Scottish Fiscal Commission

Scotland's Economic and Fiscal Forecasts

December 2024 (revised version 12 December 2024)

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Foreword

The Scottish Fiscal Commission is the independent fiscal institution for Scotland. Our statutory duty is to provide independent and official forecasts of Scottish GDP, devolved tax revenues, and devolved social security spending to inform the Scottish Budget. Our forecasts represent the collective view of the four Commissioners who take full responsibility for them.

Our forecasts have been used to inform the Scottish Government's Budget for 2025-26, also published today. Our protocol for engagement with the Scottish Government guides our interaction with the Government during the forecasting process.

We would like to thank the hard-working staff of the Commission for their support in the production of our forecasts and underpinning analysis. We would also like to thank officials from the Scottish Government, Revenue Scotland, Social Security Scotland, the DWP, HM Treasury, HMRC, and the OBR for the constructive challenge of our judgements and for ensuring that we considered all the available evidence.

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4 December 2024

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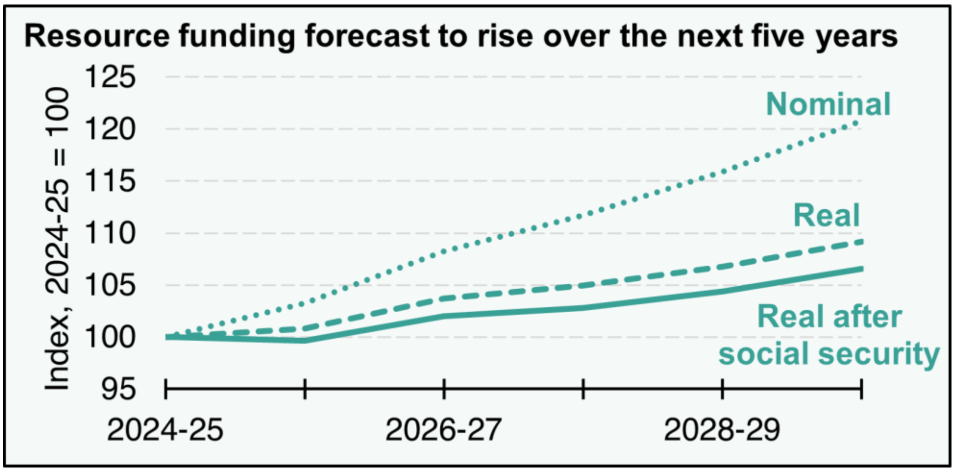
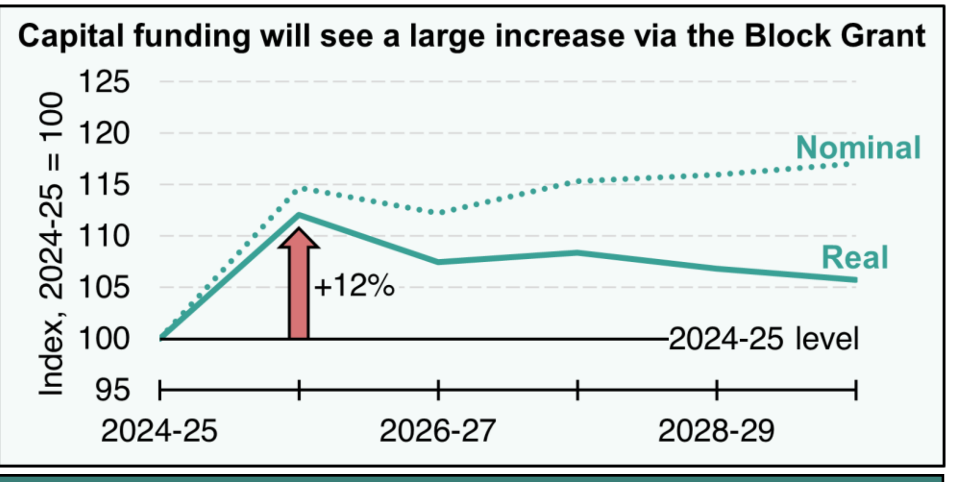
Fiscal Overview

Resource funding is almost 90 per cent of the Scottish Budget and covers day-to-day costs such as social security payments and staff pay. After accounting for inflation and deducting social security, it is forecast to drop by 0.3 per cent in 2025-26 before slowly growing.

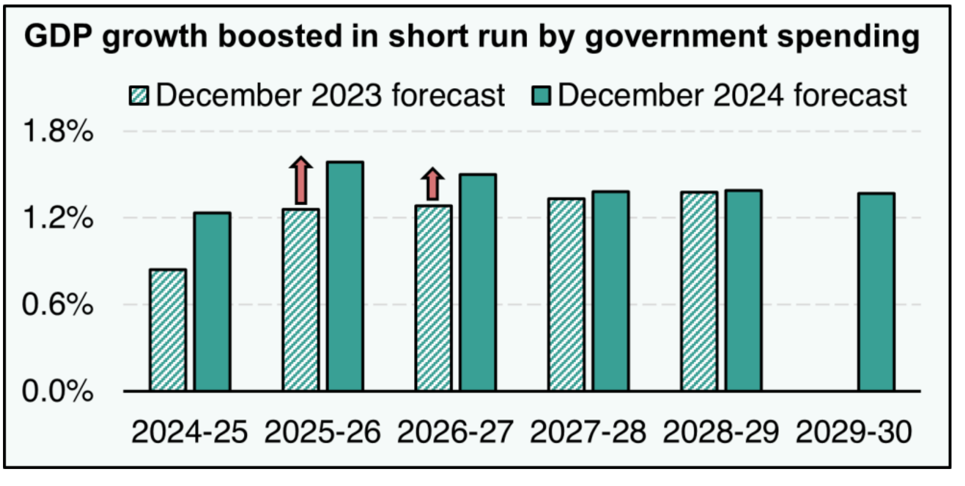


Capital funding is around 10 per cent of the Scottish Budget and covers investment in assets such as roads and hospitals, and financial assets. After accounting for inflation, it is forecast to rise by 12 per cent in 2025-26 before dropping in 2026-27 and remaining broadly flat.

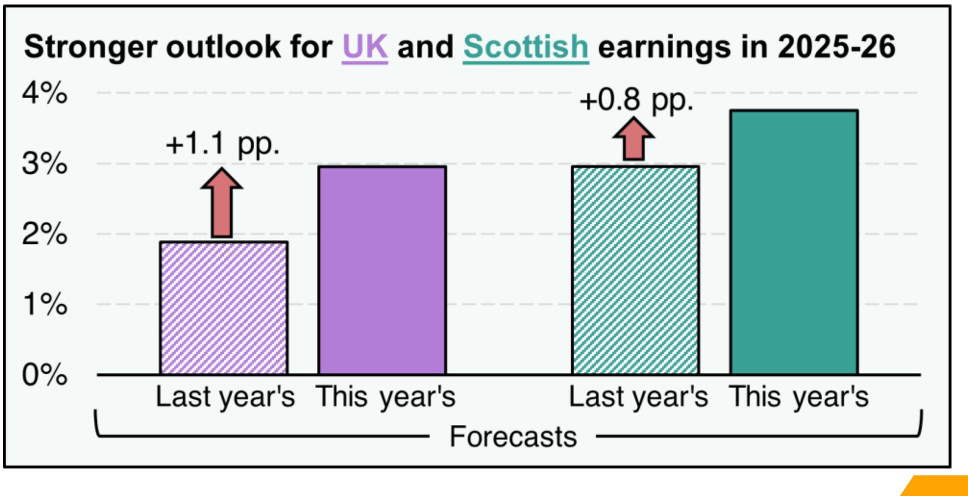


Economy

Since our December 2023 forecast, the UK Government has increased its planned borrowing and spending. We expect increases to government spending will feed through to higher real GDP growth in the short run. This boost to growth dissipates by the end of the horizon.

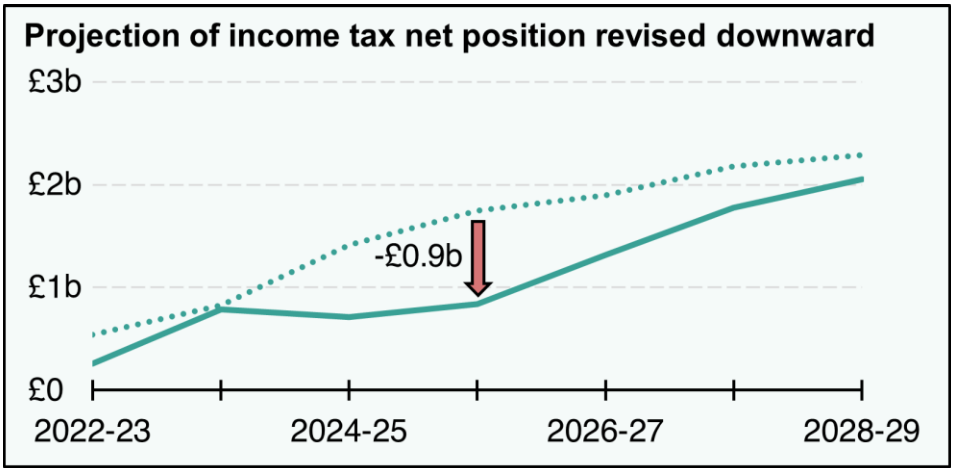


Compared to each of our respective forecasts produced this time last year, both the OBR (for the UK) and we (for Scotland) now expect nominal earnings growth in 2025-26 will be higher. The OBR revised up their outlook for growth by a larger amount than we have ours.

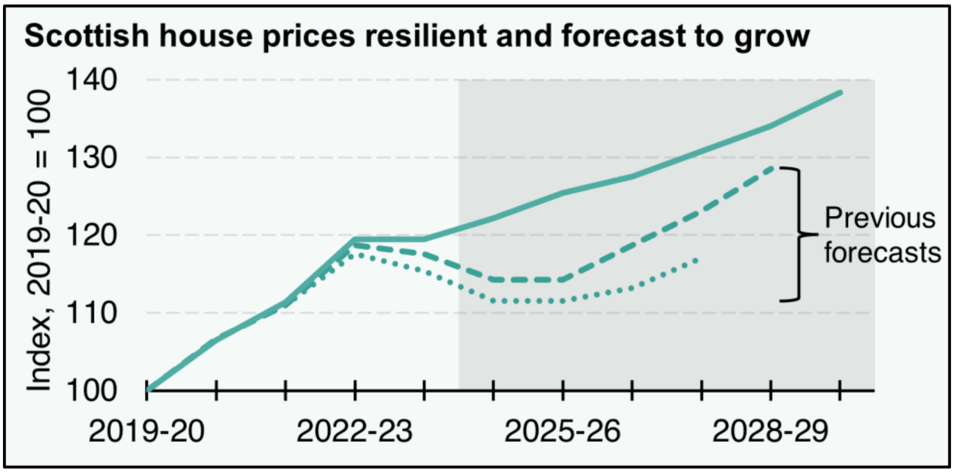


Tax

The income tax net position – the net funding available from income tax – remains positive but is lower than projected last December, with a fall for 2025-26 of £0.9 billion. This is due to upward revisions to the Block Grant Adjustment exceeding those made to Scottish income tax.

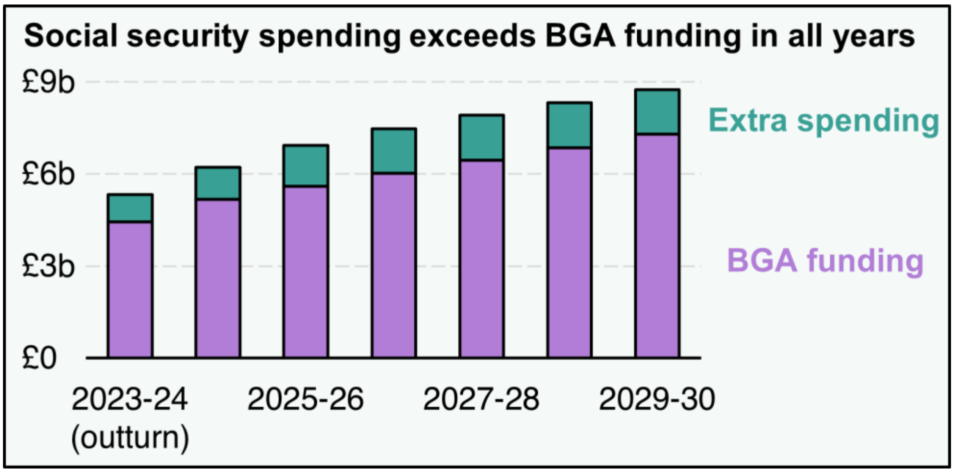


Nominal Scottish house prices, in contrast to our previous forecasts, have been broadly resilient. We have revised our outlook for the housing market up in this forecast, with this increasing our forecast of Land and Buildings Transaction Tax in 2025-26 to £1 billion.

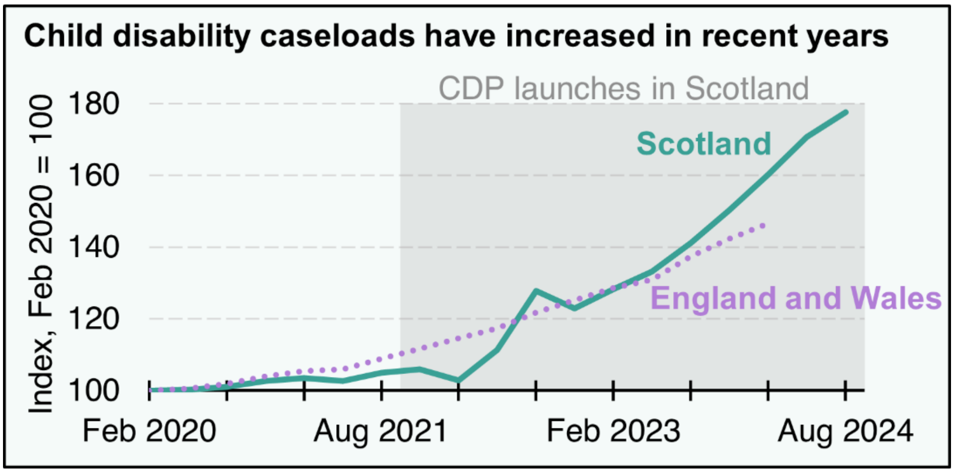


Social Security

Social security spending is forecast to increase from £6.9 billion in 2025-26 to £8.8 billion in 2029-30, driven by uprating of payments and rising caseloads. Spending exceeded Block Grant Adjustment (BGA) funding by £0.9 billion in 2023-24, with this gap rising to £1.3 billion in 2025-26.



Since 2020 there has been a large rise in the number of families receiving child disability benefits. This reflects a UK-wide trend, but with a larger increase in Scotland since the launch of Child Disability Payment (CDP) in 2021.



blank	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Budget funding, £ million							
Total funding (nominal)	52,654	56,215	58,772	61,105	63,030	65,164	67,671
Resource funding (nominal)	45,854	49,813	51,429	53,921	55,645	57,740	60,178
Capital funding (nominal)	6,800	6,402	7,344	7,183	7,384	7,424	7,493
Total funding (real)	53,904	56,215	57,402	58,527	59,212	60,034	61,138
Resource funding (real)	46,943	49,813	50,230	51,647	52,275	53,194	54,368
Capital funding (real)	6,961	6,402	7,172	6,880	6,937	6,840	6,770
Economy, per cent growth							
Real GDP	0.2	1.2	1.6	1.5	1.4	1.4	1.4
Consumer Price Index	5.7	2.3	2.6	2.2	2.1	2.1	2.0
Average real earnings	3.1	2.0	1.5	0.6	0.8	0.8	0.9
Employment	1.2	0.2	0.1	0.3	0.3	0.3	0.2
Tax, £ million (nominal)							
Income tax	17,315	19,099	20,477	21,782	22,980	23,913	24,930
NDR	3,033	3,175	3,052	3,535	3,500	3,567	3,879
LBTT	784	911	1,019	1,058	1,102	1,158	1,223
SLfT	68	54	40	24	25	25	26
Tax policy announcements, £ million (nominal)							
Income tax	blank	blank	52	185	197	206	215
NDR	blank	blank	-36	-11	-11	-11	-12
LBTT	blank	5	32	29	32	32	33
SLfT	blank	blank	6	4	4	4	4
Social security, £ million (nominal)							
Total spending	5,330	6,224	6,930	7,471	7,922	8,321	8,754
Social security policy announcements, £ million (nominal)							
Extension of PAWHP	blank	blank	67	70	71	74	78

Summary

Introduction

1 The Scottish Government has seen some large increases in funding as a result of the UK Autumn Budget 2024, in particular there is more capital funding in real terms in 2025-26 than in previous years. However, after accounting for the working of the fiscal framework the increase is more modest for day-to-day (resource) spending which is the majority of the budget. Existing and new social security commitments mean funding for other areas is lower in real terms in 2025-26 than in 2024-25.

2 Social security spending is taking up a growing share of the budget. This reflects the Scottish Government's priorities to support those on low incomes, pensioners and tackle child poverty but it does mean that spending in other areas is constrained. These constraints are further intensified by the growth in staff costs across the devolved public sector. Successive pay deals and Scottish Government policy choices have resulted in a larger public sector in Scotland with higher average wages. The Scottish Government has set its pay policy for the next three years to manage these rising pay costs. The changes to employer National Insurance Contributions add to the pressure as the compensation from the UK Government is unlikely to fully cover the cost. This all points to increased pressure from staff costs which the Scottish Government will need to manage.

3 The Scottish Government has made several tax changes, some of which reduce revenue and others raise it. An above inflation increase in the basic and immediate rate thresholds for income tax in 2025-26 reduces the amount of tax paid, while a freeze to the higher, advanced and top rate thresholds in 2025-26 and 2026-27 raises revenue. Non-Domestic Rates policy changes include freezing the Basic Property Rate and extending hospitality reliefs. There have also been increases to the rates for the Additional Dwelling Supplement and the Scottish Landfill Tax. After taking account of behavioural changes, the combined effect of all tax policies raises an extra £54 million in 2025-26.

4 The outlook for the Scottish economy is higher GDP growth in 2025-26 than in 2024-25, in part a result of the UK Government fiscal expansion. Inflation is also expected to be slightly higher in 2025-26 than in 2024-25.

Fiscal overview

Overall funding

5 Since December 2023 there have been material changes in the plans for the UK public finances. Following the change of the UK Government, the Chancellor's July public spending audit and Autumn Budget 2024 announced a shift in the UK fiscal stance.[1,2] The Chancellor modified the rules to enable a fiscal expansion with higher UK Government spending, taxation and borrowing.[3] UK Government resource spending increases in 2024-25 and 2025-26 and is then expected to grow more slowly in the following years. UK Government capital spending increases in 2025-26 and 2026-27 before it flattens at a higher level than previously planned. These increases are funded through greater levels of taxation and borrowing by the UK Government.

6 This UK-wide shift has resulted in additional funding for the Scottish Government through the Block Grant in both 2024-25 and 2025-26. However, the working of the fiscal framework and larger upward revisions to UK income tax revenue forecasts than our Scottish forecasts mean the income tax net position used to set the Scottish Budget has reduced funding by £575 million between 2024-25 and 2025-26. This means that the overall changes in the Scottish Budget are more modest.

7 Overall funding for 2025-26 is now £58,772 million, a real terms increase of 2.1 per cent on 2024-25.

8 Resource funding is forecast to be £51,429 million in 2025-26. Figure 1 shows that this is a 3.2 per cent increase on 2024-25 in nominal terms, but in real terms this increase is 0.8 per cent. The growth in capital funding is more significant. Capital funding in 2025-26 is forecast to be £7,344 million, a 14.7 per cent increase in nominal terms and 12 per cent in real terms on 2024-25. As resource funding accounts for 88 per cent of the Scottish Budget, the change in total funding is most influenced by resource funding.

[1] HM Treasury (2024) Fixing the foundations: public spending audit 2024-25

[2] HM Treasury (2024) Autumn Budget 2024

[3] The rule that borrowing (for any purpose) should fall below 3 per cent of GDP by the fifth year of the forecast was replaced. Now tax revenues will have to cover day-to-day spending. Having debt on a downward trajectory is still a rule, but the measure of debt used has been redefined to one that takes into account long-term financial assets, Public Sector Net Financial Liabilities (PSNFL). The fiscal rules currently apply to the fifth year of the forecast, but this will gradually shorten so that from 2026-27 the UK Government will need to meet these rules by the third year of the forecast.

Figure 1: Funding changes between budgets

£ million (nominal terms)	2024-25	2025-26
Total funding	56,215	58,772
Nominal terms growth rate (per cent)	blank	4.5
Real terms growth rate (per cent)	blank	2.1
Resource funding	49,813	51,429
Nominal terms growth rate (per cent)	blank	3.2
Real terms growth rate (per cent)	blank	0.8
Capital funding	6,402	7,344
Nominal terms growth rate (per cent)	blank	14.7
Real terms growth rate (per cent)	blank	12.0
Resource funding minus social security spending	43,606	44,499
Nominal terms growth rate (per cent)	blank	2.0
Real terms growth rate (per cent)	blank	-0.3

Source: Scottish Fiscal Commission, Scottish Government.

Figures may not sum because of rounding.

9 Where possible our comparisons are between the 2025-26 Budget as presented by the Scottish Government and the latest position for previous years. For 2024-25 we have had to take different approaches for funding and spending. Our funding numbers are the latest position and reflect the £1.3 billion increase in funding following the UK Autumn Budget 2024. Our spending numbers are based on the Scottish Government's allocations at the time of the Autumn Budget Revision (ABR) when the funding position was £1.3 billion lower.

10 Unlike previous budgets, the Scottish Government is now comparing the 2025-26 Budget to the 2024-25 position at the ABR. This is an improvement from previous practice, where the comparison was to the previous Budget as initially presented to the Scottish Parliament. However, we would ideally want to compare to the latest position for both funding and spending, and to have information on how the Scottish Government plans to allocate the funding which has emerged since the ABR, because it is a more accurate reflection of changes year on year.

11 While in most years the latest position at the time of the Scottish Budget would not differ as significantly from the position at the ABR, this year the £1.3 billion increase means the comparison is less useful as it overstates the growth in 2025-26 spending plans. This is a material limitation to information available to the Scottish Parliament for its scrutiny of the Budget and in the spending analysis we can do. Our next forecast report published alongside the Scottish Government's Medium-Term Financial Strategy (MTFS) will consider how the presentation in the Spring Budget Revision changes these results.

Resource

Resource funding in 2024-25 and 2025-26

12 The Scottish Government's total resource funding is forecast to increase by £1.6 billion between 2024-25 and 2025-26, this is an increase of 3.2 per cent. In real terms this increase is 0.8 per cent. This relatively low real terms growth in total resource funding is despite the large increase in the UK Government Block Grant. It is mostly explained by a deterioration of the income tax net position because forecasts for income tax revenues in the UK have increased more than our forecasts for Scotland. After accounting for social security spending, there will be a real terms fall in resource funding for public services of 0.3 per cent between 2024-25 and 2025-26.

13 The resource Block Grant has increased by £1.4 billion in 2024-25 as a result of the UK Autumn Budget 2024. The resource Block Grant in 2025-26 is £1.5 billion higher than the latest position in 2024-25. This represents a large increase in UK Government funding.

14 The tax net position positively contributes to 2025-26 funding but less so than it did in 2024-25, and less so than we expected in December 2023, when we last forecast funding in 2025-26. The tax net position for 2025-26 is £1,175 million which is £549 million or 32 per cent lower than in 2024-25. This is mostly because of improved forecasts of UK income tax revenues.

15 The latest OBR forecasts suggest larger UK revenues in 2024-25 which would reduce the tax net position in the current year. However, income tax is fixed once the Budget is set so the funding position for 2024-25 is unaffected. Instead, once the 2024-25 outturn is known a final reconciliation will be applied to the 2027-28 Budget. We discuss this further in the income tax section of this chapter. This is the main reason why there is lower growth in resource funding than would have been expected following the UK Autumn Budget 2024.

16 Other funding decisions by the Scottish Government have also boosted the 2024-25 resource position and are not repeated in 2025-26. These include the planned use of ScotWind in 2024-25 and no planned reserve drawdown in 2025-26. The Scottish Government now plans to use £160 million of ScotWind proceeds for resource funding in 2024-25. This is a reduction from the £424 million planned at the time of the ABR. In 2025-26, the Scottish Government plans to use ScotWind mostly to support £326 million of capital spending, with £10 million for resource. This leaves a remaining balance of £219 million to support capital or resource spending in future years.

Social Security and the Scottish Budget

17 Against this background of modest increases in funding available in next year's Scottish Budget, the Scottish Government's decisions on social security mean social security spending takes up a growing share of the budget. Social security spending is forecast to account for 13.5 per cent of day-to-day spending in 2025-26, it is £1,334 million higher than the corresponding funding provided by the UK Government. This has grown significantly since 2022-23 when social security accounted for 9.7 per cent of day-to-day spending and was £481 million above UK funding.

18 While this extra spending represents Scottish Government priorities, the growth in social security spending reduces the amounts available for the Scottish Government to spend elsewhere.

19 The Scottish Government has announced that there will be a new payment structure for Pension Age Winter Heating Payment (PAWHP) delivered through Social Security Scotland from 2025-26. This follows the UK Government's decision to restrict Winter Fuel Payment (WFP) to those receiving certain means-tested benefits from 2024-25 onwards. The Scottish Government has mirrored this policy in 2024-25 but from 2025-26 payments will be made to most households with a person above State Pension age. This contributes to the cost to the budget of social security as the new policy for PAWHP is estimated to cost £69 million more than the associated funding in 2025-26.

20 The Scottish Government's announcement that it will explore ways to mitigate the impact of the two-child limit in the UK-wide Universal Credit from 2026-27 was not included in our forecasts as the information was provided to us after the final policy deadline. This is a significant commitment to additional spending from 2026-27 onwards. As discussed in Chapter 5, we have conducted some illustrative analysis estimating the full-year costs in 2026-27 could be around £150 million, rising to over £200 million in 2029-30.

Public sector pay and employer National Insurance contributions

21 Pay is a significant component of the Scottish Budget. The Scottish Government estimates that, including local government employees such as school teachers and social care workers, pay is equivalent to around half the resource budget.[4] Therefore, levels of public sector pay and the size and composition of the workforce matter for the Scottish Budget. This is both in terms of the pay awards, or pay rises, which are given, and the total level of spending on pay, referred to as the paybill. The paybill covers basic pay, employer pension contributions, employer National Insurance contributions (NICs), and is affected by the size of the workforce.

[4] Scottish Government (2024) Public sector: economic overview

22 The Scottish Government has set out pay metrics in its Public Sector Pay Policy of a 9 per cent increase over the next three years, with 3 per cent allocated for the 2025-26 Budget.[5] There may also be other factors which affect pay pressures such as pay progression within pay-bands, changes in the structure of grades within the public sector, vacancies and turnover which will also need to be accommodated by portfolios within their allocations as the Scottish Government has not made provision for increases in the paybill other than the 3 per cent pay award. The size of the workforce is also an important lever to manage the paybill. The Scottish Government has indicated that it will set out further detail on what this means for the public sector in Scotland as part of a Fiscal Sustainability Delivery Plan published alongside the Medium-Term Financial Strategy, noting protection for frontline staffing, such as in the NHS.

23 The Scottish Government provided us with its pay policy in time to include it in our economy and income tax forecasts. Our forecasts are therefore consistent with the information provided by the Scottish Government. In addition to the 3 per cent basic pay award, we assume the other factors affecting average pay such as pay progression add, based on historical data, an additional 1.5 percentage points to average pay growth, summing to 4.5 per cent average pay growth in total in 2025-26.

24 The Government did not include information on workforce in the Budget. We have therefore produced a projection of the public sector workforce to include in our economy and income tax forecasts. To do so, we consider the recent data on public sector employment, the Government's pay and other workforce policies, trends in average pay where this is different to pay awards, the outlook for government spending in Scotland, and information on reserved public sector employment in Scotland. We have therefore produced a projection of the public sector workforce to include in our economy and income tax forecasts sector employment in Scotland. We combine this information, and our projection is for a relatively flat profile of public sector employment in Scotland in the coming years.

25 In our August 2024 publication we highlighted how recent increases in public sector pay awards have been larger than planned because of inflationary pressures. We also discussed how pay award increases are cumulative so that the past increases result in higher paybill costs in the future.[6]

26 Although the Scottish Government has been clearer this year in setting out its pay policy, risks remain that paybill growth may be larger than planned either as a result of pay pressures or workforce changes. Recent trends have seen the devolved public sector workforce growing in size.

27 The UK Autumn Budget 2024 included a rise in NICs from 2025-26. This rise will have a direct impact on the public sector paybill and is therefore indirectly funded from the Scottish Budget. The UK Government has said it will compensate UK public sector organisations and allocated £4.7 billion for this in 2025-26. However, the share the Scottish Government receives will only be confirmed at the UK Main Estimates which are presented to the UK Parliament after the start of the financial year.

[5] Scottish Government (2024) Scottish Government Public Sector Pay Policy 2025-26

[6] Scottish Fiscal Commission (2024) Fiscal Update – August 2024

28 The Scottish Government has estimated the cost of the NICs rise for directly employed public sector employees to be between £520 million and £580 million in 2025-26. The Scottish Government has estimated a Barnett share of up to £380 million as the UK Government compensates its departments for the cost, but figures around £300 million have recently been discussed in the media.[7] This would suggest approximately half of the increased cost for the directly employed workforce may be covered, meaning the remaining costs would need to be met from within the Budget. The Scottish Government has also estimated the costs of the employer NICs rise for some contracted out services and third parties delivering public services to be £210 million, although this is not a complete estimate.[8] If the Scottish Government decides to compensate a wider group of providers of public services for the rise in employer NICs than the UK Government, there will be bigger implications for public spending.

29 As the Scottish Government does not have clarity on NICs funding, it has presented the 2025-26 Budget with no assumed NICs funding from the UK Government and no associated spending plans. This means that once the UK Government confirms the funding, the 2025-26 Budget will be larger than has been presented. But this funding is unlikely to cover the full cost of the NICs rises which will need to be managed as part of wider pay and workforce plans. This should be noted as a risk to the Budget.

30 The combined risks for the Budget from pay deals, size of the workforce, and NICs are significant and may be difficult to manage. Pay pressures contributed to the Scottish Government's emergency spending controls and in-year changes to the Budget during 2024-25. Short-term decisions to balance the budget do not alleviate the spending pressure from pay for the medium term. Audit Scotland recently noted that significant in-year changes to the Budget raise questions about the accountability to the Scottish Parliament as it scrutinises, debates, and votes on a Budget subject to change.[9]

31 The Scottish Government needs to be prepared to manage the risks from the higher cost of employer NICs alongside risks that pay rises could be higher than the stated pay policy, or if the workforce continues to grow. To do so, it needs a good understanding of the size, pay levels and overall costs of its workforce. While there have been improvements in the information provided by the Scottish Government, there is still a need for greater clarity and monitoring of pay costs and workforce plans in the Scottish Budget.

[7] BBC News (25 November 2024) Extra £300m for UK tax hike unacceptable - Robinson

[8] Scottish Government (2024) National Insurance Contributions: public sector costs

[9] Audit Scotland (November 2024) Fiscal sustainability and reform in Scotland

Resource spending plans

32 The Scottish Government has presented its spending plans for 2025-26 compared to the 2024-25 funding position at the ABR, when there was £48.5 billion of resource funding confirmed. Since then, 2024-25 funding has increased by £1.3 billion. Comparing the real terms growth rates between years with the ABR used as the comparator results in a growth rate of 3.7 per cent, but this is reduced to just 0.8 per cent if using the latest position. For this reason, growth rates between years for individual portfolios are higher than they will be once the Scottish Government confirms allocations for 2024-25.

33 On this basis almost all portfolios are seeing real terms growth in their allocations. Rural Affairs, Land Reform and Islands is broadly flat in nominal terms but falling in real terms. The growth in the Social Justice portfolio reflects increases in social security spending. The other two areas with the largest cash increases in funding are Health and Social Care, and the Finance and Local Government portfolios which covers funding to local authorities.

Figure 2: Changes in resource portfolio allocations, 2024-25 to 2025-26

Portfolio	Share of budget (per cent) [1]	2024-25 ABR	2025-26 Budget	Real-terms growth (per cent)
Health and Social Care	39.3	19,077	20,200	3.4
Finance and Local Government	25.6	12,530	13,167	2.6
Social Justice	14.5	6,764	7,472	7.9
Justice and Home Affairs	6.8	3,339	3,494	2.2
Education and Skills	6.2	3,028	3,194	3.0
Transport	3.0	1,484	1,545	1.7
Rural Affairs, Land Reform and Islands	1.8	923	916	-3.1
Deputy First Minister, Economy and Gaelic	1.2	577	613	3.7
Constitution, External Affairs and Culture	0.6	287	321	9.3
Crown Office and Procurator Fiscal	0.4	205	225	7.3
Net Zero and Energy	0.3	116	132	11.1
Scottish Parliament and Audit Scotland	0.3	137	149	6.4
Total resource spending	100.0	48,469	51,428	3.7
Total resource spending (adjusted) [2]	blank	49,813	51,428	0.8

Source: Scottish Government.

Figures exclude budget-neutral internal transfers done throughout the year, except those which have been included from the outset in 2025-26. See Box 2.1 for more details.

Real-terms growth rates are calculated using the forecast growth in the GDP deflators from the OBR's October 2024 forecasts.

[1] Of the resource part of the 2025-26 Budget presented to parliament on 4 December 2024.

[2] Including the £1,344 million of resource funding that is available for use in 2024-25 but has not yet been allocated to portfolios.

Figures may not sum because of rounding.

34 For comparability over time we track spending using the Classification of Functions of Government (COFOG).[10] As discussed the presentation of spending levels in 2024-25 are lower than they will be after the Spring Budget Revision. Comparisons between earlier years and the 2025-26 spending position provide a more accurate comparison of growth as these reflect outturn and provisional outturn data.

35 Higher levels of resource funding in 2025-26 are mostly being spent on health and social protection. Health spending is 4 per cent higher in 2024-25 compared to 2022-23 based on the position at the ABR, but it will be 8 per cent above 2022-23 levels in 2025-26. The growth in social protection already seen in earlier years is expected to continue in 2025-26. It reflects the devolution of new payments over this period and the Scottish Government's policies on social security.

36 General public services cover the cost of running the devolved administration and the financial support to local government. This area of spending along with education and transport saw their allocations fall in 2023-24 but all have been increasing since. Based on current plans for 2025-26, education and general public services will end up 2 per cent above 2022-23 levels in real terms, and transport 6 per cent. Based on current plans the area of economic affairs other than transport will see a real terms reduction in funding in 2025-26 with spending being lower in real terms than 2022-23 and 2024-25.

[10] Scottish Fiscal Commission (2024) [Spending trends in the 2024-25 Scottish Budget]

Figure 3: Resource spending trends in real terms by COFOG, 2022-23 to 2025-26

Classification of functions of government (2022-23 = 100)	Share of budget (per cent) [1]	2022-23 outturn	2023-24 outturn	2024-25 ABR	2025-26 Budget
Health	38.7	100	102	104	108
General public services	26.7	100	97	99	102
Social protection	14.9	100	112	125	136
Public order and safety	7.2	100	95	97	99
Education	6.5	100	94	100	102
Transport	3.0	100	96	101	106
Economic affairs excluding transport	2.0	100	90	97	91
Other [2]	1.0	100	95	98	108
All resource spending	100.0	100	100	104	108

Source: Scottish Fiscal Commission, Scottish Government.

Figures exclude in-year budget-neutral transfers, except those which have been baselined in 2025-26. See Box 2.1 for more details.

Figures prior to 2024-25 include presentational adjustments for the Verity House Agreement. Figures up to and including 2024-25 also include COFOG baseline adjustments to align with the new 2025-26 Budget structure. See Annex A of our January 2024 Spending Trends in the 2024-25 Budget paper for more details.

[1] Of the resource part of the 2025-26 Budget presented to parliament on 4 December 2024.

[2] 'Other' covers housing and community amenities, environmental protection, and recreation, culture and religion.

Figures may not sum because of rounding.

Resource funding outlook

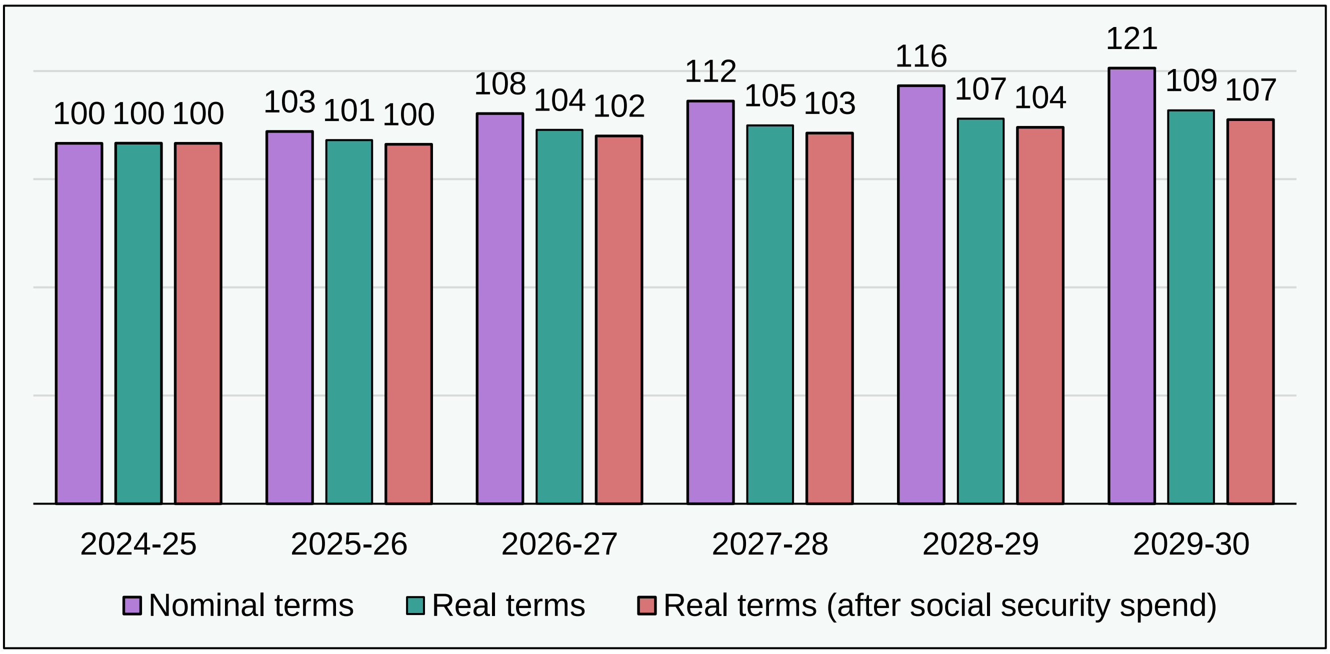
37 Resource funding is expected to increase over the next five years. In nominal terms, it is forecast to grow by 21 per cent by 2029-30 compared to the latest position in 2024-25. After adjusting for inflation, the growth is 9 per cent. Looking at resource funding available for spending on public services after social security spending, the outlook is more constrained and the growth is 7 per cent in real terms over the next five years.

38 The Scottish Government's approach to social security means spending in this area is growing faster than UK Government funding. The two announcements in this Budget relating to the widening of eligibility for PAWHP from 2025-26 onwards and the mitigation of the two-child limit in 2026-27 further contribute to what was already forecast to be a growing pressure on the Scottish Budget.

39 The mitigation of the two-child limit is a significant commitment to additional spending from 2026-27 onwards which is not included in our forecasts as the information was provided after the policy measures deadline. The real terms growth in resource spending after accounting for social security will therefore be lower than presented in Figure 4, reducing the funding available for other spending priorities. We will publish a report outlining the implications of this policy announcement for the Scottish Budget in due course.

Figure 4: Resource funding outlook, 2024-25 to 2029-30

Resource funding will increase in the next five years, but less so after social security



Description of Figure 4: Column chart showing resource funding until 2029-30, in nominal and real terms, and in real terms after social security spend, all indexed to 2024-25 levels. It will grow by 21 per cent in nominal terms in the next five years, but only 9 per cent in real terms. Resource funding for public services, which excludes the social security, falls slightly in 2025-26 in real terms before increasing more slowly in the next four years.

Source: Scottish Fiscal Commission, Scottish Government.

Real-terms amounts are calculated using the forecast growth in the GDP deflators from the OBR's October 2024 forecasts.

Capital

Capital funding in 2025-26 and outlook

40 Capital funding in 2025-26 is forecast to be 14.7 per cent higher in nominal terms than the latest position for 2024-25.[11] In real terms, this is a growth of 12 per cent. The new UK Government's announced increase in capital spending has resulted in a large increase in Block Grant funding. The capital Block Grant is £592 million higher in 2025-26 than in 2024-25, this is a 10.1 per cent increase in nominal terms. Scottish Government decisions are also resulting in higher capital spending in 2025-26. It plans to borrow the maximum possible in 2025-26, £472 million, and use £326 million of ScotWind proceeds to support capital investment for the first time.

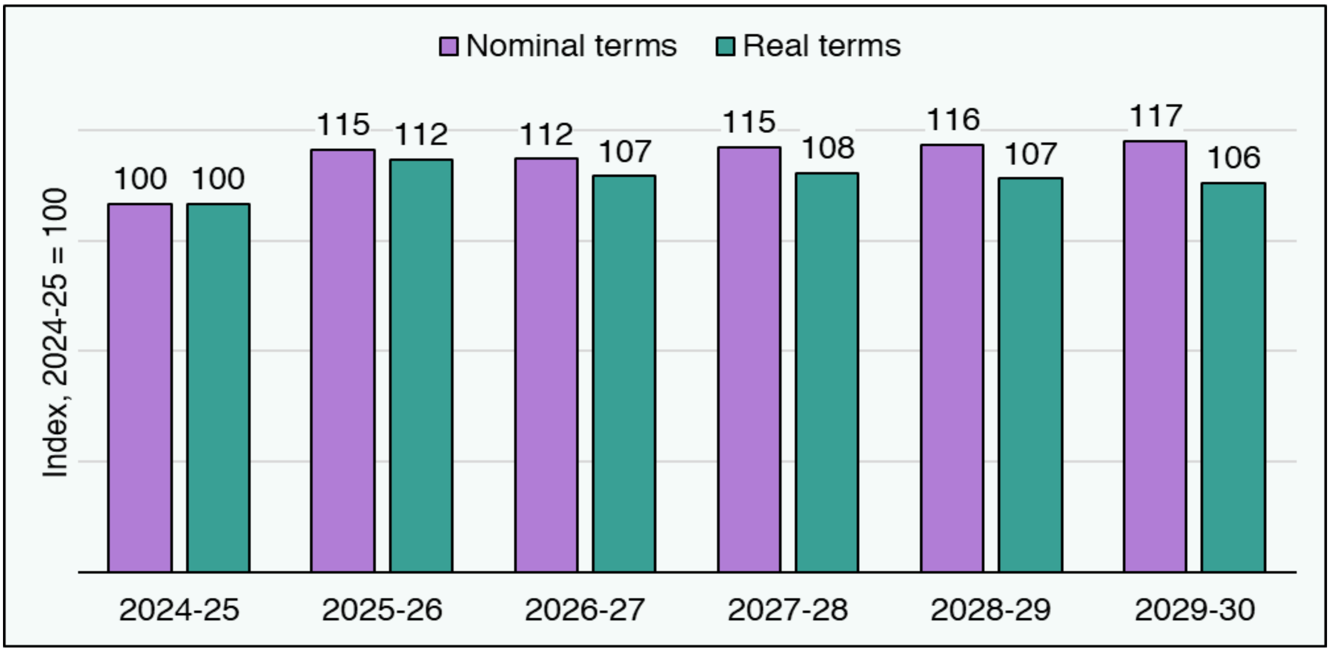
41 The new UK Government has increased capital spending in 2025-26 and the following years significantly above the previous government's plans. UK Government capital spending is now set to rise in the next two years before flattening off at a higher level.

