Scottish Fiscal Commission

Scotland's Economic and Fiscal Forecasts

December 2023

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Foreword

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

Our forecasts have been used to inform the Scottish Government's Budget for 2024-25, also published today. In producing our forecasts we have followed the revised protocol for engagement, agreed with the Scottish Government in September 2023.

We would like to thank the staff of the Commission for all their hard work in producing this report. We would also like to thank officials from the Scottish Government, Revenue Scotland, Social Security Scotland, the Department for Work and Pensions, HM Treasury, HM Revenue and Customs, and the Office for Budget Responsibility for their support.

Professor Graeme Roy

Professor Francis Breedon

Dr Domenico Lombardi

Professor David Ulph

19 December 2023

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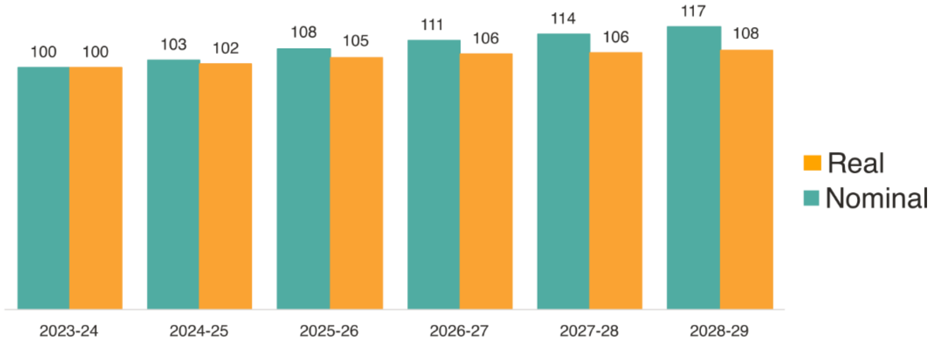
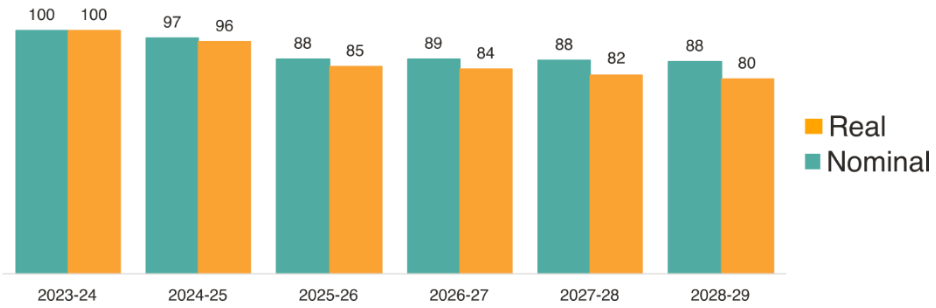
Resource funding is forecast to rise over the next five years by 17 per cent in nominal terms. After accounting for inflation, resource funding rises by 8 per cent by 2028-29.

Resource funding is forecast to increase



Capital funding is forecast to fall over the next five years by 12 per cent in nominal terms. After accounting for inflation, capital funding falls by 20 per cent by 2028-29.

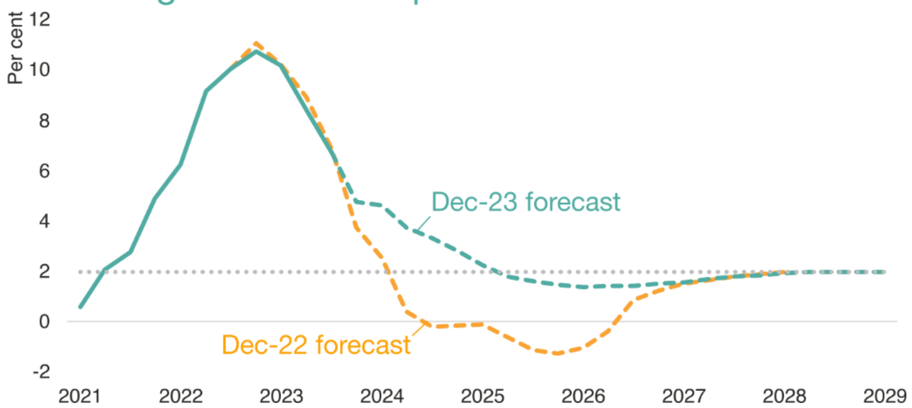
But capital budgets are forecast to fall more rapidly



Economy

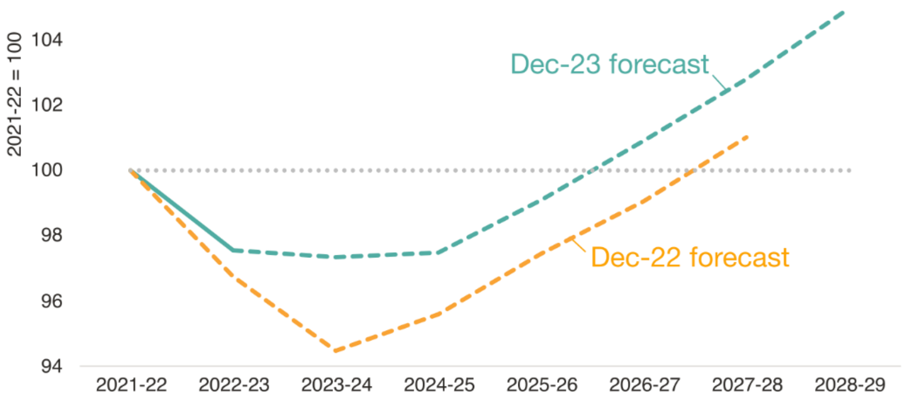
The forecast for inflation is higher and more persistent than last December. We do not expect the Bank of England's target of 2 per cent to be met until the second quarter of 2025, after which the outlook is relatively stable.

Inflation higher and more persistent over the medium term



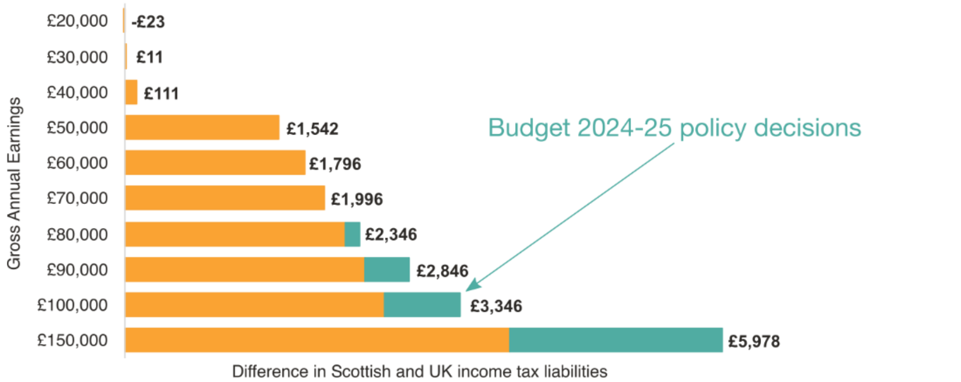
Due to strong earnings growth, we have revised up our forecast of real disposable income per person. Despite this, the drop between 2021-22 and 2023-24 is the largest reduction in living standards since Scottish records began in 1998.

Living standards set to recover to 2021-22 levels by 2026-27



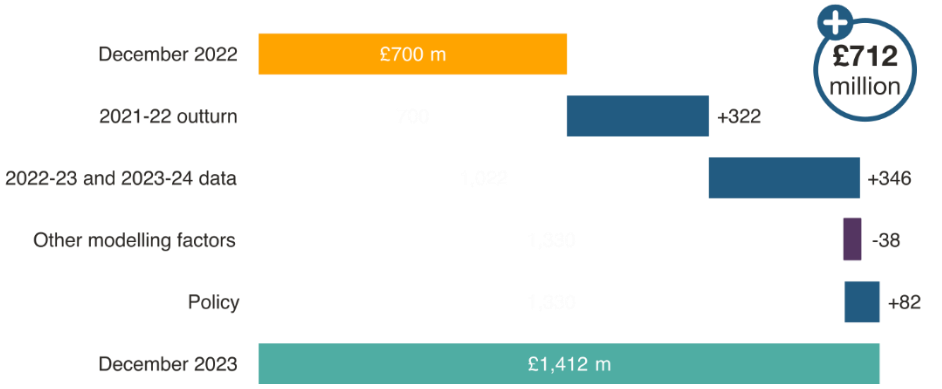
Tax

Policy changes further increase additional tax paid by high-earners in Scotland relative to UK



People with earnings over £28,850 in Scotland, slightly above median earnings, pay more income tax than they would in the UK. The latest policy decisions widen the gap further for those earning over £75,000 (the top 5 per cent of taxpayers).

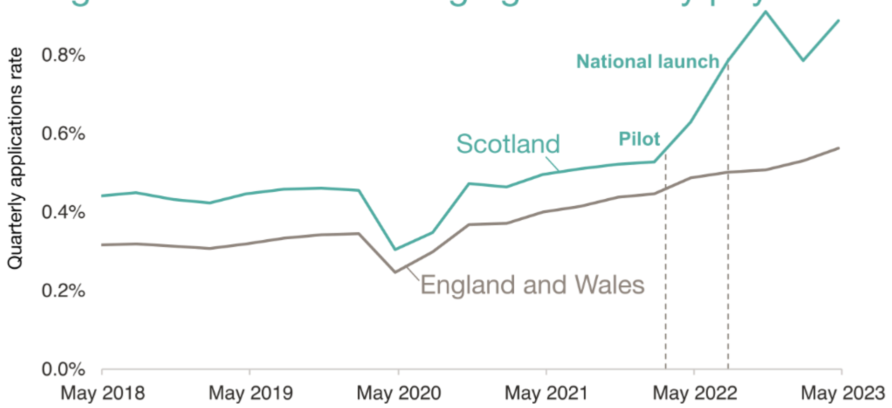
Increases in projected net position driven mostly by data



The increase in the projected income tax net position in 2024-25 of £712 million is mostly driven by data in 2021-22 to 2023-24.

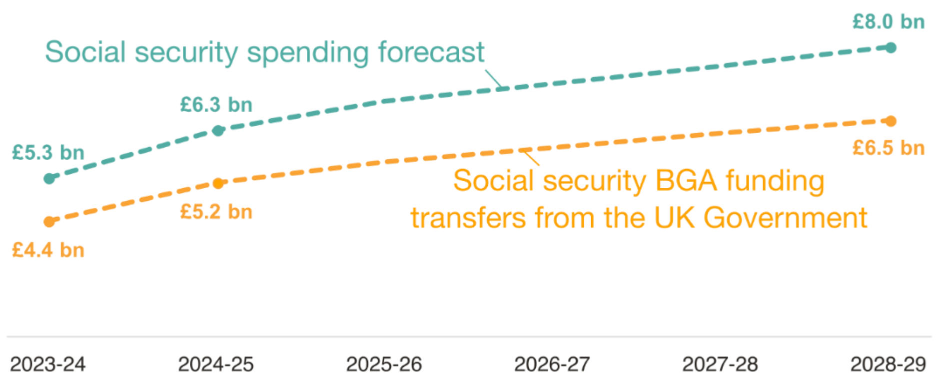
Social Security

Stronger demand for working age disability payment



Quarterly applications rates to PIP in England and Wales and to ADP in Scotland started to diverge at the beginning of the ADP pilot in March 2022, and further widened when ADP was launched nationally in August 2022.

Spending to increase 51 per cent to £8.0 bn by 2028-29



Social security spending is forecast to increase from £5.3 bn in 2023-24 to £8.0 bn in 2028-29. By 2028-29, we expect the Scottish Government to spend £1.5 bn more on social security than BGA funding received from the UK Government.

Budget funding, £ million	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Total funding, (nominal)	52,449	53,788	55,432	56,973	58,063	59,599
Total funding (2023-24 prices)	52,449	52,900	53,600	54,210	54,284	54,691
Economy, % growth						
Gross Domestic Product	0.2	0.8	1.3	1.3	1.3	1.4
Consumer Price Index	6.1	3.0	1.6	1.5	1.8	2.0
Average real earnings	1.2	0.3	1.2	1.3	1.1	1.1
Employment	0.5	-0.1	0.1	0.2	0.3	0.3
Tax, £ million						
Income tax	17,357	18,844	19,873	20,856	22,056	22,981
Non-Domestic Rates	3,007	3,143	3,219	3,600	3,522	3,517
LBTT	813	730	795	907	998	1,072
Scottish Landfill Tax	74	58	42	15	16	16
Policy announcements, £ million						
Income tax	0	82	88	96	104	114
Non-Domestic Rates	0	-34	-36	-39	-37	-43
Social Security, £ million						
All devolved social security	5,299	6,283	6,861	7,253	7,616	7,999

Summary

Introduction

1 The Scottish Government's budget next year is set to increase by £1.3 billion from the latest position for 2023-24. This is a rise of 2.6 per cent in cash terms or a 0.9 per cent rise after accounting for inflation. Most of this increase in funding comes from income tax. A combination of the Scottish Government's policy choices, high inflation, fixed tax thresholds in cash terms and higher earnings growth in Scotland have all contributed to a sharp increase in income tax funding.

2 However, the ongoing consequences of Scottish Government changes to social security and the linking of payment rates to inflation have increased spending commitments. Other Scottish Government policies such as the Council Tax freeze and increasing public sector pay have further added to the Scottish Government's spending commitments.

3 Capital spending is set to fall by 4 per cent in real terms between 2023-24 and 2024-25.

4 Economic growth will remain fragile in the near term with living standards set to see the largest fall on record between 2021-22 and 2023-24 and not return to their 2021-22 level until 2026-27.

5 The Scottish Government has introduced a new 45 per cent income tax band starting at £75,000 and also increased the top rate of income tax by 1 percentage point. These policies affect the top 5 per cent of taxpayers in Scotland. After taking account of behavioural changes, these policies will raise an extra £82 million in 2024-25.

6 Scottish Government changes to income tax policy since 2017 mean someone in Scotland earning £100,000 will now pay £3,346 more in income tax than they would in the rest of the UK.

Fiscal Overview

2024-25

7 Total funding in 2024-25 is set to be £1.3 billion higher than in 2023-24, a rise of 2.6 per cent in nominal terms.[1] After accounting for inflation this is a 0.9 per cent rise in the Scottish Budget. While resource funding is expected to increase by £1.5 billion, capital funding is set to fall by £173 million in 2024-25. Most of the increase in resource funding is due to the improved income tax net position.

8 Total funding in 2024-25 is greater than previously expected in both nominal and real terms. In May the Deputy First Minister identified a £1 billion gap between funding and spending in 2024-25. We now forecast resource and capital funding of £53.8 billion in 2024-25, an increase of £1.2 billion since our last forecasts in May 2023. Despite this increase in funding the Scottish Government still faces a number of pressures on spending.

[1] Compared to the latest funding position for 2023-24. Box 1 discusses different ways of comparing the Scottish Budget between years.

9 Social Security spending is rising, in 2024-25 it is forecast to be nearly £1 billion higher than in 2023-24. The Scottish Government has introduced changes to social security which have increased social security spending. These increases will be sustained across future years. New payments which have been introduced in Scotland, such as the Scottish Child Payment, have no corresponding funding from the UK Government and must be funded from the wider Scottish Budget. The Scottish Government have also made changes to payments which replace previously UK-wide payments. These changes have resulted in more people receiving payments and receiving higher payments. This means spending is greater than funding provided by the UK Government.

10 After accounting for social security spending and Non-Domestic Rate revenues which must be returned to local authorities, resource funding for other areas is set to fall by 0.3 per cent in real terms between 2023-24 and 2024-25. This means reductions in spending are required in other parts of the Scottish Budget. The Scottish Government has also made a number of announcements which increase spending pressures. It is providing £144 million to local authorities to compensate for the loss of revenue from the announced Council Tax freeze. The public sector pay rises seen over the last year increase the funding needs of all portfolios. The Scottish Government has estimated that in 2023-24 pay accounted for over £25 billion of resource expenditure across the devolved public sector, including local government.[2] This is over half of the resource budget.[3] Overall this has increased pressure on the Scottish Budget.

11 The Scottish Budget documents compare portfolio spending between the plans for 2024-25 and the 2023-24 Budget as introduced in December 2022. Since then, resource funding has increased by £1.1 billion in 2023-24. UK Government funding through the Block Grant has increased by £318 million, the Scottish Government now plan to draw down £251 million for the Scotland Reserve after no planned drawdown in December 2022 and have increased the use of ScotWind funding in 2023-24.

12 Social security spending accounts for the largest increase in resource spending between years. The Social Justice portfolio, which covers social security is increasing by 16 per cent in real terms between 2023-24 and 2024-25. Justice and the Crown Office and Procurator Fiscal Service are also expected to increase by 9 per cent and 10 per cent respectively. The Health and Social Care portfolio is expected to see a 1 per cent increase in real terms spending between 2023-24 and 2024-25.

13 The portfolios expected to see a reduction in real terms resource spending are Wellbeing, Economy, Fair Work and Energy portfolio, the Rural Affairs, Land Reform and Islands portfolio and the Finance portfolio.

14 The real term increases by portfolio will likely differ if comparisons are made to the latest spending plans in 2023-24. We will publish a paper on the Scottish Government's spending plans in January 2024 showing a comparison in spending between the latest 2023-24 position and the 2024-25 Budget based on the Classifications of Functions of Government (COFOG) to show spending by consistent categories over time.

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[2] Scottish Government (2023) Medium Term Financial Strategy (link).

[3] Local Government have other sources of funding that are locally retained, and so are not part of the Scottish Budget, mainly service income and council tax. These also go towards paying local government staff salaries.

