

ONS INFLATION STATISTICS – INFLATION FOR JULY 2023

ISSUE: The ONS inflation statistics for July 2023 show that inflation fell to 6.8%, down from 7.9% in June, reflecting falling energy and fuel prices. Core inflation remained unchanged at 6.9%.

COST OF LIVING CRISIS

Scotland continues to face a cost of living crisis. The current high levels of inflation are disproportionately hurting the most vulnerable in society and heaping more pressure onto our public services.

- One of the first acts of this government was to tripled the Fuel Insecurity Fund to £30m for 2023-24, to support anyone at risk of self-disconnection, or self-rationing their energy use.
- We have consistently called for the UK Government to provide additional support to people with the cost of living crisis – but the Chancellor has failed to deploy the full range of powers available to him to make a real difference to people’s lives.
- The OBR has said that living standards will have fallen by 6% by the end of 2023-24 – the largest two-year fall since ONS records began in the 1950s.

People across our country are paying a steep price for the economic mismanagement of the UK Government.

- Inflation remains significantly above target, leaving households facing the prospect of yet more interest rate rises.
- The Resolution Foundation has estimated that the average re-mortgaging household will see their costs rise by £2,900 next year.
- We have consistently called for the UK Government to provide additional support to people with the cost of living crisis, including:
 - Further targeted financial support to low income households
 - For UKG to fairly tax windfall profits in the energy sector to fund support measures for struggling households
 - A permanent £25 uplift to Universal Credit, extended to means-tested legacy benefits. Reversal of the two-child limit for Universal Credit and Child Tax Credits, along with the abolition of the benefit cap.
 - Additional funding for devolved governments to support people, provide fair public sector pay uplifts and protect public services.

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FACTUAL BRIEFING ON INFLATION NUMBERS

Inflation has fallen to 6.8% from its peak of 11.1% and is forecast to fall further this year, however households continue to face significant cost of living challenges.

- The CPI inflation rate in July was 6.8%, down from 7.9% in June, and down from its peak of 11.1% in October. Inflation is at its lowest level since February 2022.
- The inflation rate for food and non-alcoholic beverage fell again over the month, although it remains elevated at 14.8% (down from 17.3% in June)
- Core inflation (which excludes energy, food, alcohol and tobacco) remained unchanged at 6.9%.
- Furthermore, the UK continues to have one of the highest inflation rates in the G7.
- Inflation is forecast to fall further this year. In August, the Bank of England forecast inflation to fall to 4.9% by the end of 2023 as the sharp rise in energy prices last year drop out of the annual comparison.
- The Bank of England raised the Bank Rate to 5.25% in August, its fourteenth successive rise from 0.1% in December 2021, to reduce inflationary pressures.

GERS 2022-23

Speaking Note – Mr Gray

Introduction

Thank you for joining this media event on the GERS report for 2022-23.

I welcome the opportunity to launch this year's report. I am joined today by the Scottish Government's Chief Economist, Gary Gillespie, and we will take your questions in a moment.

Before we do, I want to make a few opening remarks. I welcome the fact that the headline number in the report shows that Scotland's deficit has fallen (from 12.8% to 9.0%) and has fallen faster than the UK's.

A key driver of this improved position is, of course, the record revenues from Scotland's energy sector.

At the same time, on the other side of the equation, spending has been higher mainly because of the significant package of support required to address the cost crisis faced by households and businesses right across the country.

But this support spending is much less than the additional £6.9 billion revenue from Scottish energy, with the benefits of Scotland's natural wealth continuing to flow to the UK.

This highlights that the GERS numbers reflect the current constitutional arrangements – of Scotland as part of the UK – and not an independent Scotland.

Headline spending and revenue numbers

Let me turn to the detail of the figures, today's GERS report shows that total revenue in Scotland (including oil) was £87.5 billion in 2022-23, an increase of £15 billion and driven by record increases in oil and gas revenue as well income tax, national insurance contributions, and VAT.

