
Scotland's Economic and Fiscal Forecasts – Summary

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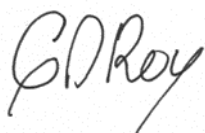
Published by the Scottish Fiscal Commission, December 2024

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.

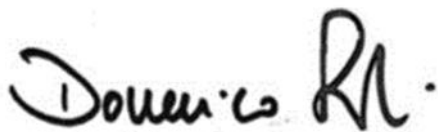
We would like to thank the hard-working staff of the Commission for their support in the production of our forecasts and underpinning analysis. We would also like to thank officials from the Scottish Government, Revenue Scotland, Social Security Scotland, the DWP, HM Treasury, HMRC, and the OBR for the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



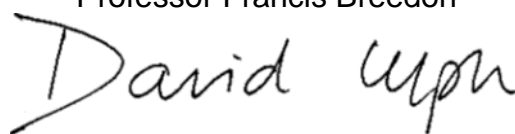
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Professor David Ulph

4 December 2024

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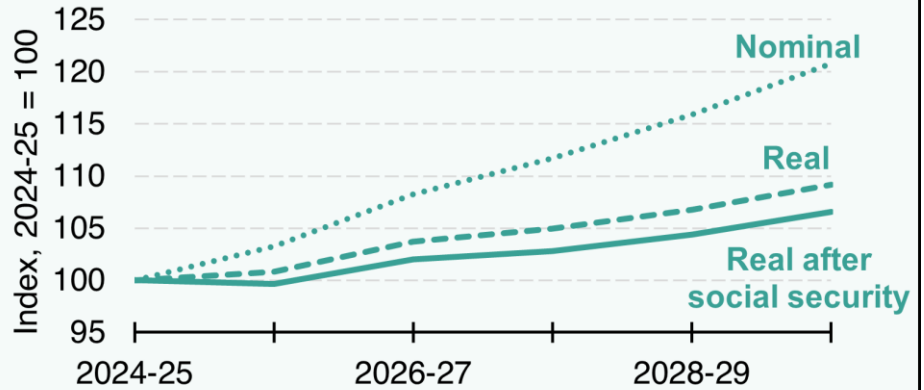
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Fiscal Overview

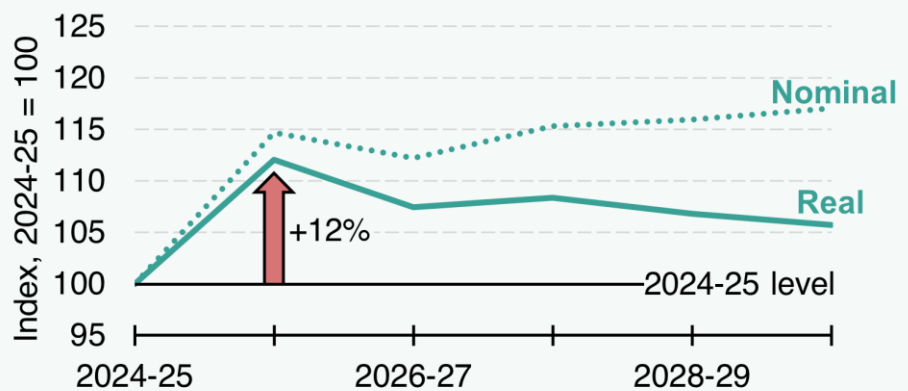
Resource funding is almost 90 per cent of the Scottish Budget and covers day-to-day costs such as social security payments and staff pay. After accounting for inflation and deducting social security, it is forecast to drop by 0.3 per cent in 2025-26 before slowly growing.

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.