Figure 1: Real terms change in resource spending by portfolio

Per cent	Share of 2024-25 resource spending	Real terms growth between 2023-24 and 2024-25
NHS Recovery Health and Social Care	38.5	1.3
Local Government	25.0	2.5
Deputy First Minister/Finance	0.3	-4.8
Social Justice	14.6	15.7
Education and Skills	6.6	3.1
Justice	7.0	9.1
Transport, Net Zero and Just Transition	3.4	3.5
Rural Affairs, Land Reform and Islands	1.9	-4.2
Constitution, External Affairs and Culture	0.6	4.9
Wellbeing Economy, Fair Work and Energy	1.0	-9.4
Crown Office and Procurator Fiscal Service	0.4	10.3
Scottish Parliament and Audit Scotland	0.3	6.1
Corporate Running Costs	0.4	10.4
Total	100.0	4.1

Source: Scottish Fiscal Commission, Scottish Government.
The real terms growth between 2023-24 and 2024-25 compares the 2023-24 spending plans as introduced in December 2022 and does not reflect changes since then.
Figures may not sum because of rounding.

15 The real terms growth between 2023-24 and 2024-25 compares the 2023-24 spending plans as introduced in December 2022 and does not reflect changes since then. Funding for the 2024-25 Budget is likely to change over the coming year. Income tax revenues will be fixed based on our forecast and the income tax Block Grant Adjustment (BGA) will be fixed based on the Office of Budget Responsibility's (OBR) November 2023 income tax forecast. However, revenues from fully devolved taxes may differ from our forecasts; UK Government spending plans may change following UK fiscal events before and after the next UK General Election, which would affect the Block Grant; and the Scottish Government may change its planned borrowing and use of the Scotland Reserve.

Box 1: Budget figures and IFRS16 adjustments

As usual, throughout our report we compare the 2024-25 Budget position to the latest position for 2023-24. The Scottish Government's Budget documents make a different comparison, to the 2023-24 Budget when it was introduced. We discuss these differences in Box 2.2. There is an additional change affecting the presentation of the 2024-25 Scottish Budget. The International Financial Reporting Standards 16 (IFRS16) is a new accounting standard concerning leases. It affects discretionary budgets with increases in capital funding and reductions in resource funding.

In the public sector IFRS16 is being adopted progressively. It is a three-year programme which began in 2022-23 with most adjustments taking place in the first year. In 2022-23 and 2023-24 IFRS16 adjustments have been introduced at Budget Revisions only. The 2024-25 Budget portfolio spending is now presented after adjustments for IFRS16.

In our report we present funding excluding adjustments to IFRS16 as this provides the best comparison over time. Figure 2 shows how resource, capital and total funding are affected by the IFRS16 adjustments.

Figure 2: Comparison of funding in 2023-24 and 2024-25

£ million		2023-24 (Budget Bill)	2023-24 (latest position)	2024-25 (Budget Bill)
Resource	Discretionary budget before IFRS16	44,991	46,083	47,594
	IFRS16 adjustments	-200	-200	-203
	Resource funding after IFRS16	44,791	45,883	47,391
Capital	Discretionary budget before IFRS16	5,940	5,962	6,017
	IFRS16 adjustments	441	441	233
	Capital funding after IFRS16	6,380	6,402	6,250
Financial transactions	Discretionary budget before IFRS16	424	404	176
	IFRS16 adjustments			
	FTs funding after IFRS16	424	404	176
Total	Discretionary budget before IFRS16	51,354	52,449	53,788
	IFRS16 adjustments	241	241	30
	Funding after IFRS16	51,595	52,690	53,817

Source: Scottish Fiscal Commission.
Figures may not sum because of rounding.

Five-year total funding outlook

16 Between 2023-24 and 2028-29 total funding (resource and capital) is expected to increase by 14 per cent in nominal terms and 4 per cent in real terms. While total funding is expected to grow, capital funding is expected to fall by 20 per cent in real terms between 2023-24 and 2028-29.

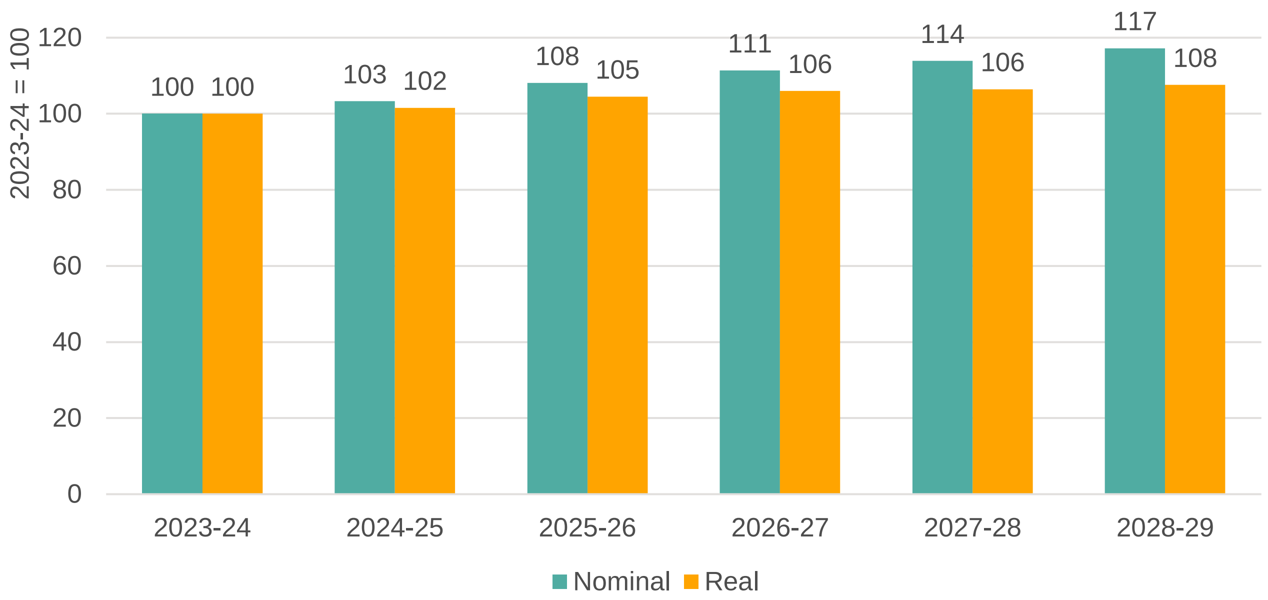
17 We expect resource budgets to have more funding in nominal terms over the next five years than we had estimated in May 2023. Although capital funding in 2024-25 is expected to be £145 million higher, capital funding from 2025-26 to 2028-29 is lower than we expected in May.

Five-year resource funding outlook

18 Resource funding is now expected to increase by 17 per cent between 2023-24 and 2028-29, in real terms this is an 8 per cent increase.

Figure 3: Five-year resource funding trends

Resource funding levels are forecast to increase steadily over the next five years, in both nominal and real terms.



Description of Figure 3: Column chart showing resource funding levels from 2023-24 to 2028-29, indexed to 2023-24 levels so that those are equal to 100. Levels grow steadily over the years, with resource funding reaching 17 per cent growth by 2028-29 in nominal terms, and 8 per cent growth once accounted for inflation.
Source: Scottish Fiscal Commission.
Amounts indexed so 2023-24 is equal to 100 and exclude IFRS16 funding adjustments. Real amounts have been calculated using the OBR's forecast GDP deflators OBR (2023) Economic and fiscal outlook – November 2023 (link).

19 Beyond 2024-25 the funding position becomes more uncertain as the UK Government has not set departmental spending plans for 2025-26 onwards. The OBR note that current spending plans imply significant real terms cuts in non-protected areas of the UK budget which would present challenges for public services showing signs of strain. The OBR identify changes to the current planned spending levels as a risk to their forecasts of the UK public finances. This is because governments in the past have tended to increase their spending plans significantly as the next Spending Review approaches.[4] Therefore, UK Government funding could be greater than is currently set out for 2025-26 onwards with positive implications for the Scottish Budget.

20 At the same time, we note the significant uncertainty over the income tax net position, which is currently forecast to contribute to the real-terms growth in the Scottish Budget. In **Chapter 4**, we show the income tax net position continuing to rise from 2025-26 onwards, which would provide additional funding for the Scottish Budget. This is partly driven by income tax policy differences between Scotland and the rest of the UK, but also because our forecast of earnings growth in Scotland is higher than the OBR's for the UK. These are two independent forecasts of two different factors. Other independent forecasts of UK earnings are similar to our forecast of earnings growth for Scotland.[5] If earnings growth in Scotland is more similar to the UK, the income tax net position

[4] The OBR set out that these increases in annual day-to-day spending envelops were significant: "by £39 billion (14 per cent) on average in the year up to the November 2015 Spending Review, and by £32 billion (8 per cent) in the October 2021 Spending Review". OBR (2023) Economic and fiscal outlook – November 2023 (link).

[5] The HM Treasury summary of independent forecasts shows the average of UK earnings growth forecasts lies in the range from 2 per cent to 5 per cent a year from 2025 onwards. The OBR expects earnings growth close to 2 per cent in 2025-26, increasing to 3 per cent by 2028-29. This is lower than our forecast of annual earnings growth of around 3 per cent from 2025-26 onwards. HM Treasury (2023) Forecasts for the UK economy: November 2023 (link) Further detail can be found in **Chapter 3**.

will be materially lower than currently projected, reducing the funding available to the Scottish Budget in future years. We flag this as an explicit downside risk to the Scottish Government's funding from 2025-26 onwards.

21 The Scottish Government's funding will be affected by future income tax reconciliations. The fixing of income tax revenues and their corresponding BGA in the Budget provides the Scottish Government with some certainty in planning its Budget for the year ahead, but any differences between what is forecast and actually raised will result in a reconciliation affecting future budgets. We do not yet have outturn data for 2022-23 or 2023-24 but comparing the latest Scottish Fiscal Commission (SFC) and OBR forecasts suggests a more positive net position than in the respective budget setting forecasts, resulting in positive reconciliations of £732 million in 2025-26 and £502 million in 2026-27 that would provide additional funding. As always, reconciliations remain highly uncertain until the income tax outturn figures are published, and the final value may be higher or lower than currently projected.

22 Policymakers need to plan for the potential for funding from 2025-26 onwards to look quite different from the picture presented here. Due to the various funding sources and forecasts used, the outlook for the Scottish Budget is always somewhat uncertain but the high inflation environment is increasing the risk of large changes in funding. We note the current funding outlook from 2025-26 onwards has two particular elements of uncertainty: there is the risk the income tax net position provides a less positive contribution to funding than is currently projected, and at the same time UK Government spending could be higher than currently planned, increasing funding available to the Scottish Government. The scale of the potential risks from these two factors cannot be quantified. Despite these uncertainties, we conclude that the resource funding assumptions made for this budget and later years are reasonable.

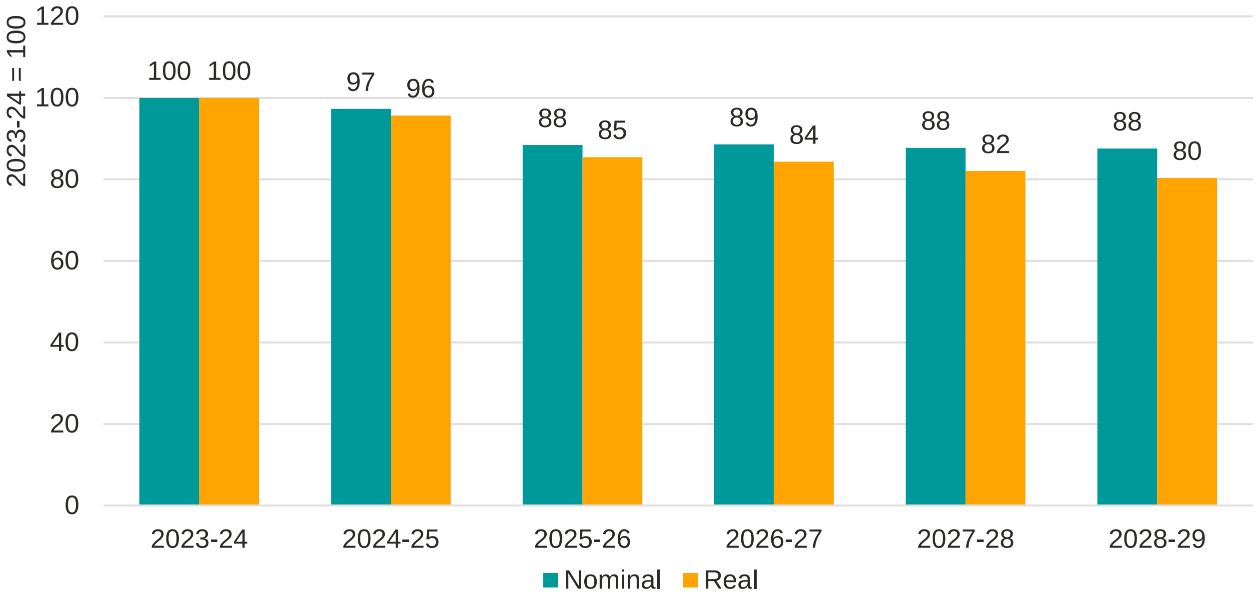
23 Although the Scottish Government committed to publish multi-year spending plans for resource and capital in the May 2023 Medium-Term Financial Strategy (MTFS), it has only published spending plans for 2024-25 in this Budget. In our role as the independent fiscal institution for Scotland we encourage the Scottish Government to plan its Budget over the short, medium, and long term. We note this can be challenging without clear UK Government spending plans and because of the inherent uncertainties in the Scottish Government's funding sources, but this makes it even more important to plan funding and spending recognising the potential variations in future levels of funding.

Five-year capital funding outlook

24 Capital budgets are under significant pressure with capital funding expected to fall by 20 per cent in real terms between 2023-24 and 2028-29. Almost all the Scottish Government's capital budget comes from the Block Grant, which is over ten times larger than the amount the Scottish Government can borrow each year. The UK Government capital spending plans involve keeping capital spending fixed in nominal terms, leading to real terms reductions in the capital budgets. This is likely to result in the Scottish Government cancelling or postponing some capital projects.

Figure 4: Five-year capital funding trends

Capital funding levels are expected to fall every year for the next five years, the reductions are larger after accounting for inflation.



Description of Figure 4: column chart showing the capital funding trends from 2023-24 to 2028-29, indexed to the latest funding position for 2023-24. Capital falls in nominal terms in the Budget year and the following year. In 2025-26 funding is 88 per cent of the level in 2023-24. From 2026-27 onwards funding levels are relatively flat until 2028-29. In all years inflation reduces the value of capital funding, by 2028-29 the capital budget levels are 80 per cent the levels of 2023-24.
Source: Scottish Fiscal Commission, Scottish Government.
Amounts indexed so that 2023-24 is equal to 100 and exclude IFRS16 funding adjustments. Real amounts have been calculated using the OBR's forecast GDP deflators OBR (2023) Economic and fiscal outlook – November 2023 (link).

25 Following the agreement reached by the UK and Scottish governments on the review of the fiscal framework this summer, the Scottish Government's borrowing limits will now increase by inflation each year. The Scottish Government plans to borrow the new maximum of £458 million for capital in 2024-25.

26 The Scottish Government has begun work to explore the option of issuing capital bonds in 2025-26 and plans to provide further information as part of the Medium Term Financial Strategy in 2024. Currently the Scottish Government's funding outlook is based on borrowing through the National Loans Fund. This approach is reasonable when considering the five-year funding outlook and we will comment on the plan to issue capital bonds when further information becomes available.

Economy

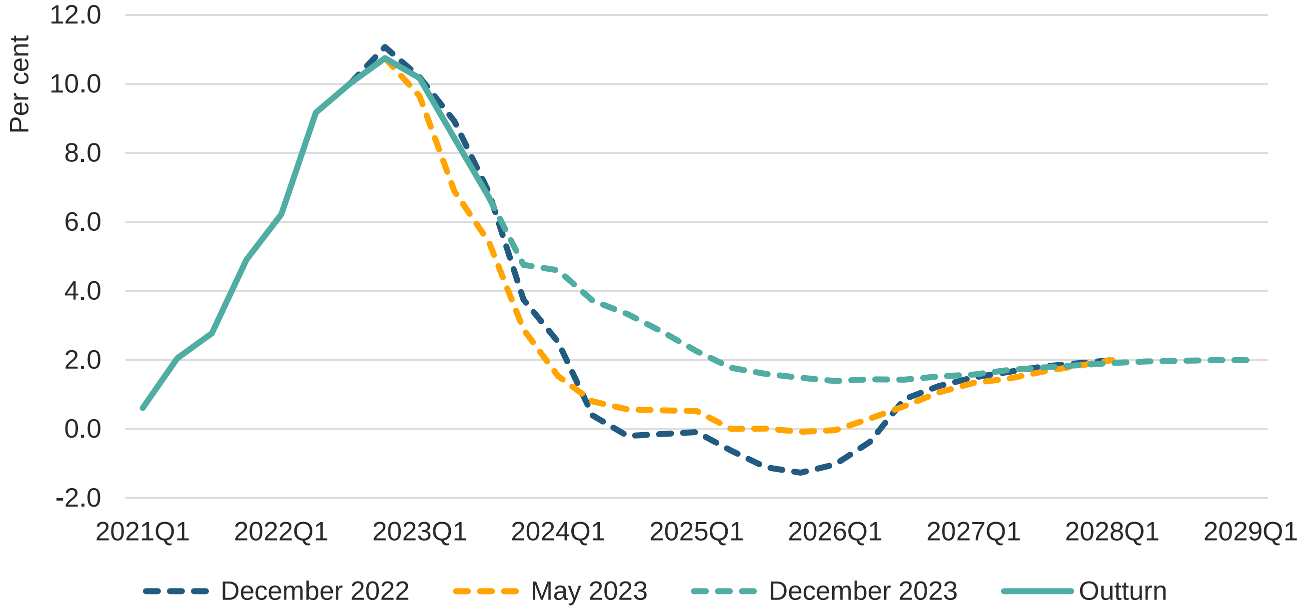
27 The outlook for the Scottish economy and for living standards (as measured by real disposable income per person) is largely unchanged from our December 2022 and May 2023 forecasts, with a slightly less negative picture for 2023-24 compared to a year ago. For 2023-24, back in May, we forecast Gross Domestic Product (GDP) to remain stable rather than fall into the shallow recession we had predicted in December 2022, and this coincided with less of a fall in living standards. Since May, reflecting stronger nominal earnings growth than anticipated, we have further revised up our forecast of real disposable income per person although we still expect a small fall this year. The drop in living standards between 2021-22 and 2023-24, of 2.7 per cent, is still the largest reduction since Scottish records began in 1998. Living standards will take until 2026-27 to return to their 2021-22 level.