42 The outlook for the Scottish Government's capital funding has a different profile to resource, as capital funding peaks in 2025-26 before falling in 2026-27 and then staying broadly flat. The reason for this is the Scottish Government plans to borrow less in 2026-27 than in 2025-26, and there is no planned use of ScotWind proceeds in 2026-27.

[11] Our commentary on capital includes Financial Transactions.

Figure 5: Capital funding outlook, 2024-25 to 2029-30

Capital funding will grow rapidly in 2025-26, but is expected to remain flat after that.



Description of Figure 2.15: Column chart showing nominal and real terms growth in capital funding levels up to 2029-30, indexed at the levels of the latest 2024-25 funding position. Funding will grow rapidly in 2025-26 before falling in 2026-27, and then increases gradually until 2029-30 in nominal terms. In real terms capital funding levels peak in 2025-26 and then stay broadly flat until the end of the forecast period.

Source: Scottish Fiscal Commission, Scottish Government.

Real-terms amounts are calculated using the forecast growth in the GDP deflators from the OBR's October 2024 forecasts.

43 This is a major change in the outlook for capital funding, in our last forecast in December 2023 the capital budget was expected to fall by 20 per cent in real terms between 2023-24 and 2028-29.[12] This reflected the previous UK Government's plan to keep capital funding flat in nominal terms and Scottish Government assumption of no further Block Grant funding for Financial Transactions (FTs).

Capital spending

44 The comparisons of capital spending plans between 2024-25 and 2025-26 are not subject to the same limitations as the comparisons of resource spending. Since the ABR capital funding has fallen by £32 million in 2024-25. This means the real terms growth rate in capital spending presented by the Scottish Government is slightly understated at 11.6 per cent based on the position at the ABR, compared to 12.1 per cent based on the latest position in 2024-25.

[12] Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023

45 Figure 6 shows how the Scottish Government plans to allocate capital spending between portfolios. The largest absolute increases in funding are in the Net Zero and Energy, Justice, and Health and Social Care portfolios. Those with the largest real terms growth are the Justice, Net Zero and Energy, and Constitution, External Affairs and Culture portfolios.

Figure 6: Changes in capital portfolio allocations (including FTs), 2024-25 to 2025-26

Portfolio	Share of budget (per cent) [1]	2024-25 ABR	2025-26 Budget	Real-terms growth (per cent)
Transport	28.8	1,995	2,118	3.7
Health and Social Care	13.7	820	1,005	19.7
Finance and Local Government	10.8	685	796	13.5
Net Zero and Energy	10.3	552	758	34.1
Social Justice	9.6	535	702	28.1
Deputy First Minister, Economy and Gaelic	9.5	813	696	-16.4
Justice and Home Affairs	7.0	306	511	63.1
Education and Skills	6.8	522	500	-6.4
Rural Affairs, Land Reform and Islands	2.8	163	209	25.2
Constitution, External Affairs and Culture	0.5	25	35	34.8
Crown Office and Procurator Fiscal	0.2	10	12	21.1
Scottish Parliament and Audit Scotland	0.0	2	1	-33.6
Total capital spending	100.0	6,428	7,344	11.6
Total capital spending (adjusted) [2]	blank	6,396	7,344	12.1

Source: Scottish Government.

Figures exclude budget-neutral internal transfers made throughout the year, except those which have been included from the outset in 2025-26. See Box 2.1 for more details.

Real-terms growth rates are calculated using the forecast growth in the GDP deflators from the OBR's October 2024 forecasts.

[1] Of the capital part of the 2025-26 Scottish Budget as introduced to Parliament on 4 December 2024.

[2] Including the £32 million of capital funding reduction still to be applied in 2024-25.

46 Although capital funding levels have grown rapidly from 2024-25 to 2025-26, Figure 7 shows that in real-terms the Scottish Government will be spending nearly as much on capital in 2025-26 as in 2022-23. Comparing using COFOG categories, Health will be 1 per cent above 2022-23 levels after a sharp decline in 2024-25. Similarly capital spending on housing and community amenities is restored in real terms to 2022-23 levels in 2024-25 after a fall in real terms spending in 2024-25.

47 Transport, the largest area of capital spending, remains substantially below 2022-23 levels despite some growth in 2025-26. Capital spending on education has been falling steadily since its peak in 2023-24 and, based on current plans for 2025-26, it will be 3 per cent below 2022-23 levels.

48 Public order and safety, and environmental protection both see very rapid growth in 2025-26, though both are a relatively low share of the budget. It is important to note that capital investment is likely to peak in different areas of spending at different points in time. This will reflect the areas which have major capital projects taking place.

Figure 7: Capital spending trends by COFOG, 2022-23 to 2025-26

Classification of functions of government (2022-23 = 100)	Share of budget (per cent) [1]	2022-23 outturn	2023-24 outturn	2024-25 ABR	2025-26 Budget
Transport	27.7	100	70	80	83
Economic affairs excluding transport	21.3	100	99	88	94
Health	13.7	100	99	85	101
Housing and community amenities	13.5	100	98	79	102
Environmental protection	7.4	100	134	156	172
Public order and safety	7.3	100	89	146	233
Education	6.8	100	114	105	97
General public services	1.4	100	20	112	100
Other [2]	1.0	100	95	75	53
Total	100.0	100	90	90	98

Source: Scottish Fiscal Commission, Scottish Government.

Figures exclude in-year budget-neutral transfers, except those which have been baselined in 2025-26. See Box 2.1 for more details.

Figures prior to 2024-25 include presentational adjustments for the Verity House Agreement. Figures up to and including 2024-25 also include COFOG baseline adjustments to align with the new 2025-26 Budget structure. See Annex A of our January 2024 Spending Trends in the 2024-25 Budget paper for more details.

[1] Of the capital part of 2025-26 Budget as presented to parliament on 4 December 2024.

[2] 'Other' covers social protection, and recreation, culture and religion.

Figures may not sum because of rounding.

Economy

49 Over the past year, the Scottish economy and labour market have performed slightly better than we expected in December 2023, but broadly on track with our last forecast. Gross Domestic Product (GDP) has increased marginally after being flat since early 2022, and nominal earnings growth has remained relatively strong in a still tight labour market. Stronger earnings growth, combined with lower inflation than expected a year ago, has resulted in living standards recovering more rapidly from their fall in 2022-23.

50 Since December 2023, we have had the UK Autumn Budget 2024 which introduced a fiscal expansion worth nearly 1 per cent of UK GDP in 2025-26. We have also updated our five-year population projection to reflect the recent higher levels of net migration.

51 Figure 8 shows our latest economy forecast and compares it to our December 2023 forecast.

52 As in the UK, we expect that the increase in public spending in Scotland in 2025-26 following the UK fiscal expansion will deliver a temporary demand-side boost to GDP. Permanent supply-side effects on productivity and GDP from higher public capital investment will build up over a longer time horizon, beyond our five-year forecast window.

53 As a result, our forecast shows GDP growth rising to 1.6 per cent in 2025-26, before returning to its trend rate of 1.4 per cent by 2027-28 which reflects our higher migration and population assumption.

54 The outlook for inflation in the near term is higher than in our December 2023 forecast. We now expect Consumer Price Index (CPI) inflation to rise to 2.6 per cent across the UK in 2025-26, revised up from 1.6 per cent in our last forecast. This feeds through to higher nominal earnings growth in both Scotland and the UK in 2025-26.

Figure 8: Headline economy forecasts, growth rates unless otherwise specified

Per cent	2023-24 [1]	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
GDP	blank	blank	blank	blank	blank	blank	blank
December 2023	0.2	0.8	1.3	1.3	1.3	1.4	blank
December 2024	0.2	1.2	1.6	1.5	1.4	1.4	1.4
CPI inflation	blank	blank	blank	blank	blank	blank	blank
December 2023	6.1	3.0	1.6	1.5	1.8	2.0	blank
December 2024	5.7	2.3	2.6	2.2	2.1	2.1	2.0
Average nominal earnings	blank	blank	blank	blank	blank	blank	blank
December 2023	6.6	3.6	3.0	2.9	3.0	3.1	blank
December 2024	6.4	4.3	3.7	2.8	2.9	2.9	2.9
Unemployment rate	blank	blank	blank	blank	blank	blank	blank
December 2023	3.7	4.0	4.2	4.2	4.1	4.1	blank
December 2024	3.7	3.9	3.9	3.9	4.0	4.0	4.1

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts.

[1] The 2023-24 column represents outturn in the December 2024 rows.

55 Our view is that the labour market in Scotland is still tighter than in the UK, consistent with regional data on job vacancies and worker shortages. This implies faster earnings growth in Scotland compared to the UK in 2025-26. In addition, we expect that the extra demand from the fiscal expansion will have a greater effect on earnings in Scotland, providing a small additional boost to Scottish earnings growth in 2025-26.

Tax

Income tax

The income tax net position

56 The income tax net position (ITNP) shows how much funding the Scottish Government receives from income tax revenues compared to the reduction in funding from the Block Grant Adjustment (BGA). Figure 9 shows the projected ITNP comparing our December 2024 Scottish income tax forecasts to the latest forecast of the BGA based on the OBR's October 2024 forecasts. Figure 9 also shows the projection of ITNP from our previous December 2023 report.

Figure 9: Changes in SIT, the income tax BGA and the ITNP since December 2023

£ million	2022-23 [1]	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Scottish income tax							
December 2023	15,309	17,357	18,844	19,873	20,856	22,056	22,981
December 2024	15,169	17,315	19,099	20,477	21,782	22,980	23,913
Change	-140	-42	255	604	926	925	932
Income tax BGA							
December 2023	-14,768	-16,530	-17,432	-18,125	-18,960	-19,877	-20,693
December 2024	-14,909	-16,527	-18,389	-19,639	-20,468	-21,207	-21,862
Change	-141	3	-957	-1,515	-1,508	1,329	-1,169
Net position							
December 2023	542	827	1,412	1,749	1,896	2,178	2,288
December 2024	260	788	711	838	1,314	1,774	2,051
Change	-281	-39	-701	-911	-582	-405	-237

Source: Scottish Fiscal Commission, Scottish Government.

Figures may not sum because of rounding.

Negative figures for the net position represent a negative funding effect on the Scottish Budget, where the BGA reduces funding by more than the tax revenue.

The income tax BGAs at the time of our December 2023 publication were based on the OBR's November 2023 forecast. Those in our current December 2024 forecast are based on the OBR's October 2024 forecast.

[1] The 2022-23 column represents outturn in the December 2024 rows.

57 The income tax net position is projected to be £838 million in 2025-26, which is higher than our latest estimate of the 2024-25 position but lower than we estimated last December. The downwards revisions in income tax net position are largely driven by 2022-23 outturn data, which showed the income tax net position in 2022-23 was lower than had previously been projected, and significant upwards revisions to the BGA, driven by revisions to the OBR forecast for the UK.

58 Earnings is one of the largest drivers of growth in income tax revenues over time and is a critical part of both ours and the OBR's forecasts.

59 As Scotland's independent fiscal institution, we focus on forecasting the Scottish economy, earnings growth and income tax revenue. However, the income tax net position depends on the comparison of our forecasts to another independent forecasting institution – the OBR – which focuses on forecasting the whole UK economy, earnings growth and income tax revenue. In December 2023, we noted that our forecasts of earnings growth in Scotland were above the OBR's forecasts for the UK, and this represented a downside risk to the income tax net position if the gap between Scottish and UK earnings growth turned out to be less than the comparison at the time suggested.

60 Since December 2023, projections of the income tax net position have been revised down, with particularly large revisions in 2024-25 and 2025-26. We believe this partially reflects a materialisation of the risk we highlighted last year.[13]

61 Compared with December 2023, with higher-than-expected inflation, both we and the OBR have revised up our forecasts of nominal earnings growth. However, in part because the OBR was starting from a lower value from its previous forecast, its upwards revisions have been larger than ours. For 2024-25, the OBR has revised average nominal earnings growth up by 1.2 percentage points, compared to 0.7 percentage points for the SFC. For 2025-26, the values are 1.1 percentage points and 0.8 percentage points respectively. These differences in the revisions to earnings forecasts drive an estimated downwards shift in the net position of £180 million in 2024-25 and £300 million in 2025-26.

62 Even with larger revisions to OBR than SFC forecasts, our forecast of earnings growth remains above the OBR from 2025-26 onwards, with an average gap of around 0.7 percentage points. If in the coming years the gap between earnings growth in Scotland and the UK turns out to be narrower than the current comparison of SFC and OBR forecasts suggests, then this again represents a downside risk to the projection of the income tax net position. We judge there to be an asymmetric and downside risk to the projections of the income tax net position from 2025-26 onwards.

63 Scotland experienced higher growth in earnings and income tax revenues in 2022-23 and 2023-24. In 2024-25 we have seen the gap in earnings growth between Scotland and the UK narrow. Higher earnings in Scotland have been supported by a tighter labour market, though the gap here is also narrowing. If the Scottish labour market does remain tighter in 2025-26, it could support ongoing higher earnings growth in Scotland than in the UK in this year. However, we still judge there to be a modest downside risk to the income tax net position in 2025-26. As the 2025-26 Budget has now been set, a lower-than-expected net position in 2025-26 would manifest as a negative reconciliation for 2025-26 once outturn data is available in summer 2027, which would apply in the 2028-29 Scottish Budget.

Tax policy changes

64 The Scottish Government has introduced several tax policy changes in the 2025-26 Budget. The effect of these changes on revenue is shown in Figure 10.

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[13] Scottish Fiscal Commission (2023) [Scotland's Economic and Fiscal Forecasts – December 2023](), Paragraphs 4.35 to 4.37

Figure 10: Summary of 2025-26 Budget tax policy changes

£ million	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Income tax	blank	52	185	197	206	215
Non-Domestic Rates	blank	-36	-11	-11	-11	-12
LBTT	5	32	29	32	32	33
Scottish Landfill Tax	blank	6	4	4	4	4
Total	5	54	207	222	231	241

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Income tax policy changes

65 The Scottish Government has announced income tax policy changes for 2025-26 and 2026-27 which raise a net amount of £52 million in 2025-26 and £185 million in 2026-27. This is made up of:

- increasing the basic rate threshold by 3.5 per cent in 2025-26
- increasing the intermediate rate threshold by 3.5 per cent in 2025-26
- freezing the higher rate threshold in 2025-26 and 2026-27
- freezing the advanced rate threshold in 2025-26 and 2026-27
- freezing the top rate threshold in 2025-26 and 2026-27

66 The increase of the basic and intermediate thresholds by 3.5 per cent is above inflation and reduces revenues by around £25 million to £30 million from 2025-26. There is minimal expected behavioural response to the reduction in tax liabilities within these bands.

67 The freezing of the top three tax bands adds £76 million in 2025-26 and £211 million in 2026-27, rising to £244 million by the end of the forecast. The majority of the revenue is raised through the higher rate band with both the advanced and top rate freezes contributing a much smaller amount. We estimate that the behavioural response reduces the overall yield of the policy by £10 million in 2025-26, with this behavioural response reaching £31 million by 2029-30.

68 Compared to our no policy change baseline, taxpayers earning less than £47,310 will pay slightly less tax in 2025-26, while taxpayers earning over this amount will pay more, up to a maximum of £193 more tax per year for those earning over £128,000.

69 Some taxpayers in Scotland pay less income tax than they would in the rest of the UK, and some pay more. Given the latest policy changes, we estimate that taxpayers in Scotland earning lower than £30,300 will pay less income tax in 2025-26 than they would in the rest of the UK. This compares to our estimate of median Non-Savings, Non-Dividends (NSND) income in Scotland in 2025-26 of £29,750.

Non-Domestic Rates – forecast and policy change

70 Non-Domestic Rates (NDR) is forecast to raise £3,052 million in 2025-26, a reduction in revenue relative to 2024-25. This reduction is largely because we expect a relatively large proportion of remaining proposals and appeals to both the 2017 and 2023 valuation rolls to be resolved in 2025-26.

71 There are several NDR policy changes included in the 2025-26 Budget. Each of the policies reduce revenue relative to our baseline, with the combined effect of a reduction of £36 million in 2025-26. The Scottish Government have set the Basic Property Rate (BPR) at the same amount as in 2024-25, rather than uprating with inflation. The Islands and Remote Areas Hospitality Relief will be extended for 2025-26 and an additional hospitality relief for mainland properties that pay the BPR is being introduced.

Land and Buildings Transaction Tax – forecast and policy change

72 For total Land and Building Transactions Tax (LBTT), we have increased our pre-measures forecasts for 2024-25 and 2025-26 by around 25 per cent compared to December 2023. This is mainly driven by the property market starting to recover, counter to our December 2023 forecast that it would continue to exhibit a downturn in 2024-25. This can be seen in our forecast for residential prices where we had forecast that prices would fall by 3.2 per cent in 2024-25, but we are now forecasting that they will rise by 2.3 per cent, representing an upward revision of 5.5 percentage points. In our previous forecasts we expected nominal house prices to fall in response to rising mortgage rates, but this has not materialised with the average house price in Scotland remaining relatively resilient.

73 LBTT revenue will also increase as a result of the Scottish Government announcement that the Additional Dwelling Supplement (ADS) tax rate will increase 6 per cent to 8 per cent effective 5 December 2024. This raises an additional £32 million in 2025-26.

Scottish Landfill Tax – forecast and policy change

74 We forecast Scottish Landfill Tax (SLfT) revenue of £40 million in 2025-26, falling to £24 million in 2026-27. The decrease is primarily a result of the introduction of the Biodegradable Municipal Waste (BMW) at the end of 2025 reducing the volume of waste sent to landfill. In terms of policy, the Scottish Government will apply an increase to both SLfT rates in 2025-26 to match the planned increase to UK Landfill Tax rates announced in the March 2024 UK Spring Budget. This raises an additional £6 million in 2025-26.

Social security

Overview

75 We forecast spending on social security will increase from £6.9 billion in 2025-26 to £8.8 billion in 2029-30, an increase of £1.8 billion. Approximately £0.7 billion of the spending increase is a result of annual uprating of payment rates and £1 billion of the increase comes from rising disability and carer's caseloads. These rising caseloads are a result of a UK-wide increase in demand for disability payments as well as the policies and delivery approach implemented by the Scottish Government.

Figure 11: Change in total social security spending forecast since December 2023

£ million	2023-24 [1]	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
December 2023	5,299	6,283	6,861	7,253	7,616	7,999	blank
December 2024	5,330	6,224	6,930	7,471	7,922	8,321	8,754
Change since December 2023	31	-59	69	218	306	323	blank

Source: Scottish Fiscal Commission.

Our forecast covers spending on payments and services to individuals and families, but not the associated administrative costs.

[1] The 2023-24 column represents outturn for December 2024 forecast.

[2] The increase in spending in the Wellbeing Economy, Fair Work and Energy portfolio does not reflect additional spend on employability support services provided to disabled people or those at risk of long-term unemployment but a change in our forecasting scope.

Figures may not sum because of rounding.

76 Our overall forecast of spending in 2025-26 has increased by £69 million since our previous forecast in December 2023. We have increased our forecast to reflect more people receiving disability payments, but for 2025-26 these increases are offset by reductions from uprating being lower than expected and the new policy approach for Pension Age Winter Heating Payment (PAWHP) which results in lower spending than the previous policy expected in December 2023. The main reason for increases in our forecast for 2026-27 onwards is increases to our forecasts for Adult Disability Payment (ADP) and Child Disability Payment (CDP) since December 2023.

Changes since December 2023

Adult Disability Payment

77 The effect of delivery and operational changes introduced with ADP is now evident in published statistics. Since the launch of ADP in August 2022 there has been a higher number of applications, reflecting the Scottish Government policy to maximise take-up, and a decrease in the number of people exiting the caseload at award review because of the light-touch review process.

78 Compared to December 2023, our updates to reflect the latest ADP data increase our forecast by £55 million in 2025-26 and by £171 million in 2028-29. While we continue to expect that the number of successful new applications will be higher than before the introduction of ADP, we now assume that these will be lower than we forecast in December 2023. We have also reduced our forecast of the average award level. These changes are offset by an increase in spending from fewer people leaving the caseload after having a light-touch award review.

Child Disability Payment

79 Compared with December 2023, we have increased our forecast for CDP by an average of £114 million each year from 2025-26 onwards. This is largely because the number of successful applications to CDP continued at a higher level than we had previously forecast. This reflects a trend across the UK for more successful applications for child disability payments since 2020, but with the launch of CDP in 2021 leading to larger increases in Scotland than in England and Wales.

Pension Age Winter Heating Payment

80 In July the UK Government announced that Winter Fuel Payment (WFP) in England and Wales would be restricted to people over the State Pension age receiving specific qualifying benefits from 2024-25 onwards. This reduced the associated BGA funding for the Scottish Government. Following this, the Scottish Government decided that eligibility for Pension Age Winter Heating Payment (PAWHP), the devolved replacement for WFP would also be restricted to people over the State Pension age receiving specific qualifying benefits in winter 2024-25.

81 The Scottish Government announced on 28 November 2024 that from winter 2025-26, there will be a new payment structure for PAWHP delivered through Social Security Scotland. Payments will be made to most households with a person above State Pension age. The payment amount will depend on the client's age, their living arrangements and whether they are receiving specific qualifying payments.

82 Compared to our December 2023 forecast, restricting the eligibility to those in receipt of means-tested benefits reduces PAWHP spending forecast by £148 million in 2024-25. With the new policy, we forecast spending in 2025-26 on PAWHP will be £101 million. While this is a reduction of £84 million in 2025-26 compared to our December 2023 forecast, it increases spending by £67 million in 2025-26 compared to the more restrictive policy in 2024-25.

Uprating payment amounts for inflation

83 The amounts people receive in payment for social security benefits are generally increased each year with inflation. During 2024 inflation has been lower than expected, reducing our forecast in the short term compared to December 2023, but it is now expected to be higher for 2025 onwards. The cumulative cost of uprating is forecast to be higher from 2027-28 onwards. These changes reduce our forecast by £103 million in 2025-26 but are adding £47 million in 2028-29. We estimate that roughly 85 per cent of the effect of any change in the inflation forecast is matched by changes in the corresponding BGA funding, as changes to inflation forecasts also apply to spending on equivalent benefits in England and Wales.

84 In addition, our forecast reflects the Scottish Government commitment to extend the statutory uprating to payments with currently have no statutory uprating requirement. Uprating these payments in line with CPI inflation each year is forecast to cost £2 million in 2025-26, rising to £19 million in 2029-30.

Funding related to social security

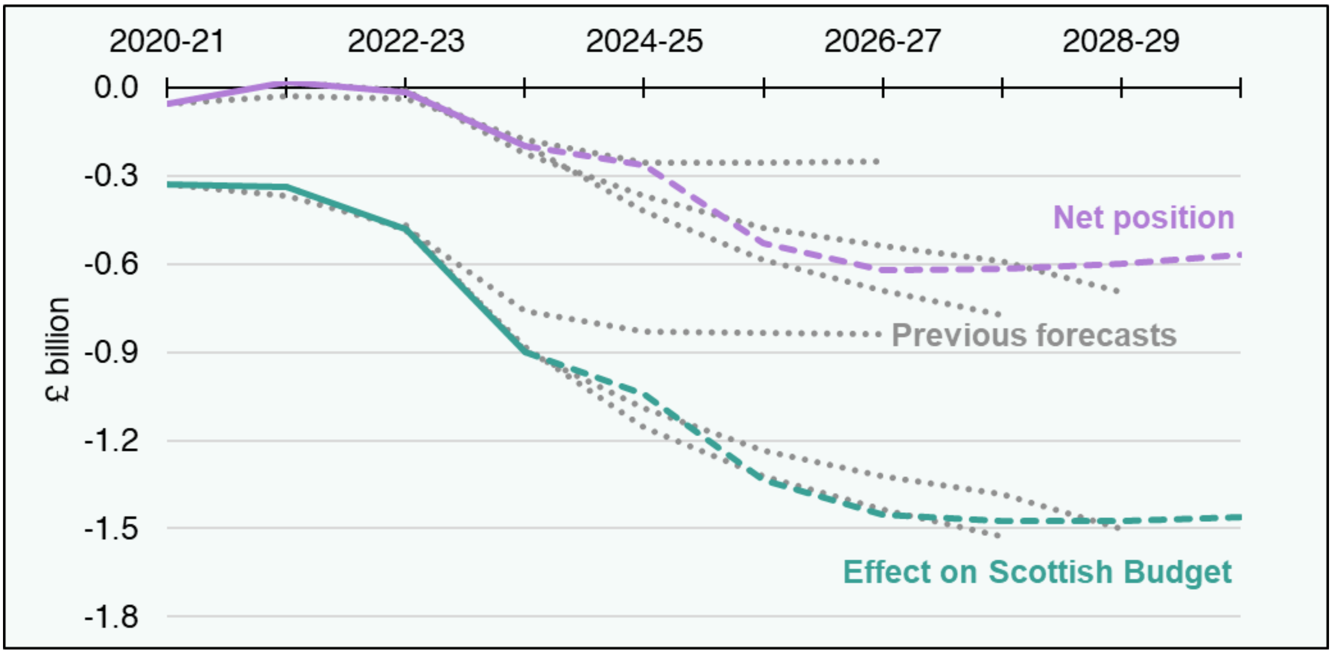
85 In previous forecast publications, we highlighted our expectation that the replacement of UK Government payments with devolved payments will result in spending exceeding associated BGA funding, because of the operational and delivery changes made by the Scottish Government. This difference between the spending on replacement social security payments and the BGA funding is now evident in outturn for 2023-24, where spending exceeded BGA funding by £198 million. Since our December 2023 forecast, the estimate of this gap for 2025-26 has widened by £51 million to £529 million. A factor in this widening has been the new approach for PAWHP which is estimated to cost £69 million more than the associated BGA funding in 2025-26.

86 For 2028-29, we estimate BGA funding will be £601 million lower than spending, which is £94 million narrower than estimated in December 2023, as shown as the social security net position in Figure 12. This narrowing of the gap is mainly driven by an upward revision to forecasts of UK Government spending on Personal Independence Payment (PIP) in England and Wales.

87 Combining the social security net position with spending on new payments introduced by the Scottish Government since 2018 and on other payments, whose funding comes through the general Block Grant, has resulted in the overall social security spending exceeding BGA funding by £899 million in 2023-24. This can be considered as the net effect of social security devolution and policy changes on the Scottish Budget. Figure 12 shows we estimate that this will grow to £1.3 billion in 2025-26 and to £1.5 billion in 2029-30.

Figure 12: Change in social security net position and effect of spending on the Budget

The social security net position gap is forecast to widen in subsequent years



Description of Figure 12: Line chart showing the social security net position and effect of spending on the Budget.

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts, Scottish Government (2024) Fiscal Framework data annex: August 2024.

BGAs before 2023-24 have not yet been updated to take account of revised population estimates.

Policy to mitigate the Universal Credit two-child limit

88 The Scottish Government has announced plans to explore ways to mitigate the two-child limit in Universal Credit from 2026-27 onwards. We have not prepared costings for this policy as we were notified after the final policy deadline when it was too late for inclusion in our forecasts. The two-child limit means that families receiving Universal Credit do not receive extra money for third and subsequent children born after 6 April 2017.

89 This policy will further widen the gap between overall social security spending and BGA funding. We have conducted some illustrative analysis to estimate the potential costs of mitigating the two-child limit in full. We estimate full year costs for 2026-27 could be around £150 million, growing to over £200 million in 2029-30, as the number of families eligible will increase each year. Our estimates are broadly in line with a Scotland-share of estimates for the UK published by the Institute for Fiscal Studies[14]. Our estimates are not included in any of the tables in this report, nor are they included in estimates of the gap between social security spending and funding. We plan to publish a report on the effects of the policy on the Scottish Budget in due course.

[14] Institute for Fiscal Studies (2024) The two-child limit: poverty, incentives and cost

Chapter 1 Introduction

Content of this report

1.1 In this report, published on 4 December 2024, we present our latest official five-year economic and fiscal forecasts. We create our forecasts independently, representing the collective judgements of our Commissioners. Our forecasts have informed the 2025-26 Scottish Budget, published on the same day.

1.2 In this chapter we explain the process we have followed in the creation of our forecasts and how the different elements of our forecasts relate to the Scottish Government's Budget.

1.3 In Chapter 2, we present what the new forecasts mean for the funding position of the Scottish Government. We cover changes to the current financial year 2024-25, mostly due to the UK Autumn Budget 2024, and we compare the funding position of the 2025-26 Budget position to the latest position of the 2024-25 Budget. The Scottish Government's Budget documents compare, for the first time, the 2025-26 Budget to the position of the 2024-25 Budget at the Autumn Budget Revision. Our spending analysis relies on the Scottish Government's plans and therefore we must also make the comparison to the Autumn Budget revision. While in most years the latest position at the time of the Scottish Budget would not differ as significantly from the position at the ABR, this year there has been a £1.3 billion increase in funding since the ABR. This is a material limitation to information available to the Scottish Parliament for its scrutiny of the Budget and in the spending analysis we can do. Our next forecast report published alongside the Scottish Government's Medium-Term Financial Strategy (MTFS) will consider how the presentation in the SBR changes these results

1.4 In the subsequent chapters we present our five-year forecasts for the economy, tax revenue, and social security spending. We show how our latest December 2024 forecasts have changed compared to those we published in December 2023, which informed the 2024-25 Scottish Budget.

1.5 The report contains the following chapters:

Summary	A summary of our economic and fiscal forecasts, the fiscal overview, and the key points from the forecasts.
Chapter 1: Introduction	An outline of the structure and content of the document.
Chapter 2: Fiscal overview	A discussion of the funding outlook based on our forecasts and UK Government funding. We also assess the Scottish Government's planned borrowing and use of the Scotland Reserve. We provide some commentary on spending plans.
Chapter 3: Economy	Our five-year forecasts for the Scottish economy, including the underlying judgements.
Chapter 4: Tax	Our forecasts of devolved tax revenue.
Chapter 5: Social security	Our forecast of devolved social security spending.
Annex A: Policy costings	Our estimates of how much any new policies will cost or raise and explanations of how the SFC has arrived at those estimates.

1.6 Some additional information such as comparisons to our previous forecasts are in our supplementary figures accompanying this report and available for download from our website.[15] If there is any information you are looking for that is not in this report or the supplementary figures, please get in touch with us at info@FiscalCommission.scot.

The process behind creating these forecasts

1.7 On 24 September 2024, we received notice from the Cabinet Secretary for Finance and Local Government of the publication of a Budget on 4 December 2024. Throughout this period, our interaction with the Scottish Government has been guided by our protocol for engagement.[16]

1.8 Since the formal notification, the SFC has had two rounds of meetings to discuss our forecasts. Attendees have included the Scottish Government, Revenue Scotland, and Social Security Scotland. In accordance with the protocol for engagement, we have published details of timings and attendees on our website.[17]

1.9 The headline dates are:

[15] Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024

[16] Scottish Fiscal Commission (2023) Protocol for engagement between the Scottish Fiscal Commission and the Scottish Government

[17] Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024

24 September	Cabinet Secretary for Finance and Local Government wrote to advise that the Scottish Government intended to publish the 2025-26 Scottish Budget on 4 December 2024.
12 November	Deadline for inclusion of new data in the forecasts, and deadline for the Scottish Government to provide the SFC with public sector pay information to be included in the economy forecasts.
14 November	Deadline for inclusion of policy measures that may affect the economy forecasts.
18 November	Scottish Fiscal Commission provides final pre-measures forecasts to the Scottish Government. Closure of the economy forecasts.
19 November	Deadline for the Scottish Government to provide the SFC with any final policy measures to be included in the forecasts.
22 November	The SFC provided its final forecasts to the Scottish Government.
27 November	Deadline for the Scottish Government to provide the SFC with any final information on borrowing, funding, spending, and public sector pay.
27 November	The SFC's near-final report was shared with the Cabinet Secretary for Finance and Local Government, Cabinet Secretary for Social Justice, and Deputy First Minister and Cabinet Secretary for Economy and Gaelic.
3 December	Call between Professor Graeme Roy (Chair of the SFC) and the Cabinet Secretary for Finance and Local Government.
4 December	A pre-release version of the SFC's report was shared with the Cabinet Secretary for Finance and Local Government, Cabinet Secretary for Social Justice, and Deputy First Minister and Cabinet Secretary for Economy and Gaelic.
4 December	Scotland's Economic and Fiscal Forecasts – December 2024 published.

1.10 The Scottish Government gave us two additional policies after the final policy deadline. Our Protocol with the Government provides for extensions to deadlines if mutually agreed. Both policies were received within an agreed extension to the deadline of 27 November. We have costed these policies and included them in our report. Our ability to accommodate these additional policies was helped in part by the Government providing us with other material, including their public sector pay policy, in good time.

1.11 On 28 November the Government provided us with a third additional policy relating to the mitigation of the Universal Credit two child limit. This was very late in the Budget process and a week and a day after the deadline for final policy measures. At this point it was too late for us to produce a full costing that took account of behavioural responses and other factors. Our forecast and spending tables **do not** include the cost of this policy.

1.12 There are no implications for 2025-26 as the Government assess that it will take at least 12 months to develop the policy, pass the necessary legislation and be in a place to make the first payments in 2026-27.

1.13 We would have wished to include a formal costing in our publication, but this was not possible given the late notification of this policy. However, we judge this policy to be a fiscal risk. We therefore provide indicative costs which are consistent with estimates published by the Institute of Fiscal Studies. It is our intention to publish a report discussing the effect on the Scottish budget in due course.

How the Scottish Government uses our forecasts

1.14 On 4 December 2024, the Scottish Government published the 2025-26 Scottish Budget which is informed, in part, by our forecasts. The Budget sets out the Scottish Government's funding position, based on our forecasts of tax revenues and social security spending as well as assumptions about future funding and the Scottish Government's borrowing plans. We discuss these funding plans in Chapter 2. We detail our tax and social security forecasts in Chapter 4 and Chapter 5, respectively.

Chapter 2
Fiscal overview

Introduction

2.1 This chapter brings together our devolved tax forecasts, UK Government funding, and Scottish Government funding decisions and assumptions to show how much will be available to spend in 2025-26 and future years. We show how spending for different areas is changing under the most recent Scottish Government plans.

2.2 Since December 2023 there have been material changes in the plans for the UK public finances. Following the change of the UK Government, the Chancellor's July public spending audit and Autumn Budget 2024 announced a shift in the UK fiscal stance.[18,19] The Chancellor modified the rules to enable a fiscal expansion with higher UK Government spending, taxation and borrowing.[20] UK Government resource spending increases in 2024-25 and 2025-26 and is then expected to grow more slowly. UK Government capital spending increases in 2025-26 and 2026-27, before it flattens at a higher level than previously planned. These increases are funded through greater levels of taxation and borrowing by the UK Government.

2.3 This UK-wide shift has implications for the Scottish Government's finances. The new Block Grant figures reflect the UK fiscal expansion, leading to the largest in-year resource consequentials outside of the COVID-19 pandemic. Unlike the additional funding provided during COVID-19, this uplift in the resource Block Grant is permanent, so it continues in 2025-26 and beyond.

2.4 The Block Grant Adjustments (BGAs) have not been directly affected by the tax policy changes the UK Government has announced as these mostly related to non-devolved taxes. However, the fiscal expansion will affect the economy and devolved tax revenues both in Scotland and in the rest of the UK. Chapter 3 discusses our economy forecasts and the differences in economic impact between Scotland and the UK as a whole. Chapter 4 covers our tax forecasts and the effects of the fiscal expansion on the tax net positions, together with other factors such as the OBR's upward revision of income tax revenues in the rest of the UK.

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[18] HM Treasury (2024) Fixing the foundations: public spending audit 2024-25

[19] HM Treasury (2024) Autumn Budget 2024

[20] The rule that borrowing (for any purpose) should fall below 3 per cent of GDP by the fifth year of the forecast was replaced. Now tax revenues will have to cover day-to-day spending. Having debt on a downward trajectory is still a rule, but the measure of debt used has been redefined to one that takes into account long-term financial assets, Public Sector Net Financial Liabilities (PSNFL). The fiscal rules currently apply to the fifth year of the forecast, but this will gradually shorten so that from 2026-27 the UK Government will need to meet these rules by the third year of the forecast.

2.5 Unless explicitly stated, in this chapter we focus on the latest position for each budget year. For 2022-23 and 2023-24, this is final and provisional outturn respectively.

2.6 For 2024-25, we show different positions for funding and for spending.

- For funding, it is the latest position reflecting the Autumn Budget Revision (ABR), the UK Autumn Budget, our revised tax revenue forecasts and the Scottish Government's latest plans for borrowing and use of ScotWind. The Scottish Government presented its ABR in early October. Later that month the UK Autumn Budget 2024 changed funding for 2024-25, with the largest changes to resource funding.

- For spending, our comparisons based on the Scottish Government's portfolio allocations and Classification of Functions of Government (COFOG) are as per the plans set out at the time of the ABR. The Scottish Government plans to set out how the new funding will be spent in the Spring Budget Revision (SBR) in early 2025. In the absence of information from the Scottish Government on how this funding will be allocated, we have no basis for updating the spending position.

2.7 We would ideally want to compare to the latest position for both funding and spending because it is a more accurate reflection of changes year on year. Unlike previous budgets, the Scottish Government is now comparing the 2025-26 Budget to the 2024-25 position at the ABR. This is an improvement from previous practice, where the comparison was to the previous Budget as initially presented to parliament.

2.8 While in most years the latest position at the time of the Scottish Budget would not differ as significantly from the position at the ABR, this year the £1.3 billion increase in funding since the ABR means this is not a meaningful comparison and will be overstating growth in spending plans. This is a material limitation to information available to the Scottish Parliament for its scrutiny of the Budget and in the spending analysis we can do. Our next forecast report published alongside the Scottish Government's Medium-Term Financial Strategy (MTFS) will consider how the presentation in the SBR changes these results.

2.9 For comparability, all funding and spending figures in this chapter are consistent with International Financial Reporting Standards 16 (IFRS16). In addition, the Scottish Government has changed its presentation of portfolio spending in the 2025-26 Budget to reflect some transfers which were typically made during the financial year. This will improve how changes in the Budget can be tracked within and between years. However, it means we need to adjust spending data from earlier years for comparability. As a result, these numbers are not directly comparable to our previous publications. Box 2.1 explains why we have made these changes.

Box 2.1: IFRS16 and adjustments to spending data

IFRS16

The IFRS16 is an accounting standard concerning leases. All leases, whether operational or financial, must now create an asset and a corresponding liability in the balance sheet. The asset must be depreciated over time, and the liability reduced as lease payments are made.

IFRS16 was adopted progressively in the public sector over three years. From 2022-23 to 2024-25, bringing leases into the balance sheet required greater capital budgets to acquire the assets, greater ring-fenced budgets to depreciate them, but lower resource budgets as now only the interest charges are counted as resource spending – the principal is a capital repayment.

HM Treasury met the Scottish Government's funding requirements in full to implement IFRS16. This is why we have so far excluded this funding and the corresponding spending, since it did not have any impact on the Scottish Government's spending power.

There is no longer dedicated IFRS16 funding or spending in the 2025-26 Budget as the standard is now fully adopted. To meaningfully compare 2025-26 to earlier years, we now include these amounts from 2022-23 onwards. Supplementary Figure S2.1 accompanying this report and available on our website shows the different funding totals before and after IFRS16 adjustments.

Baselining of internal transfers

The Scottish Government makes large transfers between portfolios at Budget Revisions. These are zero-sum and reflect that while one portfolio has policy responsibility for an area, in practice another one incurs the spending. For example, delivering the Real Living Wage for social care workers was a policy of the NHS Recovery and Social Care portfolio but social care is delivered by local government. Therefore, the Finance and Local Government portfolio needs the funding for this policy to pass it on to local government.

In the spending analysis we published in January 2024 we ignored budget-neutral internal transfers because they are operational rather than a change in spending priorities.[21] In the 2025-26 Budget the Scottish Government has decided to baseline some of these transfers, such as the example of delivering a real living wage for social care workers. As these transfers will be in the portfolio that will incur the spending from the outset, it reduces the need for internal transfers during the year. This will make it easier to track changes in the Budget over time. However, some transfers will still take place at Budget Revisions, such as grants to local government from the Education & Skills portfolio to fund pay deals for school teachers.

For comparability across years we have reflected these internal transfers in our presentation of previous year's spending. Supplementary Figure S2.2 accompanying this report and available on our website shows which internal transfers we have included.

Total funding and spending

2.10 We last estimated overall funding for the 2024-25 financial year in December 2023 alongside the 2024-25 Budget. In August 2024 we reported on the funding changes that were already known for that year. At that point, there was £984 million more funding, from Barnett consequentials (£691 million) and provisional 2023-24 underspends that would be carried forward through the Scotland Reserve (£293 million).[22]

2.11 The Scottish Government reflected the changes we reported on in August, among others, at the Autumn Budget Revision (ABR) in September 2024. Since then, the funding position in 2024-25 has increased by around £1.3 billion. Barnett consequentials from the UK Autumn Budget 2024 add up to £1.5 billion. However, use of ScotWind and borrowing have been revised down. These are discussed in detail in the Resource and Capital sections.

2.12 Total funding for 2025-26 is also higher than we expected in December 2023. We now expect the Scottish Budget to be £58.8 billion which is £3.3 billion more than our last forecast in December 2023.[23] The biggest driver of the increase is funding from the UK Government.

2.13 While total funding is increasing by 2.1 per cent in real terms between 2024-25 and 2025-26, Figure 2.1 shows resource funding is seeing a more modest increase of 0.8 per cent in real terms while capital funding is growing by 12 per cent in real terms. As resource funding accounts for 88 per cent of the Scottish Budget, the change in total funding is most influenced by resource funding.

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[21] Scottish Fiscal Commission (2024) [Spending trends in the 2024-25 Scottish Budget]

[22] Scottish Fiscal Commission (2024) [Fiscal Update – August 2024]

[23] The December 2023 forecast of the 2025-26 funding position was a Scottish Government assumption based on its Block Grant for 2024-25 excluding IFRS16 adjustments. The December 2024 forecast includes IFRS16 adjustments. We focus on the discretionary part of the Scottish Budget which covers resource and capital spending. This accounts for around 92.6 per cent of the Scottish Budget. Our analysis excludes the non-discretionary parts which are UK Government funded Annually Managed Expenditure and the Non-Cash ringfenced budget.

Figure 2.1: Funding changes between budgets

£ million (nominal terms)	2024-25	2025-26
Total funding	56,215	58,772
Nominal terms growth rate (per cent)	blank	4.5
Real terms growth rate (per cent)	blank	2.1
Resource funding	49,813	51,429
Nominal terms growth rate (per cent)	blank	3.2
Real terms growth rate (per cent)	blank	0.8
Capital funding	6,402	7,344
Nominal terms growth rate (per cent)	blank	14.7
Real terms growth rate (per cent)	blank	12.0

Source: Scottish Fiscal Commission, Scottish Government.

