Scottish Fiscal Commission

Forecast Evaluation Report

August 2025

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Foreword

Our forecasts play a central role in setting the Scottish Government's Budget. It is therefore important to ensure our forecasts are as reliable as possible. To do this we routinely evaluate our previous forecasts to identify improvements we can make for future forecasts. In this report we have evaluated our December 2023 forecasts for the economy, fully devolved taxes, and social security expenditure in 2024-25, and our December 2022 forecast for Scottish Income Tax revenue in 2023-24.

We would like to thank everyone who has contributed to this report, and in particular those data providers who have worked hard to ensure we have the information we need. This includes the Scottish Government, Revenue Scotland, Social Security Scotland, the Department for Work and Pensions, HM Revenue and Customs, and the Office for Budget Responsibility.

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26 August 2025

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Summary

Introduction

1 In this report we evaluate our December 2023 forecasts for the economy, fully devolved taxes, and social security in 2024-25. We also evaluate our December 2022 Income Tax forecast for 2023-24. Alongside this report, we've published a Fiscal Update which provides commentary about the effects of outturn data on the Scottish Government's funding along with other recent developments and trends in funding and spending data.

2 In December 2023 when we produced the economy, fully devolved tax, and social security forecasts, the Scottish and UK economies were still experiencing challenging conditions after the successive shocks of the previous years, including the COVID-19 pandemic and higher energy prices following Russia's invasion of Ukraine. Despite these challenges, falling inflation and growing real earnings were delivering some improvement in living standards and economic activity. Given the uncertainties at the time we produced the forecasts, we are satisfied with the performance of our 2024-25 forecasts for the economy, devolved taxes, and social security.

3 In December 2022, when we produced our Income Tax forecast for 2023-24, both the Scottish and UK economies were undergoing a period of high inflation and rising interest rates while still adjusting to the consequences of Brexit and the COVID-19 pandemic.

4 Together these factors contributed to an underestimate of Income Tax revenues in 2023-24 of 8 per cent. This is lower than our forecast errors for 2021-22 and 2022-23, but high by comparison with our absolute average error since 2018.

5 Our evaluation of previous forecasts includes analysis of different sources of error. This allows us to identify areas where we may be able to improve the accuracy of future forecasts. Beyond the factors cited above, there are no common sources of error across the forecasts evaluated. However, we have identified points for improvement in individual forecast models.

Figure 1: Summary of headline evaluations

Topic	Forecast	Outturn	Error	Relative error (per cent)
Economy				
GDP growth rate (per cent)	0.8	1.3	0.5	N/A
Taxes and social security				
Income Tax (£ million)	15,810	17,093	1,283	8
Devolved taxes (£ million)	3,931	4,101	170	4
Devolved social security (£ million)	6,283	6,141	-142	-2

Source: Scottish Fiscal Commission, Scottish Government, HMRC, Revenue Scotland, Social Security Scotland.

Economy forecast

6 Figure 1 shows that in December 2023 we under-forecast Scottish Gross Domestic Product (GDP) growth for 2024-25 by 0.5 percentage points. This is a reasonable forecast error, and is smaller than our historical average absolute error.

7 At the time we produced the forecast, the Scottish and UK economies were experiencing challenging conditions after the COVID-19 pandemic and the energy price shock following Russia’s invasion of Ukraine. Meanwhile, falling inflation and growing real earnings were delivering some improvement in living standards and economic activity. Taken together these factors led us to forecast slow but positive growth in GDP for the year ahead, after two years where GDP had been broadly flat. Outturn data shows our outlook was largely correct.

8 Our December 2023 forecast of employment growth for 2024-25 was also reasonably accurate. However, we under-forecast earnings growth, with the majority of our overall earnings forecast error being accounted for by higher-than-expected pay growth in the public sector.

Income Tax forecast

9 Our December 2022 Income Tax forecast for 2023-24 was £1,283 million, around 8 per cent lower than outturn. Our forecast for nominal earnings was already for high growth, but growth in earnings exceeded our expectations and explains roughly two thirds of our error. Employment was also higher than we expected, reflecting the impacts of migration as well as a tight labour market.

Fully devolved taxes forecast

10 Outturn total revenue from the fully devolved taxes was higher than our December 2023 forecasts for 2024-25 by £170 million, an error of 4 per cent. This was mostly caused by a £169 million under-forecast of Land and Buildings Transaction Tax (LBTT).

11 The main source of LBTT error was our forecast of prices and transactions, especially in the residential sector. We expected prices and transactions to fall in 2024-25 in a continuation of their trend from 2023-24, before returning to growth in 2025-26. Instead, they returned to growth in 2024-25. Our LBTT forecast is sensitive to error in these determinants and this sensitivity is compounded by the two often being related to one another.

12 Our forecast for Non-Domestic Rates (NDR) was £4 million below outturn, a small error that arose from offsetting overestimates and underestimates. Similarly, our forecast error for Scottish Landfill Tax (SLfT) was 4 per cent lower than outturn, because of offsetting errors in incineration and waste.

Social security forecast

13 Total spending on devolved social security in 2024-25 was £6.1 billion. This was £142 million (2 per cent) below our forecast of £6.3 billion. This is in line with the average size of our social security errors, and is the first time in recent years that spending has been below our forecast.

14 The biggest single reason for error this year was the in-year change in policy for Pension Age Winter Heating Payment, which led spending to be £151 million lower than our forecast.

15 Putting in-year changes in policy and a widening of the scope of our employability forecasts to one side, total spending on the other payments was within 1 per cent of our forecast.

16 The number of people receiving disability payments continued to exceed our forecasts, particularly for Child Disability Payment, but total spending on these was slightly lower than our forecasts, as the average weekly amounts were lower than we had expected.

17 Forecasts performed well for the more stable and established payments for low-income households, where spending was within 1 per cent of our forecast.

Chapter 1 Introduction

Background

1.1 This report provides an evaluation of our recent forecasts. We publish our forecast evaluation report to

- provide transparency about our forecasts
- help users to understand the limitations and likely degree of accuracy of our forecasts
- learn lessons to improve our forecasts
- aid understanding of the effect of our forecast errors on the Scottish Budget, including reconciliations

1.2 Forecast error is defined as the difference between the outturn and the forecast for a particular variable. Relative forecast error is the forecast error as a fraction of the forecast value.

Definition of forecast error	Definition of relative forecast error
Error = Outturn – Forecast	Relative error = (Outturn – Forecast) ÷ Forecast

1.3 Forecast errors are inevitable and do not necessarily mean that the forecasting method was flawed. The future cannot be known with certainty and sometimes a sound method can produce a large forecast error because of unexpected changes.

1.4 To help users understand what represents a reasonable forecast error we may provide comparisons with forecasters who produce forecasts of a similar range of variables.

1.5 Our aim is to reduce our average forecast error by learning lessons from previous forecasts.

1.6 Forecasts can differ from outturn for many reasons, including:

- **Data revisions:** Sometimes, the data on which we base our forecasts is revised, or new data is released that was not previously available. This can change our understanding of historical data and our judgement on future trends.
- **Modelling errors:** We use a large number of models to create our forecasts. These generally rely on identifying trends in historical data and use a combination of the historical patterns and theory to predict how these trends will change over time. Sometimes, we may incorrectly identify historical trends, or misjudge how a trend might change in the future.
- **Unexpected events:** Some events cannot be predicted in advance, such as the COVID-19 pandemic, or the Russian invasion of Ukraine.

- **Incorrect judgements:** Forecasting relies on a large number of judgements. This is often done when there is limited evidence on which to base a forecasting decision. There are often events we know will affect our forecasts but for which we have limited information on the exact effects or timing.

- **Analytical mistakes and human error:** While we see simplicity as an asset in our models, some are necessarily large and complex. For example, our Income Tax model projects the tax records of thousands of individual taxpayers. Within this model some relationships can be incorrectly specified which we call analytical error. But there can also be coding mistakes and spreadsheet errors which are human error.

- **Changes in policy:** The Scottish or UK Government may make changes to policies or funding after we have produced our forecasts. We cannot predict government policy in advance.

1.7 Where possible, we have tried to understand which categories have contributed to our forecast errors. However, in many cases, errors will be a result of several overlapping reasons. We may not always be able to disentangle how different factors have contributed to our overall forecast error. Nevertheless, attempting to identify the sources of forecast error is an important first step in making improvements and understanding what actions to take. For example, if we see modelling errors, we work to develop a better model. If the error was because of analytical mistakes, we would review our internal quality assurance processes.

1.8 We also compare some of our errors to measures of our historical performance. In some areas, we do not have a long forecasting record, particularly in social security where several payments are still relatively new and have changed substantially in recent years.

1.9 Our use of the terms 'average error' and 'average absolute error' can be illustrated with an example: a forecast with errors of positive 1 per cent and negative 1 per cent over the last two years would have an average error of 0 per cent, but average absolute error of 1 per cent.

1.10 We have published comprehensive forecast performance charts providing the full forecast history of the main forecasts included in this publication compared with the outturn data. We have made these charts available in the supplementary figures published on our website to accompany each chapter.

Chapter 2
Economy

Introduction

2.1 In this chapter we evaluate our forecast of the Scottish economy in 2024-25 produced in December 2023. At the time we produced the forecast, the Scottish and UK economies were still experiencing challenging conditions after the successive shocks of the previous years, including the COVID-19 pandemic and rising energy prices following Russia's invasion of Ukraine. Despite these challenges, falling inflation and growing real earnings were delivering some improvement in living standards and economic activity. This led us to forecast slow but positive growth in Gross Domestic Product (GDP) for the year ahead, after two years where GDP had been broadly flat.

2.2 Growth in GDP was slightly higher than we expected. We under-forecast GDP growth by 0.5 percentage points. We judge this to be a reasonable forecast error, being smaller than our historical average absolute error.

Gross Domestic Product

Headline forecast error

2.3 In December 2023, we forecast Scottish GDP to grow by 0.8 per cent in 2024-25 compared with the previous year. As Figure 2.1 shows, the latest outturn estimate of GDP growth is 1.3 per cent, giving a forecast error of 0.5 percentage points.

Figure 2.1: Evaluation of December 2023 forecast of GDP growth in 2024 25

Forecast (per cent)	Outturn (per cent)	Error (percentage points)	SFC historical average absolute error (percentage points) [1]	SFC historical average absolute error excluding COVID-19 (percentage points) [2]
0.8	1.3	0.5	2.5	0.6

Source: Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, Scottish Fiscal Commission – Forecast Evaluation Reports, Scottish Government (2025) GDP Quarterly National Accounts: 2025 Quarter 1 (January-March).

[1] Average absolute error since 2017. It summarises our latest forecast error and all the errors reported in our previous Forecast Evaluation Reports.

[2] This excludes the two years most affected by the pandemic (2020 and 2021).