28 For 2024-25, we forecast slow and fragile growth in GDP and real disposable income per person, as the recent rises in interest rates continue to weigh on household incomes and the economy, with inflation also likely to stay higher for longer than we assumed previously.

29 The path for annual Consumer Price Index (CPI) inflation is higher than we expected in December 2022 and May 2023, especially for 2024-25, as shown in Figure 5. This is due to more persistent and domestically driven pressures, mainly from ongoing labour market tightness and rising labour costs across the UK.

Figure 5: Consumer Price Index (CPI) inflation, year-on-year growth

Inflation to return to the 2 per cent target by mid-2025, a year later than we assumed previously



Description of Figure 5: Line chart showing our current forecast of CPI inflation along with our forecasts from December 2022 and May 2023. CPI inflation is still declining but is now expected to remain higher for longer, returning to target by 2025 Q2.
Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts (link).
Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts.

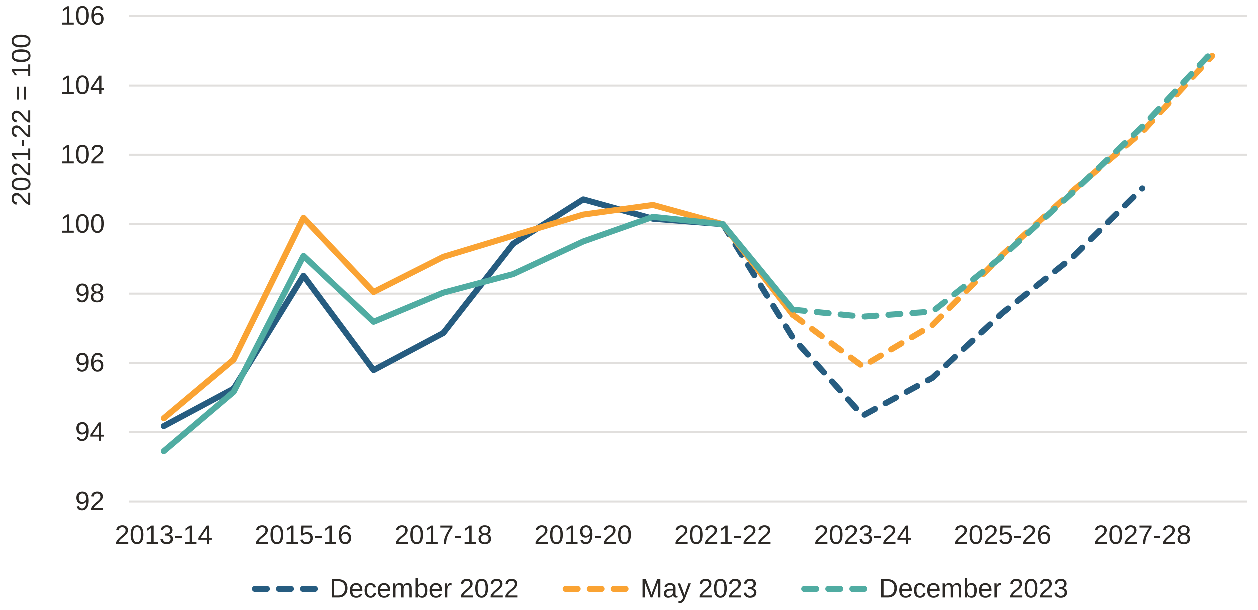
30 Figure 6 shows our latest forecast of living standards. Declining inflation combined with strong nominal earnings growth mean real earnings have returned to growth this year. However, after accounting for other factors including mortgage and other borrowing costs, living standards are still set to fall slightly in 2023-24.

31 We forecast living standards to remain broadly flat in 2024-25 as inflation will largely offset growth in nominal household disposable income. Higher interest rates will continue to reduce disposable income over the next year.[6] In part, this is because the widespread use of fixed-rate mortgages means that the recent rises in interest rates are passing through to mortgage costs with a longer lag than in the past.

[6] Bank of England (2023) Monetary Policy Report – November 2023 (link).

Figure 6: Real disposable income per person, 2021-22 equals 100

Living standards to take until 2026-27 to recover from the fall between 2021-22 and 2023-24



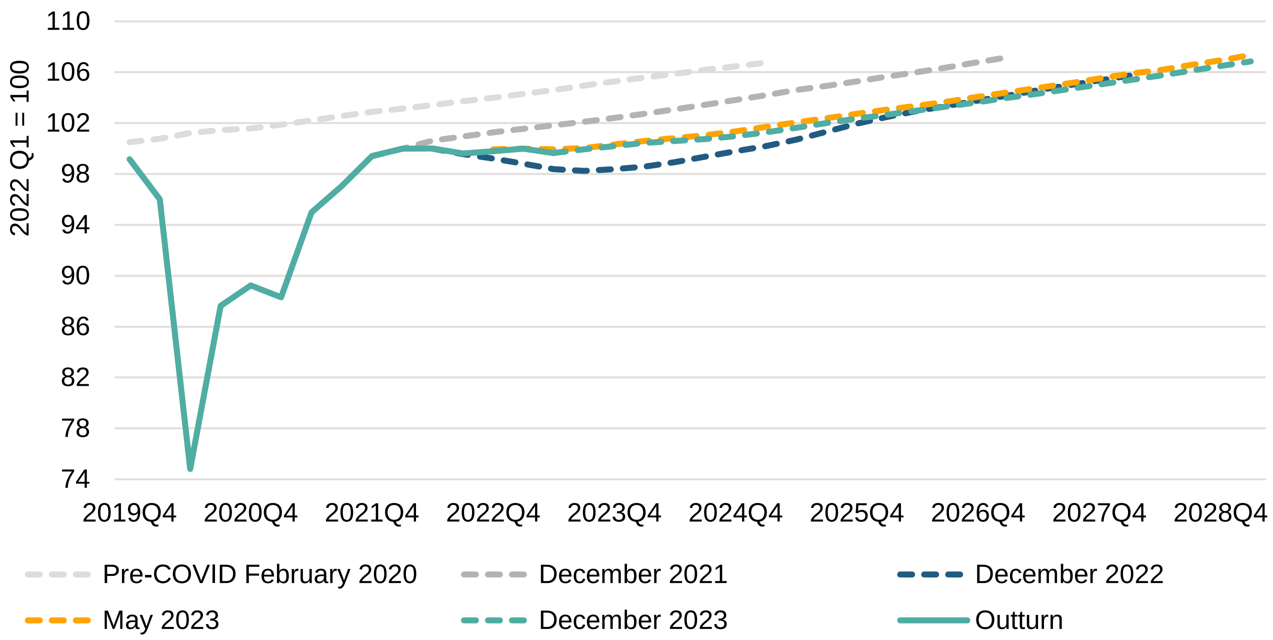
Description of Figure 6: Line chart showing living standards falling by 2.7 per cent from 2021-22 to 2023-24 and regaining their 2021-22 level in 2026-27. The fall is shallower than we forecast in our December 2022 and May 2023.
Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts (link).
Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts. Amounts are indexed so that 2021-22 is equal to 100.

32 Following recent upward data revisions, Scottish GDP is now estimated to have returned to its pre-COVID 2019 Q4 level in 2021 Q4, but growth has largely been flat since then with some volatility from quarter to quarter.[7] The overall environment remains one of slow and fragile economic growth in the near term. Even if a technical recession was to occur over the coming quarters or emerge in future revised data, we do not expect the underlying economic picture to be meaningfully different from that presented in this or our previous two forecasts.

[7] The fourth quarter, or Q4, refers to the three months from October to December.

Figure 7: Scottish GDP, 2022 Q1 equals 100

GDP to remain stable in the near term but outlook is still of slow and fragile growth next year



Description of Figure 7: Line chart showing our recent GDP forecasts. Our December 2023 forecast is broadly flat in the near term, similar to our May 2023 forecast but slightly improved from the shallow recession we had predicted in December 2022.
Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts (link)
Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts. Amounts are indexed so that 2022 Q1 is equal to 100. The pre-COVID February 2020 forecast is rescaled to maintain the same position relative to the December 2021 forecast as with 2019 Q4 equal to 100.

33 Figure 8 shows further detail on our latest economy forecast and compares it to our December 2022 forecast.

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

Per cent	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
GDP							
December 2022	1.7	-1.0	1.2	2.1	1.9	1.5	
December 2023	2.0	0.2	0.8	1.3	1.3	1.3	1.4
Consumer Price Index							
December 2022	10.1	5.5	0.0	-1.0	0.8	1.8	
December 2023	10.0	6.1	3.0	1.6	1.5	1.8	2.0
Unemployment rate							
December 2022	3.4	4.3	4.7	4.6	4.3	4.1	
December 2023	3.2	3.7	4.0	4.2	4.2	4.1	4.1

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022 (link).
Shaded cells refer to outturn available at time of publication.

Tax

Income Tax

34 Higher than expected inflation and nominal earnings growth, combined with fixed tax thresholds leading to a large fiscal drag effect, means income tax revenues are rising rapidly and have been revised up significantly compared to our previous forecasts. Scottish Government policy announcements have further increased income tax revenues. We forecast income tax revenues to be £18,844 million in 2024-25, an upwards revision of £2,211 million compared to our December 2022 forecast.

Income tax policy changes

35 The Scottish Government has announced a new income tax rate of 45 per cent for those earning above £75,000 and increased the top rate of income tax by 1 percentage point. These changes are estimated to raise a total of £82 million in 2024-25. Our estimates of how much additional revenue will be raised include an adjustment for an assumed behavioural response. Without this response revenues would be £118 million higher. Although there is uncertainty around the scale of a behavioural response, the size of the estimated response is small in relation to how much income tax revenue is raised overall and any error in our estimate of the behavioural response would have a smaller effect on the Scottish budget than, for example, an error in our earnings forecast.

The income tax net position

36 Projections of the income tax net position can be derived by comparing our forecasts for Scotland to forecasts of the BGA based on forecasts of UK income tax revenues by the OBR. A positive net position means a positive contribution to the budget while a negative net position reduces the budget. The income tax net position has been revised upwards since our May forecast and is projected to rise over time, increasing the funding available to the Scottish Government. This is the result of a combination of factors including:

- recent data showing high growth in Scottish income tax revenues
- policy divergence between Scotland and the UK driving higher revenue growth in Scotland
- high inflation boosting the net position through fiscal drag (see Box 4.1)
- high earnings growth estimates for Scotland in recent years
- our forecast of average earnings growth in Scotland from 2025-26 onwards being above the OBR's forecast for the UK

37 Projections of the income tax net position are uncertain and are subject to change between forecasts. The scope for significant shifts in the net position increases the further into the future the projections go.

38 The income tax net position in 2024-25 has been revised up as a result of a combination of higher outturn data for 2021-22, strong revenue growth observed in recent data for 2022-23 and 2023-24 and the Scottish Government's policy choices.

39 Recently published data on income tax in Scotland has been higher than expected. Income tax outturn data published in July 2023 showed the income tax net position for 2021-22 was around

£322 million higher than previous SFC and OBR forecasts had suggested. This outturn data features in both our and the OBR's forecasts and also contributes to a positive shift in the net position in 2024-25.

40 Real Time Information (RTI) data for 2022-23 and 2023-24 shows Scottish Pay As You Earn (PAYE) income tax revenues growing more rapidly than revenues in the UK. This is driven by higher relative earnings growth and a more progressive income tax regime. Although the outturn position remains uncertain, we think RTI provides the best available evidence on near-term Scottish income tax revenues. We have increased our income tax forecast to reflect this growth in RTI income tax revenues in Scotland in 2022-23 and 2023-24. We also expect Scottish income tax revenues to outperform the UK in 2022-23 and 2023-24. Given our and the OBR's latest forecasts, we estimate that mostly data driven updates in 2022-23 and 2023-24 have added a further £346 million to the income tax net position.

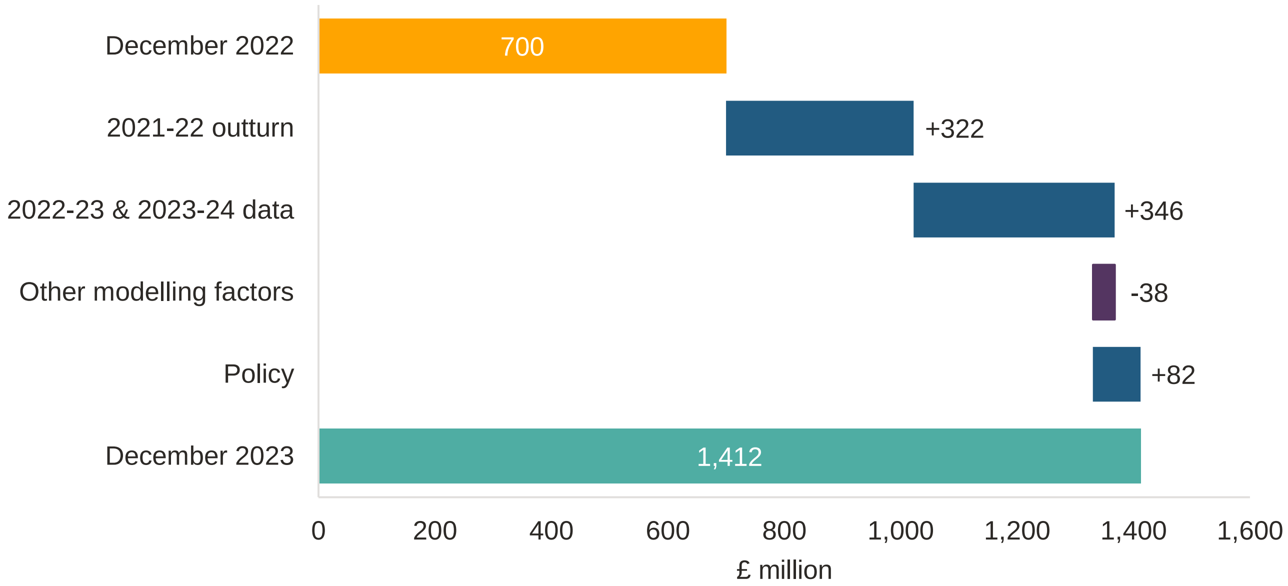
41 Figure 9 shows how different factors have contributed to changes in the estimate of the income tax net position for 2024-25. We estimate outturn data for 2021-22 and RTI data for 2022-23 and 2023-24 alone contribute an upward revision to the income tax net position in 2024-25 of £668 million. This figure of £668 million is around 3.5 per cent of Scottish income tax revenues, a relatively small shift in terms of income tax forecasts. Shifts in projections of the income tax net position of this magnitude should not be unexpected given the uncertainty around income tax revenues.

42 Changes in SFC and OBR modelling factors, judgements and updates have a relatively small effect, reducing the projection by £38 million.

43 Policy changes are expected to raise an additional £82 million and contribute to a total upwards shift in the net position of £712 million in 2024-25.

Figure 9: Projected income tax net position for 2024-25, latest and December 2022

Increases in projection of the income tax net position for 2024-25 are mostly driven by data



Description of Figure 9: The waterfall chat shows contributions to changes in the projected income tax net position for 2024 25. Most of the difference is because of data.
Source: Scottish Fiscal Commission.

44 Forecast revisions for 2024-25 are largely driven by new data from 2021-22 to 2023-24. We have used these data in our Scottish income tax revenue forecast and have no strong reasons to believe it is either significantly under or over-estimating Scottish tax revenues. However, there are risks and uncertainties. While the outturn data are final, some of the strength in the 2021-22 data may not be persistent. We know RTI is an imperfect predictor of the outturn data. We also have no information on what might be happening to self-assessment tax revenues in 2022-23 and 2023-24. There are similar uncertainties in the OBR's forecast of UK income tax revenues.

45 All of this means we may continue to see swings in projections of the income tax net position for 2024-25 until outturn figures are published. Furthermore, in a high inflation environment, the scale of movements in the net position between forecasts could be larger than usual.

46 From 2025-26 onwards, the projected net position continues to rise, driven partly by Scottish and UK policy divergence and partly by differing forecasts of earnings growth by the SFC and OBR. We caution there is a downside risk to the projection of the income tax net position from 2025-26 if higher Scottish earnings growth does not materialise.