Total spending in 2022-23 was £106.6 billion. This was an increase from last year, not only due to the cost of living support but also an increase in reserved public sector debt interest. Of course, this partly reflects the impact of continuing high inflation, as we see in the figures this morning. But it also reflects the financial mismanagement of the UK Government.

Despite this increase in spending, Scotland's revenue is sufficient to cover all devolved spending and all social security.

Energy revenues – now and in the future

I've already highlighted the record revenues from Scotland's energy sector, and how the UK government is using these revenues to fund its response to the cost crisis.

I want to make two points on energy revenues – both now and in the future.

The first is that, given our current energy system, it is inevitable that the revenues from oil and gas are the biggest driver of the overall revenue from our energy system. But it is worth noting that the revenue figures published today do not yet take account of two new energy revenue streams – the Electricity Generator Levy or ScotWind. This means that hundreds of millions of pounds in renewable energy revenue are not yet captured.

The second is that in the future revenues from our energy system will still underpin our revenue base but the share of revenue from renewable sources will increase significantly as Scotland takes full advantage of the market opportunities from the just transition to net zero.

Economic model

I want to end by talking about the importance of the type of economic model that underlies the public finances. And this links back to the point I have made about spending on UK debt. £1 billion of the GERS deficit is the direct result of the UK government's mismanagement of the public finances.

Scotland is currently tied to a low-growth, low-productivity UK economy that is starting to feel the full effects of Brexit.

Whilst we are bound to a failed UK economic model and do not hold all the financial levers needed, we will use all the powers we do have to grow a green Wellbeing Economy which meets the needs and aspirations of our people.

We will do this through our three interdependent missions of seizing the opportunities of net zero to build a fair, green and growing economy, prioritising public services, and tackling poverty. Crucially, equality, inclusion and human rights will be embedded in everything we do.

I have promised to act decisively to deliver our National Strategy for Economic Transformation, with a sharp focus on those policies and actions with the greatest potential to grow and change Scotland's economy, expand the tax base to fund excellent public services and make people's lives better. I firmly believe that it is this approach which will deliver fiscal sustainability.

Conclusion

Let me finish by making two points.

The first is to emphasise that Scotland's finances have improved again this year, and faster than the UK's.

The second is that GERS reflects the current constitutional position. An independent Scotland would have the powers to make different choices, with different budgetary results, making choices best suited to Scotland's interests. The full powers of independence, combined with existing strengths, could help to build a stronger economy and enable Scotland to be fairer, wealthier, greener and happier.

I'll now hand over to Gary Gillespie to say a few introductory remarks and we will then take questions.

END

803 words = 5.02 minutes at 160 wpm

[redacted]
OCEA-EA
15 August 2023

First Minister
Deputy First Minister and Cabinet Secretary for Finance
Cabinet Secretary for Wellbeing Economy, Fair Work and Energy

GOVERNMENT EXPENDITURE & REVENUE SCOTLAND (GERS) 2022-23

Purpose

1. To inform the First Minister and Cabinet Secretaries of the publication of Government Expenditure and Revenue Scotland (GERS) 2022-23 on Wednesday 16 August 2023. Please note that the report is strictly embargoed until 09:30 on Wednesday 16 August 2023. These statistics (and any conclusions drawn from these statistics) **are restricted to Ministers and officials on this copy list until publication.**

Priority

2. **Immediate.**

Background

3. GERS is a National Statistics publication. It estimates the contribution of public sector revenue raised in Scotland towards the public services provided for Scotland for the years up to 2022-23. The estimates in this publication are consistent with the UK Public Sector Finances published in July 2023. Tables are also published showing results back to 1998-99.

Key Points

4. The key points from the publication are covered in the attached briefing pack, which includes:

- An FMQ briefing note,
- A draft Speaking Note for the media event,
- A summary of headline numbers; and
- A briefing note for the event at the University of Glasgow's Advance Research Centre.

Today's report shows that the Scottish fiscal position improved faster in Scotland than the UK as a whole in 2022-23, driven by record oil and gas revenues. There was also strong performance in income tax, national insurance contributions, VAT, and non-domestic rates. Overall spending also increased, despite reductions in spending associated with the pandemic, driven by increases in the cost of reserved public sector debt interest and the introduction of cost of living support.