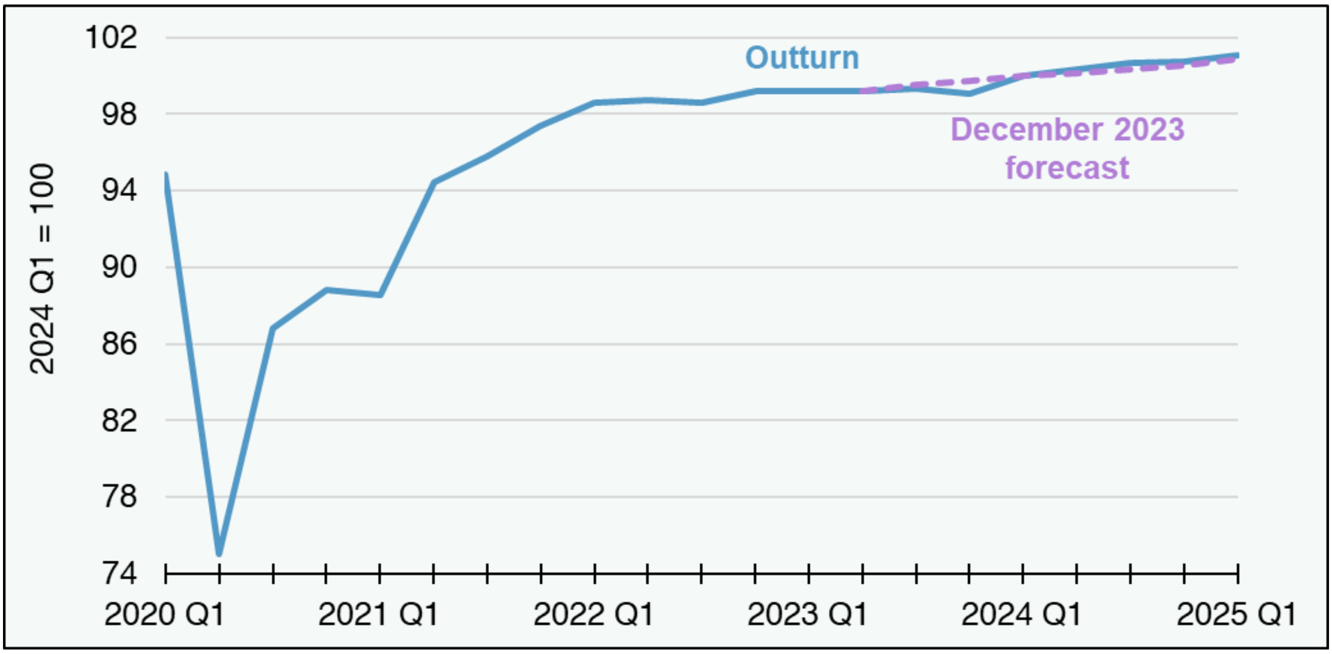
Figures may not sum because of rounding.

2.4 Our December 2023 forecast was for GDP to increase slightly in 2024-25, after being broadly flat during the period of high inflation and rising interest rates which followed the energy price shock of early 2022. At the time of producing the December 2023 forecast, headline inflation had been falling from its peak in October 2022 and was on track to return closer to the Bank of England's 2 per cent target over 2024-25. We also expected the Bank of England to start cutting interest rates in response to falling headline inflation. Our December 2023 forecast mainly reflected an assumption that this downward path for inflation and interest rates would lead to slightly higher GDP in the year ahead.

2.5 Figure 2.2 shows that our forecast of the level of GDP over 2024-25 is close to outturn. Our forecast of 2024-25 partly depends on our forecast for the final quarters of 2023-24, where there is some difference compared with outturn, mainly in 2023 Q4. This difference is also reflected in our 2024-25 GDP growth forecast error.

Figure 2.2: Scottish GDP index, December 2023 forecast and outturn

Our forecast of slowly rising GDP, after being flat for two years, was largely accurate



Description of Figure 2.2: Line graph showing our December 2023 forecast of GDP compared with the latest outturn, with data indexed so that 2024 Q1 equals 100. Outturn is marginally above our forecast for 2024-25.

Source: Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, Scottish Government (2025) GDP Quarterly National Accounts: 2025 Quarter 1 (January-March).

Understanding our forecast error

2.6 Figure 2.3 shows the decomposition of our December 2023 GDP forecast error for 2024-25 by components of expenditure. Household consumption and private sector investment outperformed our expectations in December 2023, resulting in under-forecasts by 0.7 percentage points and 0.9 percentage points respectively. These are broadly offset by an over-forecast of net trade.

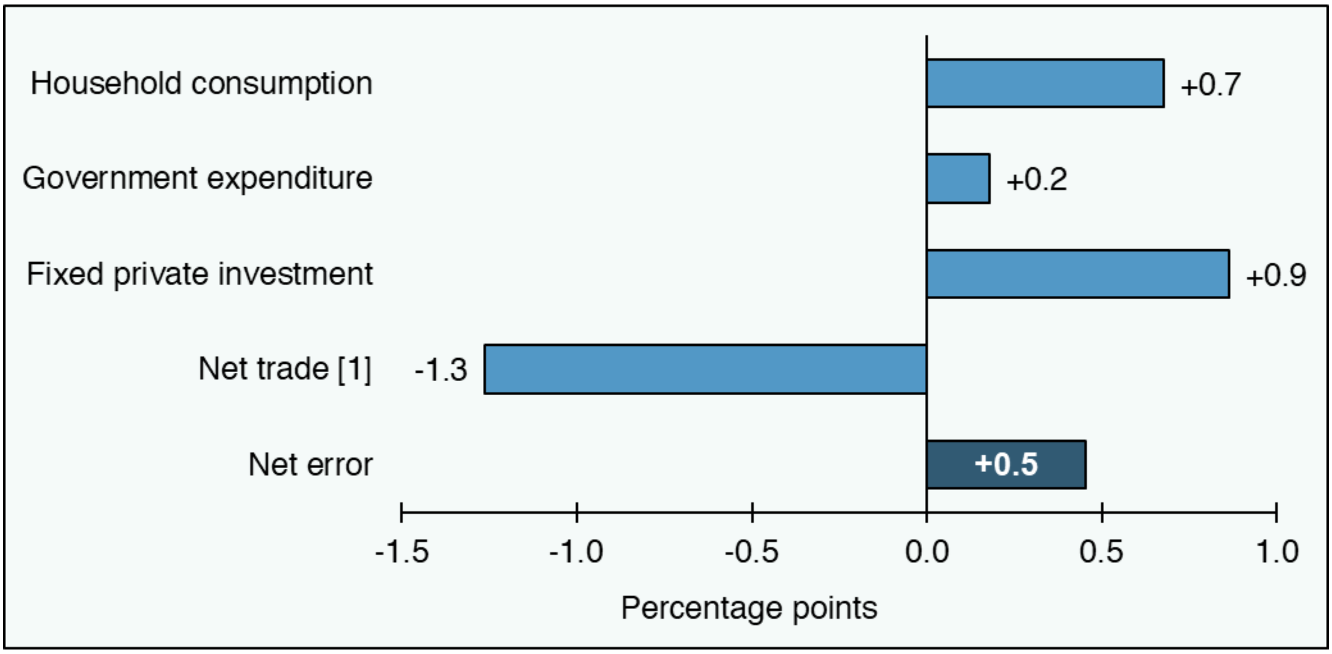
2.7 Household consumption accounts for almost two thirds of Scottish GDP. The main factor boosting household consumption was strong growth in real disposable household income (RDHI) over the last two years, compared with our December 2023 forecast of no RDHI growth.[1] After falling sharply in 2022-23 following Russia's invasion of Ukraine, real disposable income increased over the last two years. This was mainly because of

[1] Figure 3.3 (RDHI per person) in Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024.

strong growth in nominal average earnings, combined with falling inflation. However, living cost pressures remain, especially for lower-income households.[2] Private sector investment can be a relatively volatile component of GDP, but inflation and interest rates that were lower than expected over 2024-25 may explain our under-forecast.

Figure 2.3: Decomposition of December 2023 GDP forecast error for 2024-25

Consumption and investment under-forecasts largely offset by net trade over-forecast



Description of Figure 2.3: Bar chart showing contributions in percentage points to the GDP error from household consumption (under-forecast by 0.7 percentage points), government expenditure (under-forecast by 0.2 percentage points), fixed private investment (under-forecast by 0.9 percentage points), and net trade including residual (over-forecast by 1.3 percentage points).

Source: Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, Scottish Government (2025) GDP Quarterly National Accounts: 2025 Quarter 1 (January-March).

[1] 'Net trade' category includes residual factors which are: changes in inventories, including balancing adjustments; and statistical discrepancy.

Figures may not sum because of rounding.

Labour market

Headline forecast error

2.8 Figure 2.4 shows the error in our December 2023 forecasts of employment and nominal earnings growth for 2024-25. Employment and earnings are the most important outputs from our economy forecast as they feed into our forecast of Scottish Income Tax. We expect Income Tax outturn data for 2024-25 to be published in summer 2026.

[2] Resolution Foundation (2025) The Living Standards Outlook 2025.

2.9 In Figure 2.4 we also show a comparison to errors in the OBR's November 2023 forecasts, as the Budget-setting Income Tax Block Grant Adjustment (BGA) for 2024-25 was based on the OBR's November 2023 forecasts.

Figure 2.4: December 2023 forecast error in employment and nominal earnings growth for 2024-25, and comparison with the OBR

Per cent, unless specified	Determinant	Forecast	Outturn [1]	Error (percentage points)
SFC December 2023	Employment (RTI-based)	-0.1	0.2	0.3
SFC December 2023	Average earnings	3.6	4.5	0.9
SFC December 2023	Total earnings	3.5	4.7	1.2
OBR November 2023	Employment (LFS-based)	0.2	1.2	1.0
OBR November 2023	Average earnings	3.3	4.7	1.3
OBR November 2023	Total earnings	3.6	6.1	2.5

Source: Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, Scottish Government (2025) GDP Quarterly National Accounts: 2025 Quarter 1 (January-March), OBR (2023) Economic and fiscal outlook – November 2023, OBR (2025) Economic and fiscal outlook – March 2025.

Our source for total earnings (wages and salaries) is the Quarterly National Accounts for Scotland (QNAS). Our measure of the number of employees is based on Real Time Information (RTI). This, together with an assumption about self-employment based on the Annual Population Survey, gives our measure of employment. Average earnings are equal to QNAS total earnings divided by the number of employees. Earnings growth rates based on QNAS may differ from those based on RTI pay data.

[1] Outturn is as available at last forecast (SFC May 2025 and OBR March 2025). Based on QNAS published on 30 July 2025, growth in total earnings (wages and salaries) was 5.5 per cent in 2024-25.

Figures may not sum because of rounding.

Understanding our forecast error for employment

2.10 Figure 2.4 shows that we under-forecast Scottish employment growth in 2024-25 by 0.3 percentage points, compared with the OBR's under-forecast of 1.0 percentage points for UK employment growth.

2.11 While our and the OBR's employment growth forecasts were similar, the difference between the two errors is due to different outturn estimates. This may be because of the different employment data sources being used. Our measure is based on Real Time Information (RTI) while the OBR's main source is the Labour Force Survey (LFS). In recent years, trends in LFS employment have diverged from trends in RTI payrolled employment, mainly due to the quality issues with the LFS which have emerged since the COVID-19 pandemic. We discussed these issues in detail in our 2024 Forecast Evaluation Report and 2024 Statement of Data Needs, and other organisations have also discussed them.[3] For 2024-25, the RTI indicates payrolled employment growth of 0.2 per cent in Scotland and 0.5 per cent in the UK, whereas the LFS indicates employment growth of 1.1 per cent in Scotland and 1.3 per cent in the UK (as opposed to 2022-23 and 2023-24 when RTI-based employment growth was stronger than the LFS).[4,5]

2.12 Unemployment has been low in Scotland since the second half of 2021-22, and we have highlighted the tightness of the labour market with record-high vacancies, worker shortages, and recruitment difficulties.[6] This largely continued to be the case in 2024-25, though to a lower degree. With the unemployment rate remaining low and steady, growth in employment largely reflects growth in the total pool of available workers (the economically active population), which was broadly flat over the last year.