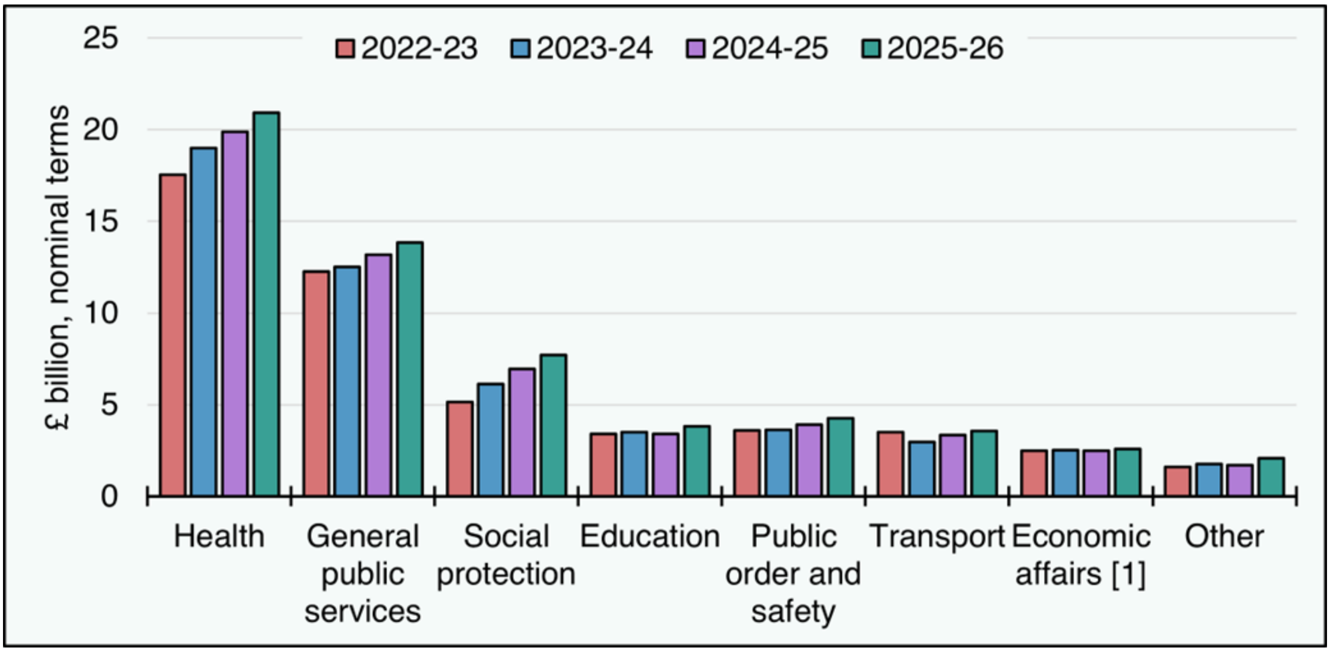
Figures may not sum because of rounding.

2.14 We track spending over time using the Classification of Functions of Government (COFOG).[24] Total spending has increased each year in line with funding. Figure 2.2 shows that most of the increase goes to the three largest areas of public spending: health, general public services (which covers grants to local government) and social protection (which covers social security payments). Every other area sees increases in their allocations too, with education getting a significant rise after three years of broadly flat allocations in nominal terms.

[24] Scottish Fiscal Commission (2024) Spending trends in the 2024-25 Scottish Budget

Figure 2.2: Overall spending levels by COFOG since 2022-23

Spending rises across all areas, but the three biggest categories get the largest top-ups



Description of Figure 2.2: Column chart with total spending by COFOG from 2022-23 to 2025-26. The three biggest areas (‘Health’, ‘General public services’, and ‘Social protection’) as well as public order and safety grow steadily each year. ‘Education’ and ‘Economic affairs’ excluding ‘Transport’ have been flat for the first three years but see increases in 2025-26. ‘Transport’ and ‘Other’ have gone up and down over the years.

Source: Scottish Fiscal Commission, Scottish Government.

Figures exclude in-year budget-neutral transfers, except those which have been baselined in 2025-26. See Box 2.1 for more details.

[1] Economic affairs excludes transport.

2.15 As discussed in the Introduction, the spending position in 2024-25 is understated. There is £1.3 billion more funding available for this year, the Scottish Government will only confirm how it plans to allocate this funding in early 2025. Therefore, spending levels presented for 2024-25 are lower than they will be after the Spring Budget Revision. Comparisons between earlier years and the 2025-26 spending position provide a more accurate comparison of growth as these reflect outturn and provisional outturn data.

Resource

2.16 Resource funding is to pay for day-to-day running costs, such as grants to local government, transfers to households in the form of social security payments, or staff pay. Nearly 88 per cent of the 2025-26 Scottish Budget is resource funding.

2.17 The Scottish Government’s total resource funding is forecast to increase by £1.6 billion between 2024-25 and 2025-26, this is an increase of 3.2 per cent. In real terms this increase is 0.8 per cent. This relatively low real terms growth in total resource funding is despite the large increase in UK Government funding. It is mostly explained by a deterioration of the income tax net position because forecasts for income tax revenues in the UK have increased more than our forecasts for Scotland. The income tax net position used to set the Scottish Budget has reduced funding by £575 million between 2024-25 and 2025-26. After accounting for social security spending, there will be a real terms fall in resource funding for public services of 0.3 per cent between 2024-25 and 2025-26.

Changes in the Block Grant

2025-26

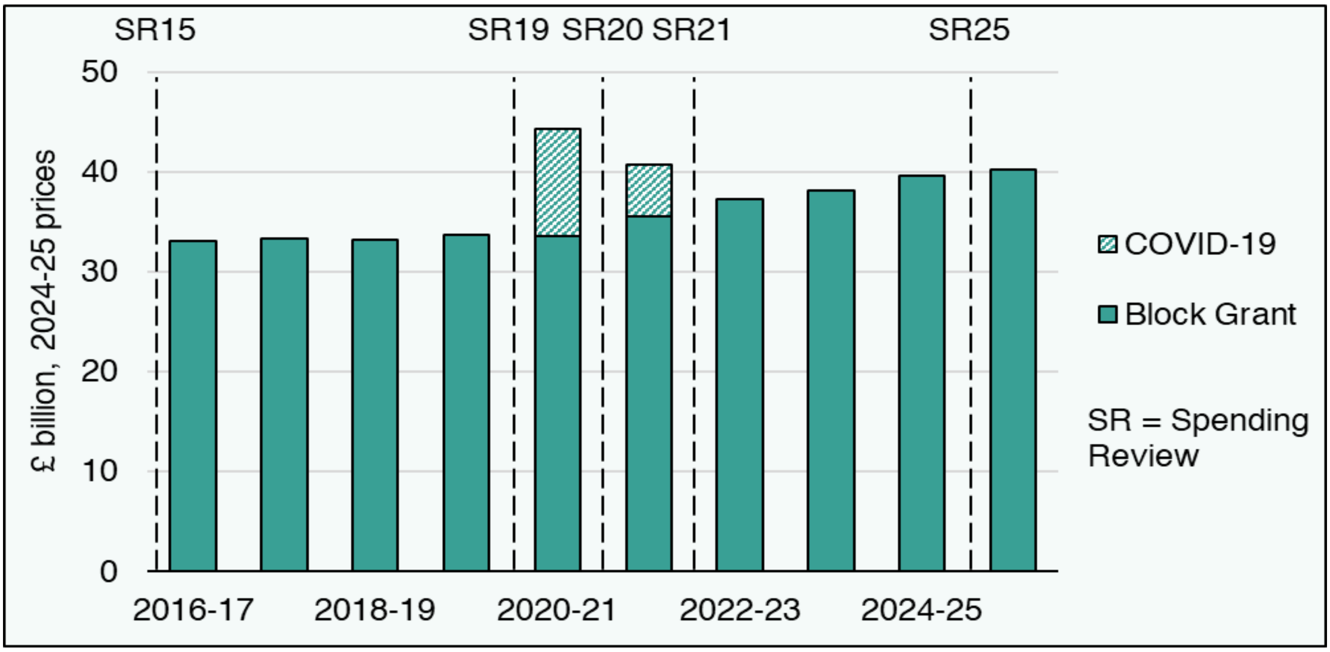
2.18 The Block Grant in 2025-26 is £1.5 billion higher than the latest position in 2024-25.

2.19 These large increases in UK Government funding have resulted in the resource Block Grant in 2025-26 being at its highest level in real terms other than in 2020-21 and 2021-22, when COVID-19 consequentials increased funding significantly. This is shown in Figure 2.3.

2.20 The real terms growth in the Block Grant in 2025-26 is 1.4 per cent compared to 2024-25. The in-year increases in 2024-25 and previous top-ups to UK departmental spending plans have been made permanent.

Figure 2.3: Real-terms changes to the resource Block Grant since 2016-17

The 2025-26 resource Block Grant will be at a 10-year high, excluding COVID-19 funding



Description of Figure 2.3: Column chart showing the resource Block Grant from 2016-17 to 2025-26 in 2024-25 prices. The resource Block Grant funding stayed flat from 2016-17 until 2019-20. It increased drastically in 2020-21 due to significant funding related to COVID-19. The Block Grant saw a fall in 2021-22 and 2022-23 before seeing a gradual rise until 2025-26.

Source: HM Treasury (2023) Block Grant Transparency: July 2023, Scottish Government, Office for National Statistics (2024) GDP deflator: year-on-year growth seasonally adjusted, OBR (2024) Economic and fiscal outlook October 2024.

Real-terms amounts are calculated using the growth in the GDP deflator. These are aligned with the OBR's October 2024 forecasts for 2024-25 and 2025-26.

2024-25

2.21 Block Grant funding in 2024-25 increased by £1.4 billion as a result of the UK Autumn Budget 2024.

2.22 In addition to the funding from the UK Autumn Budget, the Scottish Government received additional funding from the UK Spring Budget in March and the 2024-25 Main Supply Estimates published in July.[25] The Scottish Government allocated these in the Autumn Budget Revision (ABR).

[25] Main Supply Estimates set out the UK Government's departmental spending down to programme level for the financial year, based on the plans from the latest UK fiscal event. Estimates are presented to the UK Parliament around the start of each financial year.

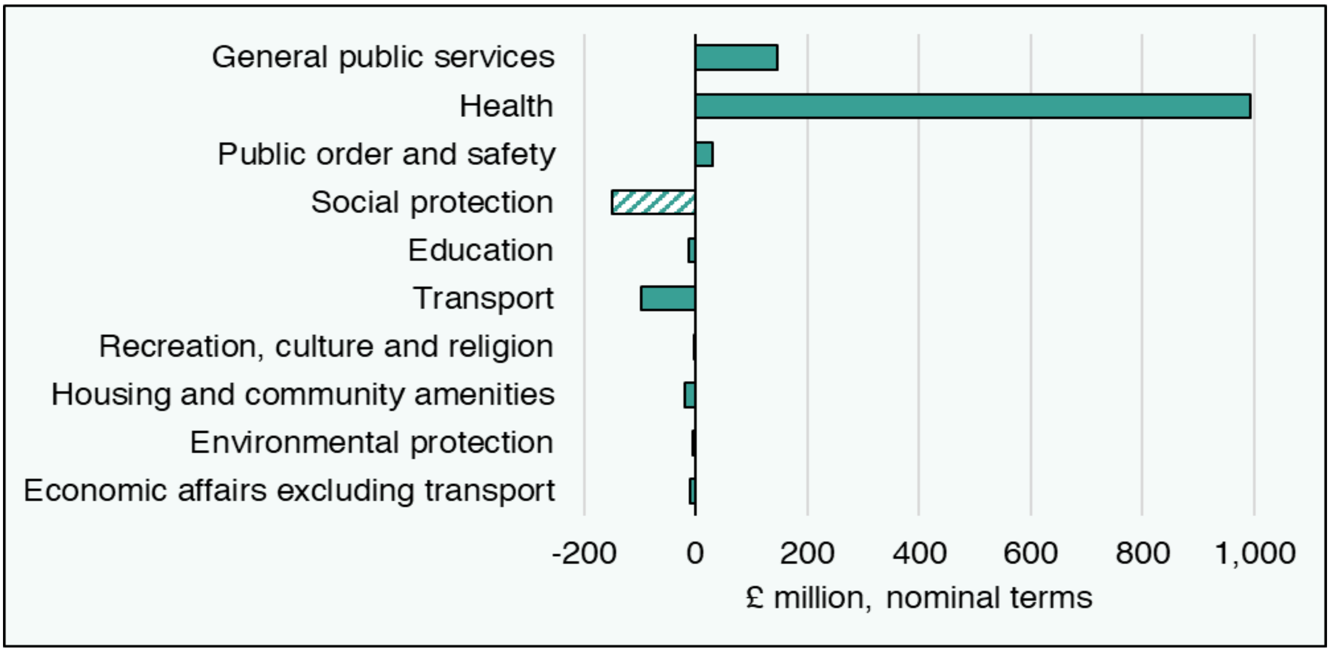
Changes to 2024-25 spending plans

2.23 Figure 2.4 shows how the Scottish Government spent the resource funding confirmed before the UK Autumn Budget. Most of the increased spending went to health. Allocations for general public services and for public order and safety also increased.

2.24 These top-ups partly reflected the increase in employer pension contributions required for the public sector workforce. The factor used to discount the cost of future pension payments fell from 2024-25 as the OBR revised down its outlook for long term GDP growth.[26] While fiscally neutral for the UK Government, a lower discount factor meant a greater expense in departmental budgets. The UK Government compensated departments for the higher pension costs, resulting in consequentials for the Scottish Government in the Main Supply Estimates 2024-25.

Figure 2.4: Changes to 2024-25 resource spending plans at Autumn Budget Revision

Resource spending increased by around £1.1 billion in the ABR, mostly for health



Description of Figure 2.4: Bar chart showing changes to spending in the ABR by COFOG. Most additional spending went to ‘Health’, followed by a distance ‘General Public Services’, and ‘Public Order and Safety’. ‘Social protection’ saw a noticeable fall in planned spending, followed by Transport, and much smaller downward revisions to all other areas.

Source: Scottish Fiscal Commission, Scottish Government.

Solid coloured bars represent changes to spending plans, either top-ups or savings. The striped coloured bar represents a reduction in funding and spending. The Scottish Government decision to restrict the eligibility for the Pension Age Winter Heating Payment for 2024-25 follows a similar decision from the UK Government on Winter Fuel Payment for England and Wales. The saving is matched with a broadly equivalent decrease in funding in the Winter Fuel Payment BGA.

[26] OBR (2023) The fiscal implications of SCAPE rate changes

2.25 The Scottish Government's reduction in spending on Pension Age Winter Heating Payment (PAWHP) in the ABR does not release funding to be spent elsewhere because it is matched by a broadly equivalent fall in the Winter Fuel Payment BGA. However, the Scottish Government has recently announced that it will widen the PAWHP entitlement from 2025-26 onwards as discussed in Chapter 5.[27]

2.26 Since the ABR, resource funding has increased by £1.3 billion. However, the Scottish Government expects around £600 million is needed to fund the increases in staffing costs above the Public Sector Pay Policy for 2024-25.[28] This leaves around £700 million which the Scottish Government will allocate for other priorities in the SBR. The lack of information from the Scottish Government as to how the whole £1.3 billion will be allocated means comparisons made now of the Scottish Government's spending plans between years will make the growth in spending in 2025-26 look bigger than it will be in reality.

Public sector pay

2.27 Pay is a significant component of the Scottish Budget. The Scottish Government estimates that, including local government employees such as schoolteachers and social care workers, pay is equivalent to around half the resource budget.[29]

2.28 Therefore, public sector pay matters for the sustainability of the Scottish Budget. This is both in terms of the pay awards, or pay rises, which are given, and the total level of spending on pay, referred to as the paybill. The paybill covers pay, employer pension contributions, employer National Insurance contributions (NICs), and is affected by the size of the workforce.

Pay policy

2.29 As part of the 2025-26 Budget, the Scottish Government has set out pay metrics in its Public Sector Pay Policy of a 9 per cent increase over the next three years, with 3 per cent allocated for the 2025-26 Budget.[30] This sets the framework for pay negotiations in the devolved public sector.

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[27] Scottish Government (2024) Support for pensioners with energy costs

[28] Cabinet Secretary for Finance and Local Government (3 September 2024) Scottish Government Fiscal Statement

[29] Scottish Government (2024) Public sector: economic overview

[30] Scottish Government (2024) Scottish Government Public Sector Pay Policy 2025-26

2.30 There may also be other factors affecting paybill pressures such as pay progression within pay-bands, changes in the structure of grades in the public sector, vacancies and staff turnover which will need to be accommodated by portfolios within their allocations as the Scottish Government has not made provision for increases in the paybill other than the 3 per cent pay award. The size of the workforce is also an important lever to manage the paybill. The Scottish Government has indicated that it will set out further detail on what this means for the public sector in Scotland as part of a Fiscal Sustainability Delivery Plan published alongside the Medium-Term Financial Strategy, noting protection for frontline staffing, such as in the NHS.

2.31 In our August 2024 publication we highlighted how recent increases in public sector pay awards have been larger than planned because of inflationary pressures. We also discussed how pay award increases are cumulative so that the past increases result in higher paybill costs in the future.[31]

2.32 Health accounts for most of the public sector workforce. In 2023-24, excluding local government staff, 64 per cent of the estimated 250,000 devolved public sector employees worked in NHS Scotland.[32]

2.33 Given its large share of the devolved public sector workforce, increases in health staffing costs have the highest impact on Scottish budgets. Figure 2.5 shows how higher than expected inflation led to higher than Public Sector Pay Policy pay deals for the NHS.

[31] Scottish Fiscal Commission (2024) Fiscal Update – August 2024

[32] Full-time equivalent (FTE). Scottish Government (2024) Public Sector Employment in Scotland

Figure 2.5: Public sector pay metrics and inflation, 2022-23 to 2024-25

Per cent	2022-23	2023-24	2024-25
Forecast CPI growth [1]	3.70	4.10	1.60
Public Sector Pay Policy	blank	blank	blank
Below £25,000 a year	3.00	6.00	3.00
Between £25,000 and £40,000 a year	1.75	3.50	3.00
Above £40,000 a year	1.25	3.50	3.00
Pay deal for NHS Scotland [2]	6.50	6.70	5.70
Outturn CPI growth	10.00	5.70	blank

Source: Scottish Government (2021) Public Sector Pay Policy 2022 to 2023, Scottish Government (2023) Public Sector Pay Strategy 2023 to 2024, Scottish Government (2024) Public Sector Pay Policy 2024 to 2025, Scottish Government (2024) Pay offer to NHS Agenda for Change staff, Scottish Government (2024) NHS Consultants pay offer.

[1] From the OBR forecast immediately preceding the publication of each PSPP (October 2021 for 2022-23, March 2023 for 2023-24, March 2024 for 2024-25).

[2] For 2022-23 and 2023-24, average across NHS Scotland Agenda for Change (non-medical staff and nurses), junior doctors, employed hospital doctors other than junior doctors, and senior managers, weighted by FTE. For 2024-25, weighted average only for the two staff groups that at the time of writing have settled a pay deal: NHS Agenda for Change (5.5 per cent) and consultants (10.5 per cent). All other groups have not yet agreed a settlement.

2.34 Pay awards made in each year accumulate and affect the cost of the workforce in future years.[33] How manageable the paybill is depends on pay awards remaining within the pay policy metrics and workforce changes.

2.35 If pay awards and other pay pressures cannot be managed with the 3 per cent growth in the paybill the Scottish Government has planned for, there will need to be reductions to either the workforce or other spending.

2.36 The Scottish Government will need to monitor progress of pay award negotiations, changes in the workforce, and any other paybill pressures to ensure spending on pay balances with the allocations in the Budget to avoid in-year adjustments to spending. Our 2024 Statement of Data Needs recommended that the Scottish Government improve its projections of pay awards, average paybills, total paybill and workforce.[34] We continue to make this recommendation.

[33] Audit Scotland (2023) The Scottish Government's workforce challenges

[34] Scottish Fiscal Commission (2024) Statement of Data Needs – August 2024

Employer NICs

2.37 The UK Autumn Budget 2024 included a rise in employer NICs from 2025-26. This rise will have a direct impact on the public sector paybill and is therefore indirectly funded from the Scottish Budget. The UK Government has said it will compensate UK public sector organisations and allocated £4.7 billion for this in 2025-26. However, the share the Scottish Government receives will only be confirmed at the UK Main Estimates which are presented to the UK Parliament after the start of the financial year.

2.38 The Scottish Government has estimated the cost of the NICs rise for directly employed public sector employees to be between £520 million and £580 million in 2025-26. The Scottish Government has estimated a Barnett share of up to £380 million as the UK Government compensates its departments for the cost, but figures around £300 million have recently been discussed in the media.[35] This would suggest approximately half of the increased cost for the directly employed workforce may be covered, meaning the remaining costs would need to be met from within the Budget. The Scottish Government has also estimated the costs of the employer NICs rise for some contracted out services and third parties delivering public services to be £210 million.[36] If the Scottish Government decides to compensate all providers of public services for the rise in employer NICs, there will be bigger implications for public spending.

2.39 As the Scottish Government does not have clarity on NICs funding, it has presented the 2025-26 Budget with no assumed NICs funding from the UK Government and no associated spending plans. This means that once the UK Government confirms the funding, the 2025-26 Budget will be larger than has been presented. But this funding is unlikely to cover the full cost of the NICs rises which will need to be managed as part of wider pay and workforce plans. This should be noted as a risk to the Budget.

Funding from devolved taxes

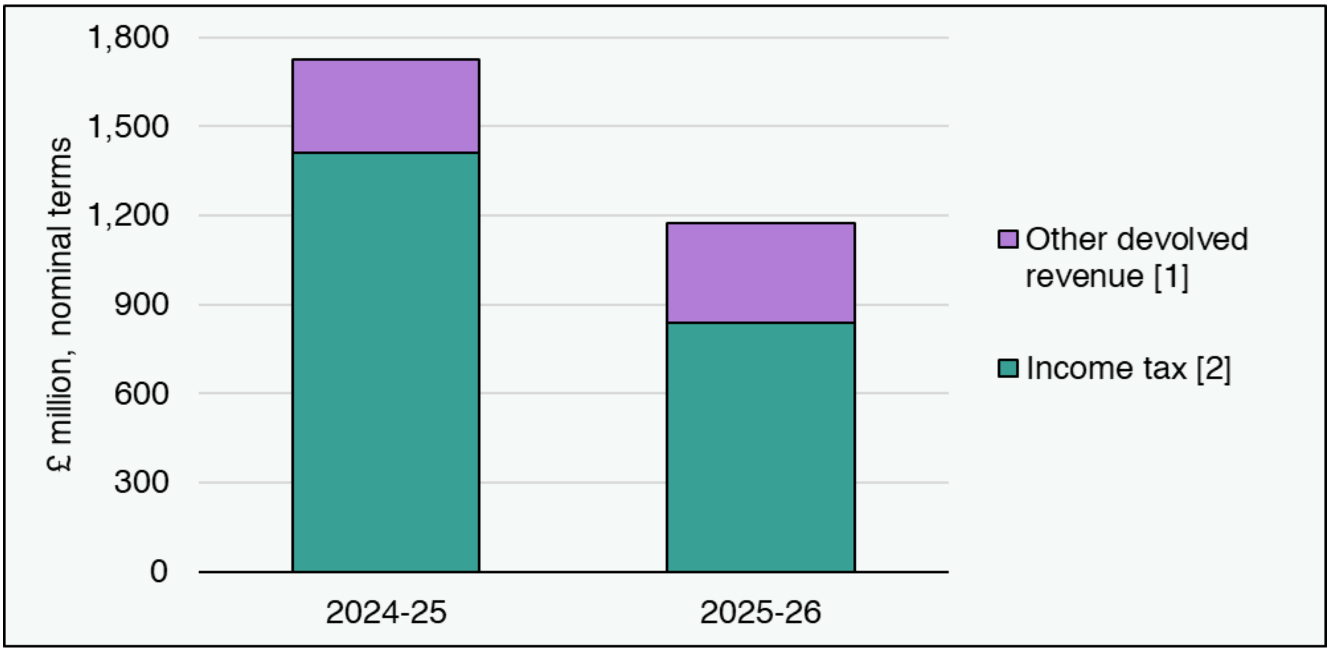
2.40 We still expect the overall tax net position to contribute to resource funding in 2025-26. However, Figure 2.6 shows that it is projected to be considerably less positive than it was in 2024-25. It will be £549 million lower (32 per cent) and is the main reason why resource funding does not grow significantly in 2025-26.

[35] BBC News (25 November 2024) Extra £300m for UK tax hike unacceptable - Robinson

[36] Scottish Government (2024) National Insurance Contributions: public sector costs

Figure 2.6: Revenue net positions in 2024-25 and 2025-26

The revenue net position is projected to fall by £549 million because of income tax



Description of Figure 2.6: Stacked column chart comparing the projected revenue net position between 2024-25 and 2025-26. For 2024-25 it is around £1.7 billion with the contribution from income tax of £1.4 billion. In 2025-26, the revenue net position is projected to be significantly lower at £1.2 billion. The cause of this decrease is income tax, where the net position is projected to be less positive than in 2024-25.

Source: Scottish Fiscal Commission.

[1] Land and Buildings Transaction Tax (LBTT), Scottish Landfill Tax (SLfT), Fines, Forfeitures and Fixed Penalties (FFFPs) and Proceeds of Crime Act (POCA).

[2] The net position for income tax in 2024-25 was fixed at the time of setting that budget, based on our December 2023 forecasts and the OBR's November 2023 forecasts. The updated projection is reflected in the indicative reconciliations for 2027-28.

2.41 All of the decrease in the net position relates to income tax. The OBR now expects earnings in the rest of the UK to grow faster in 2024-25 and 2025-26 than it did in November 2023. Chapter 3 covers this in more detail, and Chapter 4 discusses other drivers of change in the tax net position.

2.42 The income tax net position for 2024-25 was fixed when the budget for that year was set. Although the latest OBR forecasts already point to an underestimation of the income tax BGA, funding will not be affected until income tax revenues for 2024-25 are known and a final reconciliation can be applied to a future budget. Figure 2.7 shows we now project a large negative reconciliation of £701 million in 2027-28 based on our latest forecasts and the latest OBR forecasts.

2.43 If a reconciliation of this scale materialises, resource funding in 2027-28 will be slightly reduced even if the Scottish Government makes full use of its borrowing powers as the projected reconciliation is larger than the forecast borrowing limit.

Figure 2.7: Reconciliations and associated resource borrowing plans

Funding source (£ million)	2025-26 final	2026-27 indicative	2027-28 indicative
Income tax	451	463	-701
LBTT and SLfT (BGAs only) [1]	15	0	blank
Social security (BGAs only) [2]	34	-7	blank
Total	500	456	-701
Resource Borrowing	0	0	654
Reconciliation relates to year:	blank	blank	blank
Income tax	2022-23	2023-24	2024-25
All others	2023-24	2024-25	2025-26

Source: Scottish Fiscal Commission, Scottish Government.

[1] Adjusted in-year, based on the October 2024 OBR forecasts. The spring 2025 OBR forecasts will be used to forecast future reconciliations, which will eventually be confirmed in outturn data, and applied as part of the 2026-27 reconciliation.

[2] Adjusted in-year, based on the October 2024 OBR forecasts. We are not forecasting any reconciliations relating to 2025-26 at this stage. However, a revision to the 2025-26 final reconciliation has been deferred to 2026-27. This is because the final BGAs for 2023-24 calculated at the UK Autumn Budget 2024 were still based on provisional outturn data from the DWP.

Figures may not sum because of rounding.

Funding from other sources

2.44 The Scotland Reserve allows the transfer of funding between financial years. It has separate accounts for resource, capital and Financial Transactions (FTs), and an overall limit of £734 million in 2025-26 which rises in line with inflation.

2.45 In 2023-24 underspends of £162 million were added to the Reserve. The Scottish Government plans to use all of this to support the funding position in 2024-25. The Scottish Government currently has no underspends in 2024-25, so the reserve is assumed to remain empty.

2.46 In our August 2024 publication, we explained that the Scottish Government planned to use £200 million of ScotWind proceeds to support resource funding levels in 2024-25.[37] In the fiscal statement at the start of September, the Cabinet Secretary for Finance signalled that all of the ScotWind proceeds may be needed to balance the 2024-25 Budget.[38] The Autumn Budget Revision (ABR) was presented based on an extra £224 million of ScotWind proceeds being used bringing the total to £424 million.[39]

2.47 Now the Scottish Government has reduced the planned use of ScotWind proceeds. Use in 2024-25 has been revised down to £160 million as shown in Figure 2.8. In 2025-26, the Scottish Government plans to use ScotWind mostly to support £326 million of capital spending, with £10 million for resource. This leaves a remaining balance of £219 million to support capital or resource spending in future years.

Figure 2.8: Latest planned use of ScotWind proceeds

£ million	2022-23 outturn	2023-24 outturn	2024-25 plans	2025-26 plans
Opening balance [1]	755	659	659	553
Additions [2]	0	0	54	0
Drawdowns, of which:	96	0	160	336
Supporting resource budget	96	0	160	10
Supporting capital budget	0	0	0	326
Balance remaining	659	659	553	217

Source: Scottish Government.

[1] £699.2 million from the first round of ScotWind leasing, with an extra £56 million added as part of the clearing process.

[2] £54 million from the separate Innovation and Targeted Oil and Gas (INTOG) leasing round.

Figures may not sum because of rounding.

2.48 The distributable amount of Non-Domestic Rates (NDR) has been set at £3,114 million in 2025-26. The Scottish Government has indicated plans for the distributable amount in each financial year until 2029-30. These are based on our latest forecasts of the contributable amount – how much we expect councils to raise in NDR in the forecast period. For 2026-27 onwards, the Government will review its plans for the distributable amount based on our future forecasts.[40]

[37] Scottish Fiscal Commission (August 2024) Fiscal Update – August 2024

[38] Scottish Government (2024) Fiscal pre-budget update

[39] Scottish Government (October 2024) Autumn Budget Revision 2024-25

[40] For a detailed table of how the Scottish Government plans to manage the distrfiguibution of NDR over time (the NDR pool), see Supplementary Table S2.11.

Spending trends

2.49 The funding sources discussed in this section total £51.4 billion available for resource spending in 2025-26. Figure 2.9 shows the allocations between portfolios and how that compares to allocations in 2024-25. However, we stress that these growth rates are higher than will be the case once spending plans in 2024-25 are updated. The Scottish Government has not yet allocated an extra £1,344 million of resource funding for 2024-25 – this will happen in early 2025. As shown in Figure 2.9, the real terms growth in resource spending is 0.8 per cent rather than 3.7 per cent when the £1,344 million is included in the comparison.

2.50 On this basis almost all portfolios are seeing real terms growth in their spending plans. Rural Affairs, Land Reform and Islands is broadly flat in nominal terms but falling in real terms. The fastest growth among the big portfolios is for Social Justice, and this reflects increases in social security spending. The other two areas with the largest cash increases in funding are Health and Social Care, and the Finance and Local Government portfolio (which covers funding to local authorities).

Figure 2.9: Changes in resource portfolio allocations, 2024-25 to 2025-26

Portfolio	Share of budget (per cent) [1]	2024-25 ABR	2025-26 Budget	Real-terms growth (per cent)
Health and Social Care	39.3	19,077	20,200	3.4
Finance and Local Government	25.6	12,530	13,167	2.6
Social Justice	14.5	6,764	7,472	7.9
Justice and Home Affairs	6.8	3,339	3,494	2.2
Education and Skills	6.2	3,028	3,194	3.0
Transport	3.0	1,484	1,545	1.7
Rural Affairs, Land Reform and Islands	1.8	923	916	-3.1
Deputy First Minister, Economy and Gaelic	1.2	577	613	3.7
Constitution, External Affairs and Culture	0.6	287	321	9.3
Crown Office and Procurator Fiscal Service	0.4	205	225	7.3
Net Zero and Energy	0.3	116	132	11.1
Scottish Parliament and Audit Scotland	0.3	137	149	6.4
Total resource spending	100.0	48,469	51,429	3.7
Total resource spending (adjusted) [2]	blank	49,813	51,429	0.8

Source: Scottish Government.

Figures exclude budget-neutral internal transfers done throughout the year, except those which have been included from the outset in 2025-26. See Box 2.1 for more details.

Real-terms growth rates are calculated using the forecast growth in the GDP deflators from the OBR's October 2024 forecasts.

[1] Of the resource part of the 2025-26 Budget presented to parliament on 4 December 2024.

[2] Including the £1,344 million of resource funding that is available for use in 2024-25 but has not yet been allocated to portfolios.

Figures may not sum because of rounding.

2.51 For comparability over time we look at resource spending by COFOG categories. Figure 2.10 shows how resource spending in 2025-26 is 8 per cent larger in real terms than it was in 2022-23. Growth appears to be particularly high in 2025-26 compared to 2024-25, but that is because the spending position for 2024-25 does not yet reflect the extra £1.3 billion of resource funding available since the ABR.

Figure 2.10: Resource spending trends in real terms by COFOG, 2022-23 to 2025-26

Classification of functions of government (2022-23 = 100)	Share of budget (per cent) [1]	2022-23 outturn	2023-24 outturn	2024-25 ABR	2025-26 Budget
Health	38.7	100	102	104	108
General public services	26.7	100	97	99	102
Social protection	14.9	100	112	125	136
Public order and safety	7.2	100	95	97	99
Education	6.5	100	94	100	102
Transport	3.0	100	96	101	106
Economic affairs excluding transport	2.0	100	90	97	91
Other [2]	1.0	100	95	98	108
All resource spending	100.0	100	100	104	108

Source: Scottish Fiscal Commission, Scottish Government.

Figures exclude in-year budget-neutral transfers, except those which have been baselined in 2025-26. See Box 2.1 for more details.

Figures prior to 2024-25 include presentational adjustments for the Verity House Agreement. Figures up to and including 2024-25 also include COFOG baseline adjustments to align with the new 2025-26 Budget structure. See Annex A of our January 2024 Spending Trends in the 2024-25 Budget paper for more details.

[1] Of the resource part of the 2025-26 Budget presented to parliament on 4 December 2024.

[2] 'Other' covers housing and community amenities, environmental protection, and recreation, culture and religion.

Figures may not sum because of rounding.

2.52 Higher levels of resource funding in 2025-26 are mostly being spent on health and social protection. Health spending is 4 per cent higher in 2024-25 compared to 2022-23 based on the position at the ABR, but it will be 8 per cent above 2022-23 levels in 2025-26. The growth in social protection already seen in earlier years is expected to continue in 2025-26. It reflects the devolution of new payments over this period and the Scottish Government's policies on social security.

2.53 General public services cover the cost of running the devolved administration and the financial support to local government. This area of spending along with education and transport saw their allocations fall in 2023-24 but all have been increasing since. Based on current plans for 2025-26, education and general public services will end up 2 per cent above 2022-23 levels in real terms, and transport 6 per cent. Public order and safety will also see growth in 2025-26, though it does not quite return to 2022-23 levels. Similarly, economic affairs other than transport had reduced spending in 2023-24 and a slightly higher allocation in 2024-25 but remains below 2022-23 levels in real terms.

2.54 Based on current plans, the area of economic affairs other than transport will see a real-terms reduction in funding in 2025-26 with spending being lower in real terms than 2022-23 and 2024-25.

Resource funding outlook

2.55 Figure 2.11 shows that over the next five years from 2024-25 resource funding is forecast to grow by 21 per cent in nominal terms. After adjusting for inflation, the growth is 9 per cent. Despite this, in 2025-26 a less positive tax net position means resource funding grows by just 0.8 per cent in real terms between 2024-25 and 2025-26.

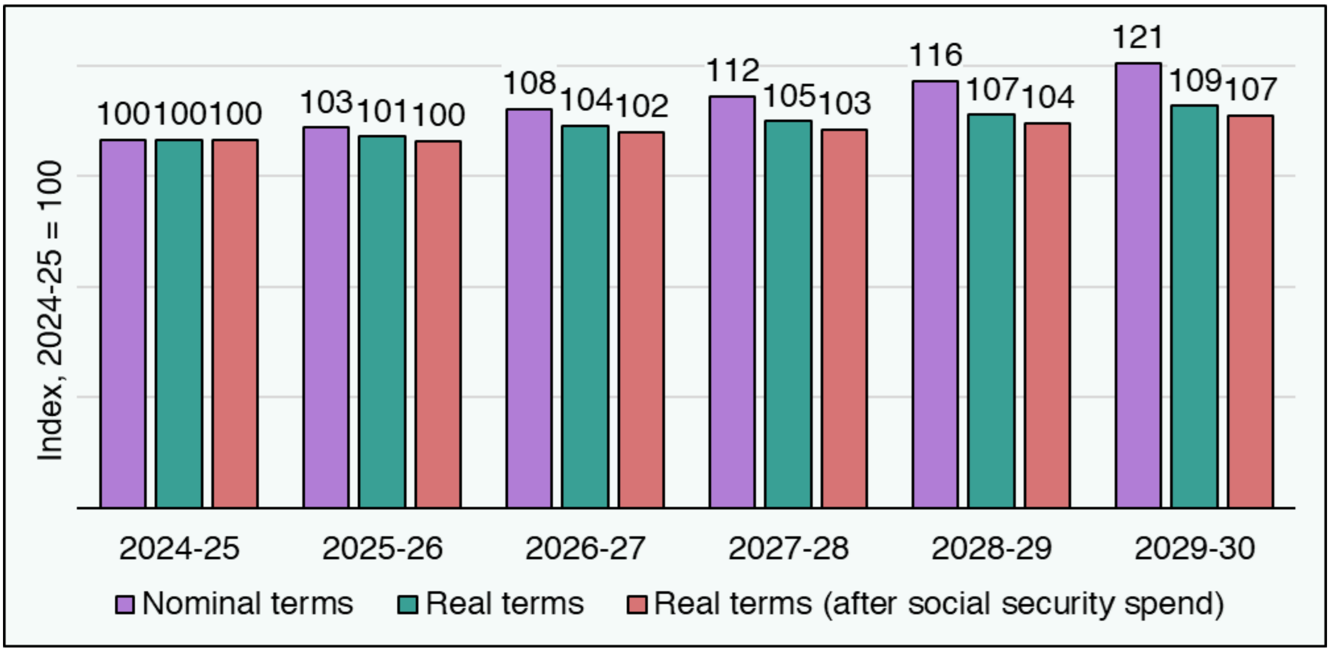
2.56 Figure 2.11 also shows the trend for resource funding available after social security spending. This will grow slightly more slowly, increasing by 7 per cent in real terms over the next five years. Under this narrower definition, the 2025-26 Budget will have 0.3 per cent less resource funding compared to 2024-25.

2.57 The Scottish Government's approach to social security means spending in this area is growing faster than UK Government funding, this is discussed in detail in Chapter 5. The Scottish Government's announcement that it will widen the PAWHP entitlement from 2025-26 onwards further contributes to what was already forecast to be a growing pressure on the Scottish Budget. As the UK Government plans to means test Winter Fuel Payments from 2024-25 onwards, spending on PAWHP will be £69 million higher than the corresponding BGA in 2025-26, leaving less resources available to spend in public services.

2.58 The Scottish Government's announcement that it will explore ways to mitigate the impact of the two-child limit in the UK-wide Universal Credit from 2026-27 was not included in our forecasts as the information was provided to us after the final policy deadline. This is a significant commitment to additional spending from 2026-27 onwards. As discussed in Chapter 5, we have conducted some illustrative analysis estimating the cost of the Scottish Government fully mitigating the two-child limit in 2026-27 could be around £150 million, rising to over £200 million in 2029-30. The real terms growth in resource spending after accounting for social security will therefore be lower than presented in Figure 2.11, reducing the funding available for other spending priorities. We will publish a report outlining the implications of this policy announcement for the Scottish Budget in due course.

Figure 2.11: Resource funding outlook, 2024-25 to 2029-30

Resource funding will increase in the next five years, but less so after social security



Description of Figure 2.11: Column chart showing resource funding until 2029-30, in nominal and real terms, and in real terms after social security spend, indexed to the latest funding position of 2024-25. It will grow by 21 per cent in nominal terms in the next five years, but only 9 per cent in real terms. Resource funding for public services excluding social security falls slightly in 2025-26 in real terms before increasing more slowly in the next four years.

Source: Scottish Fiscal Commission, Scottish Government.

Real-terms amounts are calculated using the forecast growth in the GDP deflators from the OBR's October 2024 forecasts.

Resource assessment

2.59 The UK Autumn Budget 2024 resulted in the Scottish Government receiving additional funding in 2024-25 and 2025-26. However, the growth in the Block Grant is offset by changes to the Scottish Government's other funding sources. The tax net position is £549 million (32 per cent) lower in 2025-26 than it was in 2024-25, mostly because of increases in forecasts of UK income tax revenues. There is also less funding from other sources, such as ScotWind or reserve drawdowns in 2025-26 compared to 2024-25.

2.60 The Scottish Government's total resource funding is forecast to increase by 0.8 per cent in real terms between 2024-25 and 2025-26. After accounting for social security spending, there will be a real terms fall in resource funding for public services of 0.3 per cent between 2024-25 and 2025-26.

2.61 The Scottish Government's social security commitments mean spending on social security is growing faster than overall resource spending. The share of day-to-day spending allocated to social security payments has increased from 9.7 per cent in 2022-23 to 13.5 per cent in 2025-26.

2.62 The gap between social security spending and the social security BGA funding widens from £1.0 billion in 2024-25 to £1.3 billion in 2025-26. In 2022-23 this gap was £481 million, so between 2022-23 and 2025-26 it is forecast to increase by £853 million. The devolution of Pension Age Winter Heating Payment (PAWHP) from 2024-25 and subsequent widening of eligibility in 2025-26, contributes to this as the corresponding BGA for this payment will not cover the costs in 2025-26 and beyond. This growth in the social security spending is a consequence of the Scottish Government's policy choices and reduces the funding available for public services.

2.63 The Scottish Government's announcement that it will explore ways to effectively mitigate the impact of the two-child limit in the UK-wide Universal Credit from 2026-27 will further increase social security spending. This policy was not provided to us in sufficient time for inclusion in our forecasts. Therefore, our analysis and commentary on future social security spending is underestimating the effect of the Scottish Government's social security commitments in 2026-27 and beyond. We will publish a report outlining the implications of this policy announcement for the Scottish Budget in due course.

2.64 Given how much resource funding is taken up by the paybill, the size of the public sector workforce and how much they are paid are important for managing the Scottish Budget. Recent trends have seen the devolved public sector workforce growing in size and pay awards above those set out in the pay policy.

2.65 The increase in employer NICs from 2025-26 further accentuates the challenge. The Scottish Government has opted to leave the funding and spending implications of the NICs increase for the 2025-26 Autumn Budget Revision, once there is certainty on the funding from the UK Government. However, Scottish Government initial estimates suggest that there will be a gap between the cost and how much funding it receives. This is a clear fiscal risk for the Scottish Government.

2.66 The combined risks for the Budget from pay deals, size of the workforce, and NICs are significant and may be difficult to manage. Pay pressures contributed to the Scottish Government's emergency spending controls and in-year changes to the Budget during 2024-25. Short-term decisions to balance the budget do not alleviate the spending pressure from pay for the medium term. Audit Scotland recently noted that significant in-year changes to the Budget raise questions about the accountability of the Scottish Parliament as it scrutinises, debates, and votes on a Budget subject to change.[41]

2.67 The Scottish Government needs to be prepared to manage the risks from the higher cost of employer NICs alongside risks that pay rises could be higher than the stated pay policy, or if the workforce continues to grow. To do so, it needs a good understanding of the size, pay levels and overall costs of its workforce. While there have been improvements in the information provided by the Scottish Government, there is still a need for greater clarity and monitoring of pay costs and workforce plans in the Scottish Budget.

[41] Audit Scotland (November 2024) Fiscal sustainability and reform in Scotland

2.68 The UK Autumn Budget 2024 has led to additional consequentials for 2024-25 which allow the Scottish Government to borrow less for resource, and to use much less from ScotWind in 2024-25. These decisions free up resource funding for 2025-26 and future years, as less debt needs to be repaid, and ScotWind funding becomes available to support the 2025-26 or future budgets. In the 2025-26 Budget the Scottish Government has decided to mostly use ScotWind to support capital investment, rather than using the funding as a tool to manage the resource budget.

2.69 The Scottish Government faces the funding risks and pressures we have outlined, but we consider the resource borrowing plans and assumptions to be reasonable.

Capital

2.70 Capital funding is for investment in assets. These can be physical assets such as roads and hospitals, or financial assets, such as shared-equity schemes for homebuyers or funding the Scottish National Investment Bank. It makes up 12 per cent of the Scottish Budget in 2025-26.