5. GERS shows:

- Scotland's notional deficit in 2022-23 was 9.0% of GDP, an improvement of 3.8 percentage points from 2021-22.
- The UK's deficit in 2022-23 was 5.2% of GDP, unchanged from 2021-22.
- Total Spending was £106.6 billion, up £9.3 billion from £97.4 billion in 2021-22.
- Total Revenue was £87.5 billion, up £15.0 billion from £72.5 billion in 2021-22.

Handling

6. A Statistics News Release (attached) has been prepared as normal to highlight the main results from this publication. Communications colleagues will be in touch later today to agree an accompanying Ministerial statement. A copy of the full publication is also attached.

Recommendation

7. **The First Minister, Deputy First Minister, and Cabinet Secretary are asked to note the publication of GERS 2022-23.**

[redacted]

Head of National Accounts, OCEA-EA
15 August 2023

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness
Cabinet Secretary for Constitution, External Affairs and Culture			X		
Minister for Community Wealth and Public Finance			X		

Permanent Secretary
 DG Economy
 DG Scottish Exchequer
 Chief Economist
 Chief Statistician
 Kathy Johnston

- [redacted]
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What	Visit to the Advanced Research Centre, Glasgow University, to support the publication of the Government Expenditure and Revenue Scotland (GERS) statistics
Where	The Mazumdar-Shaw Advanced Research Centre, 11 Chapel Lane, University of Glasgow, Glasgow G11 6EW.
When	Wednesday 16 August – 09:30 to 11.30am
Who	Sir Anton Muscatelli – Principal, University of Glasgow
Why	An opportunity to highlight world leading academic research linking to a cluster of innovative companies, providing a backdrop to the publication of the GERS figures.
Supporting officials	Gary Gillespie - Chief Economist ([redacted]) [redacted] – Senior Media Manager ([redacted]) [redacted] – Media Manager ([redacted])
Supporting SpADs	[redacted] [redacted]
Schedule	<p>9.30am – Media to arrive at ARC. Met by officials. Comms issue stats release and news release with link to the GERS figures. Printed summary of the GERS stats provided to journalists.</p> <p>09:55am – Cabinet Secretary arrives</p> <p>10.00am –Media briefing in Studio One with Cabinet Secretary and Chief Economist to last approximately 15-20 minutes with print journalists.</p> <p>10.30am – Broadcast interviews</p> <p>10:50am – Cabinet Secretary tours the ARC and it's Quantum Technology laboratory. Broadcast will be invited to capture visuals/audio for their bulletins.</p> <p>11.20am – Cabinet Secretary undertakes pieces to camera for SG and University of Glasgow.</p> <p>11.30am – Cabinet Secretary departs.</p>

Top lines

- The Mazumdar-Shaw Advanced Research Centre (ARC) opened in 2022 and is home to world-leading researchers in a building specifically designed to break down organisational structures, facilitate research collaboration and provide true societal impact.
- The University is a leader in quantum technology research and is home to the Centre for Quantum Technology, which aims to establish Glasgow as a recognised centre of excellence in quantum technology, from fundamental understanding through to translating world-changing technologies to industry. A May 2023 paper by Technology Scotland outlined the opportunity for Scotland to have a billion pound quantum sector by 2030, with global quantum markets are set to top \$62bn by 2030.
- The ARC has been involved in the development of upskilling courses in partnership with the Scottish Funding Council (SFC), the development of the Glasgow Riverside Innovation District (GRID) and recent spinout success.
- Professor Sir Anton Muscatelli has been the Principal and Vice-Chancellor of the University of Glasgow since 2009. He was a member of the Scottish Government's Council of Economic Advisers 2015-21, and an advisor on the National Strategy for Economic Transformation, and a member of the Expert Panel which provided advice on the economic impacts of the UK Government's UK Growth Plan (or 'mini budget') of 23rd September.