Understanding our forecast error for nominal average earnings

2.13 Figure 2.4 shows that we under-forecast Scottish nominal average earnings growth in 2024-25 by 0.9 percentage points, compared with the OBR's under-forecast of 1.3 percentage points for the UK.

2.14 Breaking down our overall earnings forecast error for 2024-25, we under-forecast public sector earnings growth by 2.6 percentage points and we under-forecast private sector earnings growth by 0.2 percentage points. Weighing up these errors by the public and private sector shares of total employees, which are around 25 per cent and 75 per cent respectively, the public sector error accounts for at least three quarters of the overall error.

Public sector earnings

2.15 On the public sector side, our one-year-ahead average earnings forecast relies mainly on stated government policy and our understanding of government funding. For the devolved public sector, we use information from the Scottish Government on basic pay awards based on its pay policy, and we make assumptions about pay progression and employment churn to obtain a forecast for average earnings growth. Given the assumed public sector pay deals, devolved public sector employment is constrained such that overall spending on pay remains a fixed proportion of the available resource funding.

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[3] Scottish Fiscal Commission (2024) Forecast Evaluation Report – August 2024, Scottish Fiscal Commission (2024) Statement of Data Needs – August 2024, Resolution Foundation (2025) Estimates of UK employment, Resolution Foundation (2024) Get Britain's Stats Working, Bank of England (2024) Monetary Policy Report – May 2024.

[4] ONS (2025) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted – August 2025, ONS (2025) HI11 Regional labour market: headline indicators for Scotland – August 2025, ONS (2025) A01: Summary of labour market statistics – August 2025.

[5] For 2024-25, LFS-based employment growth being stronger than the RTI (in contrast to 2022-23 and 2023-24 when RTI was stronger) may partly reflect the LFS 'catching up' as the ONS recovery actions since late 2023 started to improve accuracy of the LFS.

[6] A labour market is 'tight' if the demand for labour is high relative to the supply of labour. The tightness in the UK since 2021-22 has been due to factors such as: bottlenecks and mismatches in the wake of the COVID-19 pandemic following the rapid reopening of the economy; an ageing workforce, with more people leaving jobs than could be replaced in the short term; fewer EU migrants. Bank of England (2021) Agents' summary of business conditions – 2021 Q3.

For average earnings growth in the reserved public sector in Scotland, we use the OBR's forecast of UK public sector paybill per head growth.

2.16 In December 2023 we under-forecast growth in public sector total earnings in 2024-25. This was the result of a combination of factors: pay deals were higher than the assumption in our December 2023 forecast; growth in public sector employment was higher than we expected; and, ultimately, the amount spent on the public sector paybill in Scotland was higher than we expected when we produced our forecast in December 2023. In this section we discuss each of these factors in turn, as well as what these may mean for our Income Tax forecast error.

2.17 Both the UK and Scottish pay deals for 2024-25 were higher than the UK Government's stated policy and our assumption on the Scottish Government's policy at the time we produced the forecast.

2.18 Following the election of the new UK Government in July 2024, the UK pay awards in 2024-25 were in the range of 5 to 6 per cent for areas covered by the Pay Review Bodies (PRBs), considerably higher than the 2 per cent assumption included in the 2021 UK Spending Review.[7]

2.19 The Scottish Government also agreed pay awards for 2024-25 above its pay policy of 3 per cent, which was published on 30 May 2024 instead of being set out alongside the 2024-25 Scottish Budget in December 2023.[8,9] For our forecast, in the absence of a pay policy, we made our own assumption for pay growth in the devolved public sector. Our assumption was 3 per cent for the average basic pay award, or 4.5 per cent for average earnings growth including pay progression and employment churn.[10]

2.20 We forecast growth in devolved and reserved public sector average earnings of 3.4 per cent, with outturn showing 6.0 per cent, an error of 2.6 percentage points.[11]

2.21 In our public sector pay model, within a fixed amount of funding, higher (or lower) public sector average earnings growth is offset by lower (or higher) public sector employment. Given the information we had on public sector pay awards and the amount of resource

[7] For 2024-25, the UK Government accepted the PRB recommendations in full at the end of July 2024, as we highlighted in paragraph 2.11 of Scottish Fiscal Commission (2024) Fiscal Update – August 2024.

[8] Scottish Government (2024) Public sector pay policy 2024 to 2025, Scottish Fiscal Commission (2024) Fiscal Update – August 2024, Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024.

[9] For example, for the largest workforce groups, pay deals in 2024-25 were 5.5 per cent for NHS Agenda for Change staff and 4.27 per cent for local government and for teachers. Scottish Government (2024) NHS pay rise agreed, Scottish Government (2024) Local Authority pay, COSLA (2024) Scottish Teaching Workforce Accepts COSLA Pay Offer.

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

[11] Outturn refers to our model-based estimates of Scottish public sector earnings as available at our last forecast in May 2025, as so far there is no official source of public sector earnings statistics for Scotland.

funding, we forecast a fall in Scottish public sector employment by 0.8 per cent. Outturn showed an increase of 0.7 per cent, an error of 1.5 percentage points.[12]

2.22 Overall, we under-forecast growth in public sector total earnings by 4.1 percentage points. This reflects higher spending on the public sector paybill from higher resource funding in 2024-25 compared with the information available in December 2023. In the 2024-25 Scottish Budget in December 2023, the available resource funding was £47,392 million. The latest figure for 2024-25 resource funding (as of the provisional outturn statement to Parliament in June 2025) was £49,027 million, which is higher by £1,635 million or around 3 per cent. Most of this difference is because of the increase in UK Government spending announced after the July 2024 election and covered higher pay awards in the rest of the UK.

2.23 We do not yet have Income Tax outturn data for 2024-25. Our public sector total earnings forecast error of 4.1 percentage points could make a positive contribution to the forecast error in Scottish Income Tax. The impact on the Income Tax net position and reconciliation will depend on to what extent, if any, there were similar issues with the OBR's forecast of the UK public sector paybill. We will be able to scrutinise more closely if and to what extent the error in our public sector earnings forecast contributed to any Income Tax forecast error once the outturn data is published in summer 2026.

Private sector earnings

2.24 On the private sector side, our one-year-ahead average earnings forecast depends largely on our outlook for inflation and the labour market, with productivity being the main determinant in the longer term.[13] While inflation is a UK-wide determinant and we usually align our inflation forecast to that of the OBR, we can make a judgement on how inflation feeds through to wages. We can also make judgements on the tightness of the labour market in Scotland by looking at Scottish data on unemployment, vacancies, staff availability, and spare capacity.

2.25 In December 2023 we correctly predicted private sector earnings growth in 2024-25 to remain historically high (above the annual average of 3 per cent) but to slow from the rate of around 6 per cent in the previous year, consistent with lower inflation and a gradual easing in labour demand relative to labour supply.

2.26 Outturn showed that, while slowing, private sector earnings growth in 2024-25 was slightly higher than we had anticipated. This was mainly because, despite a decline in global energy prices, domestically driven inflation proved more persistent than we had expected. In part, this reflected the labour market remaining relatively tight, which contributed to these domestic price pressures through higher labour costs.[14]

[12] Scottish Government (2025) Public Sector Employment in Scotland Statistics for 1st Quarter 2025.

[13] For example, when inflation is high and the labour market is tight, firms are more likely to raise wages because they face greater competition in attracting or retaining workers, while workers bargain for higher wages to protect their real incomes from the higher cost of living.

[14] Another development with implications for the labour market is the rise in employer National Insurance Contributions which was introduced in the 2025-26 UK Budget and came into effect in April 2025.

2.27 We forecast growth in private sector average earnings of 3.8 per cent, with outturn showing 4.0 per cent, an error of 0.2 percentage points.[15]

Conclusions

2.28 Our December 2023 forecasts of GDP and employment growth for 2024-25 were reasonably accurate. However, we under-forecast earnings growth, with the majority of our overall earnings forecast error being accounted for by higher-than-expected pay growth in the public sector.

2.29 Our earnings forecast will continue to be an area of focus in our work given its importance for our Income Tax forecast and the projected Income Tax net position.

2.30 For private sector earnings, we will continue to explore different regional measures of labour market tightness and of spare capacity in the economy, and the implications for our forecast of Scottish average earnings. In light of this, we will keep our assumption about the inflation pass-through to wages under review. We have also undertaken a joint project with researchers at the University of Strathclyde to develop a new regional model for short-term forecasting which we expect will help us produce improved forecasts.[16]

2.31 On public sector earnings and employment, we continue to engage with the Scottish Government to ensure we receive information which is as reliable and timely as possible.[17]

[15] Outturn refers to our model-based estimates of Scottish private sector earnings as available at our last forecast in May 2025, as so far there is no official source of private sector earnings statistics for Scotland.

[16] Scottish Fiscal Commission (2025) Business Plan 2025-26.

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

Chapter 3
Tax

Introduction

3.1 In this chapter we evaluate our December 2022 forecast of Scottish Income Tax (SIT) for 2023-24. We also evaluate our December 2023 forecasts of the devolved taxes for 2024-25, covering Non-Domestic Rates (NDR), Land and Buildings Transaction Tax (LBTT), and Scottish Landfill Tax (SLfT).

3.2 Figure 3.1 compares our forecasts against outturn. SIT outturn for 2023-24 was £17.1 billion, which is £1.3 billion higher than our forecast of £15.8 billion. For the devolved taxes, total revenue outturn was £3.9 billion, which is £0.2 billion lower than our forecast of £4.1 billion.

3.3 Following publication of outturn data, we now know there will be a £406 million Income Tax reconciliation applied in the 2026-27 Scottish Budget.[18] We discuss this reconciliation, and provide further analysis on the Income Tax net position, in our Fiscal Update published alongside this report.[19] We will discuss the total reconciliation from all devolved taxes to be applied in the 2026-27 Scottish Budget in our next Scotland's Economic and Fiscal Forecasts publication, as this depends on outturn data for UK Government revenues which is not yet available.

Figure 3.1: Summary of tax forecast errors

£ million, unless specified	Forecast	Outturn	Error	Relative error (per cent)
Scottish Income Tax	15,810	17,093	1,283	8
Other devolved taxes, of which:	3,931	4,101	170	4
Non-Domestic Rates	3,143	3,146	4	0
Land and Buildings Transaction Tax [1]	730	899	169	23
Scottish Landfill Tax [2]	58	56	-2	-4

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts, HMRC (2025) Scottish Income Tax Outturn Statistics: 2023 to 2024, Scottish Government – Non-domestic rates income statistics, Revenue Scotland (2025) Provisional Outturn Data 2024/25.

[1] LBTT revenue is net of Additional Dwelling Supplement (ADS) repayments, and excludes penalties, interest, and revenue losses.

[2] SLfT revenue excludes penalties, interest, and revenue losses.

Figures may not sum because of rounding.

[18] This figure is provisional and may be revised before the 2026-27 Scottish Budget.

[19] Scottish Fiscal Commission (2025) Fiscal Update – August 2025.