Resource funding forecast to rise over the next five years



Capital funding will see a large increase via the Block Grant

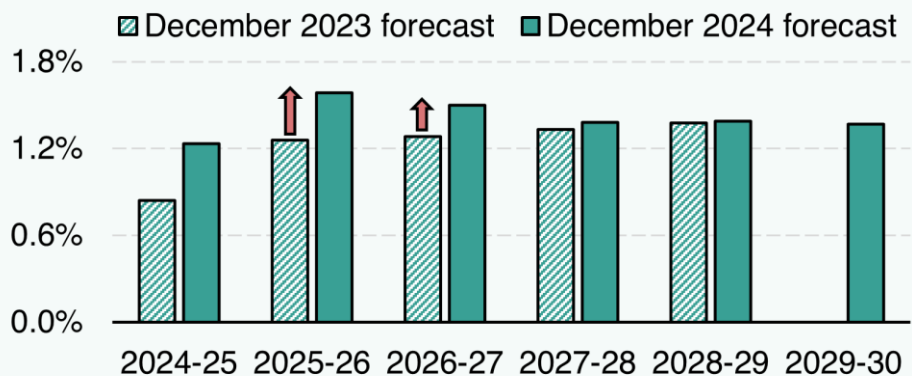


Economy

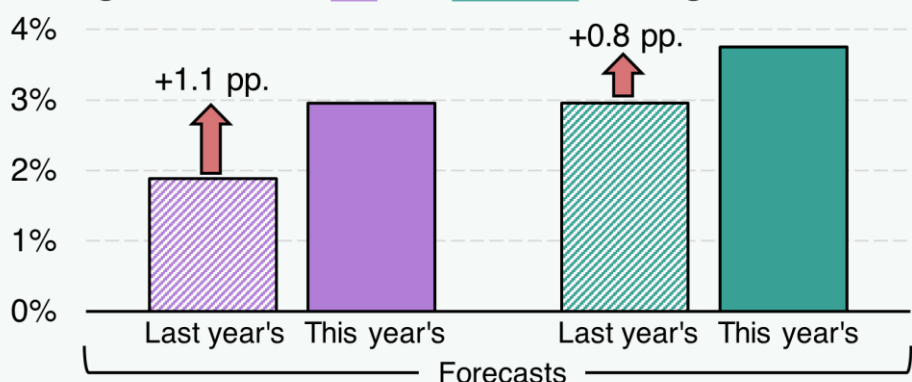
Since our December 2023 forecast, the UK Government has increased its planned borrowing and spending. We expect increases to government spending will feed through to higher real GDP growth in the short run. This boost to growth dissipates by the end of the horizon.

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.

GDP growth boosted in short run by government spending



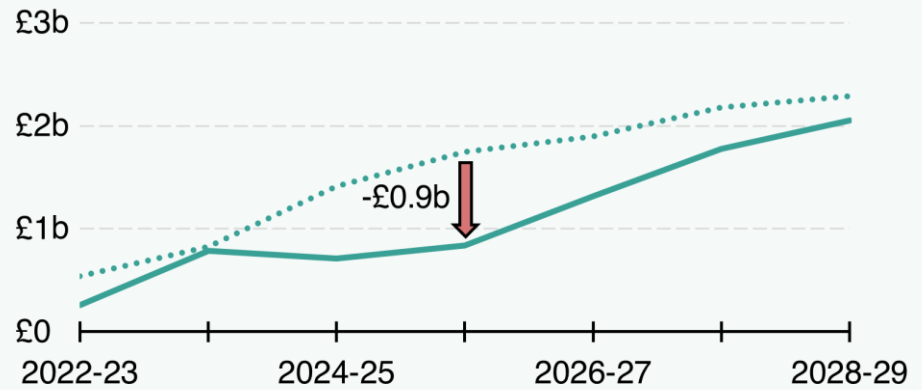
Stronger outlook for UK and Scottish earnings in 2025-26



Tax

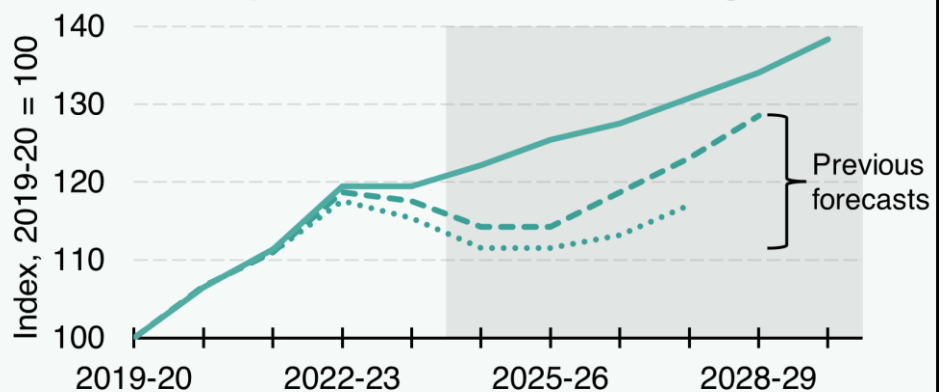
The income tax net position – the net funding available from income tax – remains positive but is lower than projected last December, with a fall for 2025-26 of £0.9 billion. This is due to upward revisions to the Block Grant Adjustment exceeding those made to Scottish income tax.

Projection of income tax net position revised downward



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.