Other devolved taxes

Non-Domestic Rates

47 Our forecast for Non-Domestic Rates (NDR) incorporates multiple Scottish Government policy changes for 2024-25. These include keeping the Basic Property Rate at its 2023-24 level rather than increasing with inflation, which reduces revenue relative to our December 2022 forecast, and increasing the Intermediate Property Rate and Higher Property Rate, which increase revenue. In addition to the policy changes, our forecast incorporates the latest outturn data, updated inflation forecast and an adjustment to our assumption on appeals losses. Overall, our NDR forecast for 2024-25 is £3,143 million, which is £63 million higher than our December 2022 forecast.

Land and Buildings Transaction Tax

48 Our overall forecast for residential and non-residential Land and Buildings Transaction Tax (LBTT) revenue for 2024-25 is £730 million. For 2024-25 onwards it is largely in line with our forecast from December 2022. For 2023-24 we have increased our forecast for residential LBTT to reflect stronger outturn in the first part of the year. Compared to our December 2022 forecasts, we have revised up our forecasts for house price growth. While we still forecast a fall in house prices in 2023-24 and 2024-25, with increasing prices from 2025-26 onwards, we now expect prices to return to their 2022-23 nominal levels in 2026-27.

Social security

Overview

49 We forecast spending on social security will increase from £6.3 billion in 2024-25 to £8.0 billion in 2028-29. One factor driving this increase is higher spending on disability benefits. This arises in part because of a UK-wide increase in the number of people receiving disability payments and in part because of the policy and operational changes to disability payments introduced by the Scottish Government. Inflation is another key factor driving the increase in spending over time. Most of the payment rates are increased by inflation each year, and in our forecasts those payment rates are uprated to reflect our latest inflation forecast.

50 Compared to December 2022, our forecast for social security spending in 2024-25 has increased by £120 million. The increase in the forecast reflects increased demand for disability payments across the UK and more successful applications than anticipated for Child Disability Payment (CDP). These upward pressures are partly cancelled out by a lower number of people receiving carer payments and refinements to some of our costings.

Figure 10: Change in social security spending forecast since December 2022

£ million	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
December 2022	4,187	5,244	6,163	6,554	6,903	7,267	
December 2023	4,193	5,299	6,283	6,861	7,253	7,616	7,999
Change since December 2022	6	55	120	307	350	349	

Source: Scottish Fiscal Commission, Social Security Scotland, Scottish Government.
Figures may not sum because of rounding. Shaded cells refer to outturn available at time of publication.

Key changes since December 2022

Inflation and uprating

51 In April 2024 the Scottish Government will increase payment rates using Office for National Statistics (ONS) September 2023 outturn CPI of 6.7 per cent. This was slightly lower than the 6.9 per cent uprating that we assumed in December 2022, reducing our forecast by £7 million in 2024-25. For the subsequent years, our inflation forecast is, overall, higher than in December 2022 resulting an increase of £194 million in our spending forecast for 2025-26 and £351 million for 2027-28.

Disability payments

52 In December 2022, we increased our forecasts for disability payments to reflect months of record high applications and inflows for disability benefits across the UK. We attributed the increase in demand to a combination of factors, including a long-term increase in mental health related cases, NHS waiting lists, and the cost of living crisis, which together could exacerbate existing health conditions or increase the likelihood of people applying for disability payments.

53 The high volume of applications has continued and we have revised our assumptions further increasing our Adult Disability Payment (ADP) forecast. Our assessment of the explanation for the increase has also developed and we now place more weight on the role of the cost of living crisis. Therefore, in the future, as the cost-of-living pressures ease and real household income levels return to pre-pandemic levels, some of the additional demand for disability payments is expected to ease.

54 For CDP we have observed a higher level of successful applications but lower average payment amount than was forecast in December 2022. We assume these are temporary effects and are the result of people who may have previously been narrowly unsuccessful when applying to Department for Work and Pensions (DWP) for Child Disability Living Allowance (DLA) or were discouraged from applying for DLA, now making a successful application for CDP. These effects increase our forecast by around £50 million from 2024-25 onwards.

Funding related to social security

55 The Scottish Government receives funding through Block Grant Adjustments (BGAs) from the UK Government for most of the devolved social security spending. BGAs are based on the spending in England and Wales on the equivalent payments. For these devolved payments, any additional spending that results from Scottish Government changes to policy or delivery is not covered by the BGAs and must be met from the overall Scottish Budget.

56 The Scottish Government has implemented policy and operational changes to improve the experience of people applying for its payments and with the aim of maximising the take-up. The effect of these changes is to increase spending above the level of the BGA funding received. Overall, we estimate that spending on social security payments with a BGA will exceed the funding received by £368 million in 2024-25.

57 The largest component of this is ADP, with spending estimated to be £300 million more than the BGA funding associated with Personal Independence Payment (the UK Government equivalent to ADP in England and Wales) in 2024-25, with the gap rising to £491 million in 2028-29. This is one of the areas of greatest uncertainty in our forecasts. ADP is a large and complex payment which was only launched nationally in August 2022, therefore our forecast for ADP is heavily reliant on our judgements on the effect of Scottish Government changes. As more ADP outturn data from Social Security Scotland is now available, we are able to evaluate some of the judgements in our ADP forecast. So far there is no clear evidence from the data that we need to adjust our judgements on the level of successful applications or the average award level. However, we have modified our assumption around Special Rules for Terminal Illness (SRTI), as a result of there being fewer cases than we had forecast. This reduces our ADP forecast by £27 million in 2024-25.

58 In addition to devolved payments with BGA funding, the Scottish Government has introduced new payments which are only available in Scotland and consequently for which there is no BGA funding. These include Scottish Child Payment, Carer's Allowance Supplement and Child Winter Heating Payment. Spending on these payments is forecast to be £614 million by 2024-25.

59 There is also a group of other Scottish Government social security payments that replaced UK Government payments which do not have a BGA. When first devolved, the Scottish Government received additional Block Grant funding through Machinery of Government transfers from the UK Government for these payments. However, the funding has now been rolled into the wider Block Grant and it is not possible to attribute funding amounts for those payments. We forecast spending of £110 million on these payments in 2024-25.

60 Taken together the three groups of Scottish Government social security payments lead to spending of almost £1.1 billion more than the social security BGA funding the Scottish Government will receive in 2024-25. This gap is estimated to grow to approximately £1.5 billion by 2028-29, largely as a result of more of the effects of Scottish Government changes to disability and carer benefits being realised.

Figure 11: Social security spending above BGAs

£ million	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Social security net position [1]	-225	-368	-478	-540	-590	-694
Spending on payment without BGAs, of which:						
New social security payments [2]	-566	-614	-646	-669	-682	-694
Other social security payments [3]	-103	-110	-112	-113	-113	-113
Social security spending above BGAs [4]	-894	-1,092	-1,236	-1,322	-1,384	-1,502

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

[1] Social security net position is the difference between funding the Scottish Government receives for social security through the Block Grant Adjustments and spending on the corresponding payments. This covers the disability payments, carer payments, winter heating payments and employment injury assistance. Detailed information can be found in Figure 5.7.

[2] New social security payments include Scottish Child Payment, Carer's Allowance Supplement, Child Winter Heating Payment, Best Start Grant Early Learning Payment, and Best Start Grant School Age Payment. We also include spending through Discretionary Housing Payments on bedroom tax mitigation and the extra costs of the new commitment to mitigating Benefit Cap deductions.

[3] Other social security payments devolved through the general Block Grant and therefore included in the Barnett formula are Sure Start Maternity Grant (replaced by Best Start Grant Pregnancy and Baby payment), Funeral Payments (replaced by Funeral Support Payment), Employability Services (replaced by Fair Start Scotland), elements of the social fund (replaced by Scottish Welfare Fund), Healthy Start Vouchers (replaced by Best Start Foods), and Discretionary Housing Payments (DHPs). In our December 2018 forecasts, we presented Machinery of Government transfers for DHPs, Employability Services, Best Start Grant and Funeral Support Payment totalling around £40 million in 2019-20. This funding is now part of the overall Block Grant, and it is not possible to provide an updated estimate.

[4] The total level of social security spending above the Block Grant Adjustments which the Scottish Government must allocate spending for as part of the Budget process.

Chapter 1
Introduction

What is in this report?

1.1 In this report, published on 19 December 2023, we present our latest official five-year economic and fiscal forecasts. We create our forecasts independently, representing the collective judgements of our Commissioners. Our forecasts have informed the 2024-25 Scottish Budget, published on the same day.

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

1.3 In Chapter 2, we present what the new forecasts mean for the funding position of the Scottish Government. For the first time, we provide two comparisons of how funding has changed between 2023-24 and 2024-25. We compare the 2024-25 Budget position to the 2023-24 Scottish Budget as introduced in December 2022 and to the latest position of the 2023-24 Budget. An explanation of changes to funding in 2023-24 can be found in Annex D. The Scottish Government's Budget documents compare the 2024-25 Budget to the 2023-24 Budget as introduced in December 2022.

1.4 In the subsequent chapters, we show how our latest December 2023 forecasts have changed compared to those we published in December 2022, which informed the 2023-24 Scottish Budget.

1.5 The report contains the following chapters:

Summary	A summary of our economic and fiscal forecasts, the fiscal overview, and the key points from this round of forecasts.
Chapter 1: Introduction	Presents the structure and content of the document
Chapter 2: Fiscal Overview	Discusses the funding outlook based on our forecasts and UK Government funding. We also assess the Scottish Government's planned borrowing and use of the Scotland Reserve. We provide some commentary on spending plans.
Chapter 3: Economy	Our five-year forecasts for the Scottish economy, including the underlying judgements.
Chapter 4: Tax	Our forecasts of devolved tax revenue.
Chapter 5: Social Security	Our forecast of devolved social security spending.
Annex A: Policy Costings	Our estimates of how much any new policies will cost or raise and explanations of how the Commission has arrived at those estimates.
Annex B: Policy Recostings	Our revised estimates of policies previously costed.
Annex C: Materiality	Our approach to handling policies which have a very small fiscal effect.
Annex D: Fiscal Update	Explains changes to the 2023-24 funding position since May 2023.

1.6 Some additional information such as comparisons to our previous forecasts are in our supplementary figures available for download from our website.[8] If there is any information you are looking for that is not in this report or the supplementary figures, please get in touch with us at info@fiscalcommission.scot.

The process behind creating these forecasts

1.7 On 9 October 2023, we received notice from the Deputy First Minister and Cabinet Secretary for Finance of the publication of a Budget on 19 December 2023. Throughout this period, our interaction with the Scottish Government has been guided by our Protocol for engagement.[9]

1.8 Since the formal notification, the Commission has had two rounds of meetings to discuss our forecasts. Attendees have included the Scottish Government, Revenue Scotland, and Social Security Scotland. In accordance with the Protocol, details of timings and attendees are published on our website.[10]

1.9 To finalise our forecasts for publication, our cut-off date for incorporating new data into the forecasts was 27 November 2023.

1.10 The deadline for final policy information from the Scottish Government was 5 December. This was agreed as part of agreement on the overall timetable. The Scottish Government delayed finalising its Budget and missed this deadline. The Protocol with the Scottish Government does allow for changes to the timetable subject to the agreement of both the Commission and the Government. We agreed to extend the deadline for the final policy information to 8 December as we recognised the importance of continuing to support the Budget process. On 12 December the Government told us that it was re-visiting its final Non-Domestic Rates policy package and we agreed a further extension until 13 December. By the evening of 13 December, we had received all the information we required from the Government to complete our forecasts. Overall, the delays to provision of final policy information reduced the time we had to quality assure our forecasts and prepare our report.

1.11 Headline dates are:

9 October	Deputy First Minister and Cabinet Secretary for Finance wrote to advise that the Scottish Government intended to publish its Budget 2024-25 on 19 December 2023.
27 November	Deadline for inclusion of new data in the forecasts.
29 November	Deadline for inclusion of policy measures that may affect the economy forecasts and closure of the economy forecasts.
5 December	Original deadline for the Scottish Government to provide the Commission with any final policy measures to be included in the forecasts.
8 December	Revised deadline for the Scottish Government to provide the Commission with any final policy measures to be included in the forecasts.
8 December	The Commission provided its forecasts to the Scottish Government based on final policy provided on 8 December.

[8] Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023 (link).
[9] Scottish Fiscal Commission (2023) Protocol for engagement between the Scottish Fiscal Commission and the Scottish Government (link).
[10] Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023 (link).

13 December	Second extension for the Scottish Government to provide the Commission with final policy measures.
13 December	The Commission provided its final forecasts to the Scottish Government.
13 December	Deadline for the Scottish Government to provide the Commission with any final borrowing and funding information to be included in the forecasts. This deadline was unchanged from the agreed timetable.
13 December	The Commission's near-final report was shared with the Deputy First Minister and Cabinet Secretary for Finance, Cabinet Secretary for Social Justice, and Cabinet Secretary for Wellbeing Economy, Fair Work and Energy. Because of the delays in receiving information from the Government this near-final report was incomplete.
18 December	Call between Professor Graeme Roy, Chair of the Commission and the Deputy First Minister and Cabinet Secretary for Finance.
18 December	A pre-release version of the Commission's report was shared with the Deputy First Minister and Cabinet Secretary for Finance, Cabinet Secretary for Social Justice, and Cabinet Secretary for Wellbeing Economy, Fair Work and Energy.
19 December	Scotland's Economic and Fiscal Forecasts – December 2023 published.

How the Scottish Government uses our forecasts

1.12 On 19 December 2023, the Scottish Government published the Scottish Budget 2024-25 which is informed, in part, by our forecasts. The Budget sets out the Scottish Government's funding position, based on: our forecasts of tax revenues and social security; and assumptions about future funding and the Scottish Government's borrowing plans. We discuss these funding plans in Chapter 2. Our tax and social security forecasts are detailed in Chapter 4 and Chapter 5, respectively.

Data

1.13 Box 1.1 discusses a number of data challenges we have faced in this forecast.

Box 1.1: Discussion on data and revisions

Over the last year, we have faced a number of challenges with the data we rely on for our forecasts. We outline these issues in turn below, linking to the various specific discussions throughout the report.

Some of the issues relate to – or were exacerbated by – the Coronavirus (COVID-19) pandemic, and it does seem we are currently experiencing unusually significant data challenges. However, data challenges are an inescapable part of forecasting. While we work closely with our data providers to understand and minimise the effects on our forecasts, there are always going to be new issues emerging and occasional surprises.

Data will continue to be subject to revisions and corrections, and from time to time will show unexpected new movements. It is important to understand that data challenges will continue to be a contributing factor to forecast error. Our objective is to anticipate upcoming challenges, minimise the effect of them on our forecast where possible, and transparently communicate the risks and uncertainties to our users.

Census and population data

Early results from the Scotland's Census 2022 showed Scotland's population was around 1 per cent smaller than previously thought. More significantly, the age distribution was quite different, most notably with 8 per cent fewer people aged 25 to 34. This is discussed further in Box 3.2.

Labour Force Survey (LFS) issues and temporary suspension

In October, the ONS temporarily paused the publication of UK and regional estimates from the LFS because of quality concerns. In October, the ONS replaced these with new adjusted headline estimates, based on administrative data sources, only at the UK level for the periods May-July 2023 and June-August 2023. The November release included regional breakdowns too for May-July, June-August, and July-September 2023. This issue with the LFS is primarily driven by falling response rates to the survey, but inconsistencies are also present because of differences in the population assumptions made within the LFS statistics compared to the latest available population data. This is affecting our understanding of labour market participation, unemployment, and employment. With the January 2024 labour market data release, the ONS plans to update the population figures used in the LFS estimation, which is expected to result in revisions to LFS back data.[11] This update was initially intended to happen in December 2023.[12] The ONS plans to replace the LFS with the transformed version of the survey from March 2024, which might lead to further revisions. We have discussed issues with labour market data in previous reports, with our latest views in Chapter 3.

UK GDP Blue Book 2023 revisions and subsequent revisions for Scotland

UK National Accounts data has undergone significant revisions in the latest Quarterly National Accounts publication on 30 September 2023, following Blue Book 2023 methodological revisions. This has revised up UK GDP since the pandemic, largely offsetting previous downward revisions in Blue Book 2022. The Blue Book 2023 changes were partially reflected in the Scottish GDP publication on 1 November 2023, for sectors where Scottish estimates are directly based on UK results (mining support, financial services, construction, health and social care), with further revisions planned for early 2025.[13] This has changed our understanding of the performance of the UK and Scottish economies over the last few years, including the timing of recovery to pre-COVID levels which is now estimated to have happened earlier than previously thought for both economies.

Issues with RTI liabilities data and discovery of an error in the 2021-22 figure

The HMRC shared new intelligence on the divergence between Scottish RTI liabilities and outturn data for 2021-22. Part of the divergence was driven by a methodological correction with the RTI statistics, while the remaining divergence was driven by one-off factors related to the pandemic. As we place significant weight on RTI statistics in determining our income tax forecast, this had a sizeable effect on our forecast errors for 2021-22. We discuss this issue in further detail in the income tax section of Chapter 4.

[11] ONS (2023) Update on the Labour Force Survey (link).
[12] ONS (2023) Labour Force Survey: planned improvements and its reintroduction (link).
[13] Scottish Government (2023) GDP Quarterly National Accounts: 2023 Quarter 2 (April to June) (link).

Turnaround in RTI earnings data for Scotland

The RTI data have shown a marked turnaround in earnings growth in Scotland. Since early 2023, growth in Scottish RTI mean pay has been significantly above the UK. We believe this is not the result of a revision or a correction, and we had anticipated in our previous two forecasts that a period of catching-up was possible, but it shows the volatile nature of economic statistics. We discuss these data further in the earnings section of Chapter 3.