Figure 3.2: Average forecast error, 2018-19 to 2023-24

Per cent	Historical average error	Historical average absolute error
Scottish Income Tax [1]	3	6
Other devolved taxes, of which: [2]	3	15
Non-Domestic Rates	-10	10
Land and Buildings Transaction Tax	3	14
Scottish Landfill Tax	14	21

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts, HMRC (2025) Scottish Income Tax Outturn Statistics: 2023 to 2024, Scottish Government – Non-domestic rates income statistics, Scottish Government (2024) Fiscal framework data annex: December 2024.

[1] The Scottish Income Tax average only covers forecasts for 2018-19 to 2022-23.

[2] The 'Other devolved taxes' line shows an unweighted average of the historical average error for each individual tax.

Figures may not sum because of rounding.

Scottish Income Tax

3.4 In July 2025, HM Revenue and Customs (HMRC) published Scottish Income Tax (SIT) outturn statistics for 2023-24.[20] In this section we evaluate the forecast we published in December 2022, which was used to set the 2023-24 Budget. Figure 3.3 shows a breakdown of our forecast error of £1,283 million. We think that most of it is explained by errors in our economy forecasts.

Understanding the December 2022 forecast error

3.5 We produced this forecast at a time when both the Scottish and UK economies were undergoing a period of high inflation and rising interest rates following Russia's invasion of Ukraine, while still adjusting to the consequences of Brexit and the COVID-19 pandemic.

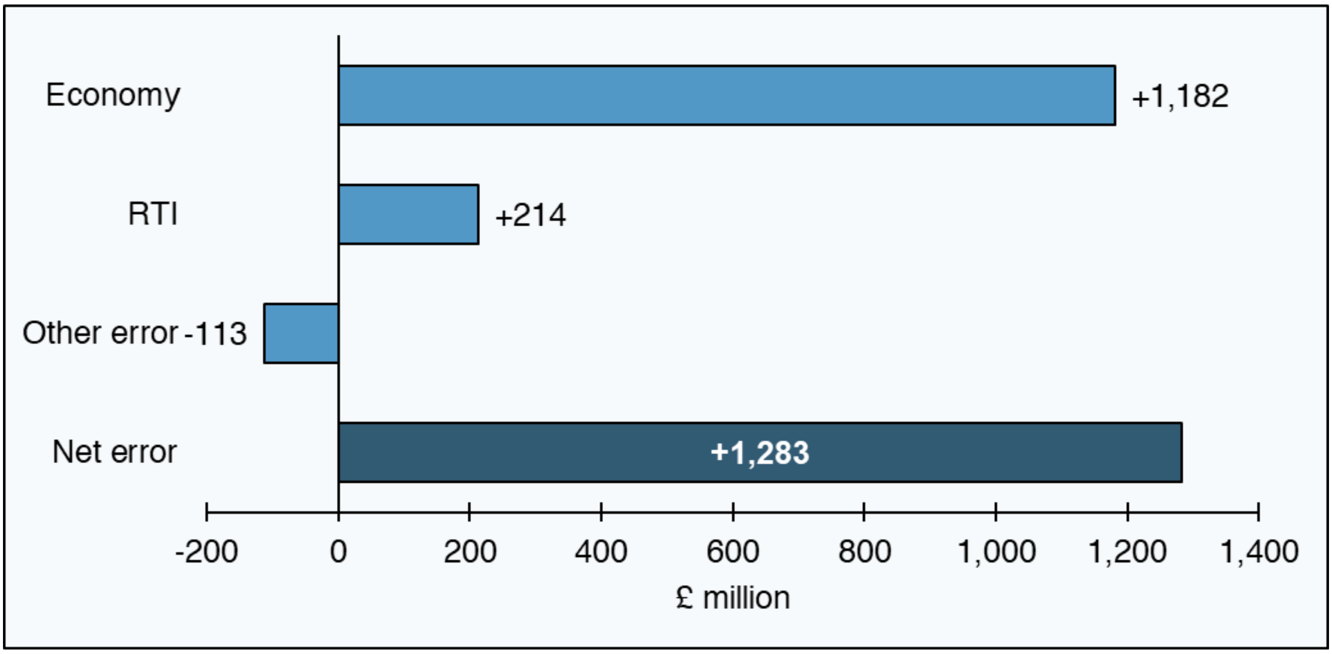
3.6 Our forecast error of £1,283 million is large, but the BGA forecast error is also large. As a result, the impact of forecast errors on the reconciliation for the 2026-27 Budget partly balances out. Further details are in our Fiscal Update.[21]

[20] HMRC (2025) Scottish Income Tax Outturn Statistics: 2023 to 2024.

[21] Scottish Fiscal Commission (2025) Fiscal Update – August 2025.

Figure 3.3: Breakdown of the December 2022 SIT forecast error for 2023-24

The largest component of error is in our economy forecasts



Description of Figure 3.3: Bar chart shows the main factors corresponding to our Scottish Income Tax forecast error. Outturn was larger than we forecast, with most of that error being explained by error in our economy forecasts, and a smaller portion being explained by errors in RTI. Other error offsets this underestimate slightly.

Source: Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022, HMRC (2025) Scottish Income Tax Outturn Statistics: 2023 to 2024.

Our measure of employees is based on Real Time Information (RTI); this, together with an assumption about self-employment based on the Annual Population Survey (APS), gives our measure of employment.

Average earnings are equal to QNAS total earnings divided by employees. Earnings growth rates based on QNAS may differ from those based on RTI pay data.

Figures may not sum because of rounding.

Economy forecasts

3.7 Our economy forecasts are the main basis of our Income Tax forecasts. Inflation had reached a peak of around 11 per cent in October 2022, caused by rising prices of energy and traded goods, and we expected it to stay above the 2 per cent target during 2023-24.

3.8 In December 2022, we had outturn data for 2020-21 and a full year of Real Time Information (RTI) data on revenue collected through Pay As You Earn (PAYE) for 2021-22. We then used our forecasts of employment and average earnings growth alongside partial 2022-23 RTI data to produce our forecast. We evaluate the effects of all these sources of data below.

3.9 In December 2022 we forecast high growth in nominal earnings, reflecting labour market tightness and high inflation. Figure 3.4 shows that earnings across 2022-23 and 2023-24 increased by more than we expected. Higher public sector pay awards may also have contributed to upward pressure on private sector earnings. These factors contributed to our error for earnings which explains around two-thirds of our economy forecast error.

3.10 We underestimated the growth in population, particularly the impacts of migration. Secondly, unemployment rates did not rise by as much as forecast and so employment grew more than we expected in December 2022. These factors increased revenues and account for the remaining third of our economy forecast error.

Figure 3.4: Cumulative growth of economic determinants from 2022-23 to 2023-24

Per cent, unless specified	Forecast	Outturn	Error (percentage points)
Employment	1.2	3.1	1.9
Average earnings	10.0	14.6	4.6

Source: Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022, Scottish Fiscal Commission (2025) Scotland's Economic and Fiscal Forecasts – May 2025, ONS (2025) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted.

Our measure of employees is based on Real Time Information (RTI); this, together with an assumption about self-employment based on the Annual Population Survey (APS), gives our measure of employment.

Average earnings are equal to QNAS total earnings divided by employees. Earnings growth rates based on QNAS may differ from those based on RTI pay data.

Figures may not sum because of rounding.

Real Time Information and Self Assessment

3.11 At the time we produced our forecast, we had partial RTI data for 2022-23 up to September 2022 which we used to adjust our forecast upwards. Final RTI outturn growth in 2022-23 was higher than we expected and our adjustment would have been £214 million higher. RTI data can be an early indicator of distributional changes and the effects of fiscal drag.

3.12 The SIT outturn shows that revenue from Income Tax paid through Self Assessment decreased by 3.2 per cent in 2023-24 when we had assumed it would grow in line with PAYE, and this is not captured in RTI data. This partially explains why, if we had had outturn economy growth figures and full 2022-23 RTI data in December 2022, we still would have overestimated our forecast by £113 million.

3.13 When we produce our Budget-setting forecasts, we assume that growth in Self Assessment revenue will be the same as PAYE. While we know that growth in Self Assessment can be highly variable, we do not receive any information on it until close to outturn publication, and therefore the current assumption remains the best approach. We discussed Self Assessment and high-income taxpayers in our August 2023 Forecast Evaluation Report.[22]

Other forecast error

3.14 We cannot directly estimate the causes of 'Other' forecast error. It may be explained by a variety of factors, including unexpected changes in the distribution of taxpayers in Scotland across bands, behavioural changes in response to tax policy that were

[22] Scottish Fiscal Commission (2023) Forecast Evaluation Report – August 2023.

different from those included in our forecast, and the overall state of the Scottish and UK economies.

December 2024 and May 2025 forecasts

3.15 Our two most recent forecasts of SIT have been produced with a full year of PAYE RTI data available for 2023-24, which makes up roughly 90 per cent of revenue. In our May 2025 forecast, we also received an early indication from HMRC that Self Assessment revenue growth was lower than PAYE. Self Assessment revenue is about 10 per cent of SIT and this resulted in our revising down the forecast for 2023-24.

Figure 3.5: SIT and BGA outturn for 2023-24 compared with recent forecasts

£ million	Scottish Income Tax	Block Grant Adjustment	Income Tax net position	Reconciliation applying in 2026-27
December 2024	17,315	-16,527	788	463
May 2025	17,072	-16,468	604	279
Outturn [1]	17,093	-16,362	730	406
Change since May 2025	21	106	126	126

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts, HMRC (2025) Scottish Income Tax Outturn Statistics: 2023 to 2024, OBR (2024) Economic and fiscal outlook – October 2024, OBR (2025) Economic and fiscal outlook – March 2025.

[1] The outturn BGA, net position and subsequent reconciliation are final.

Figures may not sum because of rounding.

3.16 The projection of the net position in 2023-24 in December 2024 was slightly higher than the outturn figure, while the May 2025 estimate was just £126 million below the final outturn. The underlying forecasts produced by us and the OBR have remained relatively consistent since December 2024, meaning we have had a reliable estimate of the final reconciliation in the months leading up to published outturn.

3.17 Our May 2025 SIT forecast underestimated by only 0.1 per cent, which is our closest estimate in the forecast just before publication of outturn. The information shared by HMRC on growth in Self Assessment revenues was the key reason for us to revise our estimate for 2023-24 down and closer to final outturn than our December 2024 forecast. However, growth in Self Assessment revenues was actually lower than our revised assumption although this was balanced out by slightly higher growth in PAYE outturn than the RTI data suggested.

Non-Domestic Rates

3.18 In this section we evaluate our December 2023 forecast of Non-Domestic Rates (NDR) revenue in 2024-25 against provisional outturn data.

3.19 Figure 3.1 shows that NDR revenue for 2024-25 was £3,146 million, which is £4 million higher than our December 2023 forecast of £3,143 million. This error is very small, and it rounds to 0 per cent in relative terms.