2.71 Capital funding in 2025-26 is forecast to be 14.7 per cent higher in nominal terms than the latest position for 2024-25.[42] In real terms, this is a growth of 12 per cent. The new UK Government's announced increase in capital spending has resulted in a large increase in Block Grant funding. The capital Block Grant is 7.6 per cent higher in real terms in 2025-26 than in 2024-25. Scottish Government decisions are also resulting in higher capital spending in 2025-26. It plans to borrow the maximum possible in 2025-26, £472 million and use £326 million of ScotWind proceeds to support capital investment for the first time.

Changes in the Block Grant

2.72 The capital Block Grant is £592 million higher in 2025-26 than in 2024-25, this is a 10.1 per cent increase in nominal terms. Figure 2.12 shows the changes to the capital Block Grant since 2016-17 in real terms. Capital Block Grant funding increases by 7.6 per cent in real terms in 2025-26.

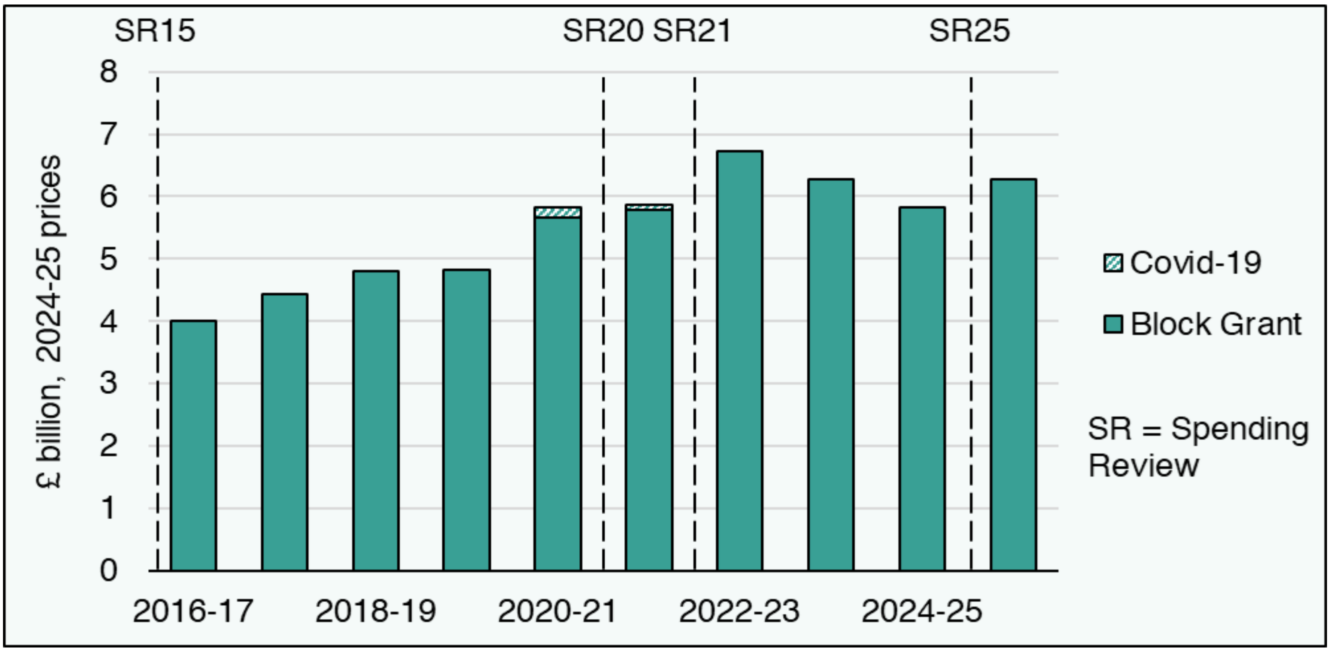
2.73 The new UK Government has increased capital spending in 2025-26 and the following years significantly above the previous government's plans. UK Government capital spending is now set to rise in the next two years before flattening off at a higher level. This has increased the capital Block Grant and offset the decline in the previous three years, when broadly flat funding in nominal terms was eroded by high inflation. It is now slightly above 2021-22 levels.[43]

[42] Our commentary on capital includes Financial Transactions.

[43] 2022-23 saw a substantial uplift to the Block Grant as this was when the bulk of IFRS16 accounting adjustments were undertaken. While it boosted the capital position, it did not result in a change in spending power. See Box 2.1 for more details.

Figure 2.12: Real-terms changes to the capital Block Grant since 2016-17

The Block Grant grows by 8 per cent in 2025-26, offsetting the fall in the previous two years



Description of Figure 2.12: Column chart showing capital Block Grant funding from 2016-17 to 2025-26. The capital Block Grant has seen a steady increase since 2016-17 until 2022-23. The Block Grant decreased significantly after 2022-23 until 2024-25. Block Grant funding increased again in 2025-26.

Source: HM Treasury (2023) [Block Grant Transparency: July 2023, Scottish Government](), Office for National Statistics (2024) [GDP deflator: year-on-year growth seasonally adjusted](), OBR (2024) [Economic and Fiscal Outlook October 2024]().

Real-terms amounts are calculated using the growth in the GDP deflator. These are aligned with the OBR's October 2024 forecasts for 2024-25 and 2025-26.

2.74 In December 2023 the Scottish Government assumed there would be no funding for financial transactions (FTs) after the UK Spending Review 2021 period ends in 2024-25. Following the UK Autumn Budget, there is now funding for FTs with £167 million in the Block Grant for 2025-26. The Scottish Government has assumed this funding remains constant in nominal terms over the next three years. The UK Government's Spending Review next spring will confirm future funding.

Funding from borrowing

2.75 The Scottish Government can borrow to top up capital funding. The annual limit for borrowing up until 2023-24 was £450 million, and the overall debt stock was limited to £3 billion. Since that year both limits increase in line with inflation. With the approval of HM Treasury, Scottish Government can borrow from the National Loans Fund (NLF), commercial lenders, or by issuing bonds.

2.76 Alongside the 2025-26 Budget, the Scottish Government has set out its new capital borrowing policy.[44] In the short term the Scottish Government has revised down planned borrowing in 2024-25 to £300 million and plans on borrowing the maximum possible, £472 million in 2025-26. Scottish Government has assumed £300 million of capital borrowing for each subsequent year, which it may amend to meet in-year requirements. The Scottish Government's plans will see debt reaching 93 per cent of its overall borrowing cap in 2029-30.

2.77 The policy states that the Scottish Government will ensure at least £1.5 billion can be borrowed over the subsequent parliamentary term. The duration of the loans will be decided each year.

2.78 The Scottish Government has based its borrowing plans and funding assumptions over the next five years on continuing to borrow through the NLF. The NLF provides loans to public sector bodies at interest rates based on how much it costs the UK Government to borrow.

2.79 To date the Scottish Government has only borrowed through the NLF, although in late 2023 it announced it is considering options for issuing a bond in the latter half of 2025-26.[45] The Scottish Government has set out how it will continue to consider options for issuing a bond including when one could be issued and the practical arrangements. The Scottish Government plans to provide further information in 2025-26.[46] When the Scottish Government publishes its Medium-Term Financial Strategy in spring 2025, we will be looking for clarity on its borrowing plans over the 5 years of the MTFS, including both the sources and costs of borrowing.

Funding from other sources

2.80 The Scottish Government plans on using all the underspends from 2023-24 (£131 million from capital and FTs combined) to support capital and FT spending in 2024-25. Since the Scottish Government currently has no underspends in 2024-25, the reserve is assumed to remain empty.[47] A table showing a detailed breakdown of all sources of capital funding can be found in Supplementary Figure S2.6 accompanying this report and available on our website.

2.81 The Scottish Government plans on using £326 million of ScotWind proceeds in 2025-26 to support capital funding. This is the first time that ScotWind funding has been used for capital funding.

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[44] Scottish Government (2024) Scottish Budget 2025 to 2026: Scottish Government borrowing

[45] Scottish Government (2023) Capital borrowing and bonds: memorandum

[46] Scottish Government (2024) Scottish Budget 2025 to 2026: Scottish Government borrowing

[47] See Supplementary Table S2.3 for a record of Scotland Reserve movements since 2023-24.

Spending trends

2.82 The Scottish Government has £7,344 million of funding available to use for direct investment or for lending via FTs in 2025-26. This is a significant increase on 2024-25 levels. Figure 2.13 shows how the Government plans to allocate capital funding between portfolios, compared to the plans for 2024-25 which were set out in the ABR.

2.83 The comparisons of capital spending plans between 2024-25 and 2025-26 are not subject to the same limitations as the comparisons of resource spending. Since the ABR capital funding has fallen by £32 million in 2024-25. This means the real terms growth rate in capital spending presented by the Scottish Government is slightly understated at 11.6 per cent based on the position in the ABR, compared to 12.1 per cent based on the latest position in 2024-25.

2.84 The portfolios seeing the largest absolute increase in funding are: Net Zero and Energy, Justice and Home Affairs, and Health and Social Care. In terms of growth rates, the portfolios growing most rapidly are Justice and Home Affairs, Net Zero and Energy, and Constitution, External Affairs and Culture.

2.85 Despite the rapid growth in overall capital spending levels, some portfolios will see significant falls in their capital allocation. This is the case for the following portfolios: Education and Skills; and Deputy First Minister, Economy and Gaelic.

Figure 2.13: Changes in capital portfolio allocations (including FTs), 2024-25 to 2025-26

Portfolio	Share of budget [1]	2024-25 ABR	2025-26 Budget	Real-terms growth (per cent)
Transport	28.8	1,995	2,118	3.7
Health and Social Care	13.7	820	1,005	19.7
Finance and Local Government	10.8	685	796	13.5
Net Zero and Energy	10.3	552	758	34.1
Social Justice	9.6	535	702	28.1
Deputy First Minister, Economy and Gaelic	9.5	813	696	-16.4
Justice and Home Affairs	7.0	306	511	63.1
Education and Skills	6.8	522	500	-6.4
Rural Affairs, Land Reform and Islands	2.8	163	209	25.2
Constitution, External Affairs and Culture	0.5	25	35	34.8
Crown Office and Procurator Fiscal	0.2	10	12	21.1
Scottish Parliament and Audit Scotland	0.0	2	1	-33.6
Total capital spending	100.0	6,428	7,344	11.6
Total capital spending (adjusted) [2]	blank	6,396	7,344	12.1

Source: Scottish Government.

Figures exclude budget-neutral internal transfers made throughout the year, except those which have been included from the outset in 2025-26. See Box 2.1 for more details.

Real-terms growth rates are calculated using the forecast growth in the GDP deflators from the OBR's October 2024 forecasts.

[1] Of the capital part of the 2025-26 Scottish Budget as introduced to parliament on 4 December 2024.

[2] Including £32 million of capital funding reduction still to be applied in 2024-25.

Figures may not sum because of rounding.

2.86 Although capital funding levels have grown rapidly from 2024-25 to 2025-26, Figure 2.14 shows that in real-terms the Scottish Government will be spending nearly as much on capital in 2025-26 as in 2022-23. Comparing using COFOG categories, health will be 1 per cent above 2022-23 levels after a sharp decline in 2024-25. Similarly capital spending on housing and community amenities is restored in real terms to 2022-23 levels in 2024-25 after a fall in real terms spending in 2024-25.

2.87 Transport, the largest area of capital spending, remains substantially below 2022-23 levels despite some growth in 2025-26. Capital spending on education has been falling steadily since its peak in 2023-24 and, based on current plans for 2025-26, it will be 3 per cent below 2022-23 levels.

2.88 Public order and safety, and environmental protection both see very rapid growth in 2025-26, though both are a relatively low share of the budget. It is important to note that capital investment is likely to peak in different areas of spending at different points in time. This will reflect the areas which have major capital projects taking place.

Figure 2.14: Capital spending trends by COFOG, 2022-23 to 2025-26

Classification of functions of government (2022-23 = 100)	Share of budget (per cent) [1]	2022-23 outturn	2023-24 outturn	2024-25 ABR	2025-26 Budget
Transport	27.7	100	70	80	83
Economic affairs excluding transport	21.3	100	99	88	94
Health	13.7	100	99	85	101
Housing and community amenities	13.5	100	98	79	102
Environmental protection	7.4	100	134	156	172
Public order and safety	7.3	100	89	146	233
Education	6.8	100	114	105	97
General public services	1.4	100	20	112	100
Other [2]	1.0	100	95	75	53
Total	100.0	100	90	90	98

Source: Scottish Fiscal Commission, Scottish Government.

Figures exclude in-year budget-neutral transfers, except those which have been baselined in 2025-26. See Box 2.1 for more details.

Figures prior to 2024-25 include presentational adjustments for the Verity House Agreement. Figures up to and including 2024-25 also include COFOG baseline adjustments to align with the new 2025-26 Budget structure. See Annex A of our January 2024 Spending Trends in the 2024-25 Budget paper for more details.

[1] Of the capital part of 2025-26 Budget presented to parliament on 4 December 2024.

[2] ‘Other’ covers social protection, and recreation, culture and religion.

Figures may not sum because of rounding.

Capital funding outlook

2.89 Overall capital funding in 2025-26 is expected to be 15 per cent higher in nominal terms than the latest position for 2024-25. In real terms, this is a growth of 12 per cent. This is mostly due to a large increase to the Block Grant and ScotWind proceeds being used.

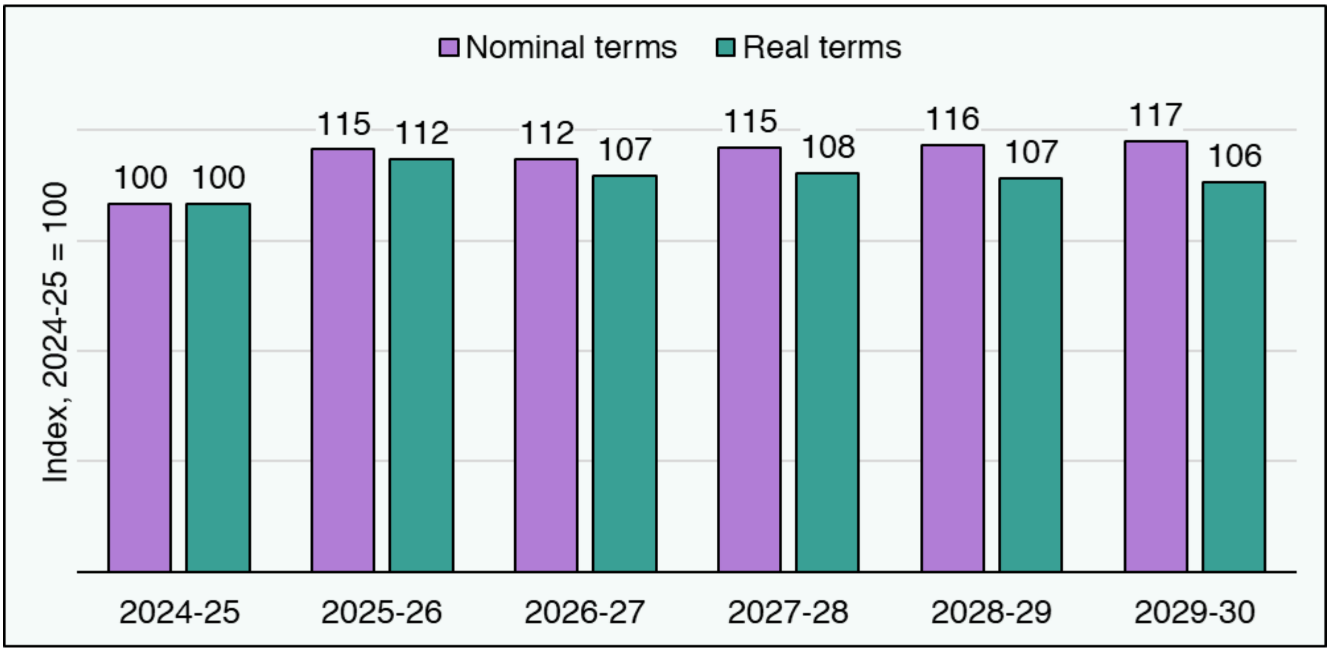
2.90 Capital funding is expected to fall between 2025-26 and 2026-27 because there is no planned use of ScotWind proceeds and capital borrowing is lower in 2026-27. Capital funding is forecast to grow again in 2027-28, and then remain broadly flat in nominal terms until 2029-30. Figure 2.15 shows that it is forecasted to fall in real terms in 2026-27 and then stays broadly flat until 2029-30. Overall, including borrowing and other funding decisions, capital funding including FTs is expected to increase by 17 per cent in nominal terms and 6 per cent in real terms over the next five years.

2.91 The position has changed significantly since December 2023, when we expected the capital budget to fall by 20 per cent in real terms between 2023-24 and 2028-29.[48] This was mainly because the previous UK Government's planned capital spending was flat in nominal terms, and the Scottish Government assumed there would be no FT funding in the Block Grant after 2024-25. However, the current UK Government increased its capital spending plans substantially for 2025-26 in the Autumn Budget 2024, and plans to keep it at a higher level over the forecast horizon. The UK Government's Spending Review next spring will confirm future Block Grant funding.

[48] Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023

Figure 2.15: Capital funding outlook, 2024-25 to 2029-30

Capital funding will grow rapidly in 2025-26, but is expected to remain flat after that.



Description of Figure 2.15: Column chart showing nominal and real terms growth in capital funding levels up to 2029-30, indexed at the levels of the latest 2024-25 funding position. Funding will grow rapidly in 2025-26 before falling in 2026-27, and then increases gradually until 2029-30 in nominal terms. In real terms capital funding levels peak in 2025-26 and then stay broadly flat until the end of the forecast period.

Source: Scottish Fiscal Commission, Scottish Government.

Real-terms amounts are calculated using the forecast growth in the GDP deflators from the OBR's October 2024 forecasts.

Capital assessment

2.92 Capital funding in 2025-26 is forecast to be 14.7 per cent higher in nominal terms than the latest position for 2024-25. This is a notable increase since our last forecast in December 2023, capital funding in 2025-26 is forecast to be 30 per cent higher than that forecast.

2.93 The new UK Government's increase in capital spending has increased the funding available to the Scottish Government. The previous UK Government's plans were for capital budgets to be frozen in nominal terms. It is now borrowing to fund the increase in capital spending. This has translated into very rapid real-terms growth of the Block Grant, which rises 7.6 per cent between 2024-25 and 2025-26.

2.94 Capital investment can contribute to productivity and economic growth, increasing the amount of output which can be produced within the economy, particularly in the long term. We can see that in 2025-26, in the context of much more capital funding than last year, the Scottish Government has prioritised increasing investment in health, public order and safety, as well as economic affairs other than transport. As we note in Chapter 3, the effects of this increase in capital spending are likely to be more sustained beyond our 5-year forecast horizon if the increase in capital spending is maintained.

2.95 The new UK Government provided the OBR with capital spending plans beyond 2025-26 and has committed to more frequent Spending Reviews. While Spending Reviews will set departmental spending plans for three years for resource, these will do so for five years for capital.[49] This means there should be greater certainty on the level of the capital Block Grant in future years.

2.96 After the large increase in 2025-26, growth is expected to slow down substantially. In real terms, capital funding levels are expected to peak in 2025-26, before falling in 2026-27 and then stay broadly flat.

2.97 The Scottish Government plans to borrow £300 million in 2024-25 and £472 million in 2025-26. Borrowing in 2025-26 is the maximum level permitted and means the Scottish Government will reach 87 per cent of its overall borrowing cap in 2025-26. While this leaves some more headroom than with previous plans to increase borrowing more in later years, when the capital funding is expected to fall in real terms, that would likely constrain borrowing beyond the 5-year forecast horizon. The current plans mean the Scottish Government is forecast to reach 93 per cent of its overall borrowing cap in 2029-30.

2.98 We consider the presentation of the 2025-26 Budget on the basis of all borrowing taking place through the NLF to be reasonable. Although the Scottish Government is considering issuing bonds in 2025-26, the limits of how much it can borrow are the same whatever the source of borrowing. Any differences in the cost of borrowing arising from different repayment profiles or interest rates would affect future financial years rather than the 2025-26 Budget. This is because borrowing decisions are normally made at the end of the financial year, with repayments beginning in the following financial year. However, we do note the Scottish Government will need to provide further information on its borrowing plans in its Medium-Term Financial Strategy in spring 2025.

2.99 We find the Scottish Government borrowing plans and funding assumptions to be reasonable. However, we note that the combination of UK and Scottish Government decisions mean capital funding is boosted in 2025-26 and drops in real terms later in the 5-year forecast. In particular, the Scottish Government's decisions to borrowing the maximum possible amount in 2025-26 combined with plans to use £326 million of ScotWind proceeds means there is less scope to use these funding sources to boost capital spending in future years.

[49] HM Treasury (2024) A strong fiscal framework

Chapter 3
Economy

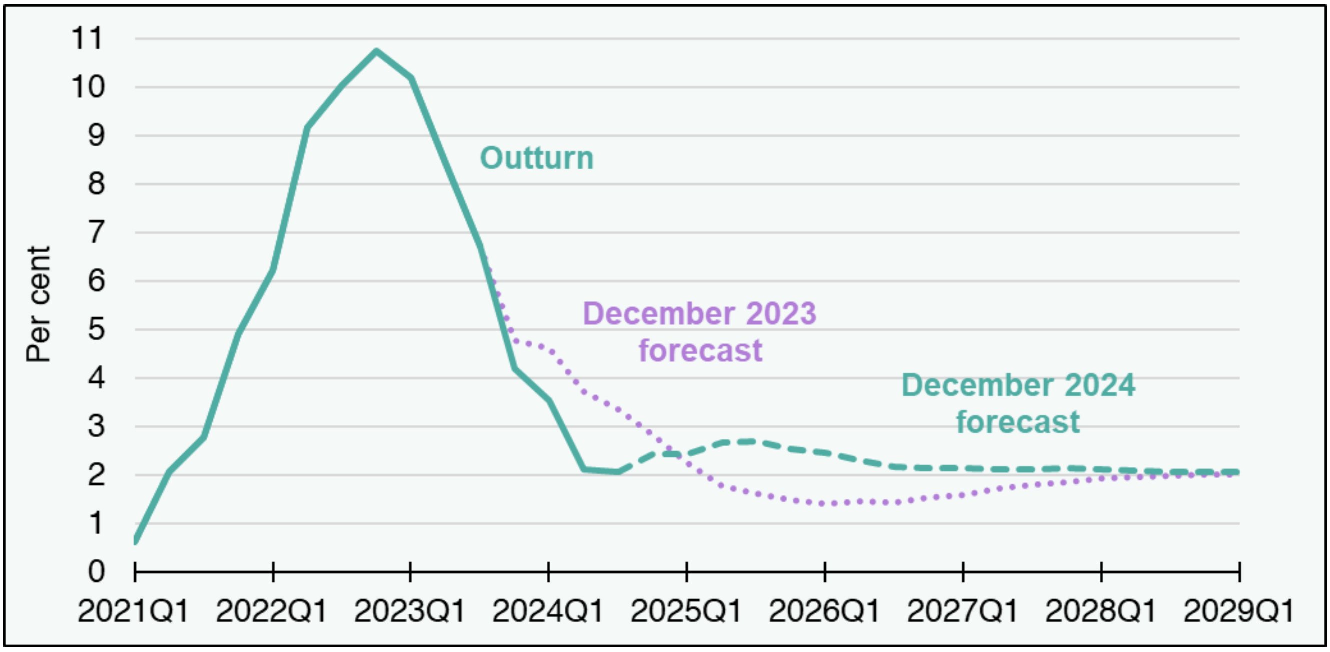
Forecast summary

3.1 Over the past year, the Scottish economy and labour market have performed slightly better than we expected in December 2023, but broadly on track with our last forecast. Gross Domestic Product (GDP) has increased marginally after being flat since early 2022, and nominal earnings growth has remained relatively strong in a still tight labour market. Stronger earnings growth, combined with lower inflation than expected a year ago, has resulted in living standards recovering more rapidly from their fall in 2022-23.

3.2 Looking ahead we need to take account of the fact that, since December 2023, we have had the UK Budget 2024. We set out how we have captured the effects of this on the economy in Box 3.1. We have also updated our five-year population projection to reflect the recent higher levels of net migration.

3.3 Figure 3.1 shows that the headline Consumer Price Index (CPI) inflation fell back to the 2 per cent target in mid-2024, earlier than we expected in December 2023. This was mainly due to falling global energy prices, while domestically-driven inflation has generally been higher than previously thought. We now assume inflation to rise to 2.6 per cent in 2025-26 before gradually returning to target by the end of the forecast period. This is higher than our December 2023 forecast of 1.6 per cent for 2025-26, reflecting more persistent domestic price pressures as well as the impact of the UK fiscal expansion and some of the employer National Insurance Contributions (NICs) rise introduced in the latest UK Budget being passed on to consumer prices.

Figure 3.1: Consumer Price Index (CPI) inflation, UK, 2021Q1 to 2029Q1
Inflation to be slightly above target in the near term, higher than previously expected



Description of Figure 3.1: Line chart showing CPI inflation rising to 2.6 per cent in 2025-26 before returning to 2 per cent by 2029Q1, a higher path than we forecast in December 2023.
Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts.
Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts.

3.4 We discuss the funding and spending implications of the UK Autumn Budget 2024 for the Scottish Government's Budget in Chapter 2. In Box 3.1, we discuss how we captured the effects of the UK Government's fiscal policy announcements in our economy forecast.

Box 3.1: Impact of UK fiscal event on the Scottish economy

The UK Autumn Budget 2024 included a large increase in spending, around half of which was funded through an increase in taxes, delivering a fiscal expansion worth nearly 1 per cent of UK GDP in 2025-26. Of the tax policies, the main measure is a rise in employer NICs. The OBR provided significant analysis and commentary on the UK-wide economic effects of these policies.[50]

We expect the effects on Scotland of the fiscal expansion and the employer NICs rise to broadly mirror those on the UK overall. We have largely incorporated these effects into our economy forecast through our judgements on inflation, interest rates, and productivity, which we normally align to the OBR's forecasts for the UK. Because of some additional tightness in Scotland's labour market compared to the UK, there may be some additional pay growth in the Scottish economy from the fiscal expansion, which is partly reflected in higher earnings growth in Scotland than in the UK in 2025-26.

Because these are not Scottish Government policy measures, we do not quantify or show a pre- and post-measures impact on our forecast. The effect of the policies is implicitly captured in our wider judgements reflecting all other developments since our December 2023 forecast.

UK fiscal expansion

As in the UK, we expect that the increase in public spending in Scotland in 2025-26 following the UK fiscal expansion will deliver a temporary demand-side boost to GDP. Higher demand in the short run will then be offset by higher prices and higher interest rates in the UK.

Within our five-year forecast, there may be some positive supply-side effects on productivity and GDP from higher public capital investment. However, we expect these to be offset by other factors such as lower labour supply from the employer NICs increase. In line with the OBR, we expect that structural changes to the supply side of the economy will build up over a longer time horizon, if the increase in public capital investment is sustained beyond our forecast period.

Employer NICs increase

We expect that the employer NICs increase will have indirect effects on households. Firms may pass on most of their higher tax costs to employees through higher prices when the policy is introduced, with a downward shift in the level of real wages. In the longer term, higher employer costs from NICs may also constrain nominal wage rises.

There may also be indirect effects from this measure on labour supply, as workers reduce labour supply in response to lower wages or firms reduce labour demand in response to higher employer costs.

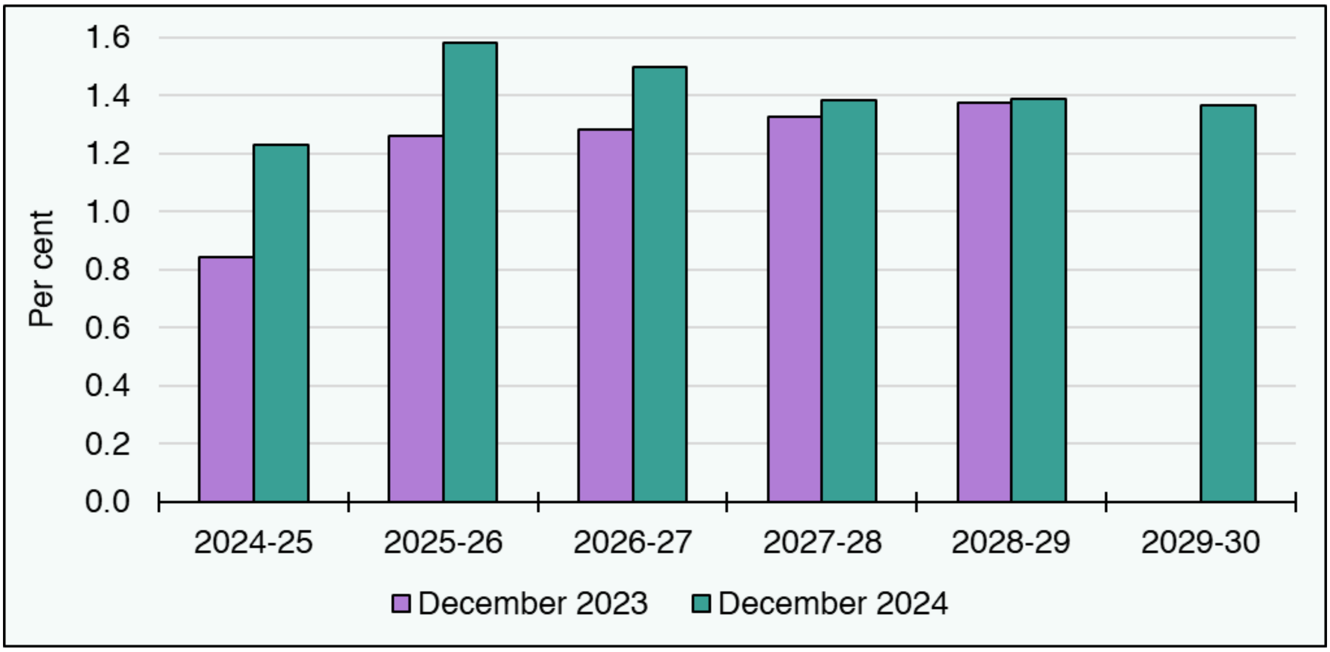
[50] OBR (2024) Economic and fiscal outlook – October 2024

3.5 As a result of our higher migration and population assumption, our GDP growth forecast is now 1.4 per cent per year on average between 2024-25 and 2028-29, higher than the 1.2 per cent we forecast in December 2023.

3.6 Figure 3.2 shows that, compared to our December 2023 forecast, we now expect higher GDP growth in the near term because of the temporary boost from higher public spending, with a similar outlook in later years which now reflects higher population growth.

Figure 3.2: Gross Domestic Product (GDP) growth, Scotland, 2024-25 to 2029-30

Temporary boost to GDP from higher public spending, following UK fiscal expansion



Description of Figure 3.2: Column chart showing that our current forecast of GDP growth peaks at 1.6 per cent in 2025-26, revised up from 1.3 per cent in our December 2023 report, and is 1.4 per cent in 2028-29 which is similar to our last forecast.

Source: Scottish Fiscal Commission – [Scotland's Economic and Fiscal Forecasts](#).

3.7 Living standards, as measured by real disposable income per person, fell sharply in 2022-23 following the energy price shock. This was the largest drop in real disposable income per person since Scottish records began in 1998.

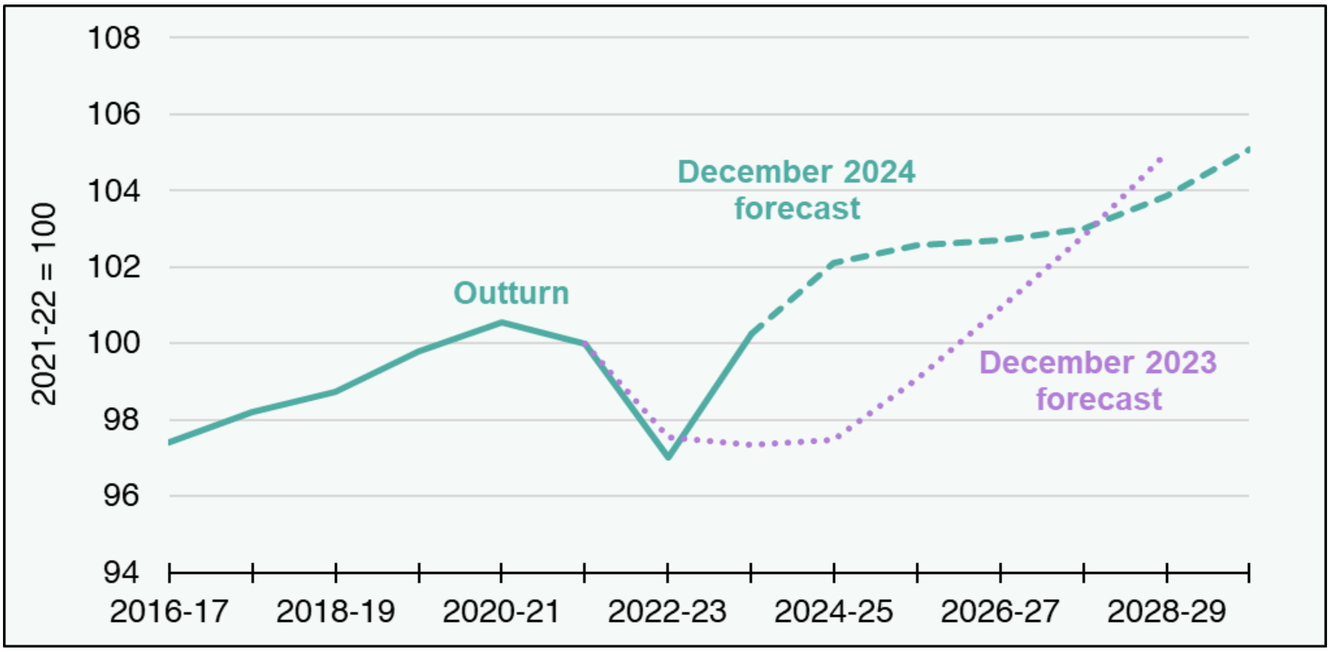
3.8 Figure 3.3 shows that real disposable income per person has bounced back strongly and returned to its 2021-22 level in 2023-24, three years earlier than we expected in December 2023, and is likely to increase further in 2024-25. Compared to our last forecast, stronger growth in real earnings has been the main driver of this faster recovery in living standards. This stronger outturn data means our forecast is now starting from a higher level.

3.9 Below the aggregate picture, lower-income households are more likely to experience pressure on their living standards. This is mainly because they spend a larger share of their income on essentials such as energy, food, and housing, for which price levels are still higher than they were before 2022-23.

3.10 Overall, while recent performance has been above expectations, our longer-term outlook for living standards is largely unchanged. We now expect weaker growth from 2025-26 onwards, mainly as real earnings growth slows, meaning that by 2027-28 living standards are similar to our last forecast.

Figure 3.3: Real disposable income per person, Scotland, 2021-22 equals 100

Subdued outlook for living standards in the next five years, after strong recent growth



Description of Figure 3.3: Line chart showing living standards are revised up from our December 2023 forecast in the near term, as they regained their 2021-22 level in 2023-24 and are likely to grow strongly in 2024-25. By 2027-28, our current forecast is largely unchanged.

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts.

Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts.

Amounts are indexed so that 2021-22 is equal to 100.

Note that the vertical axis begins at 94.

3.11 In common with our recent forecast reports, the paths for inflation and interest rates remain uncertain. A further escalation of the conflict in the Middle East, including disruptions to shipping in the Red Sea, continues to present a risk to energy prices and supply chains. The ongoing conflict in Ukraine adds to the risks around energy prices. More recently, another source of global uncertainty is the potential impact of the outcome of the US presidential election on international trade and tariff policies. Prospects for the North Sea oil and gas sector also remain important to our economic and fiscal outlook.

3.12 Another source of uncertainty, regarding the labour market, arises from our ongoing concerns about the quality of the official labour market statistics that we usually rely on. We discuss this more in the labour market section of this chapter.

3.13 Figure 3.4 shows further detail on our latest economy forecast and compares it to our December 2023 forecast.

Figure 3.4: Headline economy forecasts, growth rates unless otherwise specified

Per cent	2023-24 [1]	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
GDP	blank	blank	blank	blank	blank	blank	blank
December 2023	0.2	0.8	1.3	1.3	1.3	1.4	blank
December 2024	0.2	1.2	1.6	1.5	1.4	1.4	1.4
CPI inflation	blank	blank	blank	blank	blank	blank	blank
December 2023	6.1	3.0	1.6	1.5	1.8	2.0	blank
December 2024	5.7	2.3	2.6	2.2	2.1	2.1	2.0
Average nominal earnings	blank	blank	blank	blank	blank	blank	blank
December 2023	6.6	3.6	3.0	2.9	3.0	3.1	blank
December 2024	6.4	4.3	3.7	2.8	2.9	2.9	2.9
Average real earnings	blank	blank	blank	blank	blank	blank	blank
December 2023	1.2	0.3	1.2	1.3	1.1	1.1	blank
December 2024	3.1	2.0	1.5	0.6	0.8	0.8	0.9
Employment	blank	blank	blank	blank	blank	blank	blank
December 2023	0.5	-0.1	0.1	0.2	0.3	0.3	blank
December 2024	1.2	0.2	0.1	0.3	0.3	0.3	0.2
Unemployment rate	blank	blank	blank	blank	blank	blank	blank
December 2023	3.7	4.0	4.2	4.2	4.1	4.1	blank
December 2024	3.7	3.9	3.9	3.9	4.0	4.0	4.1

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts.

Nominal earnings are adjusted for inflation using the Consumer Expenditure Deflator.

[1] The 2023-24 column represents outturn in the December 2024 rows.

3.14 We continue to monitor our Scottish Economic Policy Uncertainty Index, published for the first time in our August 2021 report.[51] The updated indicator, up to October 2024, can be found in the economy supplementary figures accompanying this report and available on our website. Overall, the level of uncertainty in Scotland has been slightly below its post-October 2010 average, and slightly below that of the UK as a whole since April 2024.

3.15 To streamline our report, we have reduced the length of our section on the long-run outlook for the economy, as this tends to change little between forecasts. All the standard figures from this section can now be found in our economy supplementary figures.

Forecast comparisons

3.16 Figure 3.5 shows how our December 2024 forecast of GDP growth in calendar years compares to a range of other forecasts for Scotland and the UK.

Figure 3.5: Forecast comparison, GDP growth rates in calendar years

Per cent	2023 outturn	2024	2025	2026	2027	2028	2029
Scotland: SFC December 2024	0.2	1.0	1.5	1.6	1.4	1.4	1.3
Scotland: FAI October 2024	0.2	0.9	1.1	1.2	blank	blank	blank
Scotland: EY November 2024	0.2	0.7	1.3	1.4	1.4	blank	blank
UK: OBR October 2024	0.3	1.1	2.0	1.8	1.5	1.5	1.6
UK: NIESR November 2024	0.3	0.9	1.2	1.4	1.1	1.5	1.4
UK: BoE November 2024	0.3	1.0	1.5	1.25	1.25	blank	blank
UK: HMT average of forecasters November 2024	0.3	0.9	1.3	blank	blank	blank	blank

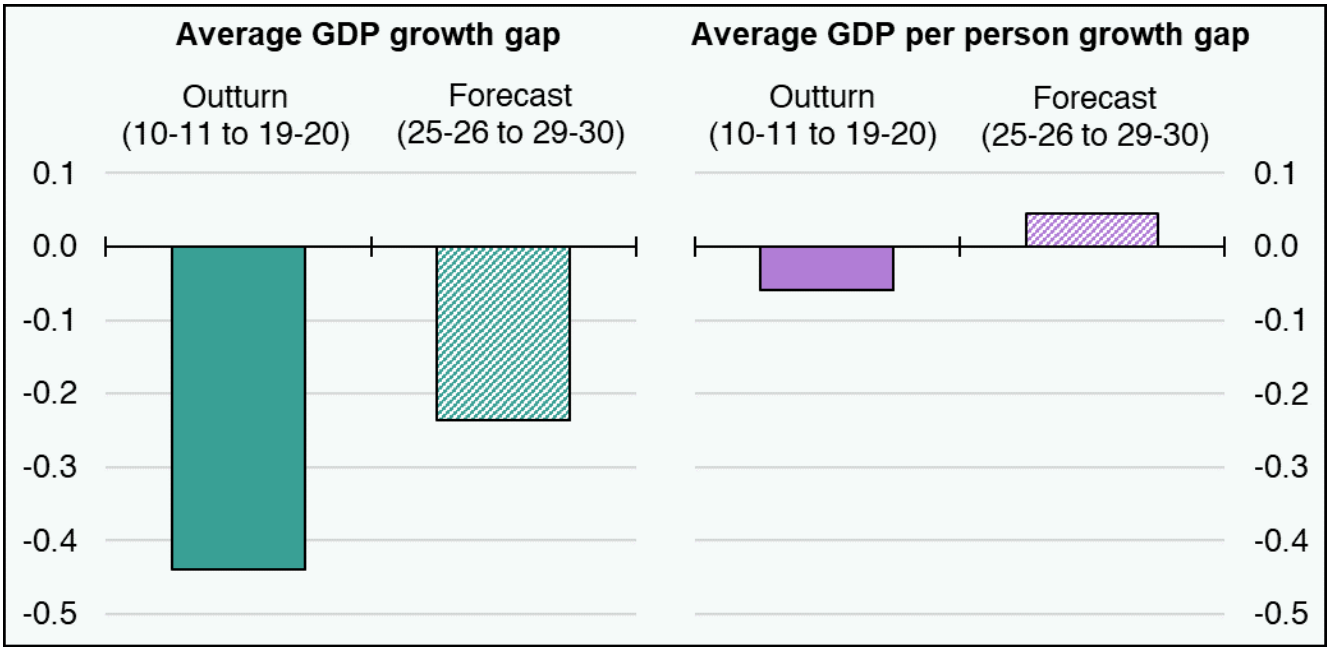
Source: Scottish Fiscal Commission, Fraser of Allander Institute (2024) FAI Economic Commentary Q3 2024, Ernst & Young (2024) EY ITEM Club Scottish Autumn Forecast – November 2024, OBR (2024) Economic and fiscal outlook – October 2024, NIESR (2024) UK Economic Outlook – November 2024, Bank of England (2024) Monetary Policy Report – November 2024, HM Treasury (2024) Forecasts for the UK economy: November 2024.

3.17 When comparing our forecast to the OBR's UK forecast, annual GDP growth in Scotland is 0.2 percentage points lower on average from 2025-26 to 2029-30. This difference mainly reflects slower total population growth in Scotland, with the negative gap largely closing when presented on a 'GDP per person' basis. Figure 3.6 shows that these gaps in forecast growth rates are broadly in line with historical outturn data over the last decade from 2010-11 to 2019-20.

[51] Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – August 2021

Figure 3.6: Scotland-UK average annual GDP growth gap, outturn and forecast, percentage points

Scotland's slower population growth largely explains the GDP growth gap with the UK



Description of Figure 3.6: Column chart showing negative gaps of 0.4 and 0.2 percentage points in average annual GDP growth rates from outturn and forecast respectively, both largely closing when presented on a 'GDP per person' basis.

Source: Scottish Fiscal Commission, OBR (2024) [Economic and fiscal outlook – October 2024](#).

The outturn gaps cover the years from 2010-11 to 2019-20.

3.18 Figures 3.7 and 3.8 show our latest and previous forecasts of GDP growth in both financial and calendar year terms.

Figure 3.7: SFC latest and previous forecasts, GDP growth rates in financial years

Per cent	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
December 2023	0.8	1.3	1.3	1.3	1.4	blank
December 2024	1.2	1.6	1.5	1.4	1.4	1.4

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts.

Figure 3.8: SFC latest and previous forecasts, GDP growth rates in calendar years

Per cent	2024	2025	2026	2027	2028	2029
December 2023	0.7	1.1	1.3	1.3	1.4	blank
December 2024	1.0	1.5	1.6	1.4	1.4	1.3

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts.