Chapter 2
Fiscal Overview

Overview

2.1 Total funding levels for the 2024-25 Scottish Budget are greater in both nominal and real terms than we previously expected. We forecast resource and capital funding of £53.8 billion in 2024-25, an increase of £1.2 billion since our last forecasts in May 2023. Inflation and higher earnings growth have resulted in income tax revenues increasing. The contribution of income tax to the Scottish Budget in 2024-25 has increased by over £500 million compared to what was expected in May 2023. The income tax reconciliation from 2021-22 applied to the 2024-25 Budget is also less negative than previously projected.

2.2 Funding for the 2024-25 Budget is likely to change over the coming year. While income tax revenues will be fixed based on our forecasts, revenues from fully devolved taxes may differ from our forecasts, UK Government spending plans may change following UK fiscal events before and after the next UK General Election, which would affect the Block Grant, and the Scottish Government may change its planned use of the Scotland Reserve and borrowing.

2.3 Between 2023-24 and 2028-29 total funding (resource and capital) is expected to increase by 14 per cent in nominal terms and 4 per cent in real terms. A reduction in capital funding levels counteracts more rapid growth in resource funding. Capital funding is expected to fall by 20 per cent in real terms between 2023-24 and 2028-29.

Figure 2.1: Five-year total funding

£ million	2023-24 [1]	2024-25	2025-26	2026-27	2027-28	2028-29
Nominal terms	52,449	53,788	55,432	56,973	58,063	59,599
Real terms (2023-24 prices)	52,449	52,900	53,600	54,210	54,284	54,691

Source: Scottish Fiscal Commission and Scottish Government.
Amounts exclude IFRS16 funding adjustments. Real amounts have been calculated using the OBR's forecast GDP deflators OBR (2023) Economic and fiscal outlook – November 2023 (link).
[1] Latest position. Total funding in 2023-24 when the Scottish Budget was introduced in December 2022 was £51,354 million.

2.4 The income tax net position is currently forecast to contribute to the real terms growth in the Scottish Budget over the next five years. Whether the income tax net position will be as large in the future as is currently forecast is uncertain. Beyond 2024-25 the resource Block Grant from the UK Government is expected to grow by just 1 per cent a year in real terms on average, and the capital Block Grant is expected fall in real terms, all in line with UK Government medium-term spending plans. The UK Government has not set departmental spending plans for 2025-26 onwards which means the Scottish Government's Block Grant funding is uncertain. We discuss both these factors in further detail in the resource funding section.

2.5 The fiscal framework was reviewed this year.[14] The UK and Scottish governments agreed that Scottish Government borrowing limits will increase by inflation each year. In 2024-25 the annual borrowing limit for resource spending has increased to £610 million and for capital to £458 million. The Scottish Government plans to borrow £338 million for resource and £458 million for capital in 2024-25. The Scottish Government has begun exploring the option of issuing its own capital bonds in 2025-26 and plans to provide further information as part of the Medium Term Financial Strategy in 2024. The funding outlook is based on borrowing via the UK National Loans Fund (NLF), the method of borrowing that has been used to date. This approach is reasonable when considering the five-year funding outlook and we will comment on the plan to issue capital bonds when further information becomes available.

Box 2.1: Budget figures and IFRS16 adjustments

Throughout our report we compare the 2024-25 Budget position to the latest position for 2023-24. The Scottish Government's Budget documents make the comparison to the 2023-24 Budget when it was introduced. We discuss these differences in Box 2.2. There is an additional change affecting the presentation of the 2024-25 Scottish Budget. The International Financial Reporting Standards 16 (IFRS16) is a new accounting standard concerning leases. It affects discretionary budgets with increases in capital funding and reductions in resource funding.

IFRS16 is being adopted progressively in the public sector. It is a three-year programme which began in 2022-23, and most adjustments took place in the first year. In 2022-23 and 2023-24 IFRS16 adjustments have been introduced at Budget Revisions only, but the 2024-25 Budget portfolio spending is now presented after adjustments for IFRS16.

In our report, we present funding excluding adjustments to IFRS16 as this provides the best comparison over time. Figure 2.2 shows how resource, capital and total funding are affected by the IFRS16 adjustments.

Figure 2.2: Comparison of funding in 2023-24 and 2024-25

£ million		2023-24 (Budget Bill)	2023-24 (latest position)	2024-25 (Budget Bill)
Resource	Discretionary budget before IFRS16	44,991	46,083	47,594
	IFRS16 adjustments	-200	-200	-203
	Resource funding after IFRS16	44,791	45,883	47,391
Capital	Discretionary budget before IFRS16	5,940	5,962	6,017
	IFRS16 adjustments	441	441	233
	Capital funding after IFRS16	6,380	6,402	6,250
Financial transactions	Discretionary budget before IFRS16	424	404	176
	IFRS16 adjustments	-	-	-
	FTs funding after IFRS16	424	404	176
Total	Discretionary budget before IFRS16	51,354	52,449	53,788
	IFRS16 adjustments	241	241	30
	Funding after IFRS16	51,595	52,690	53,817

Source: Scottish Fiscal Commission.
Figures may not sum because of rounding.

[14] Scottish Government (2023) Fiscal framework: agreement between the Scottish and UK Governments (link).

Total spending

2.6 In the May 2023 Medium Term Financial Strategy (MTFS) the Scottish Government committed to publish a multi-year outlook for capital and resource spending up to 2026-27 alongside the 2024-25 Budget. Despite this commitment, the 2024-25 Scottish Budget only contains spending plans for 2024-25.

2.7 Total funding levels in 2024-25 are greater in both nominal and real terms than previously expected. In May 2023 the Deputy First Minister identified a £1 billion gap between funding and spending in 2024-25. We now forecast resource and capital funding of £53.8 billion in 2024-25, an increase of £1.2 billion since our last forecasts in May 2023. Despite this increase in funding the Scottish Government has still faced a number of pressures on funding and spending.

2.8 The Scottish Government has also made a number of announcements which increase spending pressures. The Scottish Government is providing £144 million to local authorities to compensate for the loss of revenue from the announced Council Tax freeze. The public sector pay rises seen over the last year increase the funding needs of all areas of the Scottish Government. We now discuss the resource spending portfolio allocations then public sector pay before turning to capital spending.

Portfolio spending

2.9 The Scottish Government's resource spending plans provide a comparison between the 2023-24 Budget as introduced and the 2024-25 Budget. These show total resource spending growing by 4.1 per cent in real terms.

2.10 Social security spending accounts for the largest increase in spending between years, the Social Justice portfolio, which covers social security is increasing by 15.7 per cent in real terms between 2023-24 and 2024-25. Justice and the Crown Office and Procurator Fiscal Service portfolios increase by 9.1 per cent and 10.3 per cent respectively. The NHS Recovery Health and Social Care portfolio increases by 1.3 per cent in real terms spending between 2023-24 and 2024-25.

2.11 The portfolios with a reduction in real terms spending are the Wellbeing, Economy, Fair Work and Energy portfolio, the Rural Affairs, Land Reform and Islands portfolio and the Finance portfolio.

2.12 All these comparisons are reflecting the position when the 2023-24 Budget was introduced in December 2022. Since the 2023-24 Budget was introduced funding in 2023-24 has increased by £1.1 billion. In real terms the 2024-25 Budget is 3.3 per cent larger than the latest position for 2023-24. The real terms increases by portfolio will likely differ if comparisons are made to the latest spending plans in 2023-24. We will publish a paper on the Scottish Government's spending plans in January 2023 showing a comparison in spending between the latest 2023-24 position and the 2024-25 Budget. This comparison will be based on the Classification of the Functions of Government (COFOG) to show spending by consistent categories over time.

Figure 2.3: Real terms change in resource spending by portfolio

Per cent	Share of 2024-25 resource spending	Real terms growth between 2023-24 and 2024-25
NHS Recovery Health and Social Care	38.5	1.3
Local Government	25.0	2.5
Deputy First Minister/Finance	0.3	-4.8
Social Justice	14.6	15.7
Education and Skills	6.6	3.1
Justice	7.0	9.1
Transport, Net Zero and Just Transition	3.4	3.5
Rural Affairs, Land Reform and Islands	1.9	-4.2
Constitution, External Affairs and Culture	0.6	4.9
Wellbeing Economy, Fair Work and Energy	1.0	-9.4
Crown Office and Procurator Fiscal Service	0.4	10.3
Scottish Parliament and Audit Scotland	0.3	6.1
Corporate Running Costs	0.4	10.4
Total	100.0	4.1

Source: Scottish Fiscal Commission, Scottish Government.
The real terms growth between 2023-24 and 2024-25 compares the 2023-24 spending plans as introduced in December 2022 and does not reflect changes since then.
Figures may not sum because of rounding.

Public sector pay

2.13 The Scottish Government has estimated that in 2023-24 pay accounted for over £25 billion of resource expenditure across the devolved public sector, including local government.[15] This is over half of the resource budget.[16] Increases in public sector pay therefore have a significant effect on the Scottish Government's spending.

2.14 Increases in public sector pay have been larger than the Scottish Government has previously planned due to inflationary pressures. When the Scottish Government presented its Medium-Term Financial Strategy (MTFS) in May 2023 was based on a central scenario of pay awards growing by 3.5 per cent in 2023-24 and 2 per cent in 2024-25.[17] The Scottish Government now estimates the average public sector pay award in 2023-24 was 6.5 per cent, 3 percentage points higher than estimated in May 2023. The Scottish Government set out in November 2023 how pay deals were around £800 million higher in 2023-24 than had been budgeted for.[18] Pay increases are cumulative and therefore past increases result in higher pay in the future. The Scottish Government has not set out its expected pay increases for 2024-25 onwards. We separately forecast public sector pay for our economic and income tax forecasts. We have assumed average devolved public sector pay growth of 4.5 per cent in 2024-25, discussed in Chapter 3.

2.15 Where pay increases are larger than the growth in the resource budget, the Scottish Government will either need to reduce the number of public sector employees or constrain spending in other areas. Audit Scotland recently reported on Scotland's public sector workforce and highlighted the

[15] Scottish Government (2023) The Scottish Government's Medium-Term Financial Strategy (link).
[16] Local Government has other sources of funding that are locally retained, and so are not part of the Scottish Budget, mainly service income and council tax. These also go towards paying Local Government staff salaries.
[17] Scottish Government (2022) The Scottish Government's Medium-Term Financial Strategy (link).
[18] Scottish Government (2023) Autumn Statement – Scottish Government priorities: Deputy First Minister statement (link).

need for better strategic workforce planning. Audit Scotland also noted that the Scottish Government needs to improve the data it has on the size of the workforce and levels of pay.[19]

Capital spending

2.16 Capital budgets are under significant pressure with capital funding expected to fall by 20 per cent in real terms between 2023-24 and 2028-29. Almost all the Scottish Government's capital budget comes from the Block Grant, which is over ten times larger than the amount the Scottish Government can borrow each year. The UK Government capital spending plans involve keeping capital spending fixed in nominal terms, leading to reductions in real terms spending. This is likely to result in the Scottish Government cancelling or postponing some capital projects.

Resource funding

Outlook for 2024-25

2.17 Resource funding in 2024-25 is set to increase by almost £1.5 billion from the latest position for 2023-24, a rise of 3.3 per cent in nominal terms. The largest contributor to the increase is the income tax net position, which is forecast to more than double in size, growing from £0.6 billion in the 2023-24 Budget to £1.6 billion in 2024-25.

2.18 The contribution of income tax to the Budget is fixed at the level forecast when the Budget is set. Although the net position for 2023-24 is forecast to have improved since the Budget was set last December, the amount the Scottish Government received will not change. Once outturn data are available there will be an adjustment to the 2026-27 Budget to account for 2023-24 income tax revenues differing from what we forecast.

2.19 The BGAs for social security are the second most important contributor to the growth in resource funding and have increased by almost £0.8 billion between the latest position for 2023-24 and 2024-25. Block Grant funding adds an extra £0.6 billion in 2024-25.

2.20 On the other hand, some sources of funding are lower in 2024-25, the largest falls being in funding from ScotWind and the Scotland Reserve. In 2023-24 the Scottish Government plans to use £460 million of ScotWind proceeds, leaving only £200 million for 2024-25.[20] The Scottish Government does not currently plan to use any funds from the Scotland Reserve in 2024-25, but has used £251 million in 2023-24. The breakdown by funding source is shown in Figure 2.4.

[19] Audit Scotland (2023) The Scottish Government's workforce challenges (link).

[20] ScotWind funding is included in confirmed other funding sources in Figure 2.4.

Figure 2.4: Changes in resource funding from 2023-24 to 2024-25

£ million		2023-24 (Budget Bill)	2023-24 (latest position)	2024-25 (Budget Bill)
Block Grant	Barnett baseline [1]	34,942	34,942	35,576
	Barnett consequentials	1,081	1,399	1,384
	Non-Barnett funding [2]	715	715	715
Fiscal framework funding	Forecast devolved revenues [3]	16,688	16,722	19,658
	Tax and non-tax BGAs	-16,131	-16,129	-18,066
	Social security BGAs	4,360	4,405	5,191
	Adjustment for past forecast error	87	87	0
	of which: reconciliations	46	46	-338
	of which: resource borrowing	41	41	338
	Scotland Reserve drawdown	0	251	0
Other funding sources	Other funding	435	863	334
	of which: assumed [4]	120	353	200
	of which: confirmed [5]	315	510	134
	NDR distributable amount	3,047	3,047	3,068
less: resource borrowing costs		-120	-114	-124
less: capital borrowing costs		-112	-103	-141
Resource funding available for discretionary spend		44,991	46,083	47,594

Source: Scottish Fiscal Commission, Scottish Government.

Amounts exclude IFRS16 funding adjustments. Figures may not sum because of rounding. Breakdowns for 2023-24 amounts, which are updated taking into account changes since the May 2023 forecasts, can be found in Figure D.1 in Annex D.

[1] As set out in the UK Spending Review 2021.

[2] Funding agreed between the UK and Scottish governments at the Spending Review 2021 not based on the use of the Barnett formula. It comprises £609 million of replacement EU farming and fisheries funding, £80 million for a Network Rail resource grant and £26 million of funding for the Bew Review.

[3] Forecast devolved revenues include an estimated £25 million from Fines, Forfeitures and Fixed Penalties (FFFPs). The Scottish Government forecasts these.

[4] For 2024-25 £200 million is assumed to come from the Scottish share of the UK-levied Migrant Surcharge. The Home Office transfers part of the income from the Migrant Surcharge to the Scottish Government over the course of the year.

[5] For 2024-25 this includes £200 million of planned deployment of ScotWind proceeds, £5 million from the King's and Lord Treasurer's Remembrancer (KLTR), and £18 million for a correction on the comparability factor of the Home Office for the period of the current UK Spending Review, and a £89 million reduction for a switch from the resource to the capital budget.

2.21 To see how the 2024-25 Budget has changed, we compare it to the latest position for 2023-24. This captures changes over the year. Alternatively, we could compare it to the 2023-24 Budget at the time it was introduced which is the comparison used by the Scottish Government. Box 2.2 explains how funding changes during the year and why we use the latest position as a comparator.

2.22 Resource funding has grown by £1.5 billion when compared to the latest position for 2023-24. After adjusting for inflation, this is equivalent to a real-terms rise of £726 million. If comparing to the 2023-24 Budget as introduced, the difference is £2,604 million, or a £1,818 million rise in real terms.

Box 2.2: Comparing the Budget position to the previous financial year

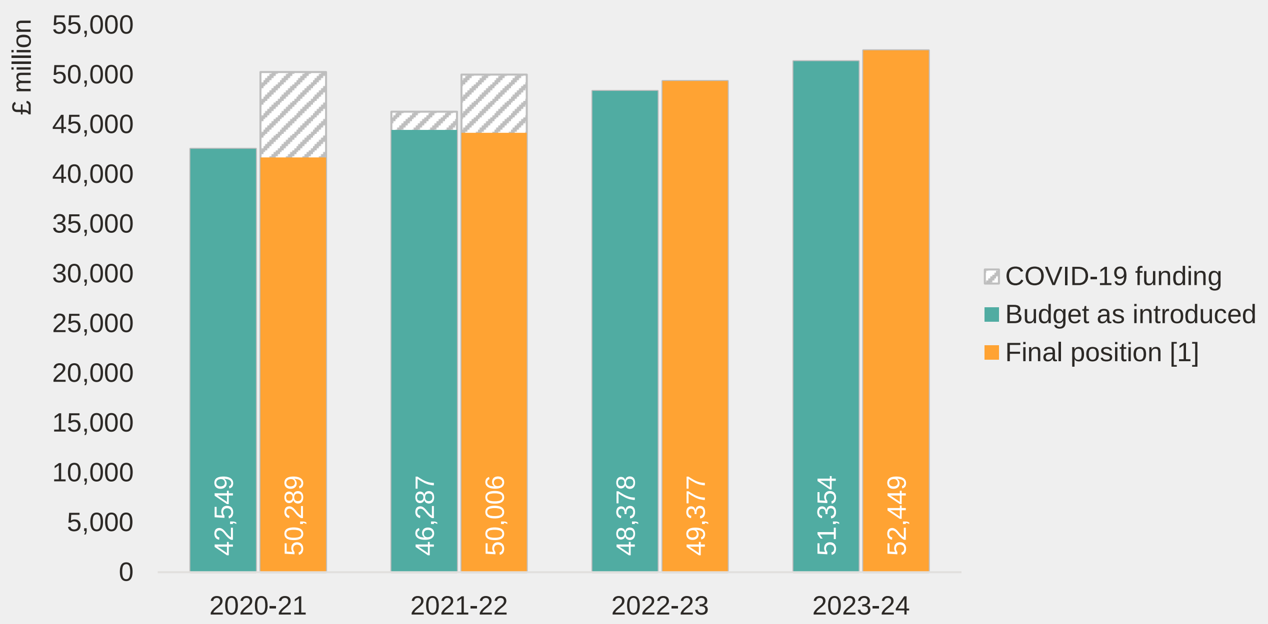
Spending must match available funding when setting the Scottish Budget. However, funding may change during the year because of:

- changes in UK Government spending plans in-year, affecting the Block Grant
- devolved tax revenues being higher or lower than we forecast when the Budget was set
- change to the BGAs reflecting the OBR's updated forecasts in the autumn
- changes to planned drawdowns from the Scotland Reserve or planned borrowing

We therefore consider the latest Budget position a better comparator to future years funding.