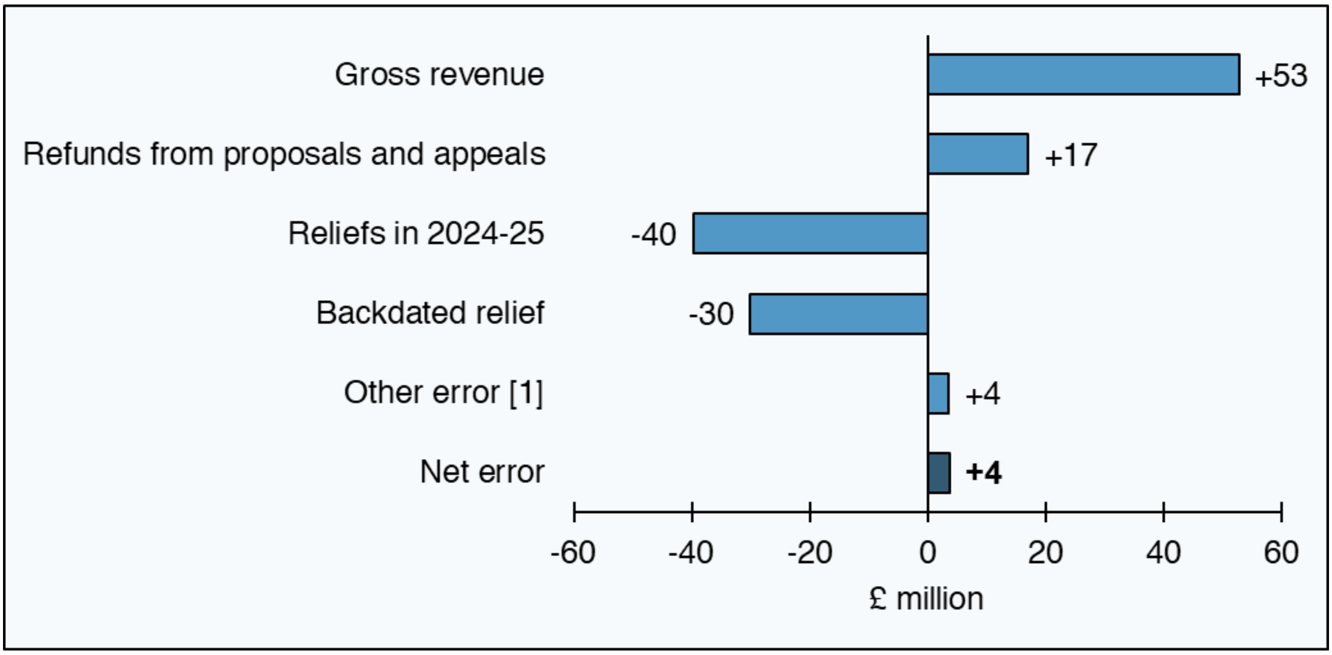
3.20 Gross revenue was higher than we forecast, and less revenue was lost to proposals and appeals than we expected.[23] This was largely offset by a higher cost of reliefs than we had forecast.

Understanding our forecast error

3.21 Figure 3.6 shows a decomposition of the £4 million total error in 2024-25.

Figure 3.6: Decomposition of the December 2023 NDR forecast error for 2024-25

The largest component of error is an underestimate of gross revenue



Description of Figure 3.6: Bar chart shows the main factors contributing to our Non-Domestic Rates forecast error. Outturn was higher than we forecast because of increased gross revenue and smaller refunds from proposals and appeals than we forecast, but this error was mostly offset by larger deductions for reliefs than we forecast.

Source: Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, Scottish Government – Non-domestic rates income statistics.

[1] 'Other error' category includes write-offs, error relating to bad debts, late additions to and deletions from the roll, and interest on refunds of overpayments, along with other small adjustments to NDR revenue.

Figures may not sum because of rounding.

Gross revenue, proposals and appeals

3.22 The largest component of the error is gross revenue, which we under-forecast by £53 million. This was mostly because we overestimated how much rateable value would be lost to proposals and appeals, which reduce in-year payments.

3.23 If a successful proposal or appeal reduces the bill that should have been paid in a previous year, the council must refund the overpayment, with the deduction being made from revenue in the year the refund is made. Our overestimate in losses therefore also

[23] When a ratepayer disagrees with a valuation, they can formally contest it. The two stages of the process for doing this are called a 'proposal' and an 'appeal'.

caused an error in our forecast of the amount that had to be repaid in 2024-25 because ratepayers had paid too much in 2023-24, by £17 million.

Reliefs

3.24 We under-forecast the cost of reliefs in 2024-25 by £40 million. We also under-forecast the cost of backdated reliefs by £30 million.

3.25 The largest error was in our costing of the Small Business Bonus Scheme (SBBS), which we under-forecast by £26 million.[24] Partly, our error for the SBBS was large because it is the relief with the highest cost. It was also partly because we assumed the cost of the relief would fall relative to 2023-24 because we forecast that the total rateable value of all properties would fall. The rateable value did fall, because of proposals and appeals, but the cost of the SBBS increased. This appears to be because proposals and appeals are more likely to be to properties which have too high a rateable value to be eligible for the SBBS, even after any reduction in rateable value. Therefore, we plan to make improvements to this aspect of our forecast to better capture the cost of the relief relative to rateable value.

3.26 Conversely, we over-forecast Small Business Transitional Relief by £25 million.[25] We identified in May 2025 that our methodology overestimated the cost of this relief, and revised down our forecast accordingly.

[24] The SBBS is a relief awarded to properties with a rateable value of less than £20,000, when the total rateable value of all properties occupied by the business is at most £35,000.

[25] This is a time-limited relief awarded to properties whose eligibility for the SBBS was reduced in 2023, which caps the amount by which their NDR bills can increase.

Box 3.1: Non-Domestic Rating Account

We forecast the contributable amount of NDR. This is pooled across Scotland before being redistributed as part of the Local Government Finance Settlement. What is redistributed to local authorities is known as the distributable amount.

In December 2023, we provided an illustrative projection of the balance of the Non-Domestic Rating Account in 2024-25 showing a deficit of £85 million. This was based on our forecast of the contributable amount, the distributable amount set by the Scottish Government for the 2024-25 Budget, and the deficit forecast to be carried forward from earlier years. Figure 3.7 shows the difference between our forecast and the final balance. The provisional balance is based on the most recent figures.

Figure 3.7: Provisional balance of the Non-Domestic Rating Account in 2024-25

£ million	SFC illustrative projection	Provisional outturn	Difference
Provisional contributable amount (A) [1]	3,143	3,279	136
Net effect of prior year adjustments (B) [2]	-75	-86	-11
Distributable amount (C)	3,068	3,068	0
Annual balance (D) (A + B - C)	0	124	124
Cumulative balance (E) (Previous year E + current year D)	-85	77	161

Source: Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, Scottish Government (2023) Scottish Budget: 2024 to 2025, Scottish Government – Non-domestic rates income statistics, Scottish Government (2024) The Scottish Government Non Domestic Rating Account for the year ended 31 March 2024.

[1] The provisional contributable amount is set early in the tax year based on information provided by councils. It is therefore not the same as the provisional outturn that we report on in the rest of this section.

[2] The prior year adjustments are calculated based on notified outturn from 2023-24. This could change when audited figures are available.

Figures may not sum because of rounding.

This balance is affected by several factors. Contributions are determined by local authorities' own estimates of collections for the year ahead, which are submitted to the Scottish Government early in the financial year. The net effect of prior year adjustments (B) is determined by the difference between the provisional contributable amount (PCA) and the final audited NDR figures from the previous financial year. The distributable amount (C) is set at each Scottish Budget and is unchanged. Differences between the PCA and final audited outturn in 2023-24 are carried forward as prior year adjustments into 2024-25.

In the provisional outturn for 2024-25 the Non-Domestic Rating Account is in surplus by £77 million, compared with our projection of a deficit of £85 million. This is mostly because of a larger-than-expected PCA for 2024-25.

Land and Buildings Transaction Tax

3.27 This section evaluates our December 2023 Budget-setting forecast of Land and Buildings Transaction Tax (LBTT) revenue in 2024-25 using provisional outturn data and management information from Revenue Scotland.[26,27] We forecast three components of LBTT: residential LBTT, the Additional Dwelling Supplement (ADS), and non-residential LBTT.

3.28 Figure 3.8 shows that in December 2023 we forecast total revenue for 2024-25 of £730 million. The provisional outturn is £899 million, which is £169 million higher than we forecast, giving a relative error of 23 per cent. Outturn exceeded our forecast by 34 per cent for residential LBTT, 12 per cent for net ADS, and 12 per cent for non-residential LBTT. Unlike the previous two years where forecast errors in the three components of LBTT partially offset one another, here outturn revenue exceeded forecast revenue across all three components.

3.29 Compared with our previous Budget-setting forecast errors, this relative error is our second largest on record. The largest was our January 2021 forecast of revenue for 2021-22, which was 38 per cent. For further comparison, our historical mean absolute error for Budget-setting forecasts (excluding December 2023) is 14 per cent, marking this relative error as being larger than average.

3.30 The main source of error was our forecast of prices and transactions, especially in the residential sector. We expected prices and transactions to fall in 2024-25 in a continuation of their trend from 2023-24 before returning to growth in 2025-26. Instead, they returned to growth in 2024-25. Our LBTT forecast is sensitive to error in these determinants and this sensitivity is compounded by the two often being related to one another. Given the challenges in accurately forecasting the housing market, we continually review our forecasting approach.

Figure 3.8: Headline evaluation – December 2023 forecast of 2024-25 LBTT revenue

£ million, unless specified	Forecast	Outturn	Error	Relative error (per cent)
Residential LBTT	361	485	124	34
Additional Dwelling Supplement	160	180	19	12
Non-Residential LBTT	209	234	25	12
Total	730	899	169	23

Source: Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, Revenue Scotland (2025) Provisional Outturn Data 2024/25.

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

Outturn is provisional and may change once audited figures are available.

Figures may not sum because of rounding.

[26] Revenue Scotland (2025) Provisional Outturn Data 2024/25.

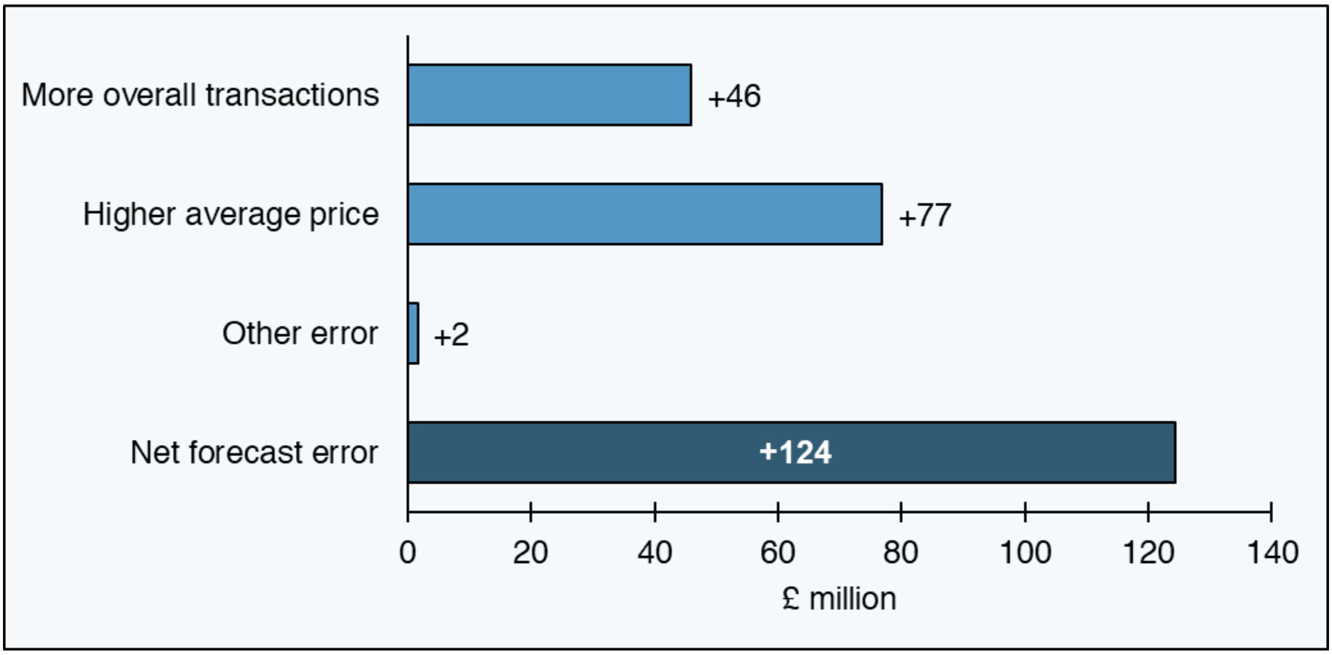
[27] Revenue Scotland (2025) LBTT Forecasting Data – June 2025.