Key judgements

Figure 3.9: Economy forecast main judgements

Issue	December 2023	December 2024
1. Spare capacity, or output gap	Slightly positive output gap of 0.1 per cent of trend GDP in 2023-24, staying around zero from 2024-25 onwards.	Slightly positive output gap of 0.3 per cent of trend GDP in 2024-25 and 0.4 per cent in 2025-26 and 2026-27, gradually closing thereafter.
2. Trend productivity	Growth of 0.3 per cent in 2022-23, 0.6 per cent in 2023-24, and 0.8 per cent in 2024-25. Growth increases to 1.1 per cent in 2028-29 broadly in line with the OBR's November 2023 assumption.	Growth of 0.7 per cent in 2024-25, increasing to 1.2 per cent in 2029-30 broadly in line with the OBR's October 2024 assumption.
3. Trend unemployment rate	4.1 per cent over the forecast period.	4.1 per cent over the forecast period.
4. Nominal average annual earnings	Growth of 4.5 per cent in 2022-23 and 6.6 per cent in 2023-24, reducing to 3.6 per cent in 2024-25 and 3.1 per cent in 2028-29.	Growth of 4.3 per cent in 2024-25, reducing to 3.7 per cent in 2025-26 and 2.9 per cent in 2029-30.
5. Population projections	Scottish population aged 16 to 64 expected to shrink throughout the forecast. Net international migration of 19,000 in 2020-21, and 21,000 in 2021-22 and 2022-23. For 2023-24 onwards, aligned to the ONS January 2023 projection of 13,000 annually.	Scottish population aged 16 to 64 expected to rise in the short term, peaking in 2027. Net international migration of 30,000 in 2023-24, falling to 16,000 by 2027-28.
6. Forecasts for the UK	Based on the OBR's UK November 2023 forecast.	Based on the OBR's UK October 2024 forecast.
7. Oil and gas	Neutral impact of UK Continental Shelf activity on onshore economy.	Neutral impact of UK Continental Shelf activity on onshore economy.
8. Savings ratio	Savings ratio falling over 2022-23 and 2023-24, before gradually rising towards its long-run average.	Savings ratio gradually reducing to its long-run average over the forecast period.
9. Second round effects	No material effect of any Scottish Government policy changes on economic growth.	No material effect of any Scottish Government policy changes on economic growth.

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts.

3.19 Trend GDP, or potential output, is the estimated amount of goods and services the economy can sustainably produce without inducing excess price inflation. In the short term, actual output can deviate from potential output, but over the longer term the economy is assumed to be subject to the supply constraint of potential output.

3.20 Trend GDP is based on: the capacity of the economy to supply and allocate the labour force; the average number of hours worked; and advances in technology, working practices, and human and physical capital that drive trend productivity growth.

Population changes

3.21 Since our December 2023 report we have updated our five-year population forecast, as discussed in Box 3.2. This affects our trend GDP forecast through labour supply.

3.22 Higher net migration from the population changes is leading to faster growth in the Scottish population, particularly people aged 35 to 44. This group has some of the highest labour force participation rates, so faster population growth in this age group results in our overall participation rate projection declining less steeply.

3.23 With faster growth in the Scottish population and less of a decline in the overall participation rate, the average annual growth rate of GDP between 2024-25 and 2028-29 is now 1.4 per cent, higher than 1.2 per cent over the same period in our December 2023 forecast. On a ‘per person’ basis, it is broadly unchanged at 1.1 per cent.

Box 3.2: Updated population forecasts

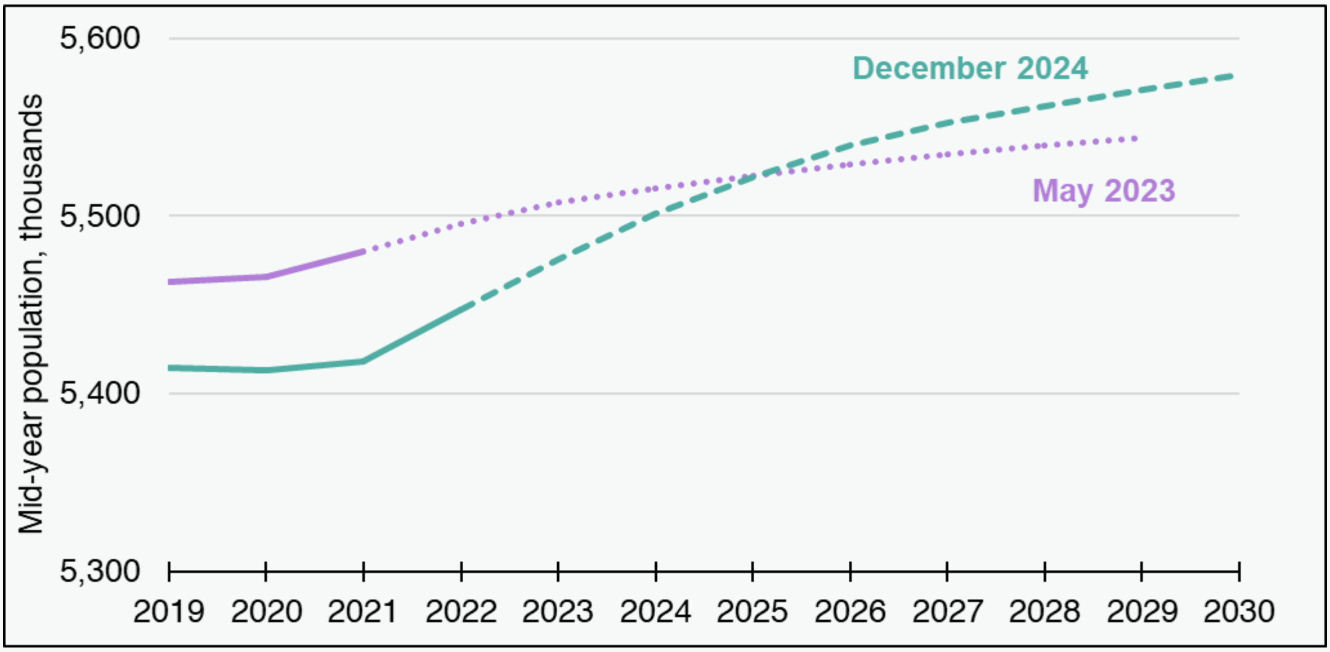
We have updated our population forecasts for the first time since our May 2023 forecasts. This involves two important changes. Firstly, we have now included the revised back series of population estimates consistent with the Scotland's Census 2022. This gives a Scottish population which is around 1 per cent lower than previous estimates up to 2021. As we discussed in our December 2023 report, following the release of initial census results, the differences are larger for some age groups. There are around 8 per cent fewer people aged 25 to 34, and more people in their early twenties and for people aged 65 and above.

Secondly, we have updated our population growth projections as recent and forecast migration data is higher. Net international migration to Scotland has been at record levels in 2021-22 and 2022-23. While we expect numbers to fall from this peak because of changes to visa rules, we still forecast net international migration to remain at historically high levels throughout our five-year forecast period. This means faster population growth from 2021, with the new population forecast exceeding the previous version from 2026 onwards.

The population forecast is presented in more detail in the economy supplementary figures accompanying this report. Our next forecasts will be informed by a full set of 2022-based ONS population projections which are due to be published in January 2025.

Figure 3.10 Recent and forecast population, Scotland, 2019 to 2030

Census updates give a lower population, but higher migration means faster growth



Description of Figure 3.10: Line chart showing our previous and latest forecasts of the Scottish population. The new series starts lower following alignment to the recent Census, but grows faster due to higher migration and is higher from 2026 onwards.

Source: National Records of Scotland – Mid-Year Population Estimates, Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts.

May 2023 population forecast was used for both our May 2023 and December 2023 reports. New December 2024 forecast is aligned to NRS population estimates up to mid-2022.

Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts.

Note that the vertical axis begins at 5,300.

Labour market

3.24 Our view of the labour market over the next five years is similar to our expectations in December 2023. Figure 3.11 shows that we forecast the unemployment rate to gradually rise from a near-record low of 3.7 per cent in 2023-24 to its assumed structural trend of 4.1 per cent by 2029-30, as labour market tightness continues to ease.[52]

3.25 In the near term, our forecast remains below the OBR's unemployment rate forecast for the UK, which is consistent with labour market indicators such as Adzuna job vacancies data and worker shortages data from the Business Insights and Conditions Survey (BICS).[53] This data suggests that, despite some convergence, the Scottish labour market is still tighter than the UK. This implies faster earnings growth in Scotland compared to the UK in 2025-26.

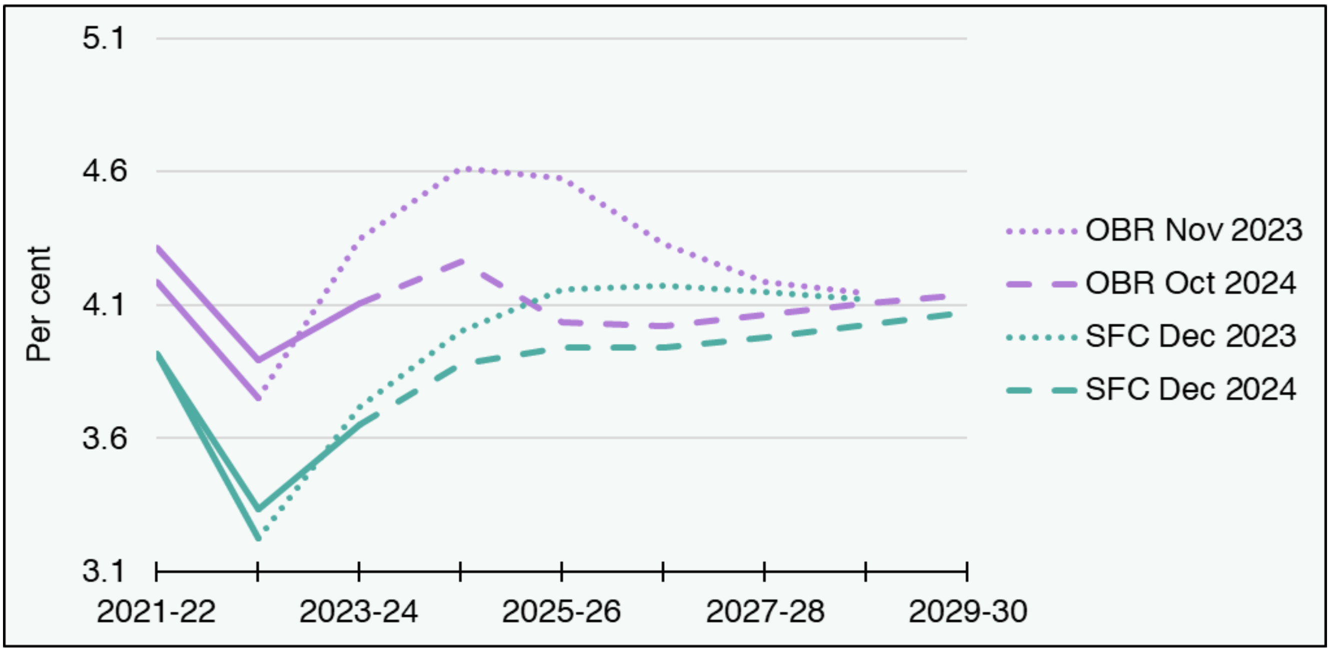
3.26 Because Scotland's labour market is already tighter than the UK, we believe the extra demand from the fiscal expansion is likely to have a greater effect on earnings in Scotland than in the UK, providing a small additional boost to Scottish earnings growth in 2025-26.

[52] A labour market is 'tight' if the demand for labour is high relative to the supply of labour.

[53] ONS (2024) Online job advert estimates, Scottish Government (2024) BICS weighted Scotland estimates: data to wave 119, ONS (2024) Business insights and impact on the UK economy – Wave 118 edition.

Figure 3.11: Unemployment rate, Scotland and UK, 2021-22 to 2029-30

Our forecast remains slightly below the OBR's forecast for the UK in the near term



Description of Figure 3.11: Line chart showing the Scottish unemployment rate gradually rising from a near-record low of 3.7 per cent in 2023-24 to its assumed structural trend of 4.1 per cent by 2029-30. This is similar to our December 2023 forecast and slightly below the OBR's UK forecast.

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts, OBR (2023) Economic and fiscal outlook – November 2023, OBR (2024) Economic and fiscal outlook – October 2024.

Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts. Note that the vertical axis begins at 3.1.

3.27 For recent quarters we have not used the Labour Force Survey (LFS) data in the production of this forecast. Instead, we have taken a steer from Pay As You Earn (PAYE) Real Time Information (RTI) and other available sources of labour market data, following the approach recommended by the ONS, and we have assumed a lower path for the unemployment rate.

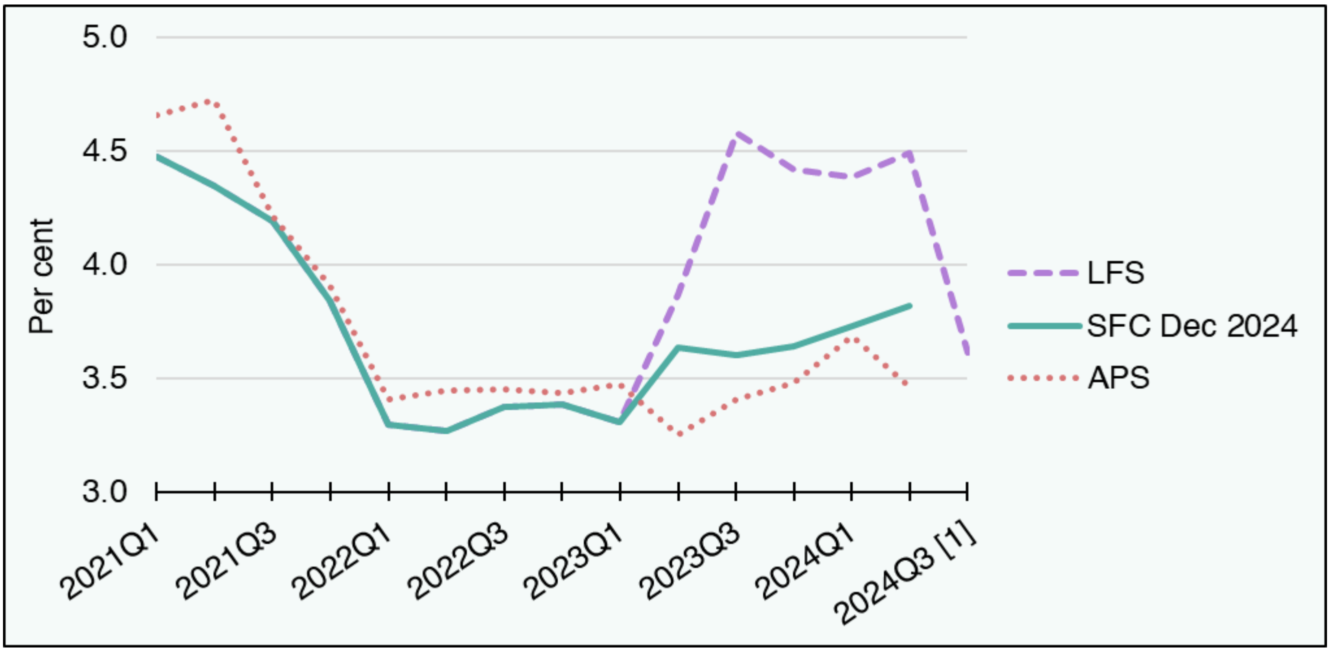
3.28 We continue to have concerns with the quality of the official labour market statistics from the LFS and Annual Population Survey (APS) that we usually rely on. We discussed the ongoing challenges with this data in our 2024 Statement of Data Needs.[54]

3.29 Figure 3.12 shows that the Scottish LFS unemployment rate has been volatile, jumping from 3.3 per cent in 2023Q1 to an average of more than 4 per cent over 2023-24 before falling back in recent releases. This is not in line with admin-based labour market indicators such as payrolled employees and claimant counts, which have been more stable and consistent with lower unemployment than suggested by the LFS.

[54] Scottish Fiscal Commission (2024) Statement of Data Needs - August 2024

Figure 3.12: Recent estimates of Scotland's unemployment rate, 2021Q1 to 2024Q2

Our unemployment rate view is based on a broader range of data than just the LFS



Description of Figure 3.12: Line chart showing the Scottish LFS unemployment rate rising from 3.3 per cent in 2023Q1 to 4.5 per cent in 2024Q2, compared to 3.5 per cent in 2024Q2 according to the APS. Our assumption is 3.8 per cent for 2024Q2.

Source: Scottish Fiscal Commission, ONS (2024) HI11 Regional labour market: headline indicators for Scotland – November 2024.

[1] The latest data point for LFS covers two out of three reporting periods within 2024Q3.

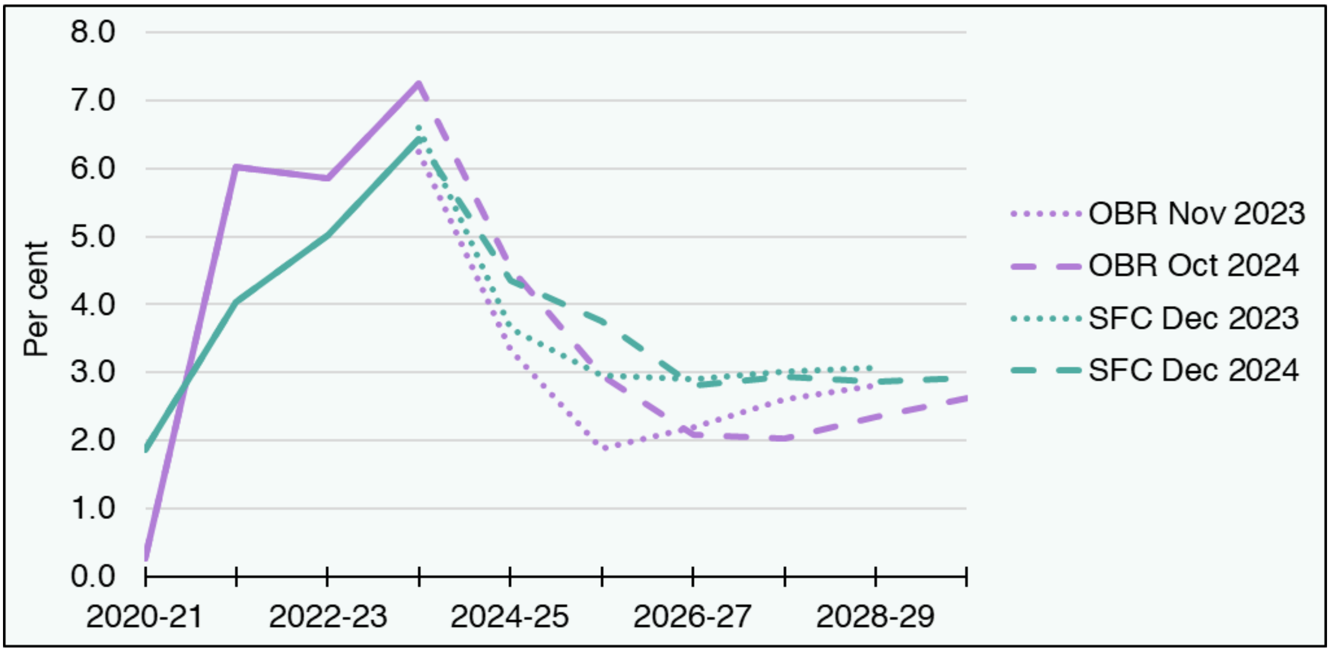
Note that the vertical axis begins at 3.0.

Earnings

3.30 Compared to our December 2023 forecast, the higher inflation outlook partly driven by the UK fiscal expansion feeds through to higher nominal earnings growth in the near term in both Scotland and the UK, as shown in Figure 3.13. The relatively tighter labour market in Scotland leads to even higher earnings growth in Scotland than in the UK in 2025-26. From 2026-27 onwards, our annual earnings growth forecast is still close to its historical average of around 3 per cent.

Figure 3.13: Nominal average earnings growth, Scotland and UK, 2020-21 to 2029-30

Our forecast remains above the OBR's forecast for the UK in the near term



Description of Figure 3.13: Line chart showing Scottish earnings growth of 3.7 per cent in 2025-26, revised up from our December 2023 forecast but still moderating from the high rates of the previous two years. From 2026-27, growth is still close to its long-run trend of around 3 per cent per year on average.

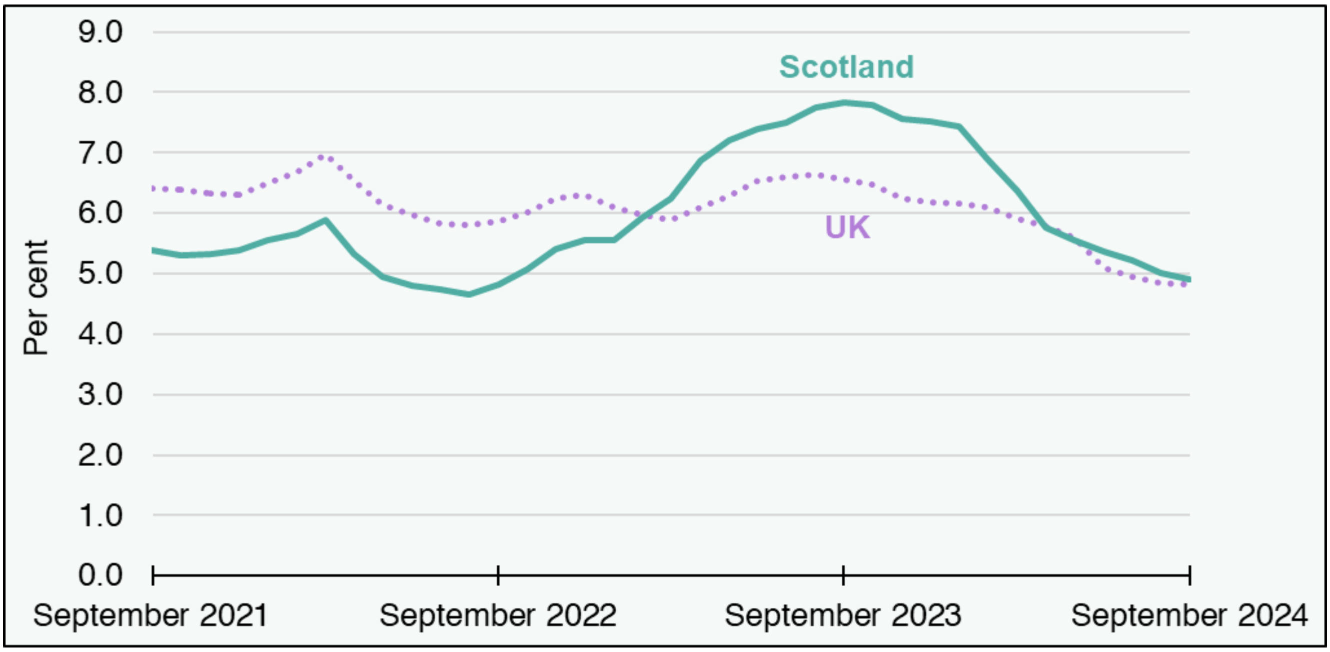
Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts, OBR (2023) Economic and fiscal outlook – November 2023, OBR (2024) Economic and fiscal outlook – October 2024.

Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts.

3.31 When comparing to UK average earnings growth, for 2024-25, our judgement is based on RTI mean pay data available up to September 2024. Figure 3.14 shows that Scottish average earnings growth is still slightly above the UK average, after faster growth in the previous two years, consistent with the labour market in Scotland remaining relatively tighter.[55]

Figure 3.14: RTI mean pay rolling annual growth, Scotland and UK, 2021 to 2024

Scottish annual earnings growth still slightly above UK average, after faster growth in 2022-23 and 2023-24



Description of Figure 3.14: Line chart of RTI data from September 2021 to September 2024 showing mean pay rolling annual growth in Scotland was faster than in the UK for 2022-23 and 2023-24, having usually lagged the UK, and is still slightly above the UK average.

Source: Scottish Fiscal Commission, ONS (2024) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted – November 2024.

3.32 For the period from 2025-26 onwards, our earnings growth forecast remains above the UK forecast by the OBR, a similar relative position to a year ago. In December 2023, we cautioned that Scottish and UK earnings growth could be more similar than suggested by the latest SFC and OBR forecasts and we highlighted this as a downside risk to the income tax net position. Based on the current set of SFC and OBR forecasts, this risk still exists from 2025-26 onwards.

[55] In Figure 3.13, Scottish average earnings growth appears to be lower than the UK in 2022-23, 2023-24, and 2024-25 rather than being higher as suggested by RTI. This is because the comparison based on our and the OBR's measure of average earnings, using national accounts data, is currently different from that based on RTI data. This issue does not affect our five-year forecast of earnings from 2025-26 onwards, which feeds into our income tax forecast.

3.33 This risk has in part crystalised in forecasts for 2025-26. The OBR's October 2024 forecast for UK earnings growth has been revised up by 1.1 percentage points to 3.0 per cent, which was our forecast of Scottish earnings growth published in December 2023. Our upward revision has been smaller, so the two forecasts are now closer than they were a year ago. This has contributed to a reduction in the income tax net position in 2025-26.

3.34 Our forecast captures the Scottish Government's Public Sector Pay Policy, which was published alongside the 2025-26 Scottish Budget and covers the three-year period up to 2027-28. For 2027-28, we have updated our assumption for average basic nominal pay growth in the devolved public sector from our baseline assumption of 2 per cent, aligned with inflation as per our recent baselines paper, to the pay policy metric of 3 per cent.[56] This provides a small uplift to our nominal earnings growth forecast in 2027-28.

3.35 As part of our forecast of Scottish employment, we also model public sector employment. We use the information we have on funding, assumptions about pay and the size of the total paybill, and assumptions about the size of the reserved public sector in Scotland. Based on these assumptions we project public sector employment in Scotland to remain broadly flat. Our projection can be found in our economy supplementary figures.

[56] Scottish Fiscal Commission (2024) How we set policy baselines

Chapter 4
Tax

Summary

4.1 In this chapter we present our forecasts for tax revenues and explain the effect the forecasts have on the Scottish Budget. Figure 4.1 provides a summary of our forecasts for income tax, Non-Domestic Rates (NDR), Land and Buildings Transaction Tax (LBTT), and Scottish Landfill Tax (SLfT) and Figure 4.2 shows changes since our December 2023 forecasts. We forecast that devolved Scottish taxes will raise a total of £24.6 billion of revenue in 2025-26, £790 million more than in our December 2023 forecasts.

Figure 4.1: Summary of tax forecasts

£ million	2023-24 [1]	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Income tax	17,315	19,099	20,477	21,782	22,980	23,913	24,930
Non-Domestic Rates	3,033	3,175	3,052	3,535	3,500	3,567	3,879
LBTT	784	911	1,019	1,058	1,102	1,158	1,223
Scottish Landfill Tax	68	54	40	24	25	25	26
Total	21,201	23,240	24,588	26,400	27,607	28,663	30,057

Source: Scottish Fiscal Commission, Revenue Scotland (2024) Annual Report and Accounts 2023-24 – Devolved Taxes Accounts, Scottish Government (2024) Non-domestic rates income statistics.

2023-24 figures are provisional or confirmed outturn for the NDR, LBTT and SLfT rows. LBTT and SLfT revenues are net of repayments and exclude penalties, interest and revenue losses.

[1] The 2023-24 column shows a forecast for income tax and outturn for Non-Domestic Rates, Land and Buildings Transaction Tax and Scottish Landfill Tax.

Figures may not sum because of rounding.

4.2 The majority of this change comes from an increase to our income tax forecast mainly because of higher nominal earnings growth and the combined effect of policy choices and fiscal drag. This is slightly offset by our expectation that NDR revenue in 2025-26 will decrease, mainly because of a combination of lower inflation, new data, policy changes, and revised assumptions for proposals and appeals to valuations.

4.3 The property market has recovered earlier than we expected which has increased our forecast for LBTT from 2024-25 onwards. The SLfT forecast has decreased in 2024-25 and 2025-26 and increased thereafter with the majority of the changes attributable to differences in how we calculate future waste levels and how it is managed.

Figure 4.2: Changes to our tax forecasts since restated December 2023 forecasts

£ million	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Income tax	-42	255	745	1,158	1,254	1,425
Non-Domestic Rates	26	33	-177	-80	-42	19
LBTT	-28	181	224	151	104	86
Scottish Landfill Tax	-6	-4	-2	9	9	9
Total	-50	465	790	1,238	1,325	1,540

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2024) Fiscal Update – August 2024, Revenue Scotland (2024) Annual Report and Accounts 2022-23 – Devolved Taxes Accounts, Scottish Government (2024) Non-domestic rates income statistics.

For income tax and Non-Domestic Rates, these changes are relative to our restated December 2023 forecast under our new baseline.

Figures may not sum because of rounding.

Tax policy changes

4.4 We have produced cost estimates of several policy changes that have been introduced in the 2025-26 Scottish Budget. These are shown in Figure 4.3.

Figure 4.3: Summary of 2025-26 Budget tax policy changes

£ million	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Income tax	blank	52	185	197	206	215
Non-Domestic Rates	blank	-36	-11	-11	-11	-12
LBTT	5	32	29	32	32	33
Scottish Landfill Tax	blank	6	4	4	4	4
Total	5	54	207	222	231	241

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

4.5 For Scottish income tax, the Scottish Government has announced an increase of 3.5 per cent for the basic rate and intermediate rate thresholds in 2025-26. The Scottish Government also announced that it will be freezing the higher rate, advanced rate and top rate thresholds in 2025-26 and 2026-27.

4.6 There are several Non-Domestic Rates policy changes included in the 2025-26 Budget. The Scottish Government have set the Basic Property Rate (BPR) at the same amount as in 2024-25. The Islands and Remote Areas Hospitality Relief will be extended for 2025-26 as well as an additional hospitality relief for mainland properties that pay the BPR.

4.7 The Additional Dwelling Supplement (ADS) is an additional charge added to any LBTT which may be due from purchasing an additional residential property. The Scottish Government will raise the tax rate on ADS from 6 per cent to 8 per cent effective 5 December 2024.

4.8 The Scottish Government will apply an increase to both the SLfT rates in 2025-26 to match the planned increase to UK Landfill Tax rates announced in the Spring 2024 UK Budget.

Tax forecasts and the Scottish Budget

4.9 This section discusses our forecasts for Scottish income tax, LBTT, and SLfT alongside their corresponding Block Grant Adjustments (BGAs). BGAs remove funding from the Scottish Budget to account for tax devolution. Non-Domestic Rates is excluded as it has a separate funding process.[57]

4.10 Figure 4.4 shows tax revenue outturns and forecasts alongside the corresponding BGAs. The net position is the difference between the revenue raised from each of these taxes and the corresponding BGA.

[57] Scottish Fiscal Commission (2021) Funding for the Scottish Budget – May 2021

Figure 4.4: Projected tax net positions

£ million	2022-23 outturn	2023-24 [1]	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Income tax	blank	blank	blank	blank	blank	blank	blank	blank
BGA	-14,909	-16,527	-18,389	-19,639	-20,468	-21,207	-21,862	-22,675
Scottish revenue	15,169	17,315	19,099	20,477	21,782	22,980	23,913	24,930
Net position	260	788	711	838	1,314	1,774	2,051	2,255
LBTT [1]	blank	blank	blank	blank	blank	blank	blank	blank
BGA	-697	-526	-574	-660	-761	-862	-961	-1,047
Scottish revenue	848	784	911	1,019	1,058	1,102	1,158	1,223
Net position	151	259	337	358	298	240	197	176
SLfT [1]	blank	blank	blank	blank	blank	blank	blank	blank
BGA	-95	-74	-75	-57	-54	-37	-40	-41
Scottish revenue	110	68	54	40	24	25	25	26
Net position	14	-6	-21	-16	-30	-13	-15	-15
Total net position	426	1,041	1,027	1,180	1,582	2,001	2,233	2,416

Source: Scottish Fiscal Commission, Scottish Government.

Negative figures for the net position represent a negative funding effect on the Scottish Budget, where the BGA reduces funding by more than the tax revenue.

[1] The 2023-24 column shows a forecast for income tax and outturn for SLfT and LBTT.

Figures may not sum because of rounding.

Income tax net position and reconciliations

The income tax net position

4.11 The income tax net position shows how much funding the Scottish Government receives from income tax revenues compared to the reduction in funding from the BGA. Figure 4.4 shows the projected income tax net position comparing our December 2024 Scottish income tax forecasts to the latest forecast of the BGA based on the OBR's October 2024 forecasts.

4.12 The income tax net position is projected to be £838 million in 2025-26, which is higher than our latest estimate of the 2024-25 position but lower than we estimated in December 2023. As we have discussed in previous reports, the income tax net position is positive and rising because of the divergence in income tax policy between Scotland and the rest of the UK. In general, income tax rates are higher and income tax thresholds are lower in Scotland, raising additional funds. As we discussed in our August 2024 Fiscal Update, the income tax net position was lower in 2022-23 than might be expected based on policy differences alone, because of relatively slower earnings growth in Scotland since income tax was devolved in 2016-17.[58]

4.13 The income tax net position is expected to continue rising in future years. As we discussed in Box 4.1 of our December 2023 SEFF, we expect Scottish income tax policy and fiscal drag to continue to contribute positively to the income tax net position in the coming years.[59] However, the income tax net position may not turn out to be as positive as suggested in Figure 4.4. We forecast the Scottish economy and Scottish income tax revenue. The income tax net position depends on how our forecasts compare to the OBR's forecasts for the UK.

4.14 Similar to previous reports, our forecast of Scottish earnings growth continues to be above the OBR's UK forecast, particularly from 2026-27. If the gap in earnings growth between Scotland and UK turns out to be smaller than a comparison of current SFC and OBR forecasts suggests, either because of lower growth in Scotland or higher growth in the UK, then the income tax net position will be significantly lower than currently projected. We continue to judge that this represents an asymmetric downside risk to the income tax net position.

4.15 For example, in 2026-27, we forecast earnings growth of 2.8 per cent in Scotland compared to the OBR's forecast of 2.1 per cent for the UK – a gap of 0.7 percentage points. Using the general guidelines for earnings growth we have discussed in previous reports, if earnings growth in Scotland instead matches the UK, this in isolation would reduce the income tax net position by £210 million in 2026-27.[60]

Changes in the income tax net position since December 2023

4.16 Figure 4.5 shows changes in the income tax net position since our December 2023 forecast and Figure 4.6 shows how Scottish income tax forecasts and the BGA have contributed to these changes.

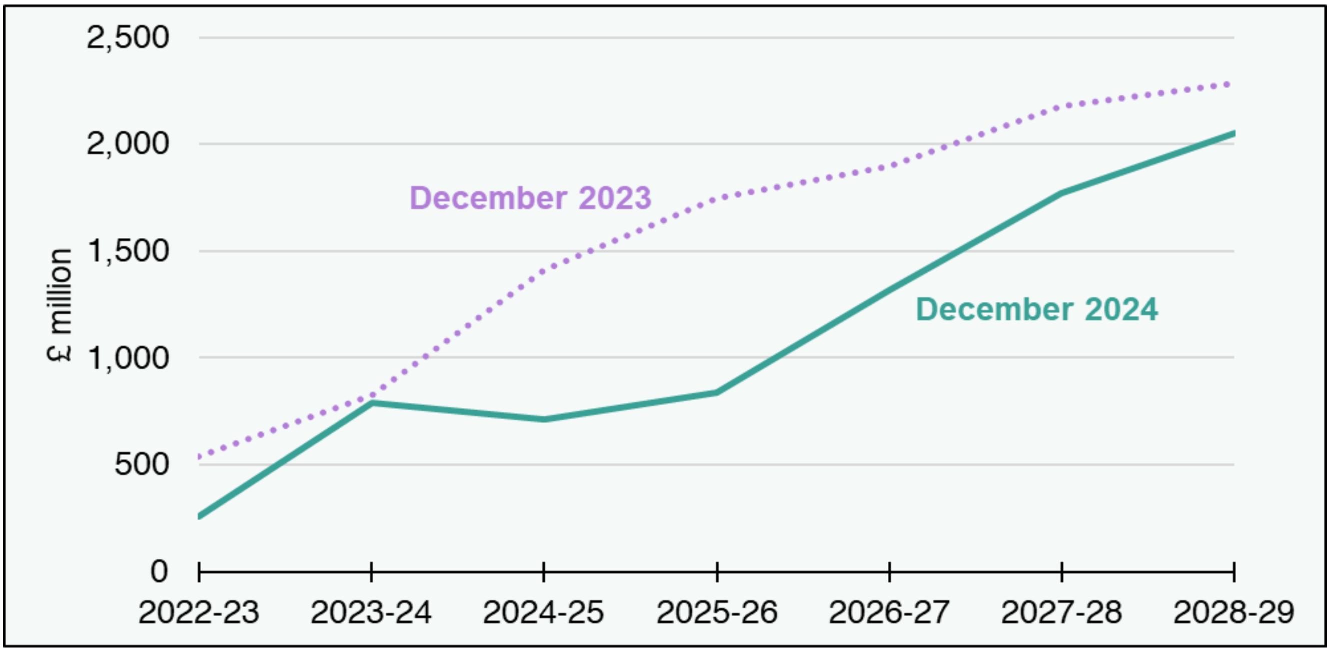
[58] Scottish Fiscal Commission (2024) Fiscal Update – August 2024

[59] Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023

[60] We estimate that each 0.1 percentage points of additional earnings growth in Scotland relative to the UK produces an additional £30 million of tax revenue. For example, if the UK had growth of 4 per cent and Scotland had growth of 4.5 per cent, then Scotland would gain an additional £150 million of tax revenue.

Figure 4.5: Changes in the income tax net position since December 2023

The net position is still positive but lower than in our previous projection



Description of Figure 4.5: Line chart showing our December 2023 and December 2024 ITNP projections over 2022-23 to 2028-29. Both projections rise from around £500 million to over £2 billion, with December 2024 consistently lower than December 2023.

Source: Scottish Fiscal Commission.

Figure 4.6: Changes in SIT, the income tax BGA and the ITNP since December 2023

£ million	2022-23 [1]	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Scottish income tax	blank	blank	blank	blank	blank	blank	blank
December 2023 [2]	15,309	17,357	18,844	19,873	20,856	22,056	22,981
December 2024	15,169	17,315	19,099	20,477	21,782	22,980	23,913
Change	-140	-42	255	604	926	925	932
Income tax BGA	blank	blank	blank	blank	blank	blank	blank
December 2023	-14,768	-16,530	-17,432	-18,125	-18,960	-19,877	-20,693
December 2024	-14,909	-16,527	-18,389	-19,639	-20,468	-21,207	-21,862
Change	-141	3	-957	-1,515	-1,508	-1,329	-1,169
Net position	blank	blank	blank	blank	blank	blank	blank
December 2023	542	827	1,412	1,749	1,896	2,178	2,288
December 2024	260	788	711	838	1,314	1,774	2,051
Change	-281	-39	-701	-911	-582	-405	-237

Source: Scottish Fiscal Commission, Scottish Government.

Negative figures for the net position represent a negative funding effect on the Scottish Budget, where the BGA reduces funding by more than the tax revenue.

The income tax BGAs at the time of our December 2023 publication were based on the OBR's November 2023 forecast. Those in our current December 2024 forecast are based on the OBR's October 2024 forecast.

[1] The 2022-23 column represents outturn in the December 2024 rows.

[2] This is our original December 2023 forecast, not our restated forecast.

Figures may not sum because of rounding.

4.17 Scottish income tax outturn data for 2022-23 was lower than expected in December 2023, reducing both our forecast and the net position. From 2024-25 onwards, we have increased our forecast of Scottish income tax revenues, largely driven by higher inflation and nominal earnings.

4.18 The OBR have made significant upwards revision to their forecasts of UK Non-Savings, Non-Dividends (NSND) income tax from 2024-25 onwards. This leads to upwards revisions in the income tax BGA. As the upwards revisions from the OBR are larger than our upwards revisions to Scottish income tax, the projection of the income tax net position has been revised downwards. Figure 4.7 provides a more detailed breakdown of the movements in the income tax net position compared to December 2023.

Figure 4.7: Detailed breakdown of movement in ITNP since December 2023

£ million	2024-25	2025-26
Change in policy baseline	0	-142
Outturn	-343	-358
SG policy	0	52
Earnings growth revisions gap	-180	-300
Differential impact of UKG policy	-5	-72
Residual	-173	-91
Total change in ITNP	-701	-911

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

4.19 Earlier this year we published a new approach to setting tax policy baselines in our forecast.[61] This is largely a presentational issue and has no direct effect on the Scottish Government's policy. However, it does affect the presentation of our forecasts in the later years of our forecast period.

4.20 The change in our income tax policy baseline, whereby we now assume that all income tax bands rise in line with inflation in the absence of government policy, reduces our forecast and therefore the income tax net position by £142 million in 2025-26. There is no effect in 2024-25 as policy for this year was already set before we changed our baseline. Scottish Government policy changes for 2025-26 partially offset this effect. Lower than expected income tax outturn data for 2022-23 has also reduced the net position by around £350 million in each of 2024-25 and 2025-26. There is more analysis on the 2022-23 outturn data in our August 2024 Forecast Evaluation Report and Fiscal Update publications.[62,63]

4.21 Aside from outturn data, the difference in our and the OBR's forecasts of earnings growth is the biggest driver of the shift in the net position. The OBR have revised up their forecasts of earnings growth in the UK by more than we have revised up our forecasts of earnings growth in Scotland, reducing the net position by around £180 million in 2024-25 and by £300 million in 2025-26. We discuss this in more detail in the next section.

[61] Scottish Fiscal Commission (2024) How we set Policy Baselines

[62] Scottish Fiscal Commission (2024) Forecast Evaluation Report – August 2024

[63] Scottish Fiscal Commission (2024) Fiscal Update – August 2024

4.22 In the Autumn 2024 Budget, the UK Government introduced policies which will directly affect tax revenues across the UK, including new anti-avoidance measures and policies on tax residency and domicile, both of which raise revenue. These might be expected to have a relatively greater effect on tax revenues in the rest of the UK than in Scotland, with the rest of the UK having relatively more very high earners who will be more affected by these policy changes. By comparing the OBR's policy costings of these policies for the UK and Scotland, we estimate there is a relatively greater revenue raised in the UK, shifting the income tax net position down by around £72 million in 2025-26.

4.23 After taking account of the above factors, there is £91 million reduction in the income tax net position in 2025-26, relative to December 2023 estimates, that we cannot directly attribute to observable factors. This will include factors such as SFC and OBR modelling changes, differing Scottish and UK data excluding outturn, and different judgements made by the OBR and SFC.

SFC and OBR earnings forecasts

4.24 Earnings is one of the largest drivers of growth in income tax revenues over time, and is a critical part of both ours and the OBR's forecasts. Examining ours and the OBR's earnings forecasts, and importantly how these have changed over time, can explain a lot about changes in the income tax net position.

4.25 As Scotland's independent fiscal institution, we focus on forecasting the Scottish economy, earnings growth and income tax revenue. However, the projected income tax net position depends on the comparison of our forecasts to another independent forecasting institution – the OBR – which focuses on forecasting the whole UK economy, earnings growth and income tax revenue. In December 2023, we noted that our forecasts of earnings growth in Scotland were above the OBR's forecasts for the UK, and this represented a downside risk to the income tax net position if the gap between Scottish and UK earnings growth turned out to be less than the comparison at the time suggested.

4.26 Since December 2023, projections of the income tax net position have been revised down, with particularly large revisions in 2024-25 and 2025-26. We believe this partially reflects a materialisation of the risk we highlighted last year.[64]

4.27 Compared with December 2023, with higher-than-expected inflation, both we and the OBR have revised up our forecasts of nominal earnings growth. However, in part because the OBR were starting from a lower value from their previous forecast, their upwards revisions have been larger than ours, as illustrated in Figure 4.8. For 2024-25, the OBR has revised nominal earnings growth up by 1.2 percentage points from its November 2023 forecast, compared to 0.7 percentage points for the SFC. For 2025-26, the values are 1.1 percentage points and 0.8 percentage points respectively. These differences in the revisions to earnings forecasts drive an estimated shift in the net position of £180 million in 2024-25 and £300 million in 2025-26, as shown in Figure 4.7.