Figure 2.5: Evolution of total funding each financial year, 2020-21 to 2023-24

Total funding generally increases during the year, the increases were especially large during the COVID-19 pandemic.



Description of Figure 2.5: Column chart showing the evolution of total funding from 2020-21 to 2023-24, comparing the amounts at the time the Budget was introduced to the final or most recent position available. In 2020-21 and 2021-22 the difference was significant but mostly due to COVID-19 related consequentials. However, changes also happen in post-pandemic years. The final funding position in 2022-23 was around £1 billion more than when the Budget was introduced, and the 2023-24 Budget is already £1,095 million higher than when the Budget was introduced.
Source: Scottish Fiscal Commission.
Striped portions of the bars represent COVID-19-related funding. Amounts exclude IFRS16 funding adjustments.
[1] For 2023-24, with the year still ongoing, it is the estimated funding position in December 2023.

The Scottish Government uses Budget Revisions, normally twice a year in autumn and spring, to amend its spending plans in line with changes in funding and priorities. Sometimes, decisions made during the Budget process are postponed until the first Budget Revision. For example, at Stage 3 of the 2023-24 Budget Bill, the Scottish Government decided to increase grants to Local Government by an extra £100 million, funding it with expected underspends in 2022-23.[21] However, the Budget Bill was not

[21] Scottish Parliament (2023) Meeting of the Parliament, 21 February 2023, Official Report (link).

amended, and the change was left for the Autumn Budget Revision (ABR). This highlights how a comparison to the Budget when first introduced can mean changes made during the Budget Bill process are not reflected in the comparison.

The economic and fiscal context can also change between a Budget being introduced and its final position, as illustrated in Figure 2.5. Therefore, we use the latest position available for comparison as we think it is a more accurate reflection of how spending is changing year-on-year.

Comparison of current forecasts with May 2023

2.23 In May 2023 the Deputy First Minister highlighted how resource spending requirements in 2024-25 were likely to be £1 billion higher than the funding available.[22] At that point we expected resource funding of £46.5 billion in 2024-25. Now we forecast resource funding to be £47.6 billion, an increase of £1.1 billion. Since May the Scottish Government's spending requirements have also increased as discussed in paragraph 2.8.

2.24 The most significant increases in resource funding compared to what was expected in May relate to income tax. The tax net position has increased by over £500 million because of increased earnings, fiscal drag, and the Scottish Government's income tax policy change.

2.25 In our May 2023 forecast, the income tax reconciliation from 2021-22 that would be applied to the 2024-25 Budget was projected be negative £712 million, which would have exceeded the borrowing limits and so would have reduced funding.[23] The reconciliation now stands at a negative £390 million. It is partly offset by positive reconciliations for the BGAs of other devolved taxes and social security. The resulting negative £338 million reconciliation can be borrowed in full and repaid over the next few years.

2.26 UK Government Block Grant funding in 2024-25 has also increased by £293 million since May.

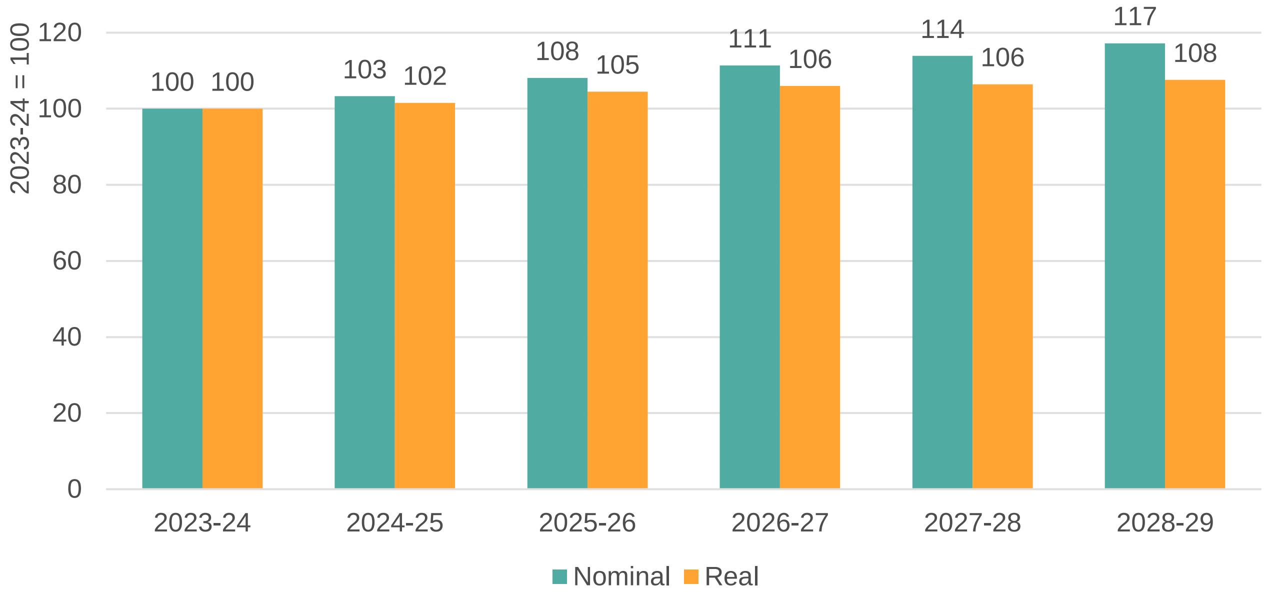
Five-year outlook

2.27 Resource funding is expected to increase over the next five years. In nominal terms it is forecast to grow by 17 per cent by 2028-29 compared to the latest position in 2023-24. After adjusting for inflation, the growth is 8 per cent.

[22] Scottish Parliament (2023) Meeting of the Parliament, 25 May 2023, Official Report (link).
[23] In May 2023 the Scottish Government could only plan to borrow £300 million to manage the reconciliation. Since then, the Scottish Government's resource borrowing powers have increased. Resource borrowing is discussed further in the borrowing section of this chapter.

Figure 2.6: Five-year resource funding trends

Resource funding levels are forecast to increase steadily over the next five years, in both nominal and real terms



Description of Figure 2.6: Column chart showing resource funding levels from 2023-24 to 2028-29, indexed to 2023-24 levels so that those are equal to 100. Levels grow steadily over the years, with resource funding reaching 17 per cent growth by 2028-29 in nominal terms, and 8 per cent growth after accounting for inflation.
Source: Scottish Fiscal Commission.
Amounts indexed so that 2023-24 is equal to 100. Amounts exclude IFRS16 funding adjustments. Real amounts have been calculated using the OBR's forecast GDP deflators. OBR (2023) Economic and fiscal outlook – November 2023 (link).

2.28 The Scottish Government has not set spending plans beyond 2024-25, but by taking account of our social security forecasts and the Non-Domestic Rates (NDR) distributable amount we can show the amount of funding available for other areas of spending over the next five years. Revenue from NDR can only be used to provide funding for Scotland's local authorities. NDR is a Local Government tax and the revenues are returned to local authorities. Social security is demand-led and so once policy has been set the Scottish Government needs to pay all those who are eligible.

2.29 Figure 2.7 shows resource funding for areas of devolved spending other than social security and NDR increasing in nominal terms in each of the next five years. However, we expect that the 2024-25 Budget will have slightly less funding in real terms for all other areas of devolved spending than the 2023-24 Budget. Funding available for other areas would grow again in 2025-26 and remain broadly flat thereafter. Under this narrower definition of resource funding, we expect funding to rise in real terms by a total of 3 per cent between 2023-24 and 2028-29.

Figure 2.7: Available resource funding after demand-led and ring-fenced expenditure

£ million, unless specified	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Total resource funding available for discretionary spend [1]	46,083	47,594	49,805	51,332	52,477	54,024
less: Social security spending	5,299	6,283	6,861	7,253	7,616	7,999
less: NDR Distributable amount	3,047	3,068	3,191	3,572	3,494	3,517
Resources for all other devolved spending	37,737	38,244	39,753	40,508	41,368	42,508
Resources for all other devolved spending (2023-24 prices)	37,737	37,613	38,439	38,543	38,675	39,008
Real-terms growth (per cent)		-0.3	2.2	0.3	0.3	0.9

Source: Scottish Fiscal Commission, Scottish Government.
Amounts exclude IFRS16 funding adjustments. Real amounts have been calculated using the OBR's forecast GDP deflators OBR (2023) Economic and fiscal outlook – November 2023 (link).
[1] Non-Domestic Rates (NDR) distributable amount is set by the Scottish Government until 2027-28. For 2028-29 the distributable amount is assumed to equal our forecast of the contributable amount.

Block Grant

2.30 In the Autumn Statement 2023 the UK Government only provided departmental spending plans up to 2024-25, the last year of the current Spending Review.[24] The UK Government has not provided any details on how spending will be allocated between departments from 2025-26 onwards, this will be determined at the next Spending Review.

2.31 From 2025-26 to 2028-29 the UK Government plans to grow resource spending by 1 per cent a year on average in real terms. How much of that spending is in devolved areas, which determines Block Grant funding for the Scottish Government, is uncertain. The Scottish Government has based its forecast of Block Grant funding on the OBR's forecast of UK Government spending.[25] Box 2.3 discusses the effects of inflation on all sources of Scottish Government funding.

2.32 The current outlook for the Block Grant is uncertain. The OBR has highlighted that uncertainties around the planned level of UK Government spending are likely to remain even after the next Spending Review takes place. In the past UK governments have significantly increased resource spending over the next spending review periods, by £39 billion (14 per cent) on average in the year up to the 2015 Spending Review, and by £32 billion (8 per cent) in the 2021 Spending Review.[26]

2.33 The OBR states that in order for the UK Government to meet its commitments to protect health, defence, overseas development assistance, core schools and childcare spending there will be challenges in delivering the reduction in real terms spending from 2025-26 onwards in areas such as justice, transport or housing.

2.34 This previous evidence suggests that UK Government spending may turn out to be higher than the latest UK Government plans and spending plans may change before or after the UK General Election. An increase in UK Government spending in devolved areas would result in additional Block Grant funding for the Scottish Government.

[24] HM Treasury (2023) Autumn Statement 2023 (link).
[25] The Scottish Government grows the 2024-25 Block Grant settlement with the OBR forecasts of Public Sector Current Expenditure (PSCE) in Resource Departmental Expenditure Limits (RDEL).
[26] OBR (2023) Economic and fiscal outlook – November 2023 (link).

Box 2.3: Effects of inflation and interest rates on the Scottish Budget

The period of high inflation experienced since 2021-22 has had a direct effect on household finances. In Chapter 3 we discuss how it will take until 2026-27 for living standards to recover from the fall between 2021-22 and 2023-24. Inflation also affects the Scottish Budget in a variety of ways. In Chapter 4 we show how inflation and fiscal drag has boosted income tax revenues and in Chapter 5 we discuss how inflation increases social security spending.

The Scottish Budget is also under pressure through rising costs and increasing public sector pay. In this box we focus on the effects of inflation on the different sources of Scottish Government funding.

Block Grant

Each year the Block Grant consists of the amount from the previous year and an update for changes in UK Government spending since then. The Barnett formula has been used to update the Block Grant for almost 50 years. When the UK Government increases spending in devolved areas, the Barnett formula updates the Block Grant with a population share of any increase in spending. Historically, spending on public services in Scotland per person has been greater than in England. The Barnett formula reduces that historical premium by applying a population share for the additional funding. Proportionately, the Block Grant increases by less than spending on devolved areas in England. This is called the 'Barnett squeeze', and it would slowly close the gap in spending per person across the devolved administrations.

Inflation is one of the reasons why spending in England may increase. Price rises mean the goods and services UK Government departments purchase are more expensive. It is also likely to face pressures on staff pay, since workers bargain for pay increases that help them offset the rising cost of living. Therefore, high inflation may lead to faster growth in UK Government spending, which speeds up the Barnett squeeze.

But the extent of the Barnett squeeze depends on Scotland's population as a share of the rest of the UK. Only additions to the Block Grant reflect the latest population shares, which are a small share of the total Block Grant funding. The historical Block Grant is not adjusted for population change. As we explored in our March 2023 paper, fifty-year projections suggest that Scotland's population will decline, while that of England and Wales will still grow.[27] If Scotland's population share falls in the future, the effect of the Barnett squeeze will be reduced.

Borrowing

The Bank of England has increased interest rates to levels not seen since 2008 in response to high inflation. This has a direct effect on the cost of borrowing not only for households and businesses, but also for governments. Currently, the UK Government borrows on behalf of the Scottish Government and links the interest rate on this debt to its own cost of borrowing. Therefore, high inflation increases the cost of borrowing for the Scottish Government.

Scotland Reserve

The Scotland Reserve is not an interest-bearing account. Any balances available are notional, with the UK Government providing the funding only when Scottish Government decides to use funds from the Reserve. In a period with higher interest rates, the Scottish Government has a greater incentive to first

[27] Scottish Fiscal Commission (2023) Fiscal Sustainability Report – March (link).

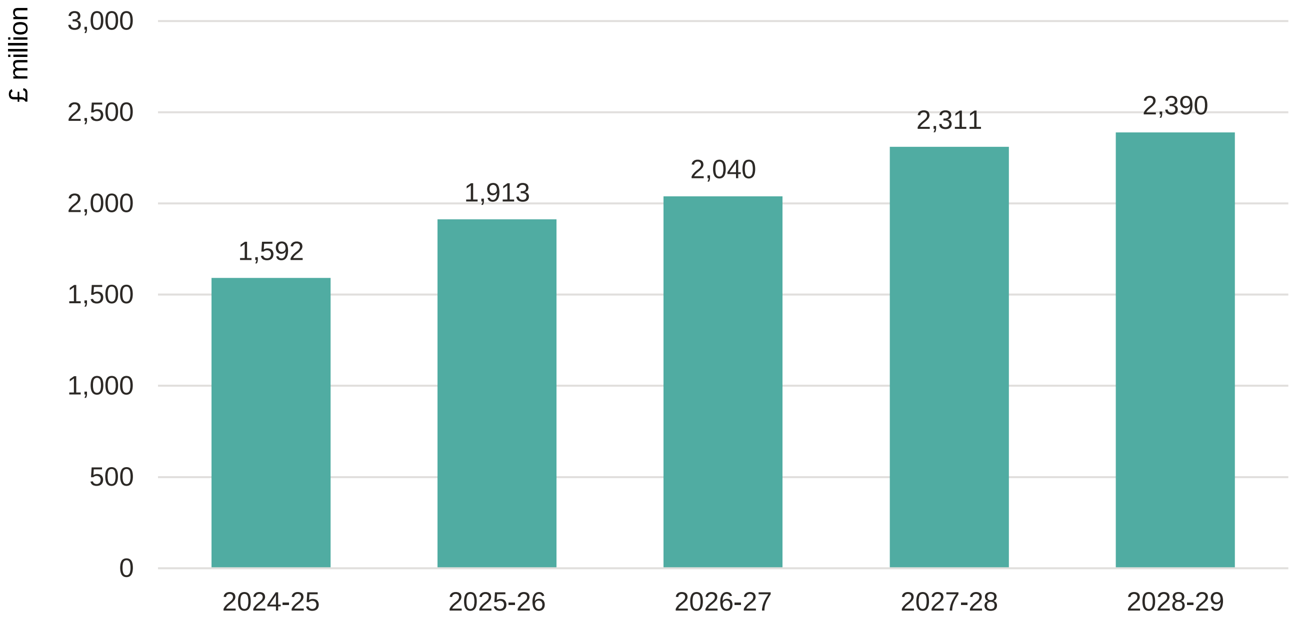
use funding in the Reserve before other sources, such as the proceeds from ScotWind, which can earn interest.

Revenue net position

2.35 The growth in future resource funding levels is a result of the increasingly positive revenue net positions we are currently forecasting. Figure 2.8 shows that by 2028-29 the contribution of devolved revenues to the Budget is forecast to increase by around 50 per cent compared to 2024-25. The increase is forecast to be particularly rapid from 2024-25 to 2025-26, and from 2026-27 to 2027-28. Improvements in the income tax net position account for most of the growth.

Figure 2.8: Indicative revenue net positions

Revenue net positions are forecast to be increasingly positive throughout the next five years.



Description of Figure 2.8: Column chart showing the forecast revenue net positions from 2024-25 to 2028-29. These add up to £1,592 million in 2024-25 and are estimated to increase rapidly in 2025-26 and 2027-28. By the end of the forecast period, the forecast net position reaches £2,390 million.
Source: Scottish Fiscal Commission, OBR (2023) Economic and fiscal outlook – November 2023 (link).