Residential LBTT

3.31 Revenue for residential LBTT was £485 million, 34 per cent higher than our forecast of £361 million. Figure 3.9 shows the decomposition of this forecast error, with virtually all of it driven by our under-forecasting of transactions and price growth. Other, relatively minor, sources of error concern reliefs and the shape of the forecast market distribution.

Figure 3.9: Decomposition of December 2023 residential LBTT error for 2024-25

Transactions and the average price were higher than we expected



Description of Figure 3.9: Bar chart shows the main factors contributing to our residential LBTT forecast error. Almost all of our under-forecast is explained by two factors: a higher average price than we expected, and more overall transactions than we expected.

Source: Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, Revenue Scotland (2025) Provisional Outturn Data 2024/25, Revenue Scotland (2025) LBTT Forecasting Data – June 2025.

Figures may not sum because of rounding.

3.32 Our expectations for the housing market in Scotland in 2024-25 were qualitatively similar to those for the UK market. At the time of producing our December 2023 forecasts, the median forecast for annual UK house price growth in 2024 Q4 was a fall of 2.9 per cent, with the OBR forecasting a fall of 5.4 per cent.[28,29] Our outlook was that the average mortgage rate on the stock of outstanding loans would rise from an average of 2.3 per cent in 2022-23 to 4.2 per cent in 2024-25. Alongside this, we were expecting virtually no growth in Scottish real disposable household income over 2023-24 and 2024-25. Taking this together, Figure 3.10 shows that we expected property prices and transactions to fall in 2023-24 and 2024-25 before returning to growth thereafter.

3.33 Counter to the expectations summarised above, outturn annual UK house price growth in 2024 Q4 was a rise of 3.1 per cent, rather than a fall in the range of 2.9 per cent to

[28] HM Treasury (2023) Forecasts for the UK economy: November 2023.

[29] OBR (2023) Economic and fiscal outlook – November 2023.

5.4 per cent as forecast by the OBR and others.[30] Likewise, the average mortgage rate rose to 3.7 per cent, not 4.2 per cent,[31] and real household disposable income grew strongly over 2023-24 and 2024-25 rather than stagnating as we expected.[32]

3.34 As a result, Figure 3.10 shows that outturn Scottish property prices and transactions rose in 2024-25 by 2.7 per cent and 7.1 per cent respectively rather than falling as we had forecast. Taking into account the cumulative effect of forecast error in 2023-24, the average price in 2024-25 was 6.9 per cent higher than we expected and the volume of transactions 12.0 per cent higher. Our under-forecasting of prices and transactions explains £123 million of the error, as given by the sum of the categories 'More overall transactions' and 'Higher average price' in Figure 3.9.

Figure 3.10: Residential property market forecast and outturn, 2023-24 and 2024-25

Per cent	2023-24	2024-25
Annual transactions growth		
Forecast	-9.4	-2.9
Outturn	-8.0	7.1
Annual price growth		
Forecast	-0.7	-3.2
Outturn	0.1	2.7

Source: Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, Registers of Scotland (2025) House price statistics: May 2025, Registers of Scotland (2024) HPI and house price statistics comparison.

Annual price growth in Scotland as recorded by the Registers of Scotland is not directly comparable to that for the UK as recorded by HM Land Registry because of methodological differences.

Additional Dwelling Supplement

3.35 Revenue for net ADS, which is revenue after reliefs and repayments, was £180 million. This was 12 per cent higher our forecast of £160 million. Figure 3.11 shows the decomposition of this forecast error, with higher-than-expected repayments and reliefs offsetting some of our error in forecasting transactions and price growth.

3.36 We see similar effects from higher prices and more transactions as for residential LBTT, but here they are partly offset by higher levels of reliefs and repayments than we had expected. As we noted in our May 2025 forecasts, repayments for the ADS have been unexpectedly high in 2024-25.[33] As explained in that publication, we suspect that this might be associated with the extension in the ADS repayments window from 18 months to 36 months and the rise in the ADS rate from 6 per cent to 8 per cent. Whereas we forecast £56 million of repayments in 2024-25, outturn repayments were 40 per cent

[30] HM Land Registry (2025) UK House Price Index: data downloads May 2025.

[31] Bank of England Database (accessed 23 July 2025) Data series: CFMHSDE.

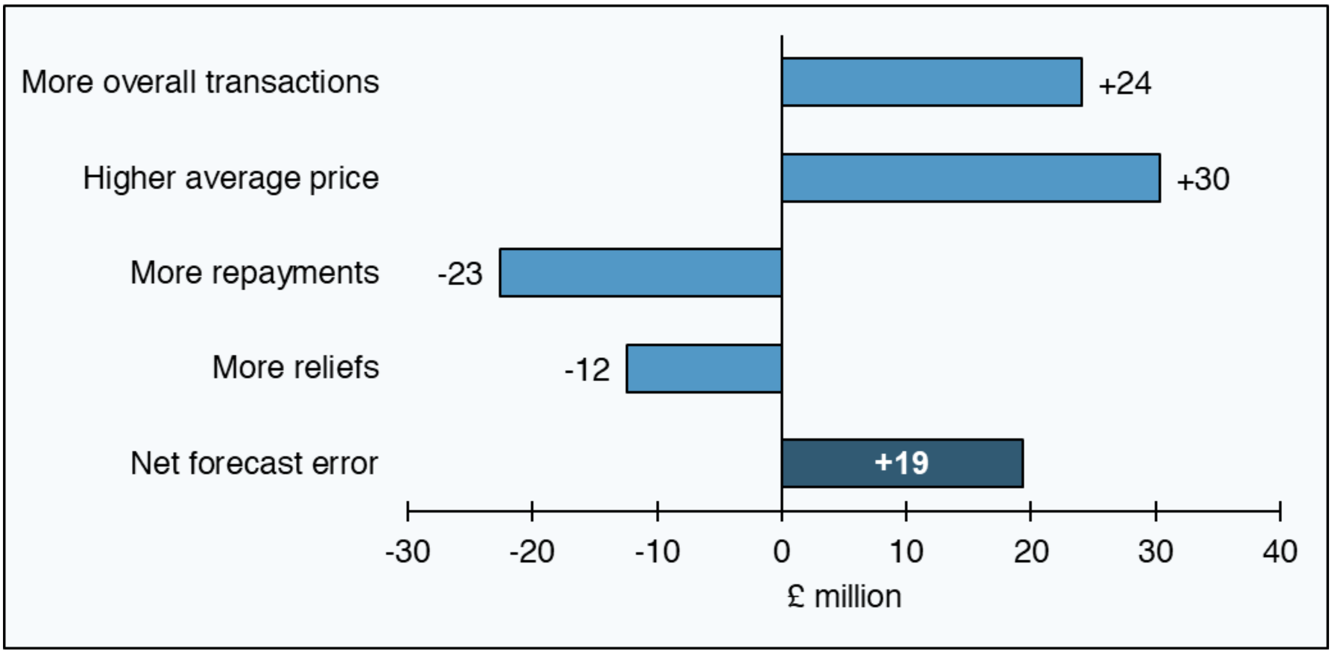
[32] Scottish Government (2025) GDP Quarterly National Accounts: 2025 Quarter 1 (January to March).

[33] Scottish Fiscal Commission (2025) Scotland's Economic and Fiscal Forecasts – May 2025.

higher at £78 million. Adding to this, losses of gross ADS revenue to reliefs were also higher than expected by £12 million.

Figure 3.11: Decomposition of December 2023 net ADS error for 2024-25

Error in transactions and prices partially offset by higher repayments and reliefs



Description of Figure 3.11: Bar chart shows the main factors contributing to our Additional Dwelling Supplement forecast error. There were more transactions than we expected at a higher average price, which increased revenue relative to our forecast; this was partly offset by larger deductions for repayments and reliefs than we forecast.

Source: Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, Revenue Scotland (2025) Provisional Outturn Data 2024/25, Revenue Scotland (2025) LBTT Forecasting Data – June 2025.

Figures may not sum because of rounding.

Non-residential LBTT

3.37 Non-residential LBTT revenue was £234 million, which was 12 per cent higher than our forecast of £209 million. Figure 3.12 shows the decomposition of this forecast error. A higher-than-expected volume of transactions (both conveyances and leases) was responsible for most of this, partially offset by a lower average conveyances price and greater losses to reliefs.

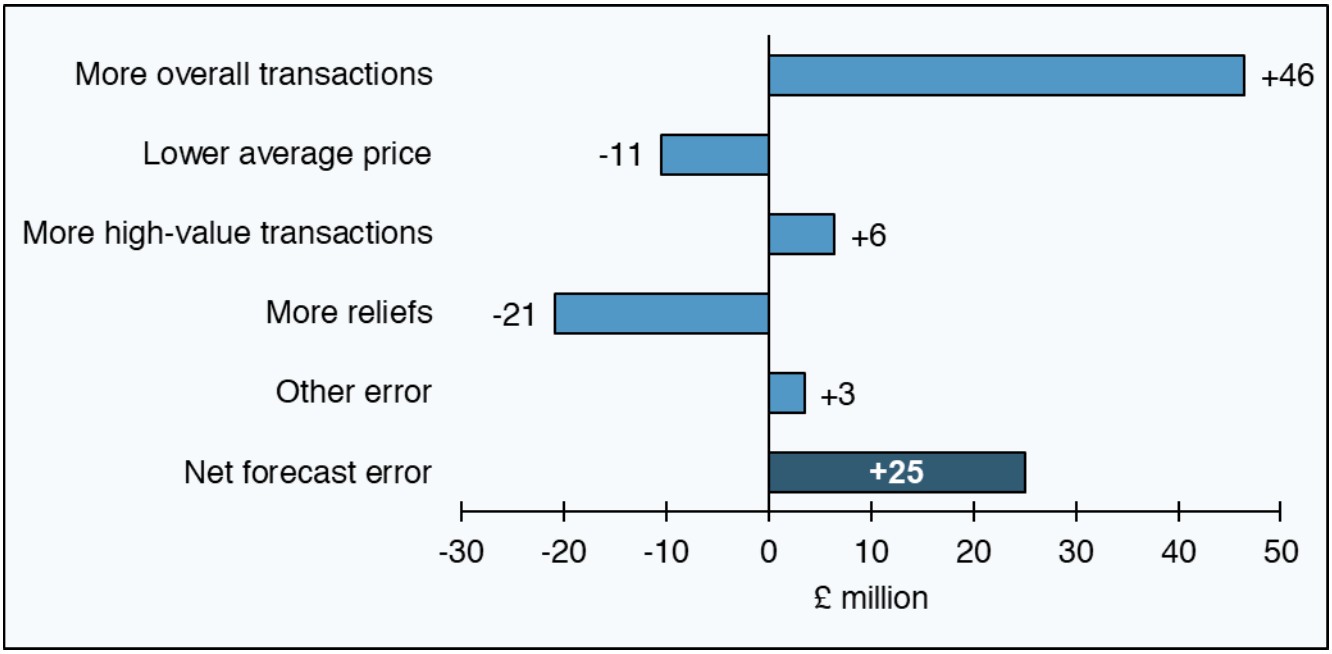
3.38 In December 2023, we expected there to be around 6,200 non-residential conveyances in 2024-25, with an average price of £1 million. This would have provided a tax base of £6.2 billion. Instead, data from Revenue Scotland shows that there were almost 7,500 transactions at an average price of around £950,000, and a tax base of £7.1 billion.[34] As a result, gross revenue collected was higher than we had anticipated.

