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SCOTTISH BUDGET REMAINS TIGHT DESPITE EXTRA FUNDING FOLLOWING UK AUTUMN BUDGET

The Scottish budget depends upon funding from the UK Government and revenue from taxes raised by the Scottish Government.

Following the UK Autumn Budget the Scottish Government has seen a significant increase in UK Government funding. The Block Grant for capital spending now grows by 10.1 per cent between 2024-25 and 2025-26, whereas previously it was expected to fall. The Block Grant for day-to-day spending has increased by £1.4 billion in 2024-25 as a result of the UK Budget and there is a further increase of £1.5 billion in 2025-26.

But the working of the fiscal framework means that the overall changes in the Scottish Budget are more modest.

The Scottish Fiscal Commission has increased its forecasts of tax revenues, in part because of higher than expected inflation and in part because of policy changes by the Scottish Government. However, the income tax net position for 2025-26 used to set the Scottish Budget has reduced the funding by £575 million between 2024-25 and 2025-26. This is because the OBR's forecasts for income tax revenues in the UK, based on the latest outturn data for 2022-23 and their updated economy forecasts, have improved by more than the Commission's forecasts for Scotland.

Combining the increase in block grant funding and the worsening net tax position produces only a modest increase in total funding available in next year's Scottish Budget. It is against this background that some of the policy choices made by the Government in managing the budget remain difficult.

Social security spending takes up a growing share of the budget with spending in 2025-26 forecast to be £1,334 million higher than the corresponding funding provided by the UK Government. After accounting for social security commitments, day-to-day spending on other areas is falling in real terms by 0.3 per cent between 2024-25 and 2025-26. This reflects the Scottish Government's priorities to support those on low incomes and pensioners, and tackle child poverty but does mean that spending in other areas is constrained.

In addition, the Scottish Government has announced its intention to explore ways of mitigating the two-child limit in the UK-wide Universal Credit from 2026-27. This could increase social security spending by around £150 million in 2026-27 rising to over £200 million in 2029-30 and would further increase the share of day to day spending allocated to social security. As this policy was communicated to the Commission late in the Budget process its cost has not been included in their social security forecasts or spending analysis.

The Scottish Government will receive some compensation from the UK Government for the changes to employer National Insurance Contributions in respect of public sector employees. But the larger share of spending on public sector wages in Scotland means the full cost of employer NIC rises is unlikely to be covered, which will increase the pressure from staff costs within individual portfolios. The Scottish Government needs to be prepared to manage the risks its paybill is higher than budgeted for.

The Commission's Chair, Professor Graeme Roy, said

> The Scottish Government has benefited from significant extra funding from Rachel Reeves' Autumn Budget. However, the consequences of much stronger income tax revenues elsewhere in the UK affecting the net tax position, combined with ongoing pressures from a rising pay bill and increased commitments on social security, continue to act as a binding constraint on the Scottish Government's broader spending decisions.
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> There is a significant increase in capital spending in 2025-26 allowing the Scottish Government to restart paused capital projects and make some new commitments. But day-to-day spending remains constrained with much of the Government's extra headroom for this year and next taken up by existing commitments and new measures that lock in longer-term fiscal costs."

ENDS

Notes for Editors

1. Paragraph 4 and Figure 1 have been amended in line with the January 2025 revision to the December 2024 SEFF.

2. The Commissionô s Report, [Scotlandô s Economic and Fiscal Forecasts ï December 2024] is available now, along with a one page graphic of key figures and a summary document. Background information is also available including spreadsheets with data for tables and charts. [Check links before publishing]

3. The main report contains our official economic, tax and social security forecasts along with policy costings for the changes in tax and social security proposed in the 2025-26 Scottish Budget. Our forecasts are just one component of the Scottish Budget; the report also gives an overview of the Scottish Governmentô s spending plans and the funding outlook for the next five years and provides our assessment of the reasonableness of the Governmentô s borrowing plans.

4. Total funding increases by 4.5 per cent in cash terms between 2024-25 and 2025-26 and by 2.1 per cent after adjusting for inflation. Funding for day to day spending has grown by 3.2 percent in cash terms and 0.8 per cent after adjusting for inflation. Funding available for day to day spending after social security payments has increased by 2.1 per cent in cash terms, but fallen by 0.3 per cent after adjusting for inflation.

Figure 1: Funding changes between budgets

£ million (nominal terms)	2024-25	2025-26
Total funding	56,215	58,772
Cash terms growth rate (per cent)		4.5
Growth rate (per cent) after inflation		2.1
Capital funding	6,402	7,344
Cash terms growth rate (per cent)		14.7
Growth rate (per cent) after inflation		12.0
Funding for day-to-day spending	49,813	51,429
Cash terms growth rate (per cent)		3.2
Growth rate (per cent) after inflation		0.8
Day-to-day spending minus social security spending [1]	43,589	44,499
Cash terms growth rate (per cent) [1]		2.1
Growth rate (per cent) after inflation		-0.3

Source: Scottish Fiscal Commission, Scottish Government.

[1] Correction on 22/01/2025: The 2024-25 amount has been revised down by £17.5 million, and the growth rate increased by 0.1 percentage points, because of higher forecast spending on the Scottish Welfare Fund.

5. Two new social security policies, announced by the Scottish Government on 28 November 2024, have been included in the forecasts. The first is a Ã17.5 million increase in the Scottish Welfare Fund for 2024-25. The second is a new approach for Pension Age Winter Heating Payment (PAWHP) for 2025-26 onwards. In 2024-25 the payment was restricted to people over State Pension age receiving specific qualifying benefits. In 2025-26 payments will be made to most households with a person above State Pension Age, with the amount depending on the personâs age and whether they receive specific qualifying payments (mainly Pension Credit). Total

spending on PAWHP in 2025-26 is forecast to be Ã101 million, an increase of Ã67 million compared to the more restrictive policy in 2024-25.

6. The additional costs of mitigating the Universal Credit two-child limit from 2026-27 have not been included in the Fiscal Commissionâs principal forecasts as the Scottish Government made the Commission aware on 28 November. This was very late in the Budget process and a week and a day after its deadline for policy measures. At this point it was too late for the Commission to produce a full costing that took account of behavioural responses and other factors. The Commission intends to publish a report on the effect on the Scottish budget in due course.

7. The Scottish Government has made several tax changes, some of which reduce revenue and others of which raise additional revenue. An 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 increasing eligibility for hospitality reliefs. There have also been increases to the rates for the LBTT Additional Dwelling Supplement (ADS) and Scottish Landfill Tax. After taking account of behavioural changes, the combined effect of all tax policies raises an extra Ã54 million in 2025-26.

8. The Scottish Fiscal Commission is the independent fiscal institution for Scotland, established by the Scottish Fiscal Commission (2016) Act. Our statutory duty is to provide the independent and official forecasts of Scottish GDP, devolved tax revenue and devolved social security spending for the Scottish Government to use in its budget and financial planning. The Commissionâs forecasts will also assist the Parliamentâs scrutiny of the Scottish Budget and Budget Bill.

9. Our forecasts represent the collective view of the Scottish Fiscal Commission, comprising the Commissioners: Professor Francis Breedon, Professor Domenico Lombardi, Professor David Ulph, and the Chair, Professor Graeme Roy.

10. There will be a public webinar on our forecasts on 11 December at 11:00 AM. This will include a presentation followed by Q & A. You can register for this online event here [add Eventbrite link]

Media Enquiries:

Email press@fiscalcommission.scot or phone John Ireland on 07890 329 308