Biography: Professor Sir Anton Muscatelli, Principal and Vice Chancellor University of Glasgow, FRSE AcSS

Professor Sir Anton Muscatelli has been Principal and Vice-Chancellor of the University of Glasgow since 2009. An economist, his research interests are monetary economics, central bank independence, fiscal policy, international finance and macroeconomics. From 2007-2009 he was Principal and Vice-Chancellor of Heriot-Watt University. Prior to 2007 he held various roles at the University of Glasgow including Vice-Principal - Strategy, Budgeting and Advancement (2004-07); Daniel Jack Professor of Political Economy (1994-2007); and Professor and Lecturer, Department of Economics (1984-94).

Sir Anton was Chair (2016-21) of the First Minister's Standing Council on Europe, a non-political group providing expert advice to Scottish ministers on Scotland's relationship with the EU. He was a member of the Scottish Government's Council of Economic Advisers 2015-21, and subsequently advised them on the National Strategy for Economic Transformation. He is a member of the advisory group for Sir Paul Nurse's Review of the UK's Research, Development and Innovation Organisational Landscape. From 2017-20 he was Chair of the Russell Group of UK research-intensive universities. He has been a special adviser to the House of Commons Treasury Select Committee on fiscal and monetary policy, and he has advised the European Commission and the World Bank. He holds an honorary degree from McGill University in Canada

FISCAL AGGREGATES

- The net fiscal balance is the difference between total expenditure and revenue. It therefore includes capital investment.

In 2022-23, Scotland's net fiscal deficit is estimated to be 9.0% of GDP, compared to 5.2% of GDP for the UK as a whole.

- The current budget balance is the difference between revenue and current expenditure (i.e. excluding capital investment).

REVENUE

- Scotland revenue in 2022-23 was up £15.0 billion to £87.5 billion, growth of 20.7%.** UK revenue grew by 11.3%.

- Revenue has grown faster in Scotland primarily due to North Sea receipts.

- Excluding the North Sea, total Scottish revenue grew by £8.1 billion, or 11.5% (UK: 10.4%).

- Revenue per person in Scotland is higher than in the UK** (£696 higher in 2022-23 including North Sea revenue).

EXPENDITURE

- Expenditure increased in 2022-23, driven by rising reserved debt interest and cost of living support spending.

- Spending increased by £9.3 billion, or 9.5%.** UK spending grew 10.9%. The increase in Scotland was lower as Scotland's share of spending of reserved debt interest and cost of living support, where spending has increased most, is close to its population share.

- Reserved cost of living support for Scotland was £4.5 billion in 2022-23.

- Scotland's share of UK expenditure in 2022-23 was 9.2%. **Expenditure for**

Scotland has been consistently higher per person than the UK average (£2,217 higher in 2022-23)

Net Fiscal Balance			
	2020-21	2021-22	2022-23
	£ millions		
Scotland	-37,853	-24,899	-19,139
Scotland excluding North Sea	-38,605	-27,345	-28,525
	% GDP		
Scotland	-23.4%	-12.8%	-9.0%
Scotland excluding North Sea	-25.4%	-15.7%	-15.1%
UK	-15.0%	-5.2%	-5.2%

Current Budget Balance			
	2020-21	2021-22	2022-23
	£ millions		
Scotland	-32,451	-19,774	-13,577
Scotland excluding North Sea	-33,203	-22,220	-22,963
	% GDP		
Scotland	-20.0%	-10.2%	-6.4%
Scotland excluding North Sea	-21.8%	-12.8%	-12.1%
UK	-11.6%	-3.2%	-3.2%

Revenue			
	2020-21	2021-22	2022-23
	£ millions		
Scotland	62,423	72,481	87,496
Scotland excluding North Sea	61,670	70,035	78,110
	% UK revenue		
Scotland	7.9%	7.9%	8.6%
Scotland excluding North Sea	7.8%	7.6%	7.7%

Revenue per person			
	2020-21	2021-22	2022-23
	£ per person		
Scotland	11,413	13,227	15,967
Scotland excluding North Sea	11,275	12,780	14,254
	£ difference from the UK		
Scotland	-420	-498	696
Scotland excluding North Sea	-550	-905	-859

