for example.

This is something which perhaps will be worked through in the fiscal framework review. We've still not seen any discussion, or even a reference to this issue, in anything published by the UK Government around the Budget.

Pension reforms

The Chancellor announced reforms to the way pensions are taxed in the UK. The annual allowance, which limits the amount that an individual can pay into their pension before they pay tax, was increased from £40,000 to £60,000. The lifetime allowance, which is the total amount that an individual can build up in their pension pot without paying tax, was abolished altogether (it had previously been £1,073,100).

These reforms were presented as a way to entice some high-earning public sector workers back to the labour market, particularly NHS consultants. However, others have pointed out that the proportion of those who benefit from this measure who are likely to be in that situation may be limited.

What is not in question is that this is a measure that benefits those in the very top of both the income and wealth distribution. The latest statistics on wealth in Scotland show that it is only the top 10% of households who are likely to breach this annual lifetime allowance.

Energy and fuel prices for consumers

The Energy Price Guarantee will remain at £2,500 for the three months from April for a household with typical use. Beyond this, it is expected (based on current forecasts) that the OFGEM cap could fall back to around £2,000 for typical use as energy prices fall.[13]

As had been widely expected even at the time of the Autumn Statement, the planned 11p rise in fuel duty is not going ahead. For a further 12 months, the previously announced 5p cut remains, and rates will be frozen. In short, the announcements in the Budget leave fuel duty rates at current levels.

One thing that was not announced was any further help for businesses or other organisations beyond the Energy Bills Discount Scheme that had been put in place in January. This means that there will be a difficult Q2 and beyond for any business or charity that has not managed to fix their bills, as Government subsidy rolls back from the levels that have been in place between October and March.

13 Cornwall Insight - Cornwall Insight responds to the government's announcement on the EPG

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The Fraser of Allander Institute (FAI) at the University of Strathclyde entered Scottish public life in 1975. Since then, it has become established as a leading independent economic research institute working with a wide range of clients on a variety of different topics.

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