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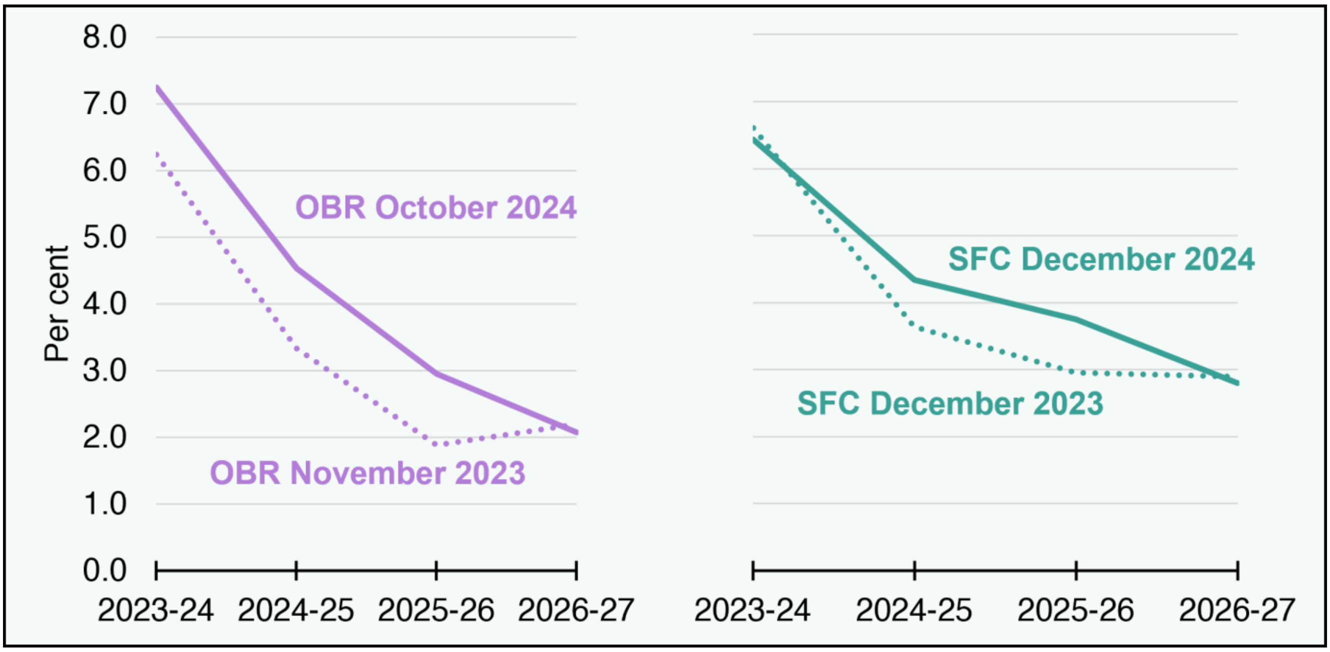
[64] Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, Paragraphs 4.35 to 4.37

Figure 4.8: Comparison of SFC and OBR forecasts of average earnings growth

SFC earnings growth forecasts are higher than OBR estimates



Description of Figure 4.8: Line charts showing the OBR and SFC's winter 2023 and 2024 forecasts over 2023-24 to 2026-27. All four lines decrease from around 7 per cent in 2023-24 to 2 to 3 per cent in 2026-27. Each forecaster's 2024 forecast is generally above its respective 2023 forecast, and the SFC's forecasts are generally higher than the OBR's.

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts, OBR (2023) Economic and fiscal outlook – November 2023, OBR (2024) Economic and fiscal outlook – October 2023.

4.28 Even with larger revisions to OBR than SFC forecasts, our forecast of earnings growth remains above the OBR from 2025-26 onwards, with an average gap of around 0.7 percentage points. If in the coming years the gap between earnings growth in Scotland and the UK turns out to be narrower than the current comparison of SFC and OBR forecasts suggests, then this again represents a downside risk to the projection of the income tax net position. We judge there to be an asymmetric and downside risk to the projections of the income tax net position from 2025-26 onwards.

4.29 Scotland experienced higher growth in earnings and income tax revenues in 2022-23 and 2023-24. In 2024-25 we have seen the gap in earnings growth between Scotland and the UK narrow. Higher earnings in Scotland have been supported by a tighter labour market, though the gap here is also narrowing. If the Scottish labour market does remain tighter in 2025-26, it could support ongoing higher earnings growth in Scotland than in the UK in this year. However, we still judge there to be a modest downside risk to the income tax net position in 2025-26. As the 2025-26 Budget has now been set, a lower-than-expected net position for 2025-26 would manifest as a negative reconciliation for 2025-26 once outturn data is available in summer 2027, which would apply in the 2028-29 Scottish Budget.

Indicative reconciliation estimates

4.30 When the Scottish Budget is set, funding from income tax is estimated using our forecasts of Scottish Income Tax (SIT) in that year and the corresponding BGA. As the BGA is based on OBR forecasts, the net position is effectively the combination of two different forecasts. When outturn information on income tax revenues for both Scotland and the rest of the UK become available the net error in these two forecasts can be calculated and the Scottish Budget is then adjusted. This adjustment occurs three years after the initial revenue forecast and is called an income tax reconciliation.

4.31 We receive earlier indicative Real Time Information (RTI) data on Pay As You Earn (PAYE) income tax revenues. We use RTI data to adjust our income tax forecasts for years which are now in the past but for which we still do not have final outturn data. While giving a helpful indication of revenues, RTI data is imperfect and does not tell us anything about Self-Assessment (SA) tax revenues, which are significant and volatile. Using our updated income tax estimates, and updated estimates of the BGA based on the latest forecasts by the OBR, we can create indicative reconciliation estimates.

4.32 HM Revenue and Customs (HMRC) will publish income tax outturn data for 2023-24 in July 2025. Figure 4.9 shows the latest estimated net position and reconciliation for 2023-24 and how these have changed over time. In the December 2022 budget setting forecast, the net position was anticipated to increase the Scottish Budget by £325 million. By December 2023 this had increased to a net position of £827 million, largely driven by increases in our forecasts of Scottish income tax revenue. This higher net position would give a positive reconciliation of £502 million applied in the 2026-27 Scottish Budget to reflect this swing.

4.33 The latest income tax net position and projected reconciliation figure for 2023-24 has changed by a small amount since last year. The latest SFC and OBR forecasts suggest a positive reconciliation of £463 million to be applied in the 2026-27 Scottish Budget.

Figure 4.9: Change in Scottish income tax reconciliation figure for 2023-24

Forecast (£ million)	SIT	BGA	ITNP	Reconciliation (2026-27)
December 2022 (budget-setting)	15,810	-15,485	325	blank
May 2023	16,210	-15,799	411	86
December 2023	17,357	-16,530	827	502
December 2024	17,315	-16,527	788	463

Source: Scottish Fiscal Commission, Scottish Government.

Figures may not sum because of rounding.

4.34 When the 2024-25 Budget was set, income tax was projected to add more than £1.4 billion to the Scottish Budget. Since our budget setting December 2023 forecast, projections of the income tax net position for 2024-25 have been revised down substantially. As shown in Figure 4.10, the latest estimate is that there will be a large negative reconciliation of £701 million applied in the 2027-28 Scottish Budget.

Figure 4.10: Change in Scottish income tax reconciliation figure for 2024-25

Forecast (£ million)	SIT	BGA	ITNP	Reconciliation (2027-28)
December 2023 (budget-setting)	18,844	-17,432	1,412	blank
December 2024	19,099	-18,389	711	-701

Source: Scottish Fiscal Commission, Scottish Government.

Figures may not sum because of rounding.

4.35 We advise caution over the expected income tax net position and reconciliation figures. As both the income tax net position and its associated indicative reconciliation are derived from the differences in separate forecasts, large revisions are possible. As we get closer to the publication of outturn data, we expect our reconciliation estimates to become more accurate. However, some uncertainty about the precise value of the reconciliation always remains. Significant swings are still possible, as some of the indicative data available to us and the OBR is imperfect, and SA can always be volatile.

Other taxes

4.36 We produce illustrative forecasts for Aggregates Levy and Air Passenger Duty as the Scottish replacements for the existing UK taxes have not yet been introduced. We also provide an illustrative forecast of Value Added Tax (VAT) assignment, the implementation of VAT is subject to discussion between the two Governments. These forecasts are presented in supplementary figures accompanying this report and available on our website.

4.37 Scottish Aggregates Tax, which is replacing Aggregates Levy, is the most advanced of these taxes with the Scottish Government planning to introduce it in April 2026.[65] We will produce a full forecast for Scottish Aggregates Tax once the Scottish Government has confirmed the policy details.

4.38 The Scottish Government is also considering new taxes, namely a carbon land tax and building safety levy. We will continue to monitor developments in relation to new taxes and prepare forecasts when required.

Income tax

4.39 Our latest forecast of Scottish income tax is presented in Figure 4.11. Higher than expected inflation and nominal earnings growth has led to significant upwards revisions to our income tax forecast from 2024-25 onwards. Other smaller adjustments include changes in how we model UK policy costings in Scotland increasing revenues which is partially offset by outturn data for 2022-23 and RTI updates.

[65] Revenue Scotland (2023) Revenue Scotland update on the Scottish Aggregates Tax (SAT)

Figure 4.11: Forecast revenue for Non-savings, Non-dividend (NSND) income tax

£ million	2022-23 outturn	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Income tax	15,169	17,315	19,099	20,477	21,782	22,980	23,913	24,930

Source: Scottish Fiscal Commission, HMRC (2024) Scottish Income Tax Outturn Statistics: 2022 to 2023.

Changes in income tax since December 2023

4.40 Figure 4.12 shows the changes since our December 2023 forecast. Nominal earnings growth has been revised up which explains most of the increase in our forecast with upward revisions on employment figures also contributing to expected revenue increases. Overall changes in our economy forecast explain most of the changes we have made to our income tax forecast.

4.41 For this forecast we used a different baseline for income tax. We discussed our reasons for changing our baseline in our occasional paper on how we set policy baselines.[66] This change revised down our December 2023 forecast by £142 million in 2025-26, with the effect increasing in the later years of the forecast.

4.42 We have included the effects of policies of announced by the UK Government in the October 2024 UK Budget. These act to increase the forecast from 2024-25 onwards. Public sector pay deals that affect incomes in the second half of 2024-25 increase the forecast in 2024-25 and future years. Most of the other component of change arises from modelling changes that include using the latest data about the Scottish taxpayer population from the Survey of Personal Incomes (SPI) Public Use Tape.

4.43 We have also adjusted our forecast based on the latest RTI data and published outturn for 2022-23. These have both decreased our forecast but do not have as large an effect as earnings growth and UK policies.

4.44 Finally, we have included some Scottish Government policy changes announced in the 2025-26 Budget.

[66] Scottish Fiscal Commission(2024) How we set policy baselines

Figure 4.12: Change in NSND income tax forecast since December 2023

£ million	2022-23 [1]	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
December 2023	15,309	17,357	18,844	19,873	20,856	22,056	22,981
Baseline change	blank	blank	blank	-142	-232	-329	-492
December 2023 restated	15,309	17,357	18,844	19,732	20,624	21,727	22,489
Economy	0	51	185	637	769	836	851
RTI	0	10	-122	-129	-138	-147	-154
UK policy	0	22	470	333	382	445	557
Other	-140	-126	-278	-147	-41	-77	-36
December 2024 pre-measures	15,169	17,315	19,099	20,425	21,597	22,784	23,708
Policy costings	blank	blank	blank	52	185	197	206
December 2024 post-measures	15,169	17,315	19,099	20,477	21,782	22,980	23,913
Changes since restated December 2023 forecast	-140	-42	255	745	1,158	1,254	1,425

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2024) Fiscal Update – August 2024, HMRC (2024) Scottish Income Tax Outturn Statistics: 2022 to 2023.

[1] The 2022-23 column represents outturn in the December 2024 rows.

Figures may not sum because of rounding.

Scottish Government policy

4.45 In our policy baseline we assume that tax bands in 2025-26 will rise in line with September 2024 CPI inflation figure, which is 1.7 per cent. If the Scottish Government chooses to set the tax bands at a different value, we provide a forecast costing of the impact of this policy change.

4.46 The Scottish Government has announced income tax policy changes in the 2025-26 Scottish Budget:

- increasing the basic rate threshold by 3.5 per cent in 2025-26;
- increasing the intermediate rate threshold by 3.5 per cent in 2025-26;
- freezing the higher rate threshold in 2025-26 and 2026-27;
- freezing the advanced rate threshold in 2025-26 and 2026-27;
- freezing the top rate threshold in 2025-26 and 2026-27.

4.47 The above inflation increase of the basic and intermediate thresholds by 3.5 per cent in 2025-26 reduces revenues by around £25 million to £30 million from 2025-26. There is minimal expected behavioural response to the reduction in tax liabilities within these bands.

4.48 The freezing of the top three tax bands in 2025-26 and 2026-27 all adds £76 million in 2025-26. This figure rises to £244 million by the end of the forecast. The majority of the revenue is raised through the higher rate band with both the advanced and top rate freezes only contributing a minor amount.

4.49 We estimate that the behavioural response reduces the overall yield of the policy by £10 million in 2025-26, with this behavioural response reaching £31 million by 2029-30.

4.50 A full breakdown of all these costings is available in Annex A.

Figure 4.13: Forecast of policy changes announced in 2025-26 Scottish Budget

£ million	2025-26	2026-27	2027-28	2028-29	2029-30
Total policy	**52**	**185**	**197**	**206**	**215**
Static costing	61	211	224	234	246
Behavioural costing	-9	-25	-27	-29	-30
Basic rate threshold increase of 3.5 per cent	**-13**	**-14**	**-14**	**-15**	**-15**
Static costing	-13	-14	-14	-15	-15
Behavioural costing	0	0	0	0	0
Intermediate rate threshold increase of 3.5 per cent	**-11**	**-12**	**-12**	**-13**	**-13**
Static costing	-11	-12	-13	-13	-13
Behavioural costing	0	0	0	0	0
Higher rate threshold freeze	**71**	**197**	**209**	**219**	**229**
Static costing	78	215	228	238	249
Behavioural costing	-7	-17	-18	-19	-20
Advanced rate threshold freeze	**4**	**11**	**11**	**12**	**12**
Static costing	5	15	15	16	17
Behavioural costing	-1	-4	-4	-5	-5
Top rate threshold freeze	**1**	**3**	**3**	**3**	**3**
Static costing	3	8	8	8	9
Behavioural costing	-2	-5	-5	-6	-6

Source: Scottish Fiscal Commission.

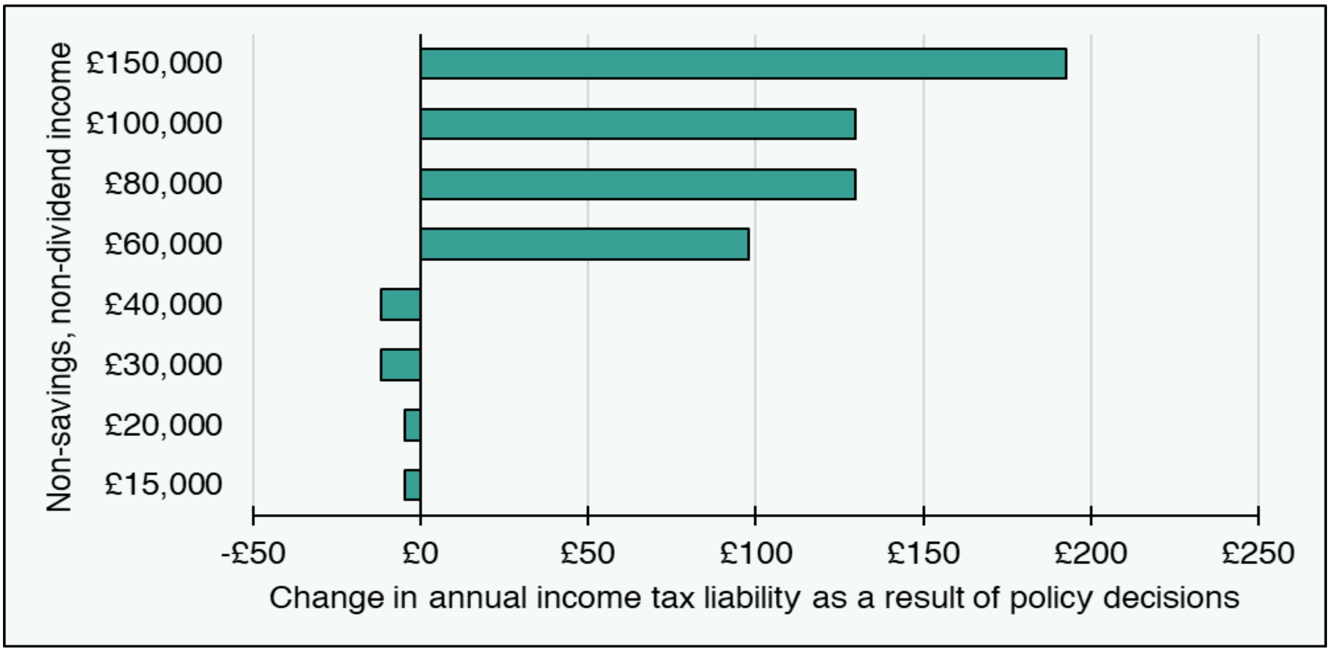
Figures may not sum because of rounding.

4.51 We show Figure 4.14 how the 2025-26 income tax policies affect an individual taxpayer’s income for various levels of earnings. This is compared to a scenario where there was no change in policy, that is, our no policy change baseline The above CPI inflation increase in the basic rate and intermediate rate thresholds means that these taxpayers begin to pay these rates of income tax at a slightly higher level than previously and as a result pay less income tax.

4.52 Compared to our policy baseline, taxpayers who earn above £43,710 will pay more income tax in 2025-26, and this increases for taxpayers with earnings higher than the advanced rate threshold of £75,000. The effect is largest for those who earn over around £128,000, and these individuals will pay £193 more in income tax.

Figure 4.14: Difference in individual income tax liabilities because of policy decisions

Taxpayers with NSND income lower than around £43,710 will pay less tax after 2025-26 policy



Description of Figure 4.14: Bar chart showing change in individual income tax liabilities in 2025-26 because of policy decisions. For sample incomes up to £40,000, there is a reduction of up to £12. For the sample incomes from £60,000 upwards, there is an increase of between £98 and £193.

Source: Scottish Fiscal Commission.

4.53 Compared to the rest of the UK, taxpayers in Scotland earning lower than £30,300 will pay slightly less income tax in 2025-26, while those earning over £30,300 will pay more. Based on analysis of our income tax models the median Scottish taxpayer in 2025-26 will have NSND earnings of around £29,750.

4.54 We estimate that, because of decisions on Scottish tax rates and thresholds, an additional £1,676 million income tax will be raised in 2025-26 than would be the case if tax rates and thresholds from the rest of the UK were applied in Scotland. However, the income tax net position is only expected to be £838 million, largely because of slower economic growth in Scotland since income tax was devolved. We discussed this economic performance gap in our August 2024 Fiscal Update, and we now estimate slower Scottish economic growth will be detracting £839 million from the income tax net position in 2025-26.

Comparison to the OBR

4.55 The OBR produces tables that allow comparisons between the main figures used in their October 2024 Autumn statement forecasts and the forecasts we produce. In Figure 4.15 we compare growth rates and in Figure 4.16 we show the changes in the level of income tax revenue and economic determinants for the forecast period indexed to 2022-23.

4.56 The OBR's forecast for NSND income tax in England and Northern Ireland are used to calculate the Scottish Government's BGAs. These BGAs are used alongside our forecasts for Scottish income tax and affect the funding for the Scottish Government in any given year. When the outturn is available a process of reconciliation is carried out.

Figure 4.15: Comparison of SFC and OBR economic determinants (growth rates)

Source	Per cent change	2023-24 [4]	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Income tax revenue	OBR [1]	11.1	11.5	7.0	4.5	3.8	3.3	3.9
Income tax revenue	SFC [2]	14.1	10.3	6.9	5.7	5.5	4.1	4.2
Employment	OBR	0.2	0.2	1.0	0.7	0.7	0.6	0.6
Employment	SFC	1.2	0.2	0.1	0.3	0.3	0.3	0.2
Average nominal earnings	OBR	7.2	4.5	3.0	2.1	2.0	2.3	2.6
Average nominal earnings	SFC	6.4	4.3	3.7	2.8	2.9	2.9	2.9
Total nominal earnings	OBR [3]	7.4	4.9	3.8	2.5	2.5	2.8	3.0
Total nominal earnings	SFC	7.9	4.6	3.8	3.1	3.2	3.2	3.2

Source: Scottish Fiscal Commission, OBR (2024) Economic and fiscal outlook – October 2024.

[1] UK NSND excluding SIT and Welsh rate of income tax (WRIT).

[2] Scottish NSND income tax.

[3] This refers to the OBR's wages and salaries series.

[4] 2023-24 outturn for employment, average nominal earnings and total nominal earnings was available at the time of publication.

Figure 4.16: Comparison of SFC and OBR economic determinants (cumulative growth paths)

Source	Index 2022-23 = 100	2023-24 [4]	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Income tax revenue	OBR [1]	111	124	133	138	144	149	154
Income tax revenue	SFC [2]	114	126	135	142	150	156	163
Employment	OBR	100	100	101	102	103	103	104
Employment	SFC	101	101	101	102	102	102	103
Average nominal earnings	OBR	107	112	115	118	120	123	126
Average nominal earnings	SFC	106	111	115	118	122	125	129
Total nominal earnings	OBR [3]	107	113	117	120	123	126	130
Total nominal earnings	SFC	108	113	117	121	125	129	133

Source: Scottish Fiscal Commission, OBR (2024) Economic and fiscal outlook – October 2024.

[1] UK NSND excluding SIT and Welsh rate of income tax (WRIT).

[2] Scottish NSND income tax.

[3] This refers to the OBR's wages and salaries series.

[4] 2023-24 outturn for employment, average nominal earnings and total nominal earnings was available at the time of publication.

4.57 The OBR's growth rates of income tax revenue are overall lower than ours, although the OBR expects a higher rate of growth in 2024-25 and 2025-26. This is a reflection of differing earnings and employment forecasts and different income tax policies. Our employment forecast in 2023-24 are equal or lower in all years thereafter. For average nominal earnings our growth rates in 2023-24 and 2024-25 are lower than the OBR's but higher thereafter. For total nominal earnings our forecast is higher in 2023-24, lower or equal in 2024-25 and 2025-26, and higher thereafter.

4.58 Overall, there are not any substantial differences between the SFC and OBR economic determinants. The difference in revenue growth can largely be explained by differences in policy.

Forecast uncertainty

4.59 Self Assessment (SA) income tax grew by 1.0 per cent in 2022-23 and accounts for 11.9 per cent of NSND income tax revenues in Scotland. We currently have no data on SA liabilities for 2023-24 and 2024-25 and given the historical volatility of SA in the past, it is a significant source of uncertainty in our forecast.

4.60 RTI is the most up to date data used when forecasting Scottish income tax revenues but it does have its shortfalls. For instance, RTI data omits a significant portion of total taxpayers who pay through Self Assessment. While RTI does provide a monthly figure of income tax revenues, it does so without any breakdown between bands. This makes RTI an imperfect predictor of the tax base in Scotland. As a result, while we can see changes in growth from RTI we cannot see where the growth is occurring making it liable to error.

4.61 For a more detailed breakdown of Scotland's tax base we use the Survey of Personal Incomes (SPI) Public Use Tape (PUT) in our simulation model. The data from this is detailed and provides a more granular breakdown of taxpayers in Scotland. However, it is also subject to a significant lag. We are currently using the data from 2021-22 PUT which we have aligned to the latest income tax outturn data for 2022-23 to give us the taxpayer distribution in Scotland. This lag alongside the uncertainty on how taxpayers will shift across earnings demographics are the main risks associated with using the PUT in our forecast.

4.62 We have incorporated costings from the OBR on the impact of UK policies from the UK Government's Autumn Budget. These costings are uncertain and may increase or decrease our forecasts. We also use incorporations modelling from HMRC which forecasts the net flow of incorporations, and the impact of this on income tax liabilities and receipts. These forecasts are uncertain and may increase or decrease our Income Tax forecasts.

Non-Domestic Rates

Forecast

4.63 Non-Domestic Rates (NDR), also known as business rates, are a tax payable by occupiers of non-domestic properties.[67] In this section we will discuss our forecast of the NDR contributable amount, which is the amount collected by local authorities and transferred to the Scottish Government. In Chapter 2 we discuss the NDR distributable amount, which is the amount provided to local authorities by Scottish Government.

4.64 NDR is forecast to raise £3,052 million in 2025-26 and Figure 4.17 shows our latest forecast.

Figure 4.17: Forecast revenue for Non-Domestic Rates

£ million	2023-24 outturn	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
NDR	3,033	3,175	3,052	3,535	3,500	3,567	3,879

Source: Scottish Fiscal Commission, Scottish Government (2024) Non-domestic rates income statistics.

2023-24 outturn refers to provisional outturn available at time of publication.

[67] In most cases. Using anti-avoidance regulations, councils can transfer liability to the owner of a property in cases of rates avoidance.

4.65 We forecast revenue will rise over the next five years, driven by inflation, new properties, and the improvement of existing properties so that they are liable for a greater amount of tax. However, there is a cyclical element which is caused by proposals and appeals to valuations.

4.66 The amount of NDR paid on a property, before any reliefs that may apply, is based on an assessment of its annual rental value. When a property is assessed for NDR purposes, the value assigned may be challenged by the ratepayer, and if this is successful any overpaid tax is refunded.

4.67 We expect revenue to decrease in 2025-26 relative to 2024-25. This is largely because we expect a relatively large proportion of remaining proposals and appeals to both the 2017 and 2023 valuation rolls to be resolved in 2025-26 and also we have changed our methodology for forecasting gross revenue from 2025-26. Policy decisions in the 2025-26 Scottish Budget also have an effect on this decrease.

4.68 A new valuation roll will be prepared every three years, starting from April 2023. We therefore expect revenue to increase sharply in 2026-27. This is because we expect a delay between the introduction of the 2026 valuation roll and the resolution of proposals and appeals to it, similar to what we see in previous cycles.

Changes since December 2023

4.69 In February 2024, we specified a revised policy baseline for NDR, in which we assume that the Basic Property Rate (BPR), Intermediate Property Rate (IPR) and Higher Property Rate (HPR) increase in line with inflation each year.[68] The Scottish Government did not propose an alternative baseline for us to use, and so we use that revised baseline in this forecast.

4.70 We described the effect of this baseline change on our December 2023 forecast in the Fiscal Update that we published in August 2024.[69] Figure 4.18 shows how our forecast has changed since this restated December 2023 forecast.

[68] Scottish Fiscal Commission (2024) How we set policy baselines

[69] Scottish Fiscal Commission (2024) Fiscal Update – August 2024

Figure 4.18: Change in Non-Domestic Rates forecast since December 2023

£ million	2023-24 [1]	2024-25	2025-26	2026-27	2027-28	2028-29
December 2023 restated	3,007	3,143	3,229	3,615	3,542	3,548
Inflation update	0	0	-47	-12	12	22
Data updates	31	49	-41	-25	-20	-23
Assumption change	-15	-7	-40	-8	-7	51
Methodology change	10	-9	-14	-24	-17	-20
December 2024 forecast pre-measures	3,033	3,175	3,088	3,547	3,511	3,578
Policy costings	0	0	-36	-11	-11	-11
December 2024 forecast post-measures	3,033	3,175	3,052	3,535	3,500	3,567
Change since restated December 2023 forecast	26	33	-177	-80	-42	19

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2023) Fiscal Update – August 2024, Scottish Government (2024) Non-domestic rates income statistics.

[1] The 2023-24 column represents outturn in the December 2024 rows. 2023-24 outturn refers to provisional outturn available at time of publication.

Figures may not sum because of rounding.

Inflation update

4.71 Consumer Prices Index (CPI) inflation for September 2024 is used for setting our baseline for rates in 2025-26. This was 1.7 per cent, which is 1.3 percentage points lower than in our December 2023 forecast.[70] This means that our baseline for 2025-26 rates is lower than in December 2023, and leads to a reduction in revenue for these years. In particular, we forecast a BPR for 2025-26 of 51.3 pence in December 2023, whereas our pre-measures forecast for BPR now is 50.6 pence. Combined with the effects on IPR and HPR, this results in a £47 million decrease in the net revenue forecast in 2025-26.

4.72 Our forecast of inflation for all subsequent years of the forecast has increased relative to our December 2023 forecast, which offsets this decrease in later years of the forecast.

Data updates

4.73 We have made several data updates, which increase our forecast of NDR revenue for 2024-25 by £49 million and decrease it for 2025-26 by £41 million. These include:

[70] ONS (2024) Consumer price inflation, UK: September 2024

- proposals and appeals to valuations up to 2024-25 Q1, including the 2023 cycle for the first time
- notified returns of councils' NDR revenue and reliefs for 2023-24
- mid-year estimates of councils' NDR revenue and reliefs claimed for 2024-25

Assumptions of losses from appeals

4.74 We have revised our forecast of appeals from the 2017 valuation cycle. We now expect that appeal losses in this cycle will be higher than we forecast in December 2023, and so net revenue will be lower. This was in response to new data which showed greater-than-expected reductions of rateable value through appeals. We also adjusted our assumption on when these losses would occur in the revaluation. In particular, delays from the COVID-19 pandemic now mean that we expect substantially more of these losses to come in 2025-26. Altogether, these changes reduce our forecast of revenue for 2024-25 by £8 million, and for 2025-26 by £40 million.

Gross revenue forecast

4.75 As part of our forecasting process, we forecast the gross revenue from NDR. This is the amount that would notionally be received in NDR by councils if the amount of tax paid by all properties was based on no reliefs being applied and after accounting for valuation proposals and appeals.

4.76 In our most recent Forecast Evaluation Report, we identified that our approach to forecasting gross revenue was a source of error.[71] We have updated our methodology for this forecast which reduces net revenue for 2025-26 by £4 million.

Other methodology changes

4.77 We revised our methodology used in some policy recostings. Some of these have been superseded by updated data, but the effect of these changes is still reflected in the table.

4.78 We also made some minor methodological changes to our forecast, none of which has a large effect on forecast revenues for 2025-26.

Policy changes in the 2025-26 Scottish Budget

4.79 We provide forecasts of our Budget policy costings in Figure 4.19. Our forecast includes three new polices introduced in the 2025-26 Scottish Budget:

- freezing the 2025-26 BPR at 49.8 pence
- extending the existing 100 per cent Islands and Remote Areas Hospitality Relief (IRAHR), on its current terms, for 2025-26
- additional hospitality relief for 2025-26, as follows:

[71] Scottish Fiscal Commission (2024) Forecast Evaluation Report – August 2024

- Hospitality properties not eligible for IRAHR which pay BPR (so have a rateable value of at most £51,000) will be eligible for 40 per cent relief.
- Grassroots music venues will be included in the definition of hospitality across all hospitality relief.
- Relief will remain capped at £110,000 per ratepayer across all hospitality relief.

Figure 4.19: Forecast of NDR policy costings

£ million	2025-26	2026-27	2027-28	2028-29	2029-30
Baseline	3,088	3,547	3,511	3,578	3,890
Freeze BPR for 2025-26	-9	-11	-11	-11	-12
Extend existing IRAHR for 2025-26	-5	blank	blank	blank	blank
Expand hospitality relief	-22	blank	blank	blank	blank
Forecast with policy changes	3,052	3,535	3,500	3,567	3,879
Difference	-36	-11	-11	-11	-12

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

4.80 The BPR will be set at 49.8 per cent for 2025-26, which is frozen at the same rate as in 2024-25. This is below the inflation-linked BPR of 50.6 pence used in our baseline forecast and so will decrease our forecast of NDR revenue in 2025-26 by £9 million.

4.81 The IPR and HPR will increase in line with CPI inflation. This is in line with our revised baseline so there is no effect on our forecast.

4.82 We have treated BPR, IPR and HPR as separate rates for these costings, where each property is only considered to be liable for one of these rates (before reliefs and exemptions). This is a change from our previous practice, which affects only the presentation of changes to rates and not the overall costing. We provide more detail in Annex A on how we produced these costings and on the revised presentation.

4.83 The Scottish Government will continue the existing 100 per cent Islands and Remote Areas Hospitality Relief for 2025-26, capped at £110,000 per taxpayer, which we estimate will cost £5 million. It will also introduce additional relief to allow hospitality properties that are liable for the BPR on the mainland (and outwith the prescribed remote areas) to claim a 40 per cent relief, while extending the definition of hospitality to include grassroots music venues. We estimate that this extension will cost £22 million.

Forecast uncertainty

Proposals and appeals to valuations

4.84 There is still limited data on the scale of refunds made after proposals and appeals to the 2023 valuation roll. A particular source of uncertainty is that proposals and appeals may now result in increases in rateable value, whereas previously it was the practice that appeals could only lead to the rateable value being reduced or left unchanged.[72] It is unknown how often increases in rateable value will occur in practice, or how this has affected the proportion of proposals and appeals that are successful. For instance, ratepayers who would otherwise have challenged their rateable value may now not do so if they felt this was unlikely to succeed, to avoid the possibility of increased rates if the proposal or appeal failed.

4.85 For the 2023 cycle, we have assumed that refunds will be made earlier than in historical cycles because of the shorter cycle length and changes in processing. We may revise our assumptions as more data becomes available. Revisions to these assumptions would not necessarily affect the total amount of rateable value lost because of proposals and appeals, as the revision may just move losses between years.

Green Freeports

4.86 The Scottish Government has issued guidance to local authorities on the implementation of NDR relief and retention in relation to Green Freeports.[73] We expect the effect on NDR revenue to be very small as the way the relief is funded means it will not affect the figure we forecast (which is the contributable amount of NDR), and the retention should only apply to revenue generated directly as a result of the policy.

Future rates and thresholds

4.87 From 2026-27, in line with our new baseline, we use forecasts of inflation to estimate the BPR, IPR and HPR that will be set by the Scottish Government. These rates are set by Scottish Statutory Instruments, with each lasting only for a single financial year. The Scottish Government may choose to set NDR rates and thresholds at different values from the baseline we assume, and there is nothing in legislation that specifies a default for what happens these from one year to the next.

[72] Scottish Government (2020) Non-Domestic Rates (Scotland) Act 2020: Explanatory Notes

[73] Scottish Government (2024) Local government finance circular 4/2024: Green Freeports Non-Domestic Rates relief and income retention

Land and Buildings Transaction Tax

Forecast

4.88 Land and Buildings Transaction Tax (LBTT) is payable on transactions of residential and non-residential properties as well as land. Rates and bands are detailed on Revenue Scotland's website.[74] Additional Dwelling Supplement (ADS) was a flat surcharge of 6 per cent between 16 December 2022 and 4 December 2024 on purchases of additional residential properties. It will rise to 8 per cent effective 5 December 2024. We are forecasting £1 billion in total LBTT revenue in 2025-26. Figure 4.20 shows our five-year forecast.

4.89 We have increased our pre-measures forecasts of total LBTT in 2024-25 and 2025-26 by around 25 per cent each compared to our December 2023 forecast. This is mainly in light of indicators suggesting the property market has started to recover, counter to our December 2023 forecast that 2024-25 would continue to exhibit a downturn. Our pre-measures forecast for total LBTT has been increased by an average of £123 million a year, with an increase in the ADS rate raising an additional £27 million a year on average over the forecast horizon (2024-25 to 2029-30).

Figure 4.20: Forecast revenue for Land and Buildings Transaction Tax

£ million	2023-24 outturn	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Residential	421	491	525	559	592	633	680
ADS	176	195	258	256	259	265	274
Non-residential	187	226	235	243	252	260	269
Total	784	911	1,019	1,058	1,102	1,158	1,223

Source: Scottish Fiscal Commission, Revenue Scotland (2024) Annual Report and Accounts 2023-24 – Devolved Taxes Accounts.

LBTT revenue is net of repayments and excludes penalties, interest, and revenue losses.

Figures may not sum because of rounding.

Residential LBTT

4.90 In December 2023, we forecast that transacted house prices would fall in 2023-24 by 0.7 per cent and that transactions would fall by 9.4 per cent. Outturn data from Registers of Scotland shows that transacted house prices rose by 0.1 per cent and transactions fell by 8.0 per cent.[75] Figure 4.21 shows how residential LBTT outturn for 2023-24 was £6 million (1.4 per cent) lower than we had forecast in December 2023.

[74] Revenue Scotland – Land and Buildings Transaction Tax

[75] Registers of Scotland (November 2024) House price statistics: September 2024

4.91 Outturn from Revenue Scotland covering the first half of 2024-25 has the volume of residential tax returns up 6.4 per cent relative to the same period in 2023-24.[76] Likewise, it also has residential LBTT revenues up 12.8 per cent.

4.92 Relative to our December 2023 forecast of residential LBTT, we have significantly revised up our forecast in the short term. Our forecasts for 2024-25 and 2025-26 have been increased by 36 and 34 per cent, respectively, while forecasts for subsequent years have been increased by an average of 13 per cent. As we explain in this subsection, most of this is driven by our upward revisions to future prices and transactions, with these revisions reflecting a more resilient market and earlier return to growth than we had expected.[77]

[76] Revenue Scotland (October 2024) Monthly LBTT Statistics, September 2024, Table 2

[77] Bank of England (August 2024) Monetary Policy Report – August 2024, Box C

Figure 4.21: Change in residential LBTT forecast since December 2023

£ million	2023-24 [1]	2024-25	2025-26	2026-27	2027-28	2028-29
December 2023	427	361	393	472	539	589
Data updates	2	9	-15	-20	-26	-29
Model updates	-12	50	51	58	66	71
Prices	2	39	69	69	63	52
Transactions	1	33	34	-17	-46	-47
December 2024 pre-measures	421	492	532	562	595	637
Policy costings	0	-1	-7	-3	-3	-4
December 2024 post-measures	421	491	525	559	592	633
Change	-6	130	133	87	53	44

Source: Scottish Fiscal Commission, Revenue Scotland (2024) Annual Report and Accounts 2023-24 – Devolved Taxes Accounts.

LBTT revenue excludes penalties, interest, and revenue losses.

[1] The 2023-24 column represents outturn in the December 2024 rows.

Figures may not sum because of rounding.

Model updates

4.93 Since December 2023, we have updated our assumption for gross residential LBTT lost to reliefs. In our previous forecast, we had assumed that 6.6 per cent of gross residential LBTT would be lost to reliefs.[78] This was assumed to remain fixed over the forecast horizon. As part of this forecast, we have revised this figure down to 4.5 per cent to reflect the latest outturn.[79] This effect in isolation adds an average of £10 million to each year across our forecast horizon. All other changes attributable to model updates in Figure 4.21 are to accommodate the data updates made.

[78] Guidance on LBTT reliefs is available at Revenue Scotland – LBTT3010 – Tax Reliefs

[79] Revenue Scotland (November 2024) LBTT Forecasting Data - November 2024, Tables 7(i) and 9

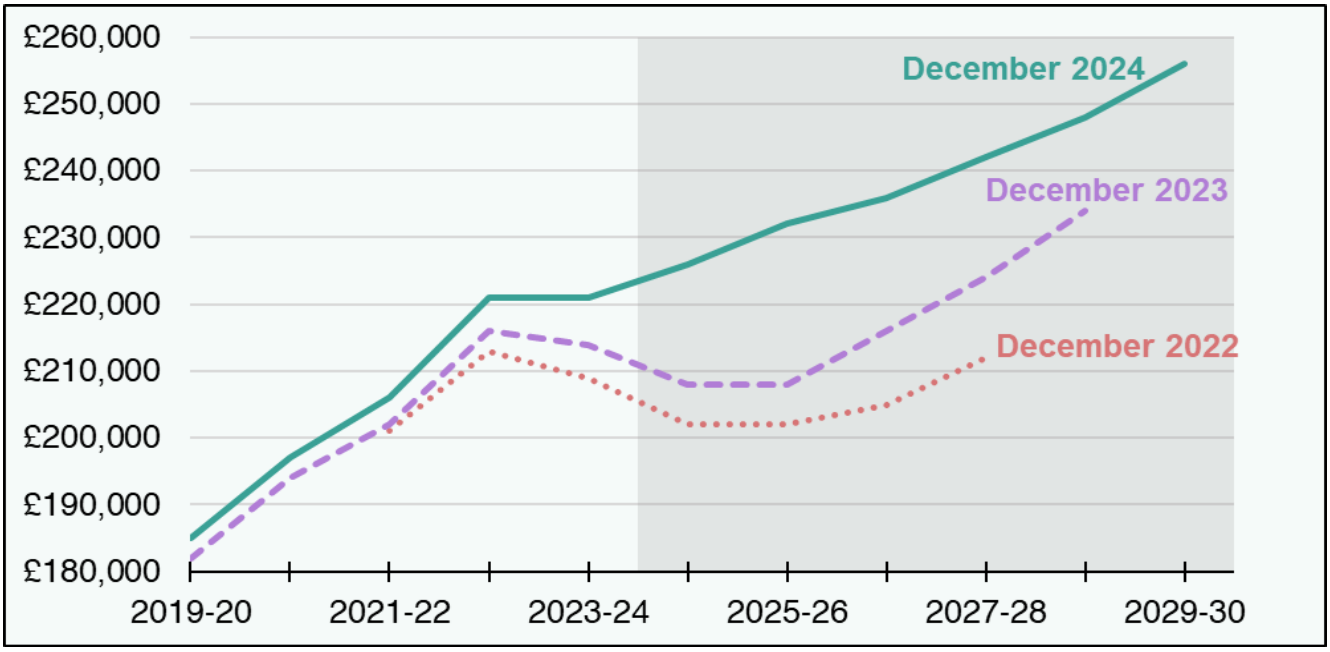
Prices

4.94 Relative to our December 2023 forecast, we have revised up our outlook for house price growth. In particular, where we had forecast that prices would fall by 3.2 per cent in 2024-25, we are now forecasting that they will rise by 2.3 per cent, representing an upward revision of 5.5 percentage points. Broadly in line with this, outturn from Registers of Scotland suggests that the average price over the first half of 2024-25 has been 2.0 per cent higher than that over the first half of last year. For 2025-26 onwards, we have cut our annual price growth forecasts by an average of 0.7 percentage points as we expect higher growth in the near term to limit the scope for strong growth in the later years of our forecast.

4.95 Our previous forecasts held the central expectation that nominal house prices would fall in response to rising mortgage rates. However, recent outturn suggests that the average house price in Scotland has remained relatively resilient, counter to our forecasts of negative nominal growth. Figure 4.22 depicts prices flatlining between 2022-23 and 2023-24 and returning to positive growth thereafter. The effect of rising interest rates and market sentiment appears to have been felt more in terms of transactions volumes, with 2022-23 and 2023-24 both exhibiting year-on-year falls as turnover contracted.

Figure 4.22: Average house price, Scotland, 2019-20 to 2029-30

Nominal house prices forecast to continue to grow having paused briefly in 2023-24



Description of Figure 4.22: Line chart showing nominal house price outturn alongside our latest forecast and previous two forecasts from December 2022 and December 2023. Our latest forecast is above our previous two, with nominal house prices forecast to rise from £221,000 in 2023-24 to £256,000 in 2029-30.

Source: Scottish Fiscal Commission – [Scotland's Economic and Fiscal Forecasts](), Registers of Scotland (2024) [House price statistics: September 2024]().

Note that the vertical axis begins at £180,000. Registers of Scotland revised its price series in August 2024 to include sales under £20,000 and above £1 million. As a result, the arithmetic mean house price has increased.