2.36 The growth in the income tax net position is because of policy differences between Scotland and the rest of the UK and because our forecasts for earnings growth in Scotland are higher than those of the OBR for the UK as a whole. These are two independent forecasts of two different factors. Other independent forecasts of UK earnings are similar to our forecast of earnings growth for Scotland.[28] If earnings growth in Scotland is more similar to the UK, then the income tax net position and the funding available for the Scottish Budget will be lower than currently projected. We flag this as an explicit risk which could result in funding from 2025-26 being lower than we currently forecast.

[28] The HM Treasury summary of independent forecasts shows the average of UK earnings growth forecasts to lie in the range from 2 per cent to 5 per cent a year from 2025 onwards. OBR expect earnings growth close to 2 per cent in 2025-26, increasing to 3 per cent by 2028-29. This is lower than our forecast of annual earnings growth of around 3 per cent from 2025-26 onwards. HM Treasury (2023) Forecasts for the UK economy: November 2023 (link) Further detail can be found in **Chapter 3**.

2.37 Non-Domestic Rates (NDR) will grow throughout the forecast period. NDR is ring-fenced to return to Scottish local authorities.[30] We show how the NDR distributable amount is set using our forecast of the contributable amount in Box 2.4.

Box 2.4: Forecast of the Non-Domestic Rating Account

NDR operates from a separate account, called the Non-Domestic Rating Account or NDR pool. NDR is ring-fenced, remaining separate from the rest of the Scottish Budget. All revenues collected are ultimately paid back to local authorities.

In Chapter 4 we forecast the contributable amount of NDR, the revenue collected by Scotland's local authorities and transferred to the Scottish Government. The Scottish Budget is set based on the distributable amount, the funding given to local authorities in each financial year. Full details on how NDR funding works can be found in our occasional paper on funding for the Scottish Budget.[29]

In December 2022 the Scottish Government planned to bring the NDR Rating Account back into balance in 2024-25 with the contributable amount being greater than the distributable amount. That plan has now changed and is shown in Figure 2.9. The Scottish Government has set the distributable amount for the 2024-25 Budget at £3,068 million. The NDR rating account is now expected to be £85 million in deficit at the end of 2023-24 and at the end of 2024-25 and not return to a balanced position until 2027-28.

Figure 2.9: Illustrative projected balance of the Non-Domestic Rating Account

£ million	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Provisional contributable amount (A)	2,829	3,082	3,143	3,219	3,600	3,522	3,517
Net effect of prior year adjustments (B)	54	-37	-75	0	0	0	0
Distributable amount (C)	2,766	3,047	3,068	3,191	3,572	3,494	3,517
Annual balance (D) (A + B – C)	117	-2	0	28	28	28	0
Cumulative balance (E) (Previous year E + current year D)	-83	-85	-85	-56	-28	0	0

Source: Scottish Fiscal Commission, Scottish Government.
Figures may not sum because of rounding. Shaded cells refer to outturn available at time of publication.

Adjustments for past forecast error and resource borrowing

2.38 Figure 2.10 shows the reconciliations applying to the 2024-25 Budget amount to a deduction of £338 million. These relate to Scottish income tax revenues 2021-22 and their corresponding BGA, as well as the final reconciliations for the 2022-23 BGAs of fully devolved taxes and social security.[31]

2.39 Although these reconciliations are based on outturn data, they are still provisional. These are expected to be revised once the mid-year population estimates for Scotland based on the latest

[29] Scottish Fiscal Commission (2021) Funding for the Scottish Budget (link).
[30] The NDR distributable amount is included in Scottish Budgets so that the Scottish Government has legal authority to withdraw the money from the Scottish Consolidated Fund. This funding is then redistributed to Scottish local authorities and the Scottish Government cannot use these funds for any other purpose.
[31] BGAs for fully devolved taxes and social security are adjusted once in-year based on the OBR forecasts in the autumn. They are subject to a final reconciliation when outturn data are available, but these are generally small adjustments.

census are available. Any resulting difference in the reconciliations applied to the Scottish Budget in 2023-24 and 2024-25 is expected to be corrected at a future date to be determined.

2.40 Under the fiscal framework, the Scottish Government's resource borrowing powers can only be used in the event of negative forecast errors.[32] The Scottish Government can borrow for any negative forecast errors in each year up to the fiscal framework limits. Following the agreement on the revised fiscal framework, the Scottish Government's resource borrowing limit is £610 million in 2024-25. Box 2.5 provides detail about the changes to the fiscal framework.

2.41 The Scottish Government plans to fully offset the impact of the negative reconciliations in 2024-25 by borrowing £338 million. The Scottish Government plan to borrow £41 million in 2023-24 but following negative movements in some social security net positions it could borrow up to £109 million. The Scottish Government will finalise its resource borrowing plans towards the end of the 2023-24 financial year.

Box 2.5: Changes to the fiscal framework

In August 2023 the UK and Scottish Governments agreed an update of the fiscal framework that has been in operation since 2016.[33] The agreement has largely left the fiscal framework unchanged, but with some increased flexibilities for the Scottish Government.

The borrowing and Reserve limits which were previously fixed will increase in line with inflation from 2023-24 onwards:

- Scotland Reserve overall size (£700 million)
- capital borrowing overall debt stock (£3 billion) and yearly borrowing limit (£450 million)
- resource borrowing overall debt stock (£1.75 billion) and yearly borrowing limit (now doubled to £600 million in ordinary circumstances)

It is particularly important for capital borrowing, as the Scottish Government is currently at 68 per cent of the overall limit and, under the previous plan to borrow £250 million a year, the debt stock was projected to almost reach the cap by 2033-34.

The Scotland Reserve will also be a more flexible tool for the Scottish Government as drawdown limits have been abolished. However, with Scottish Budgets growing faster than inflation as seen in Figure 2.11, managing underspends will likely still use most of the Reserve's capacity.

The agreement also confirmed that the Indexed-Per-Capita (IPC) method to update the Block Grant Adjustments (BGAs) will be used permanently. Funding levels are unaffected in the short term, as this method has been applied since 2016. But as we discussed in our Fiscal Sustainability Report, the confirmation is important for the long-term outlook of Scotland's devolved public finances given the differing trajectories of population in Scotland and the rest of the UK.[34]

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[32] The Scottish Government can borrow for negative forecast errors involving negative reconciliations, higher devolved social security spending than forecast, or devolved lower tax revenues than forecast. These can be caused by forecast errors by the Scottish Fiscal Commission or the OBR. For more information see UK Government (2023) The agreement between the Scottish government and the United Kingdom government on the Scottish government's fiscal framework (link).
[33] Scottish Government (2023) Fiscal framework: agreement between the Scottish and UK Governments (link).
[34] Scottish Fiscal Commission (2023) Fiscal Sustainability Report (link).

2.42 The contribution of income tax to the Budget is fixed at the level forecast when the Budget is set. A reconciliation is applied once outturn data are available. The 2022-23 income tax outturn data will be available in summer 2024 and applied to the 2025-26 Scottish Budget, and the data for 2023-24 will be available in summer 2025 and applied to the 2026-27 Scottish Budget. Based on our latest forecasts of Scottish income tax revenues, and the latest OBR forecasts of corresponding UK Government revenues we can project the future reconciliations to give an indication of the direction and potential size of reconciliations.

Figure 2.10: Final and indicative reconciliations

£ million	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Total reconciliations	-319	-15	46	-338	732	502
Income tax	-309	-34	50	-390	732	502
LBTT and SLfT (BGAs only)	-8	-6	-35	27		
Social security (BGAs only)	-3	22	30	21		
Non-tax revenues (BGAs only)	2	4	0	3		
Reconciliation relates to year:						
Income tax	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
All others	2019-20	2020-21	2021-22	2022-23	2023-24	

Source: Scottish Fiscal Commission, Scottish Government.
Figures may not sum because of rounding.

2.43 Figure 2.10 shows that we currently project positive income tax reconciliations of £732 million in 2025-26 and £502 million in 2026-27. The 2021-22 outturn data had a higher income tax net position than we had previously expected based on Scottish Fiscal Commission and OBR forecasts, we have therefore seen increases in the expected net position in 2022-23 and 2023-24. Strong earnings growth, high inflation and its effects on fiscal drag have all supported a rising income tax net position. These improvements in the projections for the net position lead to positive reconciliations.

2.44 If outturn for 2022-23 and 2023-24 is in line with the latest forecasts, reconciliations will support the resource budget in those years. As always, reconciliations remain highly uncertain until the income tax outturn figures are published, and the final value may be higher or lower than currently projected.

Scotland Reserve

2.45 The Scottish Government has set the 2024-25 Budget with no assumed funding from the Scotland Reserve for resource or capital, as it plans to use all the available balance in the current year 2023-24. Similarly, no funding is assumed to come from the Reserve drawdowns in future years. Any underspends arising could be added to the Reserve and used in future years.

Figure 2.11: Use of the Scotland Reserve

£ million	2022-23	2023-24	2024-25
Resource			
Opening balance	405	251	0
Drawdowns	-405	-251	0
Additions [1]	251		
Closing balance	251	0	0
Capital (excluding financial transactions)			
Opening balance	7	30	0
Drawdowns	-7	-30	0
Additions [1]	30		
Closing balance	30	0	0
Financial transactions			
Opening balance	197	44	0
Drawdowns	-197	-44	0
Additions [1]	44		
Closing balance	44	0	0
Total closing balance	325	0	0

Source: Scottish Fiscal Commission, Scottish Government.
Figures may not sum because of rounding. Shaded cells refer to outturn at the time of publication.
[1] Additions to the Scotland Reserve in 2022-23 depend on the finalisation of the accounts for this year, currently this is a projection of final outturn.

Other funding

2.46 The Scottish Government has a remaining £660 million of ScotWind proceeds available to spend. Previously the Scottish Government planned to use £310 million in 2023-24 and £350 million in 2024-25. The Scottish Government has now decided to use £150 million less in the 2024-25 Budget and instead deploy the funding in 2023-24.

2.47 The Scottish Government will have used all income from ScotWind between 2022-23 and 2024-25. The Crown Estate Scotland recently completed a leasing round for offshore wind projects to reduce emissions from oil and gas production. Any income from this will be available to support spending.[35]

Resource assessment

2.48 Overall resource funding in 2024-25 is larger in both nominal and real terms than previously expected. In May 2023, the Scottish Government estimated a gap between spending and funding of £1 billion in 2024-25. Since then, resource funding in 2024-25 has increased by £1.1 billion.

2.49 Despite this increase in funding, the Scottish Government has still had challenges in setting its Budget. Social Security spending is rising with spending in 2024-25 is forecast to be nearly £1 billion

[35] Crown Estate Scotland (2023) INTOG: Exclusivity Agreements signed for seven TOG offshore wind projects to help decarbonise the North Sea and support innovation (link).

higher than in 2023-24. The Scottish Government's commitments to freeze Council Tax and announcements on public sector pay increase the pressure on the Scottish Budget.

2.50 The Scottish Government plans to fully offset the impact of the negative reconciliations in 2024-25 by borrowing £338 million. We consider it reasonable for the Scottish Government to smooth the repayment of this negative reconciliation over five years.

2.51 Funding for the 2024-25 Budget is still subject to change over the coming year. Income tax revenues will be fixed based on our forecasts providing a degree of certainty, however the level of UK Government spending may change following upcoming UK fiscal events both before and after the next UK General Election. This would have consequences for the Block Grant.

2.52 We expect resource budgets to have more funding in nominal terms over the next five years than we had estimated in May 2023. Then, we expected that by 2028-29 resource funding would be 16 per cent greater than in 2023-24. We now expect funding to be 17 per cent higher by 2028-29. However, higher inflation than forecast in May 2023 leaves the real-terms levels of resource funding broadly unchanged from that forecast. Resource funding is forecast to be 7.6 per cent higher in 2028-29 than in 2023-24 in real terms, while in May 2023 we expected funding to be 7.9 per cent higher in real terms over the same period.

2.53 Beyond 2024-25 the funding position becomes more the uncertain as the UK Government has not set departmental spending plans for 2025-26 onwards, these will be set in the next Spending Review. The OBR notes that current spending plans imply significant real-terms cuts in non-protected areas which would present challenges for public services which are showing signs of strain. The OBR identifies changes to the current planned spending levels as a risk to their forecasts of the UK public finances because in the past governments have significantly increased their spending plans over Spending Review periods.[36] Therefore, UK Government funding could be greater than is currently set out.

2.54 At the same time, we note the significant uncertainty over the income tax net position, which is currently forecast to contribute to the real-terms growth in the Scottish Budget. In **Chapter 4**, we show the income tax net position continuing to rise from 2025-26 onwards, which would provide additional funding for the Scottish Budget. We discuss the uncertainties around the forecast income tax net position in paragraph 2.36 and flag this as an explicit risk to the Scottish Government's funding from 2025-26 onwards.

2.55 The Scottish Government's funding will be affected by future income tax reconciliations. The fixing of income tax revenues in the Budget provides the Scottish Government with some certainty in planning its Budget for the year ahead, but any differences between what is forecast and actually raised will result in a reconciliation affecting future budgets. We do not yet have outturn data for 2022-23 or 2023-24 but comparing the latest Scottish Fiscal Commission and OBR forecasts suggests a more positive net position than in the respective budget setting forecasts, resulting in positive reconciliations of £732 million in 2025-26 and £502 million in 2026-27. As always, reconciliations remain highly uncertain until the income tax outturn figures are published, and the final value may be higher or lower than currently projected.

2.56 Policymakers need to plan for the potential for funding from 2025-26 onwards to look quite different from the picture presented here. Due to the various funding sources and forecasts used, the outlook

[36] The OBR sets out that these increases in annual day-to-day spending envelops were significant: "by £39 billion (14 per cent) on average in the year up to the November 2015 Spending Review, and by £32 billion (8 per cent) in the October 2021 Spending Review". OBR (2023) Economic and Fiscal Forecasts – November 2023 (link).

for the Scottish Budget is always somewhat uncertain but the high inflation environment is increasing the risk of large changes in funding. We note the current funding outlook from 2025-26 onwards has two particular elements of uncertainty: there is the risk the income tax net position provides a less positive contribution to funding than is currently projected, and at the same time UK Government spending could be higher than currently planned, increasing funding available to the Scottish Government.

2.57 The scale of the potential risks from these two factors cannot be quantified, but the position should be more manageable for the Scottish Government than a situation in which there were two significant risks in the same direction. We conclude the resource funding assumptions including for borrowing made for this budget and later years are reasonable.

2.58 Despite committing to publish multi-year spending plans for resource and capital in the Medium-Term Financial Strategy published in May 2023, the Scottish Government has only published spending plans for 2024-25 in this Budget. In our role as the independent fiscal institution for Scotland we encourage the Scottish Government to plan its budgets over both the short, medium and long term. We note this can be more challenging without clear UK Government spending plans and because of the inherent uncertainties in the other Scottish Government's funding sources. Because of this uncertainty, we believe it is even more important that the Scottish Government plans its funding recognising the uncertainties and potential future variations in funding.

Capital funding

Overall position

2.59 The capital budget in 2024-25 is forecast to be £173 million smaller than the latest position for 2023-24. Taking inflation into account, this represents a fall of 4 per cent in real terms.

2.60 For most sources of funding there is little change between 2023-24 and 2024-25. In 2023-24 the Scottish Government received £188 million to correct a historical error in how financial transactions had been allocated. This was a one-off transfer that is not recurring and accounts for most of the fall in capital funding between 2023-24 and 2024-25.

Figure 2.12: Changes in capital funding from 2023-24 to 2024-25

£ million		2023-24 (Budget Bill)	2023-24 (latest position)	2024-25 (Budget Bill)
Capital (excluding financial transactions)				
Block Grant	Barnett baseline [1]	4,757	4,757	4,690
	Barnett consequentials	0	69	11
	Non-Barnett funding [2]	632	632	670
Fiscal framework funding	Capital borrowing	250	450	458
	Scotland Reserve drawdown	0	30	0
Other funding sources	Other funding [3]	300	24	189
Capital funding (excluding FTs)		5,940	5,962	6,017
Financial transactions				
Block Grant	Barnett baseline	186	186	176
	Barnett consequentials	0	-13	0
Fiscal framework funding	Scotland Reserve drawdown	50	44	0
Other funding sources	Other funding [4]	188	188	0
Total financial transactions		424	404	176
Total capital funding		6,363	6,366	6,193

Source: Scottish Fiscal Commission, Scottish Government.
Figures may not sum because of rounding. Amounts exclude IFRS16 funding adjustments. Breakdowns for the latest position of 2023-24, which is updated taking into account changes since the May 2023 forecasts, can be found in Figure D.2 in Annex D.
[1] As set out in the UK Spending Review 2021.
[2] Capital grant funding for Network Rail, this funding was agreed between the UK and Scottish Governments at the Spending Review 2021 and is not based on the use of the Barnett formula.
[3] In the latest position of 2023-24 it relates to a reduced amount of assumed City Deals funding (£84 million) and a £60 million switch from capital to resource budgets, authorised by HM Treasury. In 2024-25, it relates to assumed capital City Deals (£100 million) and a budget switch of resource to capital (£89 million), on which the Scottish Government has discretion.
[4] In 2023-24 it relates to compensation from HM Treasury for a historical error in how financial transactions had been allocated.