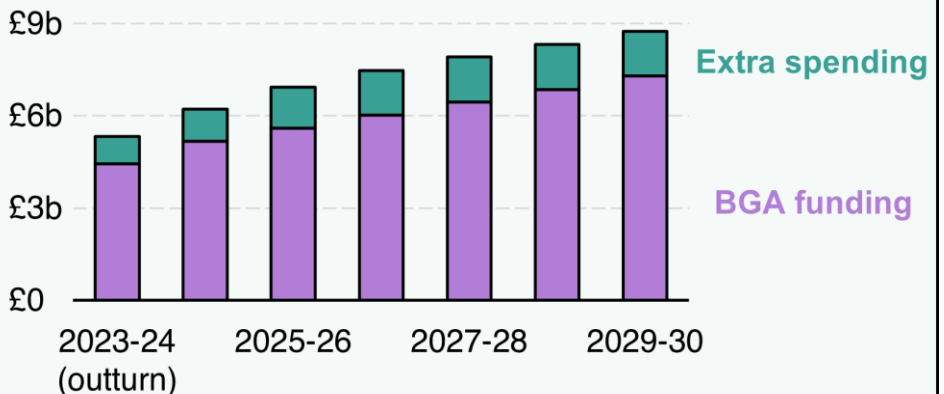
Scottish house prices resilient and forecast to grow



Social Security

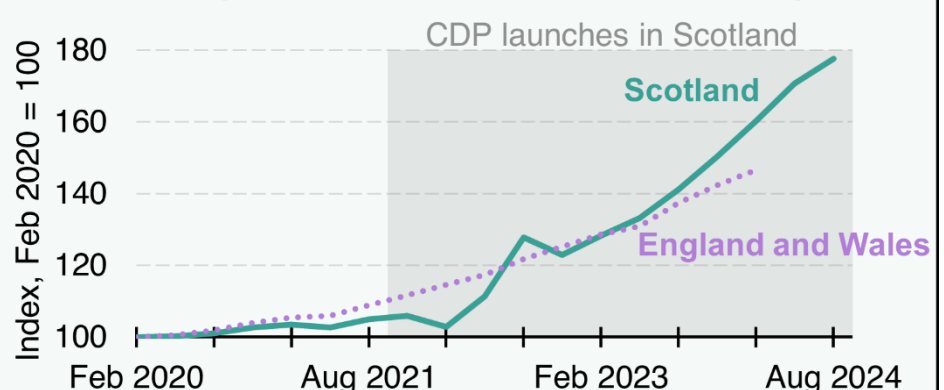
Social security spending is forecast to increase from £6.9 billion in 2025-26 to £8.8 billion in 2029-30, driven by uprating of payments and rising caseloads. Spending exceeded Block Grant Adjustment (BGA) funding by £0.9 billion in 2023-24, with this gap rising to £1.3 billion in 2025-26.

Social security spending exceeds BGA funding in all years



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.

Child disability caseloads have increased in recent years



blank	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
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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
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Social security policy announcements, £ million (nominal)

Extension of PAWHP	blank	blank	67	70	71	74	78
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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 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 confirm 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	2.5
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.