Transactions

4.96 Relative to our December 2023 forecast, we have revised up our outlook for transactions growth. In particular, we have increased our transactions growth forecast for 2024-25 by 8.5 percentage points, from a fall of 2.9 per cent to a rise of 5.6 per cent. Broadly in line with this, outturn from Registers of Scotland indicates that the volume of transactions so far this year is 5.3 per cent higher than in the same period for 2023-24. We expect some of the recovery in transactions to continue into 2025-26 before the quarterly turnover rate returns to a trend average of 0.9 per cent, yielding slower year-on-year growth.[80]

Comparison to OBR

4.97 The OBR published its latest house price and transactions forecasts for the UK in its October 2024 Economic and fiscal outlook.[81] Similar to our forecasts, the OBR has significantly revised its house price growth forecast for 2024-25 upward from its November 2023 publication, and is now expecting positive growth this year of 2.5 per cent. As shown in Figure 4.23, their outlook for 2025-26 is not as strong as our forecast for Scotland (their 1.1 per cent compared to our 2.3 per cent), but slightly stronger growth in subsequent years means that – by the end of our forecast horizon – growth in prices relative to their levels in 2023-24 is broadly similar between Scotland and the UK.

Figure 4.23: Comparison of SFC and OBR house price annual growth rates

Per cent	2023-24 outturn	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
SFC	0.1	2.3	2.3	2.0	2.2	2.7	3.0
OBR	-0.8	2.5	1.1	2.4	2.9	3.0	3.0

Source: Scottish Fiscal Commission, OBR (2024) Economic and fiscal outlook – October 2024, Registers of Scotland (2024) House price statistics: September 2024.

Note that the OBR and SFC forecasts are not necessarily directly comparable as they use different data sources. SFC forecasts of growth rates are post-measures.

[80] The turnover rate for a given quarter represents transactions as a share of the dwelling stock.

[81] OBR (2024) Economic and fiscal outlook – October 2024

4.98 As Figure 4.24 shows, the OBR is forecasting strong UK transactions growth this year at 11.7 per cent, representing a 15.1 percentage point increase on their forecast for 2024-25 last November. We judge that this strong growth is unlikely to be seen in Scotland for two reasons. Firstly, it has not been observed in outturn for the year so far; transactions are up only 5.3 to 6.4 per cent year on year as of September. Secondly, we think that at least some of that strong growth for 2024-25 in the OBR's forecast is driven by forestalling effects associated with the ending of the temporary Stamp Duty Land Tax nil-rate threshold increase introduced in 2022. In the longer term, the OBR forecasts that the UK will return to a relatively higher rate of turnover than we expect in Scotland.[82]

Figure 4.24: Comparison of SFC and OBR transactions annual growth rates

Per cent	2023-24 outturn	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
SFC	-8.0	5.6	4.3	1.1	0.4	0.3	0.2
OBR	-17.1	11.7	5.7	6.2	6.0	4.1	2.7

Source: Scottish Fiscal Commission, OBR (2024) Economic and fiscal outlook – October 2024, Registers of Scotland (2024) House price statistics: September 2024.

Note that the OBR and SFC forecasts are not necessarily directly comparable as they use different data sources. SFC forecasts of growth rates are post-measures.

Additional Dwelling Supplement

4.99 Figure 4.25 shows how our ADS forecast has changed since December 2023. Outturn for 2023-24 was £6 million (3.5 per cent) lower than we had forecast in December 2023.

4.100 Outturn from Revenue Scotland covering the first half of 2024-25 has the volume of ADS tax returns up 0.1 per cent relative to the same period in 2023-24.[83] However, it also has gross ADS revenues up 2.5 per cent.

[82] OBR (2024) October 2024 Economic and fiscal outlook – detailed forecast tables: economy, Table 1.17

[83] Revenue Scotland (October 2024) Monthly LBTT Statistics, September 2024, Table 3

Figure 4.25: Change in net ADS forecast since December 2023

£ million	2023-24 [1]	2024-25	2025-26	2026-27	2027-28	2028-29
December 2023	183	160	182	203	215	224
Data updates	-33	-29	-28	-30	-32	-33
Model updates	25	31	37	51	55	51
Prices	0	8	13	12	10	7
Transactions	1	18	16	-12	-24	-20
December 2024 pre-measures	176	189	220	224	223	229
Policy costings	0	6	38	32	36	36
December 2024 post-measures	176	195	258	256	259	265
Change	-6	34	76	53	44	41

Source: Scottish Fiscal Commission, Revenue Scotland (2024) Annual Report and Accounts 2023-24 – Devolved Taxes Accounts.

LBTT revenue is net of repayments and excludes penalties, interest, and revenue losses.

[1] The 2023-24 column represents outturn in the December 2024 rows.

Figures may not sum because of rounding.

4.101 Relative to our December 2023 forecast of net ADS and in line with revisions made to our outlook for residential LBTT, we have significantly revised up our forecast in the short term. We have increased our pre-measures forecasts of revenues for 2024-25 and 2025-26 by 18 per cent and 21 per cent, respectively, while we have increased our pre-measures forecasts for subsequent years by an average of 5 per cent each. As was explained within the context of residential LBTT, most of this is driven by our upward revisions to future prices and transactions.

4.102 Given the disparity in performance between residential LBTT and gross ADS observed so far this year – with revenues from the former up 12.8 per cent while revenues from the latter up only 2.5 per cent – we have adjusted our forecast for ADS downward in the short run. This could be an indication of there being some degree of uncoupling of ADS from the wider residential market. However, in the absence of strong data to suggest this will persist, we reduce the size of this adjustment significantly by 2026-27. As part of this forecast, we have also made a minor change to the way we tie the ADS market to the wider residential market, adopting an approach that aligns our view of ADS total consideration relative to the wider market with that observed in the latest year of outturn (for this forecast, 2023-24).[84]

[84] Revenue Scotland (July 2024) LBTT Forecasting Data - June 2024, Tables 7(i) and 12.

Policy costing

4.103 ADS is chargeable where a transaction is for an additional dwelling purchased for over £40,000. The Scottish Government will raise the ADS rate from 6 per cent to 8 per cent effective 5 December 2024, with transitional provisions applying to those transactions where contracts have been agreed upon before this date. Figure 4.26 shows that we expect it to raise £27 million a year on average over our forecast horizon (2024-25 to 2029-30). We have provided further detail on how we have produced this policy costing in Annex A.

4.104 An increase to the rate means more ADS will be paid per ADS-liable transaction. We expect a behavioural effect whereby an increase in the ADS rate means some individuals decide not to purchase a property that would otherwise qualify for ADS.

4.105 As ADS-liable transactions also pay main residential LBTT, the effect of the policy change on transactions also has a spillover effect on residential LBTT revenues. Home-movers and first-time buyers are in a position to absorb most of the lost ADS transactions, so we expect some of the lost residential LBTT associated with the discouraged ADS-liable transactions to be recouped by them still going ahead as non-ADS-liable transactions.

Figure 4.26: Effect of changes to ADS rate on residential LBTT (including ADS)

£ million	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Additional net ADS revenue	6	38	32	36	36	37
Change in residential LBTT	-1	-7	-3	-3	-4	-4
Total policy costing	5	32	29	32	32	33

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Non-residential LBTT

4.106 Figure 4.27 shows how our non-residential LBTT forecast has changed since December 2023. Outturn for 2023-24 was £16 million (7.8 per cent) lower than we had forecast in December 2023.

4.107 Relative to the first half of 2023-24, the volume of non-residential conveyance tax returns is up 6.7 per cent. As a result, LBTT revenue from non-residential conveyances so far this year is up £12 million (14.6 percent) relative to the same period last year. Leases are not performing as strongly, with returns having only grown by 0.4 per cent while revenue has fallen by £1 million (6.0 per cent).[85]

[85] Revenue Scotland (October 2024) Monthly LBTT Statistics, September 2024, Tables 4 and 5.

4.108 We have updated our forecast to reflect the latest outturn data, including adopting model updates to accommodate these. We tie our outlook for non-residential price and transactions growth to our broader forecasts of the Scottish economy, namely domestic price inflation and real GDP growth.[86] However, we have adjusted our outlook for non-residential price and transactions growth in 2024-25 in light of outturn we have available for the first half of this year.[87]

Figure 4.27: Change in total non-residential LBTT forecast since December 2023

£ million	2023-24 [1]	2024-25	2025-26	2026-27	2027-28	2028-29
December 2023	203	209	220	232	245	259
Data updates	-38	1	1	1	1	1
Model updates	24	33	34	35	36	37
Prices	-1	-26	-25	-26	-26	-27
Transactions	0	9	5	1	-4	-9
December 2024	187	226	235	243	252	260
Change	-16	17	15	11	7	2

Source: Scottish Fiscal Commission, Revenue Scotland (2024) Annual Report and Accounts 2023-24 – Devolved Taxes Accounts.

LBTT revenue excludes penalties, interest, and revenue losses.

[1] The 2023-24 column represents outturn in the December 2024 row.

Figures may not sum because of rounding.

Forecast uncertainty

4.109 Larger than expected rises in interest rates are a source of downside risk for forecasts of both residential and non-residential LBTT. Additional sources of downside risk include negative shocks to both the economy and living standards; conversely, positive shocks to these may act as a source of upside risk.

4.110 Non-residential LBTT revenue has historically been heavily influenced by a small number of transactions in the upper end of the conveyances market. In 2023-24, 4 per cent of non-residential conveyances accounted for more than 50 per cent of total non-residential LBTT revenue.[88] As such, the number of transactions in the upper end of the market is a material source of risk for revenues in future years.

[86] SFC (2021) How we forecast devolved taxes

[87] Revenue Scotland (November 2024) LBTT Forecasting Data - November 2024

[88] Revenue Scotland (June 2024) LBTT Forecasting Data - June 2024, Table 8

Scottish Landfill Tax

Forecast

4.111 Scottish Landfill Tax (SLfT) is levied on waste that is sent to landfill. We forecast SLfT will raise £40 million in 2025-26. We expect revenues to fall after the Biodegradable Municipal Waste (BMW) ban is introduced at the end of 2025. Figure 4.28 provides our SLfT forecast.

Figure 4.28: Forecast revenue for Scottish Landfill Tax

£ million	2023-24 outturn	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
SLfT	68	54	40	24	25	25	26

Source: Source: Scottish Fiscal Commission, Revenue Scotland (2024) Annual Report and Accounts 2023-24 – Devolved Taxes Accounts.

SLfT revenue excludes penalties, interest, and revenue losses.

Figures may not sum because of rounding.

Changes since December 2023

4.112 Outturn revenue for 2023-24 was lower than we expected in December 2023. This lower outturn has led to reductions in our forecast for 2024-25 and 2025-26. This change is shown in the data and modelling changes in Figure 4.29.

4.113 We have changed how we forecast beyond the introduction of the BMW ban. From 31 December 2025 it will be illegal to landfill much of the waste that is currently produced in Scotland meaning a significant reduction in SLfT revenues. We have updated our approach as we think we previously underestimated the waste that can still legally be landfilled and cannot be burnt in incineration after the ban. This change increases our forecast from the date the ban is introduced. This is also shown in the data and modelling changes line in Figure 4.29.

4.114 We now expect more incineration capacity to be operational sooner resulting in a slight reduction in SLfT revenues in 2024-25 and a significant reduction of revenues in 2025-26 as more waste is diverted from landfill in those years.

4.115 Our latest economic determinant changes have increased expected SLfT revenues from 2024-25. We expect growth in GDP and household consumption will lead to more waste being produced and higher RPI inflation has increased our estimates of future SLfT rates.

Figure 4.29: Change in Scottish Landfill Tax forecast since December 2023

£ million	2023-24 [1]	2024-25	2025-26	2026-27	2027-28	2028-29
December 2023	74	58	42	15	16	16
Data and modelling changes	-6	-4	-5	5	5	5
Determinants	0	2	4	1	1	1
Incineration	0	-2	-7	0	0	0
December 2024 pre-measures	68	54	34	21	21	21
Policy costing	0	0	6	4	4	4
December 2024 post-measures	68	54	40	24	25	25
Change since December 2023	-6	-4	-2	9	9	9

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts, Revenue Scotland (2024) Annual Report and Accounts 2023-24 – Devolved Taxes Accounts.

SLfT revenue is net of repayments and excludes penalties, interest, and revenue losses.

[1] The 2023-24 column represents outturn in the December 2024 rows.

Figures may not sum because of rounding.

Policy costing

4.116 The Scottish Government has announced it will apply an above inflation increase to SLfT rates from the start of 2025-26. This increase matches the UK Government's planned increase for Landfill Tax rates. This is expected to initially raise £6 million in 2025-26 but will have smaller effect in future years as the BMW ban leads to a reduction in the amount of waste landfilled. We show our costing in Figure 4.29 and a more detailed costing is available in Annex A.

Forecast uncertainty

4.117 The amount of waste that will be produced and managed in Scotland is uncertain. While in 2023-24 SLfT revenue decreased each quarter, revenue in the first quarter of 2024-25 has been higher than expected. Waste levels have moved independently from typical determinants such as GDP or household consumption making them more difficult to predict.

4.118 There is also uncertainty associated with incineration capacities. We assume more incineration capacity will be available in the next year meaning less waste will go to landfill. If there are delays to new Energy from Waste (EfW) sites or if existing EfW facilities burn less waste than expected then more waste could be landfilled leading to higher revenue, particularly in 2025-26.

4.119 It is uncertain how much waste will continue to be landfilled following the BMW ban. Our estimates are based on analysis of the type of waste that could be legally landfilled and cannot be burnt. However, the quantity of this type of waste could change or the waste itself could be diverted away from landfill. Furthermore, it is uncertain how the waste market will ultimately react to the increase in total incineration capacity as well as the BMW ban itself. Ultimately, past the BMW ban there is scope for significant changes in how waste is managed in Scotland with potential implications for SLfT revenues.

Materiality

4.120 Some policies announced by the Scottish Government will have a very small effect relative to the size of the total Scottish Budget. We publish detailed information on policies which have a material effect on the Scottish Budget in Annex A. This section covers the new policies which do not have a detailed costing because they have an effect under our materiality threshold of £5 million or our £2 million threshold for negligible policies, some of which are still included in our forecasts. We plan on reviewing this materiality policy every two years, with our next review scheduled to take place in 2025.

4.121 The Scottish Government intends to allow councils to retain 50 per cent of revenue from anti-avoidance powers from 1 April 2025 onwards. We have not included this in our policy costings as the cost is below our materiality threshold.

4.122 As part of this publication, we judge the Scottish Government's proposed amendments to Group Relief and Sub-Sale Development Relief to have an immaterially small or negligible effect on total LBTT revenues and so they have not been included in our forecast. Both proposed amendments follow the Scottish Government's consideration of issues raised during parliamentary scrutiny of the Aggregates Tax and Devolved Taxes Administration (Scotland) Act 2024.

- Group Relief: An amendment to provide for LBTT Group Relief in instances of non-partition demergers where property ownership remains unchanged. We judge this to have an immaterial effect on our forecast.

- Sub-Sale Development Relief: An amendment to clarify the start of the five-year period within which significant development must occur for the relief to remain available. We judge this to have a negligible effect on our forecast.

Chapter 5
Social Security

Overview

5.1 In this chapter we present our forecast of devolved social security spending, the changes in the forecast since the 2024-25 Scottish Budget, and the effect of the changes on the 2025-26 Scottish Budget.

5.2 We forecast spending on social security will increase from £6.9 billion in 2025-26 to £8.8 billion in 2029-30, an increase of £1.8 billion. Approximately £0.7 billion of the spending increase is a result of annual uprating of payment rates and £1 billion of the increase comes from rising disability and carer's caseloads. These rising caseloads are a result of a UK-wide increase in demand for disability payments as well as the policies and delivery approach implemented by the Scottish Government.

5.3 Our forecast of spending in 2025-26 has increased by £69 million since our previous forecast in December 2023. The latest forecast for spending in the Social Justice portfolio combines upward pressure on spending from more people receiving disability payments with downward pressures on spending from uprating in 2025-26 being lower than expected and the new policy approach for Pension Age Winter Heating Payment.

5.4 The increase in spending in the Wellbeing Economy, Fair Work and Energy portfolio is because we reviewed our approach to how we treat the spending on Employability Services under our forecasting remit. Our forecast includes additional elements of employability support services. These add £48 million to the total spending in 2025-26 and £45 million a year from 2026-27 onwards.

Figure 5.1: Change in total social security spending forecast since December 2023

£ million	2023-24 [1]	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
December 2023	5,299	6,283	6,861	7,253	7,616	7,999	blank
Change in Social Justice portfolio	1	-94	21	173	261	278	blank
Change in Wellbeing, Economy, Fair Work and Energy portfolio [2]	30	35	48	45	45	45	blank
December 2024	5,330	6,224	6,930	7,471	7,922	8,321	8,754
Overall change since December 2023	31	-59	69	218	306	323	blank

Source: Scottish Fiscal Commission.

Our forecast covers spending on payments and services to individuals and families, but not the associated administrative costs.

[1] The 2023-24 column represents outturn for December 2024 forecast.

[2] The increase in spending in the Wellbeing Economy, Fair Work and Energy portfolio does not reflect additional spend on employability support services provided to disabled people or those at risk of long-term unemployment but a change in our forecasting scope.

Figures may not sum because of rounding.

5.5 In this chapter, we present spending on social security payments alongside the funding the Scottish Government receives from the UK Government through the Block Grant Adjustments (BGAs). In previous forecast publications, we highlighted our expectation that the replacement of UK Government payments with devolved payments will result in spending exceeding associated BGA funding, because of the operational and delivery changes made by the Scottish Government.

5.6 This difference between the spending on replacement social security payments and the BGA funding is now evident in outturn for 2023-24, where spending exceeded BGA funding by £198 million. Combining this with spending on new payments introduced by the Scottish Government since 2018 and other payments, whose funding comes through the general Block Grant, has resulted in the overall social security spending exceeding BGA funding by £899 million in 2023-24. We estimate that this difference will increase to £1.3 billion in 2025-26, rising to £1.5 billion in 2029-30. This difference broadly represents the net effect of social security devolution and policy changes on the Scottish Budget.

Changes since December 2023

5.7 As with our previous forecasts in December 2023, which informed the 2024-25 Scottish Budget, we continue to forecast rising caseloads for disability payments. This increase in the disability payment forecast is because of the policies and the approach implemented by the Scottish Government in addition to the higher demand for disability payments observed across the UK.

5.8 There have been three notable policy developments since December 2023. The first development was the introduction of the Scottish Adult Disability Living Allowance (DLA) regulations, for which we published a supplementary costing in November 2024. The second development was the Scottish Government's change to the eligibility requirements for Pension Age Winter Heating Payment (PAWHP) for winter 2024, following the UK Government's changes to the eligibility for Winter Fuel Payment. The third policy development is the Scottish Government's subsequent announcement that it will widen the PAWHP entitlement to most people above State Pension age from winter 2025 onwards and implement a new payment structure.

5.9 Our latest forecast includes additional elements of employability support services which we now consider to be part of our forecasting remit. Including these elements adds £45 million to the total spending captured in our forecast from 2025-26 onwards. This does not influence the Scottish Budget because this spending was already planned for Employability and Training as part of the Wellbeing Economy, Fair Work and Energy portfolio.

5.10 Figure 5.2 shows the change in forecast spending since our December 2023 forecast broken down by its components.

Figure 5.2: Components of change in social security forecast since December 2023

£ million	2023-24 [1]	2024-25	2025-26	2026-27	2027-28	2028-29
December 2023	5,299	6,283	6,861	7,253	7,616	7,999
Affecting Scottish Budget, of which:	blank	blank	blank	blank	blank	blank
ADP forecast updates	-45	-49	55	123	166	171
Launch of SADLA	blank	1	0	-2	-1	-1
CDP higher caseload	42	78	126	128	112	93
PADP higher demand	-1	12	19	29	29	30
Uprating	blank	blank	-101	-27	33	62
Population	blank	3	9	17	26	36
CSP earning limit	blank	blank	0	-11	-7	-3
PAWHP eligibility	blank	-148	-84	-86	-87	-90
Scottish Welfare Fund	blank	18	blank	blank	blank	blank
Other [2]	5	-8	-4	4	-10	-18
Spending already planned for in the Scottish Budget, of which:	blank	blank	blank	blank	blank	blank
Employability Services	30	35	48	45	45	45
December 2024	5,330	6,224	6,930	7,471	7,922	8,321
Change since December 2023	31	-59	69	218	306	323

Source: Scottish Fiscal Commission.

[1] The 2023-24 column represents outturn in the December 2024 rows.

[2] 'Other' contains data updates and changes in assumptions across payments which in isolation have a small effect on our forecast.

Figures may not sum because of rounding.

Adult Disability Payment – forecast updates

5.11 In December 2023, our Adult Disability Payment (ADP) forecast relied on Personal Independence Payment (PIP) data. We made additional adjustments to reflect our assumptions of the effect of the Scottish Government delivering its intended policy for ADP, and also the emerging trends since the launch of ADP.

5.12 Our latest ADP forecast is now mainly based on data provided by Social Security Scotland on applications, authorisation rates, average payments and award review outcomes. While we continue to expect that the number of successful new applications will be higher than before the introduction of ADP in August 2022, we now forecast that these will be lower than we forecast in December 2023. This change is offset by fewer people leaving the caseload after having a light-touch award review. Overall, these changes result in an increase in our forecasts of ADP spending.

5.13 The effect of delivery and operational changes introduced with ADP is now evident in the published statistics. There are now a higher number of applications, reflecting the Scottish Government's policy to maximise take-up, and a decrease in the number of people exiting the caseload at award review because of the light-touch review policy implemented.

Successful new applications

5.14 We have revised our forecast of the number of successful new applications to reflect the latest data on the number of new applications, the outcome of the initial decisions, and the effect of subsequent redeterminations and appeals.

5.15 We assume that the number of applications for ADP will progressively decrease from the current elevated level as cost-of-living pressures ease. We have adjusted our new application forecast to allow for a more progressive decrease in the application rate as the recent number of applications has remained at a slightly higher level than previously forecast.

5.16 While the number of new applications to ADP has been broadly consistent with our December 2023 forecast, we have revised down our forecast for successful applications because there has been a decrease in the application success rate.

5.17 In December 2023, the available data showed that the ADP success rate was higher than the comparable PIP success rate in England and Wales. In line with the available data, we forecast that the ADP success rate would remain higher. Instead, there has been a decrease in the proportion of ADP applications meeting the eligibility requirements to access the payment and an increase in the PIP success rate in England and Wales.

5.18 One of the reasons for the decrease in the ADP success rate could be because applications for more severe conditions, or for which more detailed supporting information was provided, were processed more quickly when ADP was introduced, skewing the initial success rate. In 2024, the ADP success rate in Scotland has been lower than the comparable success rate for PIP in England and Wales.

5.19 Compared with our December 2023 forecast, the combined effect of increasing the number of new applications and assuming a lower success rate reduces our forecast by £13 million in 2025-26 and £108 million in 2028-29.

Light-touch award reviews

5.20 People receiving ADP have their awards periodically reviewed to ensure they are receiving the appropriate level of payment. Review periods are set on the expectation of when a client's needs might have changed. The outcome of award reviews can be that the level of payment is maintained, increased, decreased, or the award can be ended with the client subsequently exiting the caseload.

5.21 With the introduction of ADP, the Scottish Government introduced a policy of light-touch reviews which allows clients to "simply tick a box" to confirm that their circumstances have not changed. Additional information would normally only be required if the client believes their circumstances have changed.[89] This differs from the approach for PIP which requires all clients to provide more detailed information at review regardless of whether their needs have changed.

5.22 Data published by Social Security Scotland indicates that the percentage of ADP award reviews resulting in awards being ended or decreased is 2 per cent. This is lower than the comparable 16 per cent of awards ended for PIP in England and Wales and our previous 5 per cent forecast of awards ended after a review.[90]

5.23 Our award review outcome forecast is aligned with the latest data available. We assume that fewer people have their awards ended at review because of the light-touch review policy Social Security Scotland implemented when ADP launched. Incorporating the latest data on award review outcomes increases our ADP spending forecast by £199 million in 2025-26 and £366 million in 2028-29.

5.24 This is a particularly uncertain area in our forecast as although data on award reviews shows a decrease in the percentage of people with an ended or decreased award, at this point, there is limited information to assess if this will change. Internal analysis suggests that one percentage point increase in the percentage of award ended or decreased could reduce spending by approximately £40 million by 2029-30. There is also uncertainty regarding the potential effect of the reduction in the number of awards ended at review on the level of new applications in future. For instance, there was a known effect in the PIP system where people who had their awards ended would subsequently make a new application. Therefore, as the number of ADP awards ended after an award review decreases, the number of new applications could also reduce.

Average payments

5.25 In our latest Forecast Evaluation Report, we identified that the ADP average payment had been lower than we forecast.[91]

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[89] Social Security Scotland (2024) Adult Disability Payment: high level statistics to 31 July 2024

[90] Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023

[91] Scottish Fiscal Commission (2024) Forecast Evaluation Report – August 2024

5.26 Our analysis suggests that there has been a shift in the distribution of the payments for approved applications. There has been an increase in the percentage of applications receiving a higher value award, and an increase in the percentage of applications receiving lower value award.

5.27 Compared with our December 2023 forecast, incorporating the data provided by Social Security Scotland and adjusting our forecasting approach to the latest data reduces the average payment award forecast. Consequently, it reduced the ADP spending forecast by £131 million in 2025-26 and £87 million in 2028-29.

Launch of Scottish Adult Disability Living Allowance

5.28 As presented in the supplementary costing published in November 2024, we have updated our forecast to reflect the new Scottish Adult Disability Living Allowance regulations.[92,93] Up to the introduction of Scottish Adult DLA in March 2025, some adult clients reaching the end of their DLA award or requesting a relevant change of circumstance will be transferred to ADP to have their award reviewed. When Scottish Adult DLA is launched, the current DLA to ADP journey will come to an end. If a client's award is due to be reviewed or they report a relevant change of circumstances, they will instead have their award transferred to Scottish Adult DLA.

5.29 Relative to our December 2023 forecast, allowing clients to have their award reviewed in Scottish Adult DLA will result in an £37 million increase in Scottish Adult DLA spending by 2028-29. There will be a corresponding £38 million decrease in ADP spending by 2028-29 as clients will not be transferred from Scottish Adult DLA to ADP to have their award reviewed. The net effect on the overall social security spending is an average decrease of £1 million a year from 2024-25.

Child Disability Payment – higher caseload

5.30 In 2023-24, spending on Child Disability Payment (CDP) was higher than we previously forecast. This is largely because the number of approved applications for CDP continued at a higher level than we forecast in December 2023. This reflects a trend across the UK for more successful applications for child disability payments since 2020, but with larger increases in Scotland than in England and Wales.

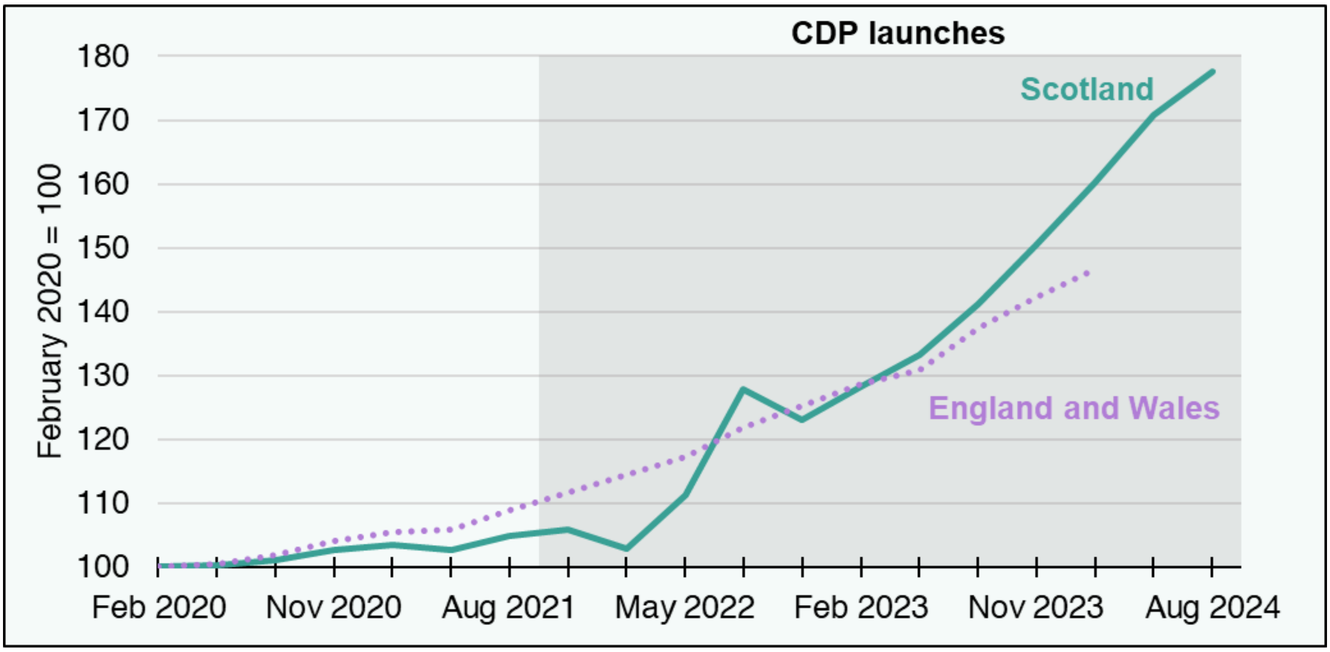
[92] Scottish Fiscal Commission (2024) Supplementary Costing – Scottish Adult Disability Living Allowance – November 2024

[93] Scottish Government (2024) The Disability Assistance (Scottish Adult Disability Living Allowance) (Consequential Amendment, Revocation and Saving Provision) Regulations 2024

5.31 A child would normally remain on CDP until the age of 18 years old in Scotland, but they would be invited to transfer to PIP at the age of 16 if they were receiving DLA for children in England and Wales. Excluding children over 15 years old, due to the different entitlement rules for this age group in Scotland, the combined CDP and DLA for children caseload has increased by 60 per cent in Scotland and 47 per cent in England and Wales between February 2020 and February 2024. In August 2024, the caseload aged 15 and under in Scotland is 78 per cent higher than it was in February 2020.[94]

Figure 5.3: Growth in disability payments caseload aged 15 and under since February 2020

The combined caseload for CDP and DLA for children has increased in Scotland



Description of Figure 5.3: Line chart showing the percentage growth, relative to February 2020, in the disability payments caseload for those aged 15 and under. Since the launch of CDP, growth in Scotland has accelerated, surpassing that observed in England and Wales in May 2023.

Source: Scottish Fiscal Commission.

Caseload data for CDP and DLA for children in Scotland presented some recording issues between February 2022 and August 2022 due to the case transfer of clients from DLA for children to CDP. CDP data is available up to September 2024 and DLA for children's data is available up to February 2024. Amounts are indexed so that February 2020 is equal to 100.

5.32 Based on the latest statistics on the number of approved applications, we have adjusted our forecast to allow for a smoother decrease from the current levels of approved applications to our longer-term forecast. Compared with our December 2023 forecast, this results in an additional 16,000 children and young people beginning to receive CDP in 2024-25 and 2025-26.

[94] Social Security Scotland (2024) Child Disability Payment: high level statistics to 30 September 2024

5.33 The increase in our caseload forecast leads to our CDP spending forecast increasing by an average of £114 million per year from 2025-26 onwards compared with our forecast in December 2023.

Pension Age Disability Payment – higher demand

5.34 An increase in the demand for disability payments has been observed across the UK and across all ages. We have further adjusted our Pension Age Disability Payment forecast to account for the higher demand. Our current assumption is aligned with the demand assumptions for CDP and ADP, and we assume the higher demand will have greater persistence over the forecast period. Relative to our December 2023 forecast, we have increased our forecast by £19 million in 2025-26 and by £30 million in 2028-29.

Uprating

New uprating policy

5.35 In our February 2024 policy baselines paper and in our August 2024 Fiscal Update, we updated our position to assume payments with no statutory uprating requirement will be uprated every year.[95,96] This change affects Best Start Foods, Best Start Grant, Child Winter Heating Payment, Pension Age Winter Heating Payment, and Winter Heating Payment. In September 2024, the Scottish Government committed to extending the statutory uprating duty to cover these payments, so this assumption is now in line with Scottish Government policy.[97,98]

5.36 The cost of uprating these payments in line with CPI inflation is forecast to be £2 million in 2025-26, rising to £19 million in 2029-30.

Figure 5.4: Cost of new uprating policy

£ million	2025-26	2026-27	2027-28	2028-29	2029-30
Spending	2	7	11	15	19

Source: Scottish Fiscal Commission.

Updated inflation forecast

5.37 At the time of our December 2023 forecasts, uprating for payment amounts was known for 2024-25 and our uprating assumptions for 2025-26 onwards were based on our forecast of CPI inflation which were consistent with the OBR's November 2023 forecasts of CPI inflation.

[95] Scottish Fiscal Commission (2024) Fiscal Update – August 2024

[96] Scottish Fiscal Commission (2024) How we set policy baselines – February 2024

[97] Scottish Parliament (2024) Social Security (Amendment) (Scotland) Bill - Daily list of amendments for 26 September 2024

[98] Scottish Parliament (2024) Social Justice and Social Security Committee: Official Report, Thursday 19 September 2024

5.38 Figure 5.5 shows the forecast for uprating for 2025-26 onwards in our December 2023 and December 2024 forecasts. CPI inflation during 2024 has been lower than expected, reducing the uprating applied to 2025-26, and our spending forecast in 2025-26 and 2026-27. However, CPI inflation is now expected to be higher for 2025 onwards. The cumulative cost of uprating is forecast to be higher from 2027-28 onwards. These changes reduce our forecast by £103 million in 2025-26 but are adding £47 million by 2028-29.

Figure 5.5: Forecast uprating of social security payments

Per cent	2025-26 [1]	2026-27	2027-28	2028-29	2029-30
December 2023	3.3	1.6	1.4	1.8	blank
December 2024	1.7	2.7	2.2	2.1	2.1

Source: Scottish Fiscal Commission.

[1] The 2025-26 column represents outturn for December 2024.

5.39 Changes to the inflation forecast also apply to social security spending in England and Wales. We estimate that roughly 85 per cent of the effect of any change in the inflation forecast is matched by changes in the corresponding BGA funding. The remaining 15 per cent is uprating on payments unique to Scotland or on spending above the corresponding BGA.

Population

5.40 We have updated our estimates of the past and future Scottish population to be consistent with Scotland's Census 2022 and recent high levels of international migration. This means forecasts are now based on a population estimated to have been slightly lower in the past, but which grows faster over the next five years. The lower population in the early 2020s slightly increases our estimate of recent birth rates and of the proportion of the population applying for and receiving social security payments.

5.41 These changes gradually increase the forecast, adding £36 million by 2028-29. This includes small changes across a number of different payments, with material increases for Adult Disability Payment, Scottish Child Payment, and Pension Age Disability Payment.

Carer Support Payment – earnings limit

5.42 Since May 2022, we have included an adjustment in our forecast for Carer Support Payment (CSP) to reflect the Scottish Government's intention to increase the weekly earnings limit. This is the amount that carers can earn from paid work, after certain deductions, while receiving the payment. We expect that increasing the earnings limit will lead to more people being eligible and receiving CSP and Carer's Allowance Supplement. We have refined this aspect of our carer payments forecasts to reflect the Scottish Government's confirmed decision to increase the weekly earnings limit from £151 to £196 from April 2025. The Scottish Government policy for the earnings limit is aligned with the Carer's Allowance policy for England and Wales announced at the UK Budget in October.

5.43 The confirmed policy option by the Scottish Government does not substantially differ from the option previously considered. However, our latest forecast presents a more progressive increase in spending than previously forecast because of the change in our forecasting approach. Compared with our previous forecast, this adjustment results in a £11 million decrease in spending in 2026-27.

Pension Age Winter Heating Payment – eligibility

5.44 The Scottish Government replaced the UK Government's Winter Fuel Payment (WFP) with Pension Age Winter Heating Payment (PAWHP) in Scotland from winter 2024. In our December 2023 forecast, we published a policy costing for PAWHP. That forecast was based on the Scottish Government's plans to replace the existing WFP on a like-for-like basis in terms of the eligibility criteria and payment amounts from winter 2024-25. At that point, most people above State Pension age received WFP regardless of their income.

5.45 On 29 July 2024, the UK Government announced that, from autumn 2024, WFP in England and Wales will be restricted to one payment per household with one or more people over State Pension age receiving specific qualifying benefits. This reduced the associated BGA funding for the Scottish Government. Following this announcement, the Scottish Government announced that eligibility for PAWHP will also be restricted to one payment per household with one or more people above State Pension age in receipt of specific means-tested benefits in Scotland.

5.46 We presented an updated forecast of spending on PAWHP to accompany the legislation introduced on 25 September 2024.[99] The payment will be administered by the Department for Work and Pensions (DWP) via agency agreement in winter 2024-25.

5.47 The Scottish Government has now announced that, from 2025-26 onwards, there will be a new payment structure for PAWHP delivered through Social Security Scotland. Payments will be made to most households with a person above State Pension age. Most of those households with a person aged above State Pension age will receive one payment of £100. Households in which a person above State Pension age is in receipt of a qualifying benefit (primarily Pension Credit), and aged under 80 will receive £203.40; if they are aged 80 or over, they will receive £305.10. We provide more details in Annex A.

5.48 Compared to our December 2023 forecast, restricting the eligibility to those in receipt of qualifying benefits reduces PAWHP spending forecast by £148 million in 2024-25. Figure 5.6 shows our PAWHP spending forecasts since December 2023.

5.49 The new policy approach, with payments made to most households with a person aged over State Pension age, leads to a reduction of £83 million in our forecast in 2025-26 compared to our December 2023 forecast. However, compared to our September 2024 restricted eligibility forecast, our latest forecast is £67 million higher in 2025-26.

[99] Scottish Fiscal Commission (2024) Supplementary Costing – Pension Age Winter Heating Payment – September 2024

Figure 5.6: Spending forecast for PAWHP since December 2023

£ million	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
December 2023	180	184	185	184	187	blank
September 2024 supplementary costing	32	33	32	30	29	29
December 2024	32	101	103	102	104	108

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts, Scottish Fiscal Commission (2024) Supplementary Costing – Pension Age Winter Heating Payment – September 2024.

Scottish Welfare Fund

5.50 On 28 November 2024, the Scottish Government announced an additional £17.5 million for the Scottish Welfare Fund (SWF) in 2024-25. This £17.5 million is in addition to the £35.5 million included in our December 2023 forecast. It only applies to 2024-25 and we expect total SWF spending to fall back to £35.5 million in 2025-26.

Other changes affecting the Scottish Budget

5.51 We have slightly reduced our view of the proportion of children eligible for Scottish Child Payment (SCP), with some offsetting increases to assumed take-up rates. Data indicates that the number of children receiving SCP fell slightly for the first time since the payment was extended to cover children under 16 in late 2022.[100] We think this may be due to temporary or one-off factors such as the cuts to employee National Insurance in April 2024, where the increase in net income will have meant that some families no longer qualify for Universal Credit. We still expect that the caseload will continue to increase in the short term.

5.52 In February 2024, the Scottish Government removed the Best Start Foods (BSF) income thresholds, so people with a qualifying benefit are now eligible for BSF regardless of their income. We previously estimated an additional 20,000 clients would be in payment following the removal of the income thresholds. We have now reduced this estimate to 15,000.

5.53 One of the requirements to receive Carer Support Payment (CSP) is that the carer needs to provide regular and substantial unpaid care for a person receiving of a qualifying disability payment. We have reduced our CSP spending forecast to reflect the continuous decrease in the different proportions of people receiving a disability payment who have a carer receiving CSP. We expect these trends to continue to decrease in the short-term before stabilising from 2027-28 onwards.

[100] Social Security Scotland (2024) Scottish Child Payment: high level statistics to 30 June 2024

5.54 A system issue resulted in around 21,000 eligible clients not receiving Winter Heating Payment (WHP) in winter 2023-24. These clients were not included in the information received by Social Security Scotland from the Department of Work and Pensions. This issue has now been resolved, and we have included those clients in our WHP caseload forecast. Including this group increases our forecast by £2 million in 2024-25.

5.55 In addition, the WHP forecast for 2024-25 included a £1 million adjustment for 15,000 clients who became eligible for WHP later in 2023-24 but who did not receive the payment in 2023-24.

Employability Services

5.56 We have changed our approach to how we estimate the spending on Employability Services under our remit.[101,102] We have included, as part of our devolved social security forecast, services that the Scottish Government has already been delivering under the No One Left Behind, resulting in an increase in spending forecast.[103]

5.57 In December 2023, we assumed that Fair Start Scotland (FSS) will be closed to new participants in 2023-24. We forecast that this payment would be progressively replaced by employability support policy, similar to FSS. We forecast a combined spending for Employability Services of £25 million per year from 2024-25.

5.58 We now produce a combined forecast for Employability Services that includes spending on FSS and elements of No One Left Behind that fall within our remit. No One Left Behind is delivered through the Employability and Training budget, and it is not a direct replacement of FSS. Instead, it focuses on supporting people, who face barriers to obtain and maintain employment. This includes, but is not limited to, those who are disabled and those receiving reserved benefits with barriers to long-term employment who are part of our forecasting remit.

5.59 We estimate that around 80 per cent of the Employability and Training budget falls under our forecasting remit. Including these additional parts of the existing Scottish Government spending on employability support services in our forecasts led to adding £45 million a year from 2026-27 onwards. This change in the forecast does not result in additional spending by the Scottish Government but reflects a change in our forecasting scope.

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[101] UK Government (2016) Scotland Act 2016

[102] UK Government (2016) Scottish Fiscal Commission Act 2016

[103] Scottish Government (2020) No One Left Behind: delivery plan

Funding related to social security

Payments with a Block Grant Adjustment

5.60 The Scottish Government receives funding through BGAs from the UK Government for most of the devolved social security spending. BGAs are based on the spending in England and Wales on equivalent payments. Therefore, if the UK Government introduced a policy in England and Wales for a payment with an associated BGA which led to a change in the level of spending, then there would be a proportional effect on the level of BGA funding.

5.61 Since the last Scottish Budget, the UK Government has restricted eligibility for Winter Fuel Payment (WFP) to those over the State Pension age receiving means-tested benefits rather than most people over the State Pension age. This UK Government policy change will decrease the spending on WFP in England and Wales, consequently leading to a reduction in the associated BGA funding. While the Scottish Government had the option to continue delivering a winter payment to most people over the State Pension age, it decided to align the Pension Age Winter Heating Payment (PAWHP) policy with that of WFP in England and Wales in 2024-25. For winter 2025-26, the Scottish Government will widen the eligibility to most people over the State Pension age and introduce a new payment structure. As a result, spending in PAWHP will be larger than the comparable WHP BGA from 2025-26 onwards.

5.62 Spending on replacement payments above the funding received through the BGAs is presented as the social security net position. The net position for 2023-24 shows that spending was £198 million higher than the BGA funding received. We expect this gap to continue widening in subsequent years, reflecting the introduction of the Scottish disability and carer payments, and the new policy for PAWHP. Figure 5.7 shows we estimate that spending will exceed the associated BGA funding by £529 million in 2025-26. The BGA transfers do not cover any additional spending because of the Scottish Government reforms. Therefore, the net position must be met from the overall Scottish Budget.

5.63 The increase in the difference between funding and spending is due to spending rising more quickly in Scotland than in England and Wales because of changes to policy and delivery introduced by the Scottish Government. If the Scottish Government decided to make further changes to ADP in response to the ADP independent review, these could affect the net position. For example, in isolation, relaxation of the current mobility rules could increase ADP spending in Scotland and set apart the eligibility requirements between Scotland and England and Wales. This would further widen the social security net position as BGA would continue to be calculated based on spending in England and Wales.[104]

[104] Scottish Government Adult Disability Payment: Independent Review

5.64 Since our December 2023 forecast, the net position for 2025-26 has widened by £51 million to £529 million, this is largely explained by the difference between the spending on PAWHP and the WHP BGA funding. For 2028-29, we estimate funding will be £601 million lower than spending, which is £94 million narrower than estimated in December 2023. This narrowing of the gap is mainly driven by an upward revision to forecasts of UK Government spending on PIP in England and Wales, mostly explained by a higher average award forecast in response to recent data, which increased the BGA funding. This is shown in Figure 5.9.