[34] Revenue Scotland (2025) LBTT Forecasting Data – June 2025.

3.39 Losses of gross revenue to reliefs were £21 million higher than we had anticipated. Most of this error in our forecast of reliefs follows from our error in forecasting gross revenues, because we assume the two are proportional to one another.

Figure 3.12: Decomposition of December 2023 non-residential LBTT error for 2024-25

Error in transactions forecast partially offset by lower outturn price and higher reliefs



Description of Figure 3.12: Bar chart shows the main factors corresponding to our non-residential LBTT forecast error. The biggest factor was that there were more overall transactions than we forecast, but this is partly offset by a greater cost of reliefs than we forecast.

Source: Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, Revenue Scotland (2025) Provisional Outturn Data 2024/25, Revenue Scotland (2025) LBTT Forecasting Data – June 2025.

Figures may not sum because of rounding.

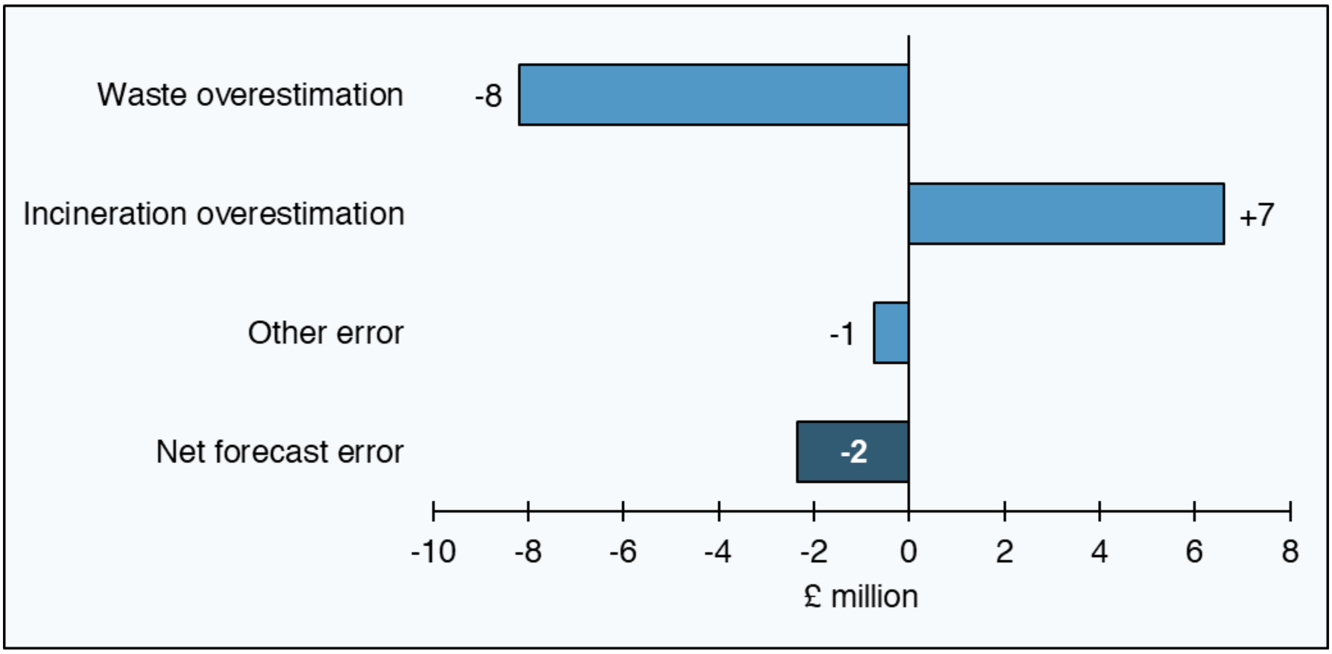
Scottish Landfill Tax

3.40 Figure 3.1 compares the 2024-25 provisional outturn data for Scottish Landfill Tax (SLfT) with our December 2023 forecast for SLfT revenue.

3.41 Provisional SLfT outturn revenue for 2024-25 was £56 million, which is 4 per cent lower than the £58 million we forecast in December 2023. Figure 3.13 shows that we overestimated waste in Scotland, leading to an error of negative £8 million in SLfT revenue in 2024-25. We also overestimated incineration capacity, leading to an error of £7 million. These errors offset each other and result in a forecast revenue error of negative £2 million.

Figure 3.13: Decomposition of December 2023 SLfT error for 2024-25

Offsetting errors in incineration and waste result in a small net error



Description of Figure 3.13: Bar chart shows the main factors contributing to our Scottish Landfill Tax forecast error. An overestimation of the amount of waste produced caused outturn to be lower than we forecast, but this is mostly cancelled out by an overestimation of incineration capacity.

Source: Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, Revenue Scotland (2025) Provisional Outturn Data 2024/25.

Figures may not sum because of rounding.

Chapter 4
Social security

Introduction

4.1 This chapter evaluates our social security forecasts, comparing provisional outturn spending in 2024-25 against our December 2023 forecasts, which informed the 2024-25 Scottish Budget.

4.2 Our forecasts cover 'devolved social security expenditure' as defined in the Scottish Fiscal Commission Act 2016.[35] This includes nearly all the payments made by Social Security Scotland, some devolved payments that are still administered by the Department for Work and Pensions (DWP), some payments made by local authorities, and some spending on employability support services.

4.3 The outturn data used in this report is consistent with the Scottish Government's provisional outturn statement but may be revised when Social Security Scotland publishes its audited Annual Report and Accounts.[36]

4.4 Total spending on devolved social security in 2024-25 was £6.1 billion. This is 2 per cent below our forecast of £6.3 billion. This is in line with the average size of our relative errors since 2020-21 and is the first time in recent years that spending has been below our forecast.

Figure 4.1: Headline evaluation – December 2023 forecast of 2024-25 social security

Forecast (£ million)	Provisional outturn (£ million)	Error (£ million)	Relative error (per cent)	Historical average error (per cent) [1]	Historical average absolute error (per cent) [1]
6,283	6,141	-142	-2	1	2

Source: Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, Scottish Government, Social Security Scotland.

[1] Average errors are for 2020-21 onwards.

Figures may not sum because of rounding.

4.5 Figure 4.2 shows the forecast, outturn, and error for each of the devolved social security payments that we cover.

[35] The National Archives (2016) Scottish Fiscal Commission Act 2016.

[36] Scottish Government (2025) Scottish Budget – provisional outturn 2024-25: briefing note.

Figure 4.2: Summary of December 2023 social security forecast errors for 2024-25

£ million, unless specified	Forecast	Provisional outturn	Error	Relative error (per cent)
Payments with a corresponding Block Grant Adjustment, of which:	**5,559**	**5,373**	**-186**	**-3**
Adult Disability Payment	3,226	3,131	-96	-3
Child Disability Payment	450	514	63	14
Scottish Adult Disability Living Allowance	420	430	10	2
Pension Age Disability Payment	755	762	8	1
Carer Support Payment	412	390	-21	-5
Employment Injury Assistance	87	82	-4	-5
Severe Disablement Allowance	5	5	0	-2
Winter Heating Payment	24	29	5	19
Pension Age Winter Heating Payment	180	29	-151	-84
Other Social Security Scotland payments, of which:	**573**	**569**	**-4**	**-1**
Scottish Child Payment	457	456	-2	0
Best Start Foods	18	16	-2	-14
Best Start Grant	21	20	-1	-6
Funeral Support Payment	12	12	0	-1
Carer's Allowance Supplement	55	55	0	-1
Child Winter Heating Payment	9	10	2	18
Other devolved social security, of which:	**151**	**199**	**48**	**32**
Discretionary Housing Payments	90	86	-4	-5
Scottish Welfare Fund	36	53	18	49
Employability Services [1]	25	60	35	140
Total social security spending	**6,283**	**6,141**	**-142**	**-2**

Source: Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, Scottish Government, Social Security Scotland.

The payment names here use the names of the new Scottish payments, but in some cases spending still fully or partly relates to the DWP-administered payments that they replace.

[1] Our December 2023 forecast for employability was an indicative view of spending on services to replace Fair Start Scotland. The outturn figure is based on a wider interpretation of the spending that falls under our remit, following a review in December 2024, so is not directly comparable to the indicative forecast.

Figures may not sum because of rounding.

Understanding our forecast error

4.6 In this section we set out the background to our December 2023 forecasts. We discuss the main reasons for the forecast error, the lessons we have drawn from this, and how our performance compares to the OBR's.

Background to December 2023 forecasts

4.7 When we finalised our December 2023 forecasts, we had monthly financial data for most payments up to October 2023. We had statistical data up to summer 2023 for Social Security Scotland payments and Personal Independence Payment, but only up to spring 2023 for the other disability and carer payments administered by the DWP.

4.8 We knew the September 2023 Consumer Prices Index inflation rate which would be used for uprating of payments in April 2024, and the Scottish Government had informed us of its decision to uprate some payments where there was no statutory duty to do so. This meant that our forecasts were based on the actual payment rates for 2024-25. Average payment amounts are still a source of error for some of our forecasts of payments which can be paid at several different rates or have variable elements.

4.9 Pension Age Winter Heating Payment (PAWHP) was due to replace Winter Fuel Payment (WFP) in 2024-25. Our December 2023 forecasts included a costing based on the Scottish Government's plans, which at that time were for PAWHP to replace WFP on a like-for-like basis.

4.10 We expected slow but positive growth in the economy. Growth in GDP, earnings, and employment all proved to be slightly higher than our December 2023 economy forecasts. We do not think that these differences have made a major contribution to our forecast error for social security.

4.11 We prepared our forecasts just over a year after the nationwide launch of Adult Disability Payment (ADP), and against a background of higher demand for disability payments across the UK.