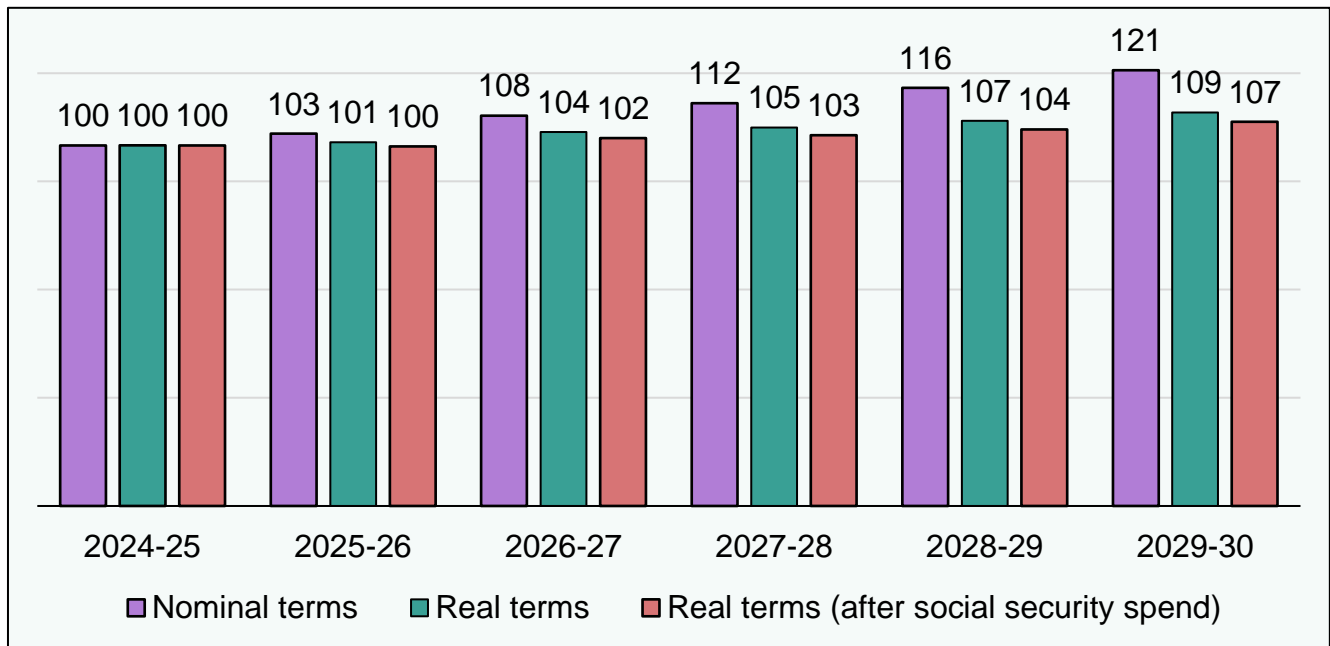
Resource funding outlook

- 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

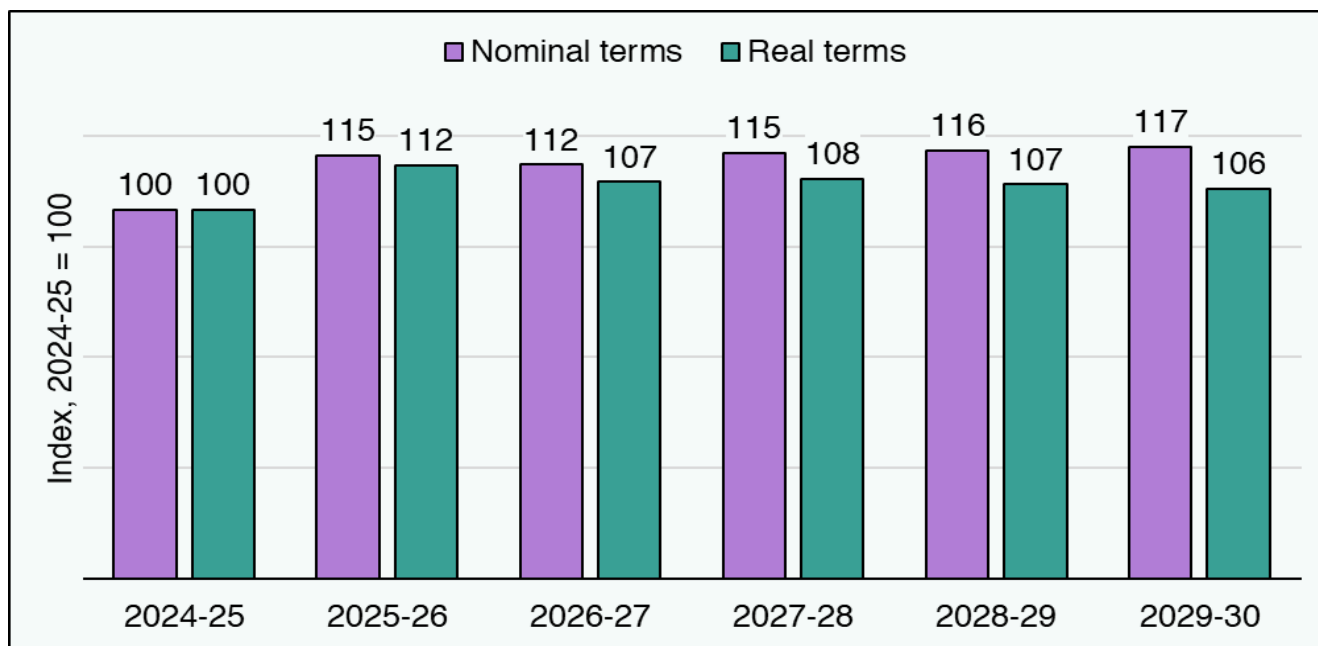
Capital funding in 2025-26 and outlook

- 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	-31.6
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.

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.