Figure 5.7: Social security spending forecast net positions

£ million	2023-24 outturn	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Block Grant Adjustment	4,432	5,182	5,596	6,018	6,447	6,846	7,291
Spending on social security payments with a BGA [1]	4,629	5,445	6,125	6,637	7,063	7,446	7,858
Social Security net position (BGA less spending), of which:	-198	-263	-529	-619	-616	-601	-568
Attendance Allowance	-12	-27	-51	-69	-82	-83	-81
Carer's Allowance	-3	-5	-38	-58	-50	-46	-45
Cold Weather Payment	-18	-23	-22	-23	-24	-25	-26
Disability Living Allowance	-25	-16	-35	-15	22	46	47
Industrial Injuries Disablement Scheme	1	1	0	-1	-2	-3	-3
Personal Independence Payment	-141	-193	-314	-380	-408	-414	-381
Severe Disablement Allowance	0	1	1	0	0	0	0
Winter Fuel Payment	0	0	-69	-72	-73	-75	-78

Source: Scottish Fiscal Commission.

[1] Our forecasts of social security spending reflect spending in Scotland on the current payments, firm policy changes, and include indicative forecasts of future policy commitments on Employment Injury Assistance.

Figures may not sum because of rounding.

All social security payments

5.65 In addition to the payments with a corresponding BGA, there are other elements of social security that require funding. Figure 5.8 shows the difference between funding received from the UK Government through the social security BGAs and overall social security spending in Scotland. This is estimated to increase each year, rising from £1,334 million in 2025-26 to £1,463 million in 2029-30. This can be considered as the net effect of social security devolution and policy changes on the Scottish Budget.

5.66 The Scottish Government has used devolved powers to introduce new payments that are unique to Scotland such as Scottish Child Payment, Carer’s Allowance Supplement, and Child Winter Heating Payment. These payments must be entirely funded from the Scottish Budget as they do not have a corresponding BGA. Spending on new Scotland-specific payments is forecast to increase to £732 million by 2029-30.

5.67 In addition, there is also a group of Scottish Government payments that replaced UK Government payments which do not have an associated BGA. Their funding has been rolled into the general Block Grant and is based on spending in England and Wales, with no way of attributing amounts to individual payments. Figure 5.8 shows the expenditure on these payments as ‘Other social security spending’. Our forecast for ‘Other social security spending’ is broadly £45 million a year higher on average than our December 2023 forecast because of our decision on what elements we include in our Employability Services indicative forecast.

Figure 5.8: Effect of social security spending on the Budget

£ million	2023-24 outturn	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Social security net position [1]	-198	-263	-529	-619	-616	-601	-568
Spending on payment without a BGA, of which:	blank	blank	blank	blank	blank	blank	blank
Payments unique to Scotland [2]	-569	-618	-644	-674	-697	-713	-732
Other social security spending [3]	-132	-162	-161	-160	-161	-162	-163
Effect on the Budget	-899	-1,042	-1,334	-1,453	-1,475	-1,476	-1,463

Source: Scottish Fiscal Commission.

[1] This includes the disability payments, Carer Support Payment, winter heating payments for adults and Employment Injury Assistance. Detailed information can be found in Figure 5.7.

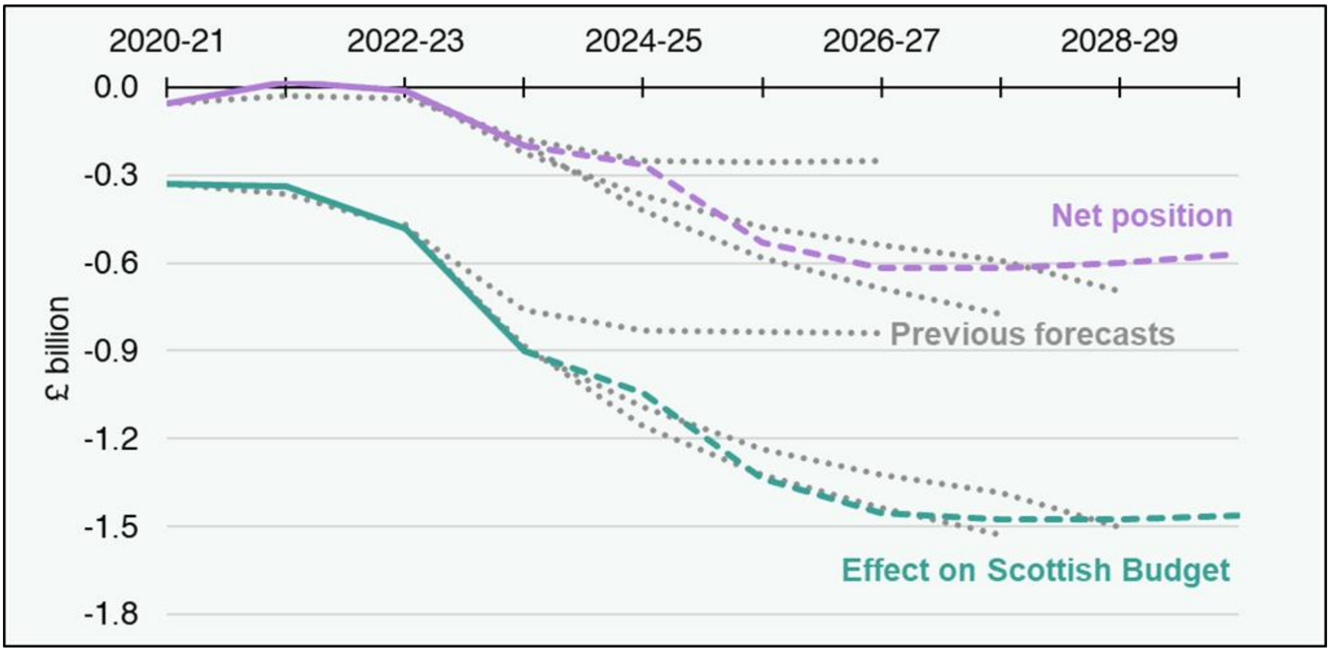
[2] 'Payments unique to Scotland' includes Scottish Child Payment, Carer's Allowance Supplement, Child Winter Heating Payment, Best Start Grant Early Learning Payment, and Best Start Grant School Age Payment. We also include spending through Discretionary Housing Payments on bedroom tax mitigation and the extra costs of the commitment to mitigating Benefit Cap deductions.

[3] 'Other social security' includes spending on Best Start Grant Pregnancy and Baby Payment, Best Start Foods, Discretionary Housing Payments, Funeral Support Payment, Employability Services, and Scottish Welfare Fund. Funding for these payments comes through the general Block Grant and it is not possible to provide an estimate of funding received for individual payments.

Figures may not sum because of rounding.

Figure 5.9: Change in social security net position and effect of spending on the Budget

The social security net position gap is forecast to widen in subsequent years



Description of Figure 5.9: Line chart showing the social security net position and effect of spending on the Budget.

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts, Scottish Government (2024) Fiscal Framework data annex: August 2024.

BGAs before 2023-24 have not yet been updated to take account of revised population estimates.

Addendum – policy to mitigate the Universal Credit two-child limit

5.68 The Scottish Government has announced that it plans to develop an approach to mitigate the two-child limit in the UK-wide Universal Credit from 2026-27 onwards. We have not prepared costings for this policy as we were notified after the final policy deadline when it was too late for us to include in our forecasts. The two-child limit means that families receiving Universal Credit do not receive extra money for third and subsequent children born after 6 April 2017.

5.69 This policy will further widen the gap between overall social security spending and BGA funding. The costs would have to be met from the Scottish Budget. We have conducted some illustrative analysis to estimate the potential costs of mitigating the two-child limit in full. We estimate full year costs for 2026-27 could be around £150 million, growing to over £200 million in 2029-30, as the number of families eligible will increase each year. Our estimates are broadly in line with a Scotland-share of estimates for the UK published by the Institute for Fiscal Studies.[105] Our estimates are not included in any of the tables in this report, nor are they included in estimates of the gap between social security spending and funding.

105 Institute for Fiscal Studies (2024) The two-child limit: poverty, incentives and cost

5.70 This policy presents a significant commitment to additional spending from 2026-27 onwards. There may be wider consequences for the Scottish Government Budget, as the funding position presented in Figure 5.8 will widen and the level of resource funding after accounting for social security spending will fall, reducing the funding available for other spending priorities. We plan to publish a note on the effects of the policy on the Scottish Budget in due course.

Forecast summary

5.71 In this section, we present a summary of our social security forecasts. This contains the 2023-24 outturn spending, the 2024-25 in-year forecast, and our forecast for the next five years for each payment.

Figure 5.10: Social security spending forecast

£ million	2023-24 [1]	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Adult Disability Payment [1]	2,632	3,177	3,605	3,983	4,340	4,675	5,030
Best Start Foods	13	17	19	20	21	21	22
Best Start Grant	21	21	21	22	23	23	24
Carer's Allowance Supplement	48	54	62	67	70	73	76
Carer Support Payment [2]	358	402	459	505	525	546	574
Child Disability Payment [3]	425	524	618	675	708	732	755
Child Winter Heating Payment	8	10	12	13	14	14	15
Discretionary Housing Payments	82	91	97	104	110	116	122
Employability Services [4]	52	60	73	70	70	70	70
Employment Injury Assistance [5]	81	85	83	84	83	81	79
Funeral Support Payment	13	13	14	14	15	15	16
Pension Age Disability Payment [6]	659	768	834	889	933	962	992
Pension Age Winter Heating Payment [7]	blank	32	101	103	102	104	108
Scottish Adult Disability Living Allowance [8]	445	424	394	365	339	312	287
Scottish Child Payment	429	459	471	488	501	507	515
Scottish Welfare Fund	36	53	36	36	36	36	36
Severe Disablement Allowance	6	5	4	4	3	3	3
Winter Heating Payment	23	29	28	29	30	31	32
Total spending	5,330	6,224	6,930	7,471	7,922	8,321	8,754

Source: Scottish Fiscal Commission.

[1] Adult Disability Payment is replacing Personal Independence Payment. Figures include spending on Personal Independence Payment until case transfer is complete.

[2] Carer Support Payment is replacing Carer's Allowance. Figures include spending on Carer's Allowance until case transfer is complete and Carer's Additional Person Payment which will be introduced after case transfer is complete.

[3] Child Disability Payment has replaced Disability Living Allowance for children. Figures include spending on Disability Living Allowance for children until case transfer is complete.

[4] The forecast of Employability Services is an indicative forecast and includes spending on Fair Start Scotland and elements of No One Left Behind.

[5] The forecast of Employment Injury Assistance is an indicative forecast and includes our estimate of the change in the baseline Industrial Injuries Disablement Scheme and changes arising from the introduction of Employment Injury Assistance.

[6] Pension Age Disability Payment replaces Attendance Allowance. Figures include spending on Attendance Allowance until case transfer is complete.

[7] Pension Age Winter Heating Payment replaces Winter Fuel Payment in winter 2024-25.

[8] Scottish Adult Disability Living Allowance includes our estimate of Disability Living Allowance and changes arising from the introduction of Scottish Adult DLA.

Figures may not sum because of rounding.

Materiality

5.72 Some policies announced by the Scottish Government will have a very small effect relative to the size of the total Scottish Budget. We publish detailed information on policies which have a material effect on the Scottish Budget in Annex A. This section covers the new policies which do not have a detailed costing because they have an effect under our materiality threshold of £5 million or our £2 million threshold for negligible policies, some of which are still included in our forecasts. We plan on reviewing this materiality policy every two years, with our next review scheduled to take place in 2025.

5.73 In the December 2023 forecast, we highlighted that the Social Security (Amendment) (Scotland) Bill gave the Scottish Government powers to create a new Care Leaver Payment. At that point, the Scottish Government committed to provide £10 million of annual support to people leaving care. While the final policy details are not confirmed yet; current estimates indicate that the spending is likely to be less than £3 million a year. This payment has been excluded from our forecast on materiality grounds.[106]

5.74 Apart from the expected Scottish Government amendment to uprate the payments for which there is no statutory requirement to be uprated, we do not expect other changes introduced through the Social Security (Amendment) (Scotland) Bill to change the spending on social security.

[106] Scottish Parliament (2023) Social Security (Amendment)(Scotland) Bill

5.75 In April 2024, the Scottish Government published regulation amending Carer Support Payment (CSP).[107] This included a provision for special backdating rules for a subgroup of carers in full-time education or those who satisfy the CSP past presence test but who would not be eligible for Carer's Allowance. Following approval by the parliament, carers who live in Local Authorities not covered in phases of the pilot will be able to have their payments backdated up to the introduction of the pilot in November 2023. We expect that these changes will be under our threshold for negligible policies.

5.76 In this forecast, we have not factored in the effect of the Scottish Government's policy relating to the suspension of Scottish Adult DLA when a client is admitted to legal detention facilities. In Scottish Adult DLA, a client continues to receive their payments for the first 28 days after entering a legal detention facility, after which the payments stop. This differs from the DLA approach, in which the payment award is suspended immediately after entering a legal detention facility, and if acquitted, the client receives a back payment for their time in custody. We assess the effect of this provision to be below our materiality threshold.

5.77 The Scottish Government has introduced small changes to Funeral Support Payment from December 2024. We expect that these changes will have a negligible effect on spending.

[107] Scottish Government (2024) The Carer's Assistance (Carer Support Payment) (Scotland) Amendment Regulations 2024

Annex A
Policy costings

Summary

Introduction

A.1 This annex sets out the steps and judgements taken to arrive at our costings of changes in Scottish Government policy since our December 2023 forecasts were published.[108]

New policy costings

A.2 Figure A.1 shows a summary of new policy costings included in our forecasts. Negative values represent lower tax revenues or higher social security spending. Positive values represent higher tax revenues or lower social security spending. In the later sections covering the individual policy measures, social security changes are shown as positive if they increase spending.

[108] Scottish Fiscal Commission (2023) Scotland’s Economic and Fiscal Forecasts – December 2023

Figure A.1: Policy costings summary, 2024-25 to 2029-30

£ million	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Scottish income tax	blank	52	185	197	206	215
Increase basic rate threshold by 3.5 per cent in 2025-26	blank	-13	-14	-14	-15	-15
Increase intermediate rate threshold by 3.5 per cent in 2025-26	blank	-11	-12	-12	-13	-13
Freeze the higher rate threshold in 2025-26 and 2026-27	blank	71	197	209	219	229
Freeze the advanced rate threshold in 2025-26 and 2026-27	blank	4	11	11	12	12
Freeze the top rate threshold in 2025-26 and 2026-27	blank	1	3	3	3	3
Non-Domestic Rates	blank	-36	-11	-11	-11	-12
Freeze BPR for 2025-26	blank	-9	-11	-11	-11	-12
Extend existing IRAHR for 2025-26	blank	-5	blank	blank	blank	blank
Mainland hospitality relief for 2025-26	blank	-22	blank	blank	blank	blank
LBTT	5	32	29	32	32	33
Increase the ADS rate from 6 per cent to 8 per cent	5	32	29	32	32	33
Scottish Landfill Tax	blank	6	4	4	4	4
Increase both rates to match UK Landfill Tax	blank	6	4	4	4	4
Pension Age Winter Heating Payment	blank	-67	-70	-71	-74	-78
Eligibility expansion and new policy structure from 2025-26	blank	-67	-70	-71	-74	-78
Scottish Welfare Fund	-18	blank	blank	blank	blank	blank
Additional spending in 2024-25	-18	blank	blank	blank	blank	blank

Source: Scottish Fiscal Commission.

Negative figures represent lower tax revenue or higher social security spending, and positive figures represent higher tax revenue or lower social security spending.

Figures may not sum because of rounding.

Taxes

Income tax – increase the basic rate threshold by 3.5 per cent

Measure description

A.3 The threshold for the basic rate is increased by 3.5 per cent in 2025-26. From 2026-27 the starter rate band will increase in line with CPI inflation. We discussed how our baseline assumption is to adjust all Scottish tax bands in line with CPI inflation in our occasional paper on how we set policy baselines.[109]

Cost base

A.4 This measure applies to taxpayers whose NSND taxable income is less than £27,491. These taxpayers will pay income tax at 19 per cent on the first £2,162 of their income, and 20 per cent on the next £14,921 of their income.

Costing

A.5 Figure A.2 shows how much we expect the policy to raise, including our estimates of the behavioural response to the tax costing. Compared with our baseline, taxpayers in these bands will pay less tax and so the forecast costing is negative. We expect the policy to raise less tax then if our baseline was implemented.

Figure A.2: Costing of increasing basic rate threshold by 3.5 per cent in 2025-26

£ million	2025-26	2026-27	2027-28	2028-29	2029-30
Static forecast	-13	-14	-14	-15	-15
Behavioural change	0	0	0	0	0
Forecast after behavioural change	-13	-14	-14	-15	-15

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Uncertainties about the costing

A.6 Changes to thresholds may cause taxpayers to change their behaviour. We have modelled these changes, but this policy could induce behavioural effects we have not anticipated.

[109] Scottish Fiscal Commission (2024) How we set policy baselines, Paragraphs 20 to 22

Income tax – increase the intermediate rate threshold by 3.5 per cent

Measure description

A.7 The threshold for the intermediate rate is increased by 3.5 per cent in 2025-26. From 2026-27 the basic rate band will increase in line with CPI inflation. We discussed how our baseline assumption is to adjust bands rather than thresholds in our occasional paper on how we set policy baselines.[110]

Cost base

A.8 This measure applies to taxpayers whose NSND taxable income is less than £27,491. These taxpayers will pay income tax at 19 per cent on the first £2,162 of their income, and 20 per cent on the next £14,921 of their income.

Costing

A.9 Figure A.3 shows how much we expect the policy to raise, including our estimates of the behavioural response to the tax costing. Compared with our baseline, taxpayers in these bands will pay less tax and so the forecast costing is negative. We expect the policy to raise less tax then if our baseline was implemented.

Figure A.3: Costing of increasing intermediate rate threshold by 3.5 per cent in 2025-26

£ million	2025-26	2026-27	2027-28	2028-29	2029-30
Static forecast	-11	-12	-13	-13	-13
Behavioural change	0	0	0	0	0
Forecast after behavioural change	-11	-12	-12	-13	-13

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Uncertainties about the costing

A.10 Changes to thresholds may cause taxpayers to change their behaviour. We have modelled these changes, but this policy could induce behavioural effects we have not anticipated.

[110] Scottish Fiscal Commission (2024) How we set policy baselines, Paragraphs 20 to 22

Income tax – freeze the higher rate threshold in 2025-26 and 2026-27

Measure description

A.11 The higher rate threshold remains at the 2024-25 level of £43,662 in the years 2025-26 and 2026-27.

Cost base

A.12 This measure applies to taxpayers whose NSND taxable income is greater than the higher rate threshold of £43,662.

Forecast costing

A.13 Figure A.4 shows the breakdown of the forecast policy costing, including our estimates of the behavioural response to the tax costing. We expect this policy to be revenue raising.

Figure A.4: Costing of freezing higher rate threshold in 2025-26 and 2026-27

£ million	2025-26	2026-27	2027-28	2028-29	2029-30
Static forecast	78	215	228	238	249
Behavioural change, of which:	-7	-17	-18	-19	-20
METR effect	-1	-3	-3	-4	-4
AETR effect	-5	-14	-15	-16	-17
Forecast after behavioural change	71	197	209	219	229

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Uncertainties about the costing

A.14 When tax rates and thresholds change, taxpayers may change their behaviour. We model these changes, but taxpayer's behaviour could change in ways that we have not anticipated. Our forecast of the revenues raised by the policy also depend on how earnings change. If earnings are lower than expected in our forecast then revenues will be lower.

Income tax – freeze the advanced rate threshold in 2025-26 and 2026-27

Measure description

A.15 The advanced rate threshold remains at the 2024-25 level of £75,000 in the years 2025-26 and 2026-27.

Cost base

A.16 This measure applies to taxpayers whose NSND taxable income is more than £75,000 and less than £125,140. These taxpayers will pay income tax at 45 per cent on their income within this band.

Costing

A.17 Figure A.5 shows how much we expect the policy to raise, including our estimates of the behavioural response to the tax costing. We expect this policy to be revenue raising.

Figure A.5: Costing of freezing advanced rate threshold in 2025-26 and 2026-27

£ million	2025-26	2026-27	2027-28	2028-29	2029-30
Static forecast	5	15	15	16	17
Behavioural change, of which:	-1	-4	-4	-5	-5
METR effect	-1	-3	-3	-3	-3
AETR effect	0	-1	-1	-1	-2
Forecast after behavioural change	4	11	11	12	12

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Uncertainties about the costing

A.18 When tax rates and thresholds change, taxpayers may change their behaviour. We model these changes, but taxpayers' behaviour could change in ways that we have not anticipated. Our forecast of the revenues raised by the policy also depends on how earnings change.

Income tax – freeze the top rate threshold in 2025-26 and 2026-27

Measure description

A.19 The top rate threshold remains at the 2024-25 level of £125,140 in the years 2025-26 and 2026-27.

Cost base

A.20 This measure applies to taxpayers whose NSND taxable income is more than £125,140. These taxpayers will pay income tax at 48 per cent on their income within this band.

Costing

A.21 Figure A.6 shows how much we expect the policy raise, including our estimates of the behavioural response to the tax costing. We expect this policy to be revenue raising.

Figure A.6: Costing of freezing top rate threshold in 2025-26 and 2026-27

£ million	2025-26	2026-27	2027-28	2028-29	2029-30
Static forecast	3	8	8	8	9
Behavioural change, of which:	-2	-5	-5	-6	-6
METR effect	-1	-4	-4	-4	-4
AETR effect	-1	-1	-2	-2	-2
Forecast after behavioural change	1	3	3	3	3

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Uncertainties about the costing

A.22 When tax rates and thresholds change, taxpayers may change their behaviour. We model these changes, but taxpayers' behaviour could change in ways that we have not anticipated. Our forecast of the revenues raised by the policy also depends on how earnings change.

Non-Domestic Rates – Basic Property Rate set at 49.8 pence in 2025-26

Measure description

A.23 This measure sets the NDR BPR to 49.8 pence in 2025-26. From 2026-27 onwards, we assume that it will rise in line with CPI inflation. Figure A.6 shows how the policy BPR compares with our baseline assumption that it will rise with September 2024 outturn CPI.

Figure A.7: Comparison of baseline and policy BPR assumptions

Pence	2025-26	2026-27	2027-28	2028-29	2029-30
Baseline	50.6	52.0	53.1	54.2	55.3
Policy	49.8	51.1	52.2	53.3	54.4
Difference	-0.8	-0.9	-0.9	-0.9	-0.9

Source: Scottish Fiscal Commission.

Cost base

A.24 This measure affects properties with a rateable value up to and including £51,000.

A.25 In this forecast we are using our new policy baseline. which is to consider all three rates as increasing in line with CPI inflation.

A.26 Previously, we treated BPR as a “poundage” that applied to all properties, with “supplements” on top to reach the IPR and HPR. We now treat BPR, IPR and HPR as three separate rates, which means that we consider BPR to apply only to properties with a rateable value up to and including £51,000 and therefore not liable for the IPR or HPR.

A.27 Showing the three rates as separate is a presentational change which does not affect our overall costing. It also aligns with the Scottish Government’s presentation of BPR, IPR and HPR.

Costing

A.28 The costing compares two scenarios, which are set out in Figure A.6. The two scenarios are:

- our baseline assumption, that BPR for 2025-26 will be raised in line with outturn September 2024 CPI inflation
- a BPR of 49.8 pence in 2025-26

A.29 In both scenarios, BPR is uprated with forecasts of CPI inflation in Quarter 3 of the previous year from 2026-27 onwards. We estimate revenues will be £9 million lower in 2025-26 for the policy compared with our baseline assumption. Figure A.8 shows the costing of the policy.

Figure A.8: Costing of setting BPR at 49.8 pence in 2025-26

£ million	2025-26	2026-27	2027-28	2028-29	2029-30
Costing	-9	-11	-11	-11	-12

Source: Scottish Fiscal Commission.

Uncertainties about the costing

A.30 In our forecasts we assume BPR rises with inflation for 2026-27 onwards. In recent years the Scottish Government has frozen BPR, or increased it at a rate below inflation. If this approach is continued, our forecast will overestimate revenue for 2026-27 onwards.

A.31 Another uncertainty for this costing is the number of properties liable to pay BPR in 2025-26.

A.32 We do not believe that there will be any behavioural responses to the policy change.

Non-Domestic Rates – Islands and Remote Areas Hospitality Relief continued for 2025-26

Measure description

A.33 The Scottish Government has announced that the existing Islands and Remote Areas Hospitality Relief (IRAHR) will continue for 2025-26, with grassroots music venues (GMVs) now included in the definition of hospitality. This provides 100 per cent relief for hospitality properties on Scottish islands and in prescribed remote areas (Cape Wrath, Knoydart and Scoraig). The total cash value of the relief is capped at £110,000 for each ratepayer.

A.34 The Scottish Government has also announced a relief for mainland hospitality premises (excluding the prescribed remote areas). We cost this relief separately.

Cost base

A.35 The cost base is all hospitality sector businesses in Scottish islands and prescribed remote areas, as set out in the regulations that introduced IRAHR.[111]

Costing

A.36 We now have a mid-year estimate (MYE) of revenue from the existing IRAHR from 2024-25. To cost this extension of IRAHR, we assume that, in 2025-26, this relief makes up the same portion of gross revenue as it does in 2024-25, based on MYEs and our gross revenue forecast. This approach is consistent with our forecasts for other continuing reliefs. It also means we do not make an explicit take-up assumption.

A.37 Figure A.9 shows the costing of the policy.

Figure A.9: Costing of extending IRAHR for 2025-26

£ million	2025-26	2026-27	2027-28	2028-29	2029-30
Costing	-5	blank	blank	blank	blank

Source: Scottish Fiscal Commission.

Uncertainties about the costing

A.38 The relief has a relatively small number of claimants, so it is possible that a small change in the number of claimants could have a relatively large effect on the costing.

A.39 Our forecast of gross revenue is for it to decrease from 2024-25 to 2025-26, which means that our forecast of this relief also decreases. There is uncertainty in our forecast for gross revenue, as we discussed in Chapter 4.

[111] The Non-Domestic Rates (Islands and Remote Areas Hospitality Relief) (Scotland) Regulations 2024

Non-Domestic Rates – Hospitality relief for mainland (excluding prescribed remote areas)

Measure description

A.40 The Scottish Government has announced that hospitality properties on the Scottish mainland which are not eligible for Islands and Remote Areas Hospitality Relief (IRAHR) – that is, areas outwith the prescribed remote areas of Cape Wrath, Knoydart and Scoraig – will be eligible for NDR relief in 2025-26 if they are liable for BPR (that is, if their rateable value is at most £51,000). This will be a 40 per cent relief. Properties eligible for IRAHR will continue to be able to claim the 100 per cent relief.

A.41 The Scottish Government has also announced that the definition of “hospitality” for the purposes the new 40 per cent rate will be expanded to include grassroots music venues (GMVs), as with IRAHR.

A.42 Any individual ratepayer will be able to claim at most £110,000 from hospitality relief, including both the 100 per cent and 40 per cent rate.

Cost base

A.43 The cost base is all hospitality sector businesses outwith the areas specified for IRAHR, and all GMVs in Scotland.

Costing

A.44 We used the NDR valuation roll to identify properties in the hospitality sector across Scotland. To identify GMVs, we used data provided by Creative Scotland, which comprised a list of venues which were potentially eligible for its Grassroots Music Venues Stabilisation Fund.[112]

A.45 We used data from the NDR billing system snapshot to identify which properties were already claiming reliefs other than IRAHR, to ensure that our costing only reflected the amount of NDR not currently relieved.

A.46 Outturn data on the cost of the retail, hospitality and leisure (RHL) relief in 2021-22 was around 90 per cent of an estimate of the cost assuming all eligible ratepayers claimed the relief, and for the RHL relief in 2022-23 the outturn cost was around 50 per cent of a similar estimate. We assume this is because of lower than 100 per cent take-up and uncertainties in the original costings. For this relief we assume that 70 per cent of eligible relief will be claimed in 2025-26, which is roughly the average of the percentages for 2021-22 and 2022-23.

A.47 To account for the effect of extending this relief on top of the existing IRAHR, we recosted IRAHR using the same method as we used for the combined relief and subtracted this from the total we obtained.

A.48 Figure A.10 shows the costing of the policy.

[112] Creative Scotland – Grassroots Music Venues Stabilisation Fund

Figure A.10: Costing of extending eligibility for hospitality relief

£ million	2025-26	2026-27	2027-28	2028-29	2029-30
Costing	-22	blank	blank	blank	blank

Source: Scottish Fiscal Commission.

Uncertainties about the costing

A.49 The main uncertainty around the costing is the number of claims of the relief. The take-up rate is based on previous RHL reliefs which had wider eligibility and were introduced during the COVID-19 pandemic. We do not attempt to generalise from potential take-up of the existing IRAHR, because it involves a small number of ratepayers in specific geographic areas.

A.50 Our list of GMVs may have omitted some venues that opened too recently to be included in the dataset. The precise eligibility criteria for this aspect of the relief are also currently unknown. However, because of the relatively small number of such venues, some of which would already have been considered hospitality venues (such as pubs), we think the error because of this is likely to be small.

Land and Buildings Transaction Tax – Increase in the Additional Dwelling Supplement (ADS) rate from 6 per cent to 8 per cent

Measure description

A.51 ADS is chargeable when a residential property is bought for over £40,000 and the buyer already owns other residential property and a main residence has not been replaced. The buyer can reclaim the ADS paid if a previous main residence is sold within 36 months of the purchase of a new main residence.

A.52 This costing is based on the Scottish Government increasing the ADS rate from 6 per cent to 8 per cent effective 5 December 2024. We assume transitional provisions will apply for transactions where missives are concluded (the contract is entered into) on or before 4 December 2024.

Cost base

A.53 The cost base is all transactions for which ADS is due. In 2023-24, there were 20,970 such transactions on an effective date basis.[113] This represented 22 per cent of all properties submitting a residential LBTT return that year.[114] We use this proportion as the basis for our ADS forecasting.

Costing

A.54 Figure A.11 shows the costing of the policy.

Figure A.11: Effect of changes to ADS rate on residential LBTT (including ADS)

£ million	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Additional net ADS	6	38	32	36	36	37
Effect on residential LBTT	-1	-7	-3	-3	-4	-4
Total costing	5	32	29	32	32	33

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

A.55 We start by estimating the distribution of gross ADS (before any repayments) based on outturn data for previous years. As there are transitional provisions for those transactions where missives are concluded before the policy is introduced, we have assumed that all ADS-liable transactions that complete up to and including 31 January 2025 will pay the 6 per cent rate. This is because the average time of completion from missives being concluded is six to eight weeks.

[113] Revenue Scotland (July 2024) LBTT Forecasting Data - June 2024, Table 3

[114] Revenue Scotland (July 2024) LBTT Forecasting Data - June 2024, Table 1(ii)

A.56 The policy is being implemented immediately which gives prospective buyers no time to plan for a new higher tax rate. Because of this, we are not expecting a forestalling response.

A.57 Therefore, we assume that from 1 February 2025, all ADS-liable transactions will pay the new higher rate of 8 per cent. We estimate that 16 per cent of transactions occur in February and March. The static (pre-behavioural) costing row in Figure A.12 shows the effect on our net ADS forecast of increasing the ADS rate to 8 per cent.

A.58 To calculate the response of taxpayers to the policy change (the behavioural effect), we compare the effective tax rates before and after the policy change. With a higher rate of tax, we expect fewer transactions to occur and we calculate the transactions lost using standard semi-elasticities published by the OBR.[115]

Figure A.12: Effect of changes to ADS rate on net ADS revenues

£ million	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Static costing	13	87	79	76	77	79
Behavioural response	-7	-48	-46	-41	-41	-42
Post-behavioural costing	6	38	32	36	36	37

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

A.59 ADS-liable transactions also pay main residential LBTT. As such, the effect of this policy change on ADS-liable transactions should also have a spillover effect on residential LBTT revenues.

A.60 We assume the rest of the market is in a position to absorb most of the ‘lost’ ADS-liable transactions. We assume that 50 per cent of the transactions lost from ADS will be absorbed by home-movers and first-time buyers in the first year of this policy, a figure that we expect to increase to 75 per cent from 2026-27 onwards. The behavioural response in Figure A.13 represents this expectation.

[115] OBR (October 2017). Supplementary forecast information release – Residential SDLT elasticities, Table 1

Figure A.13: Effect of changes to ADS rate on residential LBTT (excluding ADS) revenues

£ million	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Static costing	-2	-13	-13	-14	-14	-16
Behavioural response	1	7	10	10	11	12
Post-behavioural costing	-1	-7	-3	-3	-4	-4

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Uncertainties about the costing

A.61 There is uncertainty about the extent of both behavioural responses to the policy change. The costing uses OBR semi-elasticities for Stamp Duty Land Tax on which the OBR places a high degree of uncertainty.

A.62 There is uncertainty around the extent to which discouraged ADS transactions will be absorbed by home-movers and first-time buyers operating in the broader residential market.

A.63 The policy costing is based on our forecasts for the housing market and revenues. Therefore, estimates also depend on the accuracy of our pre-measures forecasts.

Scottish Landfill Tax – Increase both rates to match UK Landfill Tax rates in 2025-26

Measure description

A.64 SLfT is chargeable at two different rates. Lower rated waste is charged on inert waste and Standard rated waste is charged on landfill that is more harmful to the environment.

A.65 The Scottish Government has announced that it will raise SLfT rates in 2025-26 to £4.05 per tonne for lower rated waste and £126.15 per tonne for standard rated waste. This is more than our baseline assumption that rates would increase in line with RPI.

A.66 This increase matches the rate increases for UK Landfill Tax.

Cost base

A.67 The cost base is every tonne of waste that is landfilled in Scotland which is liable to Lower or Standard rated SLfT. As there is no current disparity between UK Landfill Tax and SLfT we assume no behavioural response as there is no cost advantage to diverting waste across the border.

Costing

A.68 Figure A.14 shows the costing of the policy.

Figure A.14: Costing of increasing both SLfT rates

£ million	2025-26	2026-27	2027-28	2028-29	2029-30
Static costing	6	4	4	4	4
Behavioural response	0	0	0	0	0
Post-behavioural costing	6	4	4	4	4

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Uncertainties about the costing

A.69 We assume no behavioural response as the main alternative to landfill would be incineration which is already incorporated in our forecast. However, there could be changes in the waste market such as increases in recycling capacities that we have not accounted for.

A.70 Like our SLfT forecast more generally, the forecast is dependent on our judgments of Scotland's waste infrastructure as well as how much waste will be produced and managed in Scotland.

Social security

Pension Age Winter Heating Payment

A.71 This section presents our approach to costing of changes in Scottish Government policy for Pension Age Winter Heating Payment (PAWHP). This includes widening the eligibility to most people over State Pension age by introducing a new £100 payment rate from 2025-26.

Figure A.15: PAWHP policy costing for widening eligibility and new policy structure

£ million	2025-26	2026-27	2027-28	2028-29	2029-30
Spending	67	70	71	74	78

Source: Scottish Fiscal Commission.

Background

A.72 Pension Age Winter Heating Payment (PAWHP) replaced the UK Government's Winter Fuel Payment (WFP) from winter 2024-25. The payment provides financial support to eligible people over State Pension age to help towards meeting heating costs in winter.

A.73 In our December 2023 forecast, we published a policy costing for PAWHP based on the planned introduction of the payment on a like-for-like basis in terms of eligibility criteria and annual payment amounts. At the time, the policy specified eligibility as most people of State Pension age. The payment rates were set at £100, £150, £200 or £300 for individuals based on their age and living situation. In December 2023, we forecast spending on PAWHP of £180 million in 2024-25 rising to £187 million in 2028-29.[116]

A.74 On 29 July 2024, the UK Government announced that, from autumn 2024, WFP in England and Wales would be restricted to one payment per household with one or more people over State Pension age receiving specific qualifying benefits. Following this announcement, the Scottish Government announced that eligibility for PAWHP will also be restricted to one payment per household with one or more people above State Pension age in receipt of specific qualifying benefits in Scotland.

[116] Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023

A.75 We published a revised forecast of spending on PAWHP to accompany legislation introduced by the Scottish Government in September 2024.[117] The revised forecast was based on a lower number of payments from 2024-25 following the reduction in eligibility to households with one or more people over State Pension age receiving specific qualifying benefits. At that point it was reasonable to assume that the new policy would also apply to subsequent years. The payment rates were comparable to the previous policy and set at £200 or £300 for households, rather than individuals, based on the age and living situation of the clients. We forecast the spending for PAWHP of £32 million in 2024-25 and £29 million in 2029-30.

Measure description

A.76 The Scottish Government have now confirmed an updated policy for PAWHP, widening eligibility to most people over State Pension age from winter 2025-26. Restricted eligibility will remain the policy for winter 2024-25. We have updated our forecast to reflect this policy change.

A.77 From winter 2025-26, the payment will be delivered through Social Security Scotland. PAWHP will be an automatic annual payment with standard payment rates of £100, £203.40 or £305.10 per household. The eligibility and payment rates will be based on:

- the client's age, specifically the date of reaching State Pension age,
- their living arrangements and other qualifying people in the same household,
- and whether they are receiving specific qualifying payments.

A.78 In 2025-26, households in receipt of qualifying benefits, primarily Pension Credit, will receive either £203.40, if the lead claimant is aged under 80, or £305.10, if the lead claimant is aged 80 and over. Households with a person over State Pension age but not in receipt of the qualifying benefits will receive £100 in 2025-26.

Costing

A.79 The number of households to receive PAWHP from 2025-26, under the wider eligibility policy, is forecast using caseload data for WFP in Scotland up to 2023-24. The eligibility criteria for these two policies were most people of State Pension age, and therefore these are broadly comparable.

A.80 We then forecast the number of households to receive the specific payments rates based on the number of people of State Pension age in receipt of qualifying benefits.

A.81 Our costing assumes that the £100 payment rate will be uprated from the start of 2026-27 onwards, while the £200 and £300 rates for households on qualifying benefits will be uprated from the start of 2025-26 onwards. Figure A.16 shows the payment amounts for different types of households.

[117] Scottish Fiscal Commission (2024) Supplementary Costing – Pension Age Winter Heating Payment – September 2024

Figure A.16: Payment rates from winter 2024-25, £

Household type	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Over State Pension age, not receiving qualifying benefits [1]	blank	100.00	102.70	104.95	107.15	109.40
In receipt of qualifying benefits, aged under 80	200.00	203.40	208.90	213.50	218.00	222.60
In receipt of qualifying benefits, aged 80 or over	300.00	305.10	313.35	320.25	327.00	333.85

Source: Scottish Fiscal Commission.

[1] Households not in receipt of qualifying benefits do not receive a payment in 2024-25.

A.82 Figure A.17 shows our forecast for spending and the number of households to receive PAWHP from its introduction in winter 2024. In 2024-25, we show the spending and caseload under the restricted eligibility policy, and under the wider eligibility policy from 2025-26 onwards.

A.83 We forecast spending on PAWHP will be £32 million in 2024-25. This will increase to £101 million in 2025-26 with the introduction of wider eligibility and increase to £108 million in 2029-30.

A.84 We estimate that approximately 83 per cent of households in the caseload will receive the £100 payment in 2025-26.

Figure A.17: Forecast spending and caseload for PAWHP from winter 2024-25

PAWHP	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Spending (£ million)	32	101	103	102	104	108
Caseload (thousand)	137	812	813	802	808	825

Source: Scottish Fiscal Commission.

Uncertainty in the costing

A.85 Our forecast for the number of households eligible for PAWHP is informed by population projections. These projections are influenced by changes to mortality rates and UK migration policies.

A.86 Our forecast for the number of households in receipt of qualifying benefits is calculated using forecasts of qualifying benefits. We also include an adjustment for the anticipated increase in Pension Credit take-up in response to the 2024-25 eligibility restriction. This forecast determines the composition of households receiving each of the payment rates.

A.87 Payment amounts are uprated with CPI inflation which will be revised as data becomes available.

A.88 Any substantial changes to these elements will affect our forecast of the caseload and spending for PAWHP.

Additional information

Abbreviations

ABR	Autumn Budget Revision
ADP	Adult Disability Payment
ADS	Additional Dwelling Supplement
AETR	Average Effective Tax Rate
APS	Annual Population Survey
BBC	British Broadcasting Corporation
BGA	Block Grant Adjustment
BICS	Business Insights and Conditions Survey
BMW	Biodegradable Municipal Waste
BoE	Bank of England
BPR	Basic Property Rate
BSF	Best Start Foods
CDP	Child Disability Payment
COFOG	Classifications of Functions of Government
CPI	Consumer Price Index
CSP	Carer Support Payment
DLA	Disability Living Allowance
DWP	Department for Work and Pensions
EfW	Energy from Waste
EY	Ernst and Young
FAI	Fraser of Allander Institute
FFFPS	Forfeitures and Fixed Penalties
FSS	Fair Start Scotland
FT	Financial Transactions
FTE	Full-Time Equivalent

GDP	Gross Domestic Product
HMRC	His Majesty's Revenue and Customs
HMT	His Majesty's Treasury
HPR	Higher Property Rate
IFRS16	The International Financial Reporting Standards 16
INTOG	Innovation and Targeted Oil and Gas
IPR	Intermediate Property Rate
IRARHR	Island and Remote Areas Hospitality Relief
ITNP	Income Tax Net Position
LBTT	Land and Buildings Transaction Tax
LFS	Labour Force Survey
METR	Marginal Effective Tax Rate
MTFS	Medium Term Financial Strategy
NDR	Non-Domestic Rates
NHS	National Health Service
NICs	National Insurance Contributions
NIESR	National Institute of Economic and Social Research
NLF	National Loans Fund
NRS	National Records of Scotland
NSND	Non-Savings, Non-Dividends
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Cooperation and Development
ONS	Office for National Statistics
PADP	Pension Age Disability Payment
PAWHP	Pension Age Winter Heating Payment
PAYE	Pay As You Earn
PIP	Personal Independence Payment
POCA	Proceeds of Crime Act

PSNFL	Public Sector Net Financial Liabilities
PUT	Public Use Tape
RHL	Retail, Hospitality and Leisure
RPI	Retail Price Index
RTI	Real Time Information
SA	Self-Assessment
SADLA	Scottish Adult DLA
SBR	Spring Budget Revision
SCAPE	Superannuation Contributions Adjusted for Past Experience
SCP	Scottish Child Payment
SDLT	Stamp Duty Land Tax
SEFF	Scotland's Economic and Fiscal Forecasts
SFC	Scottish Fiscal Commission
SG	The Scottish Government
SIT	Scottish Income Tax
SLfT	Scottish Landfill Tax
SPI	Survey of Personal Incomes
SWF	Scottish Welfare Fund
UK	United Kingdom
US	United States
VAT	Value Added Tax
WFP	Winter Fuel Payment
WHP	Winter Heating Payment
WRIT	Welsh Rate of Income Tax
WTO	World Trade Organisation

A full glossary of terms is available on our website: Glossary | Scottish Fiscal Commission.

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The SFC is committed to fulfilling our role as an Independent Fiscal Institution, in line with the principles set out by the Organisation for Economic Cooperation and Development (OECD).[118]

The SFC also seeks to adhere to the highest possible standards for analysis. While we do not produce official statistics, we voluntarily comply as far as possible with the UK Statistics Authority's Code of Practice for Statistics. Further details and our statement of voluntary compliance can be found on our website.[119]

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All charts and tables in this publication have also been made available in spreadsheet form on our website. For technical enquiries about the analysis and data presented in this paper please contact the responsible analyst:

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118 OECD (2014) Recommendation on Principles for Independent Fiscal Institutions

119 Scottish Fiscal Commission (2022) Statement of Voluntary Compliance with the Code of Practice for Statistics and Error Policy

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