Spending			
	2020-21	2021-22	2022-23
Scotland	100,275	97,380	106,635
<i>As share of UK spending</i>	9.1%	9.4%	9.2%
Spend per person (£)	£ difference from the UK		
Scotland	18,334	17,770	19,459
UK	16,505	15,549	17,243
<i>Difference</i>	1,829	2,222	2,217

**PRE-MEET: MINISTER, COMMS, SPADS and OFFICIALS AHEAD OF GERS
(Government Expenditure & Revenue Scotland)**

TUESDAY 15 AUGUST 2023

SUMMARY OF DISCUSSION

Attendees:

Cabinet Secretary for Wellbeing Economy, Fair Work and Energy

Gary Gillespie, Chief Economist (Chair)

Gregor Irwin

Kathy Johnston

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Gary Gillespie welcomed attendees and set out the purpose of the meeting to brief the Cabinet Secretary on the content of GERS ahead of its publication at 09.30 tomorrow morning, to answer queries and briefing requirements, and to discuss arrangements for the launch tomorrow at the Advanced Research Centre (ARC), University of Glasgow. This event marks the 30th edition of the publication, first released in 1991.

Publication

[redacted] ran through the key statistics from the publication:

- Scotland's net fiscal balance in 2022-23 was -£19.1 bn, -9.0% of GDP, greater than the UK's -5.2%.
- North Sea revenue up considerably over the year to £9.4 bn, reflecting the introduction of the Energy Profits Levy. There had also been increases in onshore revenues, e.g. income tax.
- Spending is up to £106.6 bn in 2022-23 which includes significant increases in reserved public sector debt interest and Cost of Living Support. Health spend had reduced, as pandemic relating spending reduced.

The following points were discussed:

- The GERS figures UK Government's might reflect poor management of public sector finances by the UK Government and debt repayments, where the UK Government had not followed the advice of bodies such as NIESR, which had

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called for the government to protect itself against increases in inflation and interest rates.

- The last time the UK ran a deficit similar to the latest one in GERS; and
- Request for further briefing on the increasing cost of UK Bonds – including impact to Scotland.

Programme

[redacted] ran through the programme for tomorrow's visit.

09:30: Media to arrive at the ARC, met by Scottish Government comms. GERS figures are published.

09:55: The Cabinet Secretary arrives at ARC.

10:00: Media briefing begins (on-the-record, off-camera)

10:30: Broadcast interviews

10:50: The Cabinet Secretary tours the ARC and its Quantum Technology laboratory. Cameras are invited to follow the tour.

11:20: The Cabinet Secretary undertakes two pieces to camera for SG and UoG.

11:30: The Cabinet Secretary departs

Cabinet Secretary noted that he would welcome five minutes, or so, with officials prior to the broadcast interviews/media briefing.

News Release

[redacted] provided an update on the content of the News Release. This focuses on the high levels of revenue, especially from the North Sea, the high debt interest rates and the improvement in net fiscal balance. It would also mention Scotland's share of the Electricity Generator Levy, worth around £200 million in 2022-23 and more in future years, which is not yet captured in the GERS publication.

He emphasised the point that GERS reflects current constitutional arrangements rather than the position under independence.

Tomorrow would provide ample opportunities for social media – photographs for tweets and video footage to issue on Thursday.

Event with media

[redacted] noted that there was a need to stick to core lines and to emphasise that other small neighbouring nations, similar to Scotland, are successful as independent countries.

The Cabinet Secretary noted that it is not uncommon for countries to have large deficits and that the UK's deficit during the pandemic was larger than Scotland's current level. He asked for lines to be added to the briefing materials.

Gary Gillespie added finally that the UK's Consumer Price Index figures would be released by ONS at 07.00 tomorrow morning. This might feature in the questions tomorrow from the media. OCEA would provide briefing.

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Actions

- Update briefing materials and speaking note (OCEA).

Sandy Stewart
OCEA-EA

15 August 2023