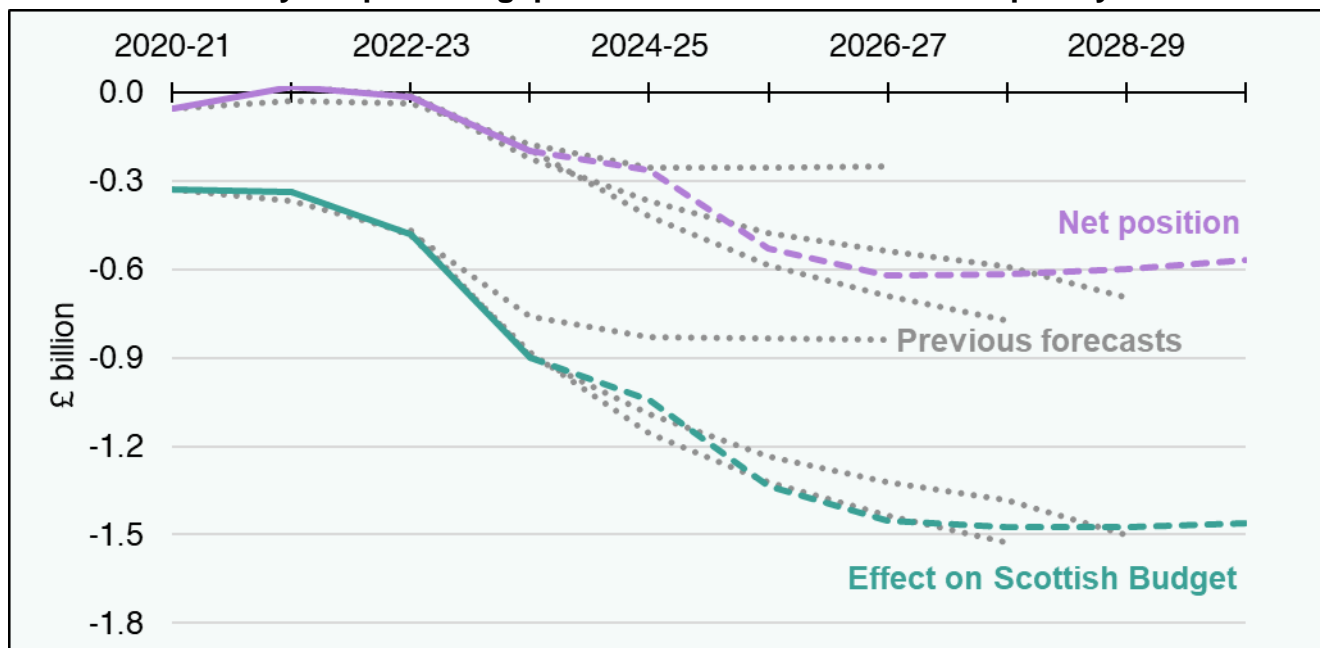
- 84 In addition, our forecast reflects the Scottish Government commitment to extend the statutory uprating to payments with currently have no statutory uprating requirement. Uprating these payments in line with CPI inflation each year is forecast to cost £2 million in 2025-26, rising to £19 million 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 Studies¹⁴. 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](#)

Additional information

Abbreviations

ABR	Autumn Budget Revision
ADP	Adult Disability Payment
APS	Annual Population Survey
BBC	British Broadcasting Corporation
BGA	Block Grant Adjustment
BMW	Biodegradable Municipal Waste
BPR	Basic Property Rate
CDP	Child Disability Payment
COFOG	Classifications of Functions of Government
CPI	Consumer Price Index
DWP	Department for Work and Pensions
GDP	Gross Domestic Product
HMRC	His Majesty's Revenue and Customs
HMT	His Majesty's Treasury
ITNP	Income Tax Net Position
LBTT	Land and Buildings Transaction Tax
MTFS	Medium Term Financial Strategy
NDR	Non-Domestic Rates
NHS	National Health Service
NICs	National Insurance Contributions
NSND	Non-Savings, Non-Dividends
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Cooperation and Development
PAWHP	Pension Age Winter Heating Payment
PIP	Personal Independence Payment

PSNFL	Public Sector Net Financial Liabilities
SBR	Spring Budget Revision
SEFF	Scotland's Economic and Fiscal Forecasts
SFC	Scottish Fiscal Commission
SG	The Scottish Government
SIT	Scottish Income Tax
SLfT	Scottish Landfill Tax
UK	United Kingdom
WFP	Winter Fuel Payment

A full glossary of terms is available on our website: [Glossary | Scottish Fiscal Commission](#).

Professional standards

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).¹⁵

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.¹⁶

Correspondence and enquiries

We welcome comments from users about the content and format of our publications. If you have any feedback or general enquiries about this publication or the commission, please contact info@FiscalCommission.scot. Press enquiries should be sent to press@FiscalCommission.scot.

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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15 OECD (2014) [Recommendation on Principles for Independent Fiscal Institutions](#)

16 Scottish Fiscal Commission (2022) [Statement of Voluntary Compliance with the Code of Practice for Statistics and Error Policy](#)

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