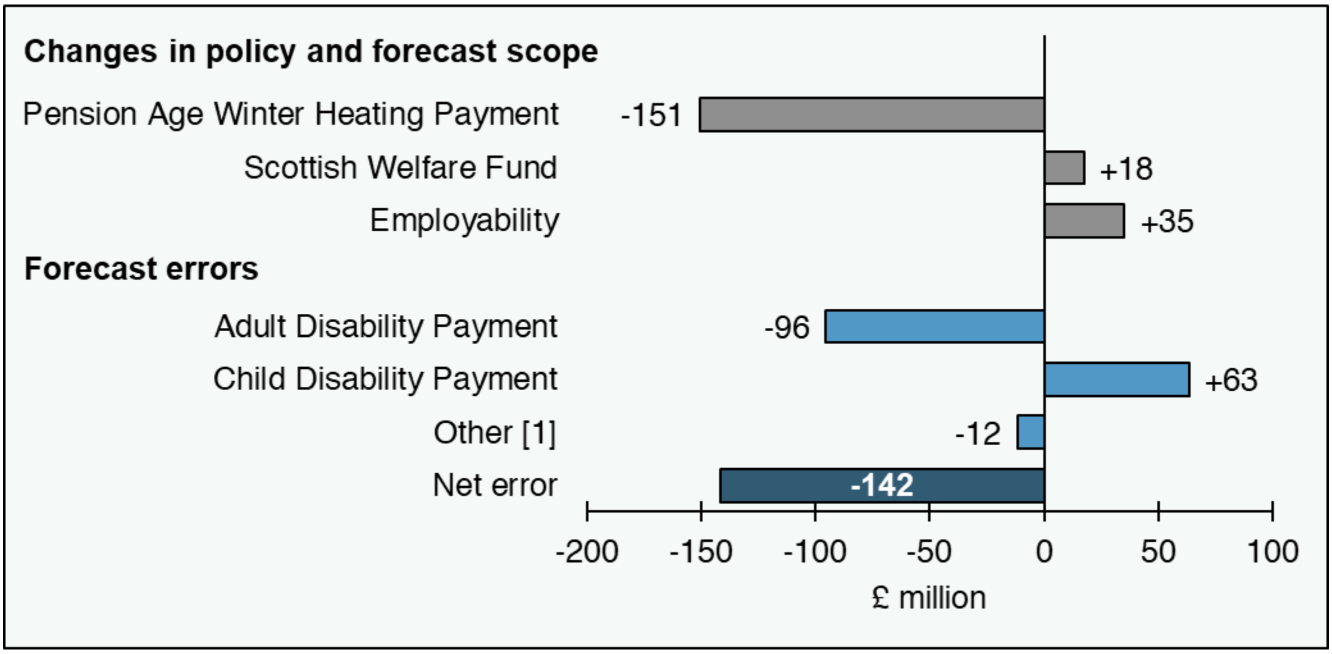
4.12 We knew that the Fair Start Scotland employability support service would close to new participants at the end of 2023-24. We included an indicative forecast of £25 million for Employability Services, based on the assumption that the client group supported by Fair Start Scotland would receive a similar level of provision, funded through the No One Left Behind budget.

Reasons for forecast error

4.13 Figure 4.3 gives a decomposition showing the main factors contributing to the total error in our December 2023 forecast of devolved social security spending in 2024-25.

Figure 4.3: Decomposition of December 2023 social security forecast error for 2024-25

Overall forecast is largely because of in-year policy changes



Description of Figure 4.3: Bar chart shows the main factors contributing to our social security forecast error, with lower spending on Pension Age Winter Heating Payment and Adult Disability Payment partly offset by higher spending on Scottish Welfare Fund, Employability Services, and Child Disability Payment.

Source: Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, Scottish Government, Social Security Scotland.

[1] 'Other' category is the sum of all errors too small to be included in the figure individually.

Figures may not sum because of rounding.

Change in policy for Pension Age Winter Heating Payment

4.14 When we produced our December 2023 forecast, PAWHP was due to launch in winter 2024-25. We forecast that this would cost £180 million. In July 2024 the UK Government announced that WFP eligibility would be restricted to recipients of Pension Credit, or other means-tested benefits. The Scottish Government subsequently announced similar changes to PAWHP, and spending under this narrower eligibility was only £29 million.

4.15 We attribute the whole of this £151 million error to the change in policy. The WFP Block Grant Adjustment (BGA) was reduced by a similar amount, so these changes have not had a material effect on the Scottish Budget.

4.16 Additional take-up of Pension Credit in response to the announcement of these changes will also have increased eligibility for some other devolved payments, such as Winter Heating Payment and Funeral Support Payment, but this is unlikely to have led to materially higher spending in 2024-25.

4.17 Both the UK and Scottish Governments have recently announced further policy changes which will widen eligibility from winter 2025-26 and will involve recovery of payments from higher income pensioners through the tax system. These changes mean that the system used for PAWHP and WFP in winter 2024-25 was only in place for one year, so we cannot draw any lessons for future forecasts. Our August 2025 Fiscal Update includes a forecast of PAWHP spending under the new policy.[37]

Change in policy for Scottish Welfare Fund

4.18 Our December 2023 forecast was based on the Scottish Government's plans to provide £35.5 million to local authorities to fund Scottish Welfare Fund grants. In November 2024, the Scottish Government announced additional in-year funding as part of a package of energy costs support. This was included in our forecasts from December 2024, and increased the relevant funding for local authorities to £53 million.[38]

Change in scope for Employability forecast

4.19 In December 2023, we made an indicative forecast of £25 million for Employability Services, based on the assumption that the client group previously supported by Fair Start Scotland would continue to receive a similar level of provision through other services. In our December 2024 forecasts, we reviewed how the services delivered under the Employability and Training budget related to our devolved social security forecasting remit and widened the scope of our forecast.[39]

4.20 We now attribute £60 million as having been spent on services within our remit, consisting of £15 million on Fair Start Scotland and £45 million of the No One Left Behind budget that we estimate relates to people who are disabled or are receiving reserved benefits and face barriers to long-term employment.

4.21 This means that the spending we now estimate to be within our remit is £35 million (140 per cent) higher than our indicative forecast. This is because of the change in our approach and does not represent additional spending by Scottish Government.

4.22 We do not expect this area to be a source of significant risk to the Scottish Budget in future, as since December 2024 our forecast has been based on an estimated percentage of the budget for No One Left Behind set by the Scottish Government.

Lower spending on Adult Disability Payment

4.23 Spending on ADP was £96 million (3 per cent) below our forecast, with lower average payment awards partly offset by a slightly higher caseload.

4.24 These errors are similar to those we discussed in our August 2024 evaluation of spending in 2023-24.[40] We responded to them in our December 2024 forecast, where we made adjustments to allow for higher numbers of applications, lower application success rates, lower average payments, and fewer people leaving the caseload after an award review.

4.25 These changes have reduced our forecast in the short term. The net effect in later years has been to increase forecast spending on ADP, as the changes to our assumptions on

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[37] Scottish Fiscal Commission (2025) Fiscal Update – August 2025.

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

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

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

award review outcomes build up more gradually but eventually outweigh the downward changes.

Higher spending on Child Disability Payment

4.26 Spending on Child Disability Payment (CDP) was £63 million (14 per cent) above our forecast, with higher caseloads partly offset by lower average payment awards. As with our ADP forecast, this repeats the pattern of last year, and is the third consecutive year that CDP spending has been higher than forecast.

4.27 These forecast errors have been primarily due to higher numbers of inflows. As discussed in our previous two Forecast Evaluation Reports, the number of children receiving Disability Living Allowance in England and Wales has also increased rapidly in recent years. Most of our forecast error has been driven by these UK-wide trends, and has tended to be mirrored by similar errors in OBR forecasts.

4.28 Much of the higher caseload observed in 2024-25 was due to higher numbers of inflows in the second half of 2023-24, which we had identified and responded to by the time of our December 2024 forecasts.

Areas where forecasts performed well

4.29 The low-income payments administered by Social Security Scotland, including Scottish Child Payment, are now well established, and have been stable over the last year. Spending on these was 1 per cent below our forecast. Only Best Start Foods, which had a significant expansion to eligibility from early 2024, showed a large relative error.

Comparison against OBR forecasts and BGA funding

4.30 Outturn BGAs are not yet available, and the OBR will report on its forecasting accuracy for 2024-25 next year, but we can make a broad assessment based on the OBR's March 2025 forecasts and the DWP's Annual Report and Accounts for 2024-25.[41]

4.31 Both we and the OBR have similarly large forecast errors due to the in-year policy changes to PAWHP and WFP. The lower spending in Scotland is closely matched by the reduction in the corresponding BGA.

4.32 Excluding WFP, spending in England and Wales on the remaining devolved payments with BGAs appears to have been around 2 per cent higher than the OBR's November 2023 forecasts for 2024-25. Spending on all of the main disability and carer benefits appears to have been higher than the OBR forecast, with the largest error being because of the ongoing rise in the number of children receiving Disability Living Allowance.

4.33 Higher spending in England and Wales increases the BGA, and spending on the corresponding devolved payments has been lower than forecast. Updates to population estimates since December 2023 have also contributed to an increase to the BGA funding. In December 2023, the net position implied by OBR and SFC forecasts was

[41] DWP (2025) DWP Annual Report and Accounts 2024 to 2025.

negative £368 million. We now expect that the gap between the final BGAs and spending on the corresponding Scottish payments will be less than £200 million.

4.34 In December 2023 our forecasts implied that the total effect of social security on the 2024-25 Scottish Budget, including the spending on payments that do not have a BGA, would be around £1.1 billion. Based on the provisional outturn and the BGAs based on the OBR's March 2025 forecasts, we now estimate that this effect is around £0.9 billion.

Historical forecast performance

4.35 Over the five years since the main disability payments were devolved in April 2020, spending has usually been slightly higher than our forecasts. The two main factors have typically been higher spending on disability payments, particularly the ongoing rise in demand for disability payments for children across the UK, and in-year changes in policy (including additional spending in response to the COVID-19 pandemic).

4.36 Our forecast error this year has been in the opposite direction to the previous four years, but is on a similar scale as in previous years. As in previous years, a significant part of the error is attributable to in-year changes in policy.

4.37 Over the period 2020-21 to 2024-25, spending has been on average 1 per cent higher than our Budget-setting forecasts, and our absolute error has averaged 2 per cent.

4.38 The supplementary tables published with this report include a full record of our historical forecasts and outturn spending for each payment.

Conclusions

4.39 Devolved social security spending in 2024-25 was 2 per cent below our forecast. This is in line with the average magnitude of our forecast error but is the first time other than 2018-19 that spending has been below our forecast.

4.40 As in previous years, much of the error is attributable to in-year policy changes. We have already responded to the other main reasons for error through changes to our Adult Disability Payment and Child Disability Payment forecasts in December 2024 and May 2025.

Additional information

Abbreviations

ADP	Adult Disability Payment
ADS	Additional Dwelling Supplement
BGA	Block Grant Adjustment
CDP	Child Disability Payment
COSLA	Convention of Scottish Local Authorities
COVID-19	Coronavirus disease 2019
DWP	Department for Work and Pensions
EU	European Union
GDP	Gross Domestic Product
HMRC	His Majesty's Revenue and Customs
LBTT	Land and Buildings Transaction Tax
LFS	Labour Force Survey
NDR	Non-Domestic Rates
NHS	National Health Service
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
PAWHP	Pension Age Winter Heating Payment
PAYE	Pay As You Earn
PCA	Provisional contributable amount
PRBs	Pay Review Bodies
QNAS	Quarterly National Accounts Scotland
RDHI	Real disposable household income
RTI	Real Time Information
SBBS	Small Business Bonus Scheme

SFC	Scottish Fiscal Commission
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 I 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 Co-operation and Development (OECD).[42]

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.[43]

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 SFC, 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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42 OECD (2014) Recommendation of the Council on Principles for Independent Fiscal Institutions.

43 Scottish Fiscal Commission (2022) Statement of Voluntary Compliance with the Code of Practice for Statistics and Error Policy.

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