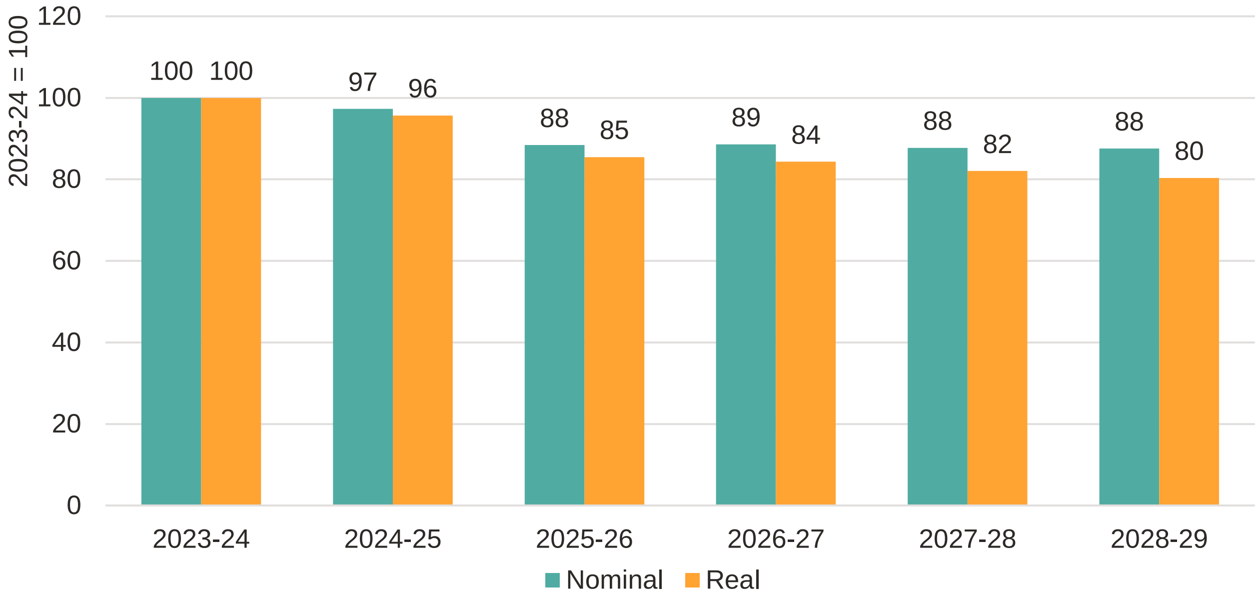
Five-year outlook

2.61 The Scottish Government's capital funding is expected to fall by 12 per cent between 2023-24 and 2025-26 and remains broadly flat until 2028-29.[37] After accounting for inflation, Figure 2.13 shows that in 2028-29 the Scottish Government will have 20 per cent less in real terms to spend on capital than in 2023-24. The position has changed significantly since May 2023 when we expected capital funding to fall by 14 per cent in real terms over the same period.

[37] For a detailed breakdown of capital funding sources in nominal terms for all years see Supplementary Figure S2.2 accompanying this publication and available on our website.

Figure 2.13: Five-year capital funding trends

Capital funding levels are expected to fall every year for the next five years, the reductions are larger after accounting for inflation



Description of Figure 2.13: Column chart showing the capital funding trends from 2023-24 to 2028-29, indexed to the latest funding position for 2023-24. Amounts are indexed so that 2023-24 is equal to 100. Capital funding falls in nominal terms in the Budget year and the following year. In 2025-26 nominal capital funding is 88 per cent of the level in 2023-24. From 2026-27 onwards nominal capital funding levels are relatively flat until 2028-29. In all years inflation reduces the value of capital funding, by 2028-29 the real capital budget levels are 80 per cent the levels of 2023-24.
Source: Scottish Fiscal Commission, Scottish Government.
Real amounts have been calculated using the OBR's forecast GDP deflators OBR (2023) Economic and fiscal outlook – November 2023 (link).

2.62 Capital funding is expected to fall significantly in nominal terms until 2025-26. The fall between 2024-25 and 2025-26 is because the Scottish Government assumes there will be no financial transactions funding in the Block Grant after the Spending Review period, and because planned capital borrowing declines from £458 million in 2024-25 to £250 million a year from 2025-26 onwards.

2.63 From 2025-26 onwards capital funding is broadly flat in nominal terms because the UK Government's planned capital spending, which determines the Block Grant, is also flat. Inflation erodes this flat settlement, so we expect real terms reductions every year for the next five years.

Block Grant

2.64 Almost all the Scottish Government's capital budget comes from the Block Grant, which is over ten times larger than the amount the Scottish Government can borrow each year. The Block Grant is directly linked to the UK Government's capital spending plans in devolved areas, mostly in England and to some extent in Wales.

2.65 As discussed in paragraph 2.30, the 2021 UK Spending Review ends in 2024-25.[38] Beyond this point the UK Government plans to keep capital spending fixed in cash terms but has provided no detail on departmental allocations. The Scottish Government has assumed the current capital Block

[38] HM Treasury (2021) Autumn Budget and Spending Review (link).

Grant evolves in line with OBR forecasts of capital spending. These, in turn, reflect the UK Government's planned freeze in capital spending.[39]

2.66 There is uncertainty about the level of UK Government spending in future years. The OBR has highlighted how in the past the UK Government has generally increased planned spending as the next Spending Review approaches. If this were to happen there could be additional capital funding for the Scottish Government.

Capital borrowing

2.67 Figure 2.14 shows the capital borrowing plans for 2023-24 and the following five years. The Scottish Government plans to borrow the maximum permitted in 2023-24 and 2024-25. Thereafter borrowing returns to the long-term baseline assumption of £250 million a year. The borrowing plans are all based on borrowing from the UK's National Loans Fund (NLF), repaid over 15 years.

Figure 2.14: Capital borrowing plans

£ million, unless specified	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Borrowing	450	458	250	250	250	250
Repayment period (years)	15	15	15	15	15	15
Interest rate (per cent)	4.2	4.3	4.4	4.4	4.5	4.6
Repayments [1]	-123	-153	-194	-227	-249	-273
Debt stock	2,377	2,715	2,822	2,908	2,979	3,033
Share of debt cap (per cent)	79	89	91	92	93	93

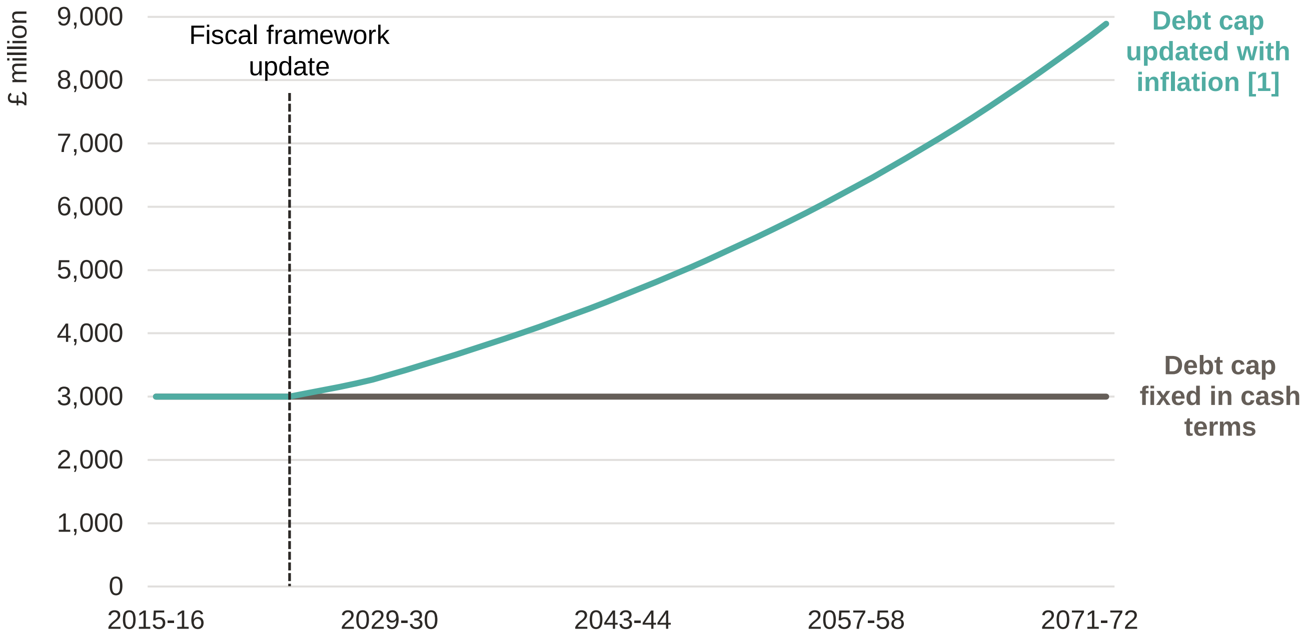
Source: Scottish Fiscal Commission, Scottish Government.
Figures may not sum due to rounding.
[1] Repayments differ slightly from those projected by the Scottish Government. We use the latest forward interest rates implied by the Bank of England's yield curves and do not apply the discretionary premium to our interest rate assumptions which Scottish Government uses.

2.68 Box 2.5 explained the updates made to the fiscal framework as part of the agreement between governments reached in August 2023. The annual and total borrowing limits will now increase with inflation from 2024-25 onwards. Consequently, in 2024-25 the Scottish Government plans to borrow the new maximum of £458 million. As Figure 2.15 shows, the uprating of the limit with inflation will have a significant effect in the amount the Scottish Government can borrow over the longer term compared to the limit being fixed in nominal terms.

[39] More specifically, Block Grant capital funding is grown using OBR forecasts of Public Sector Gross Investment (PSGI) in Capital Departmental Expenditure Limits (CDEL).

Figure 2.15: Evolution of the capital debt stock limit

The capital debt stock limit will increase steadily over time now that it is updated with expected inflation levels



Description of Figure 2.15: Line graph showing how the debt cap will increase steadily over time as it will be increased with inflation, from £3,000 million in 2023-24 to almost £8,900 million by 2072-73.
Source: Scottish Fiscal Commission, Scottish Government, OBR (2023) Economic and fiscal outlook – November 2023 (link), OBR (2022) Fiscal risks and sustainability – July 2022 (link).
[1] Cash-terms limit of £3,000 million grown from 2023-24 to 2028-29 with the latest OBR forecasts of the GDP deflator and from 2029-30 with the latest OBR's long-term economic determinants.

Capital bonds

2.69 The fiscal framework allows the Scottish Government to borrow to fund capital spending by any combination of either borrowing through the NLF, via a commercial loan, or by issuing bonds.[40] The annual and overall limits on borrowing are the same regardless of how the Scottish Government borrows. To date the Scottish Government has only borrowed through the NLF.

2.70 In October 2023 the Scottish Government announced its intention to issue bonds to fund capital investment by the end of the current parliament (May 2026).[41] The Scottish Government has published a memorandum on capital borrowing and bonds alongside the Scottish Budget.[42] Following the changes to borrowing limits, the Scottish Government considers this an appropriate time to review its approach to borrowing. Information on any changes to the current plans including issuing capital bonds will be provided as part of the next Medium-Term Financial Strategy.

Scotland Reserve

2.71 The 2024-25 Budget has been set based on no planned funding from the Scotland Reserve. The funding position in 2024-25 and later years may increase in the future if underspends emerge and the Scottish Government carries those forward through the Reserve.

[40] Scottish Government (2023) Fiscal framework: agreement between the Scottish and UK Governments – Paragraph 48 (link).
[41] Scottish Government (2023) Government bonds to issue in first for Scotland (link).
[42] Scottish Government (2023) Memorandum on Scottish Government Capital Borrowing and Bonds (link).

Capital Assessment

2.72 Capital funding levels in 2024-25 will be lower than in 2023-24 in both real and nominal terms, mainly because some financial transactions funding in 2023-24 was a one-off transfer that is not recurring.

2.73 The Scottish Government plans to borrow £458 million in 2024-25. Following agreement on the fiscal framework review, the annual and total borrowing limits increase with inflation, which allows the Scottish Government to expand borrowing. Had these limits not increased, the Scottish Government would have reached the £3 billion cap in 2028-29 if they had borrowed £450 million in 2024-25 and £250 million in the next four years.

2.74 The Scottish Government plans to borrow £250 million each year from 2025-26 onwards. Based on the current plans debt is forecast to reach 93 per cent of the new debt stock by 2027-28. If future borrowing remains at £250 million each year the Scottish Government will not reach the debt limit. However, years of higher borrowing will push the debt stock closer to the limit and reduce the scope for additional borrowing in the future.

2.75 The current borrowing plans are based on continuing to borrow through the NLF. We consider this approach reasonable as any changes to the repayment profiles as a result of issuing capital bonds would not have a significant effect on funding within the five-year horizon. The effects would be more significant over the longer term. Currently the Scottish Government's capital borrowing takes place over 15 years. The Scottish Government will set out the details on its plans to issue capital bonds in the future, at which point we will comment on those plans and provide an assessment.

2.76 The capital funding outlook is set to worsen. The Block Grant, which is directly linked to the UK Government investment plans, is expected to fall in nominal terms over the next five years. At the UK level the current plans mean that capital spending falls as a share of UK GDP from 3.5 per cent to 3.0 per cent between 2024-25 and 2028-29. Should those investment plans be delivered, the OBR stated that around half of the rise in investment as a share of the British economy since 2019-20 would be reversed.[43]

2.77 The fact that borrowing limits now grow with inflation allows the Scottish Government some scope for additional funding, but we note that the scale of expected reductions in capital budgets over the next five years cannot be countered by capital borrowing without limiting future scope for borrowing.

2.78 We conclude that the outlook for capital budgets is for significant reductions in spending in both real and nominal terms. It is understandable that in this context the Scottish Government has chosen to borrow the maximum permitted in 2024-25. We consider these borrowing plans reasonable but note that the Scottish Government cannot borrow at the annual limit in all years without reaching their overall debt limit.

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

Chapter 3 Economy

Forecast summary

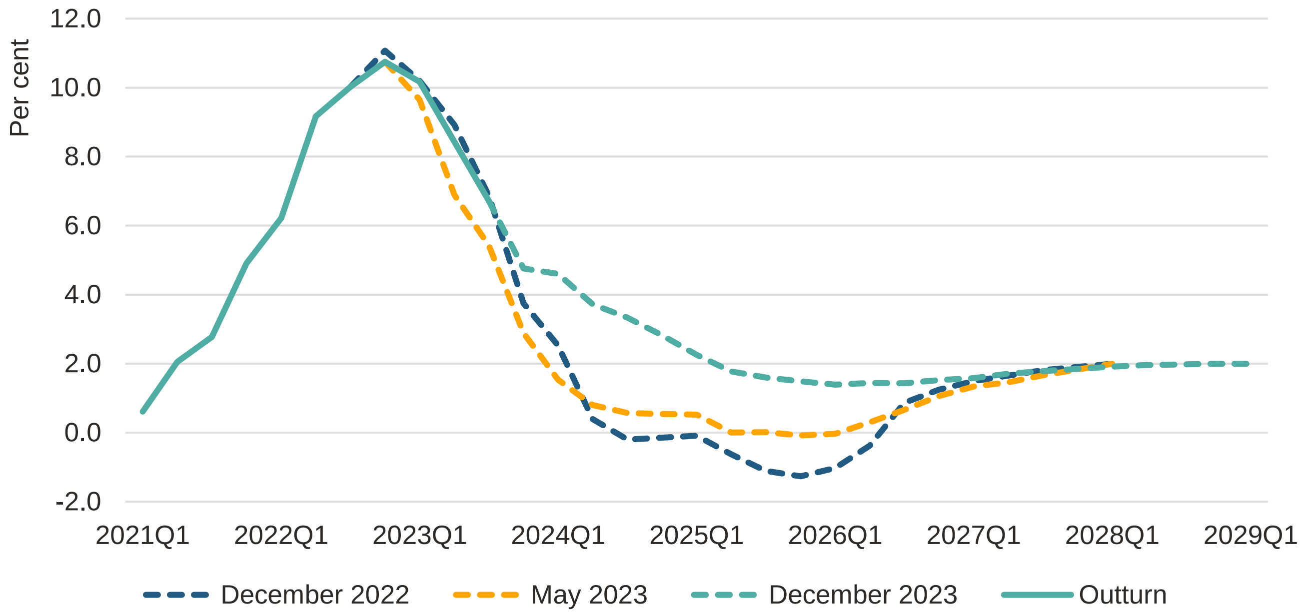
3.1 The outlook for the Scottish economy and for living standards (as measured by real disposable income per person) is largely unchanged from our December 2022 and May 2023 forecasts, with a slightly less negative picture for 2023-24 compared to a year ago. For 2023-24, back in May, we forecast GDP to remain stable rather than fall into the shallow recession we had predicted in December 2022, and this coincided with less of a fall in living standards. Since May, reflecting stronger nominal earnings growth than anticipated, we have further revised up our forecast of real disposable income per person although we still expect a small fall this year. The drop in living standards between 2021-22 and 2023-24, of 2.7 per cent, is still the largest reduction since Scottish records began in 1998 and living standards will take until 2026-27 to return to their 2021-22 level.

3.1 For 2024-25, we forecast slow and fragile growth in GDP and real disposable income per person, as the recent rises in interest rates continue to weigh on household incomes and the economy, with inflation also likely to stay higher for longer than we assumed previously.

3.2 The pathway for annual Consumer Price Index (CPI) inflation is higher than we expected in December 2022 and May 2023, especially for 2024-25. This is due to more persistent and domestically driven pressures, mainly from ongoing labour market tightness and rising labour costs across the UK.

Figure 3.1: Consumer Price Index (CPI) inflation, year-on-year growth

Inflation to return to the 2 per cent target by mid-2025, a year later than we assumed previously



Description of Figure 3.1: Line chart showing our current forecast of CPI inflation along with our forecasts from December 2022 and May 2023. CPI inflation is still declining but is now expected to remain higher for longer, returning to target by 2025 Q2.
Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts (link).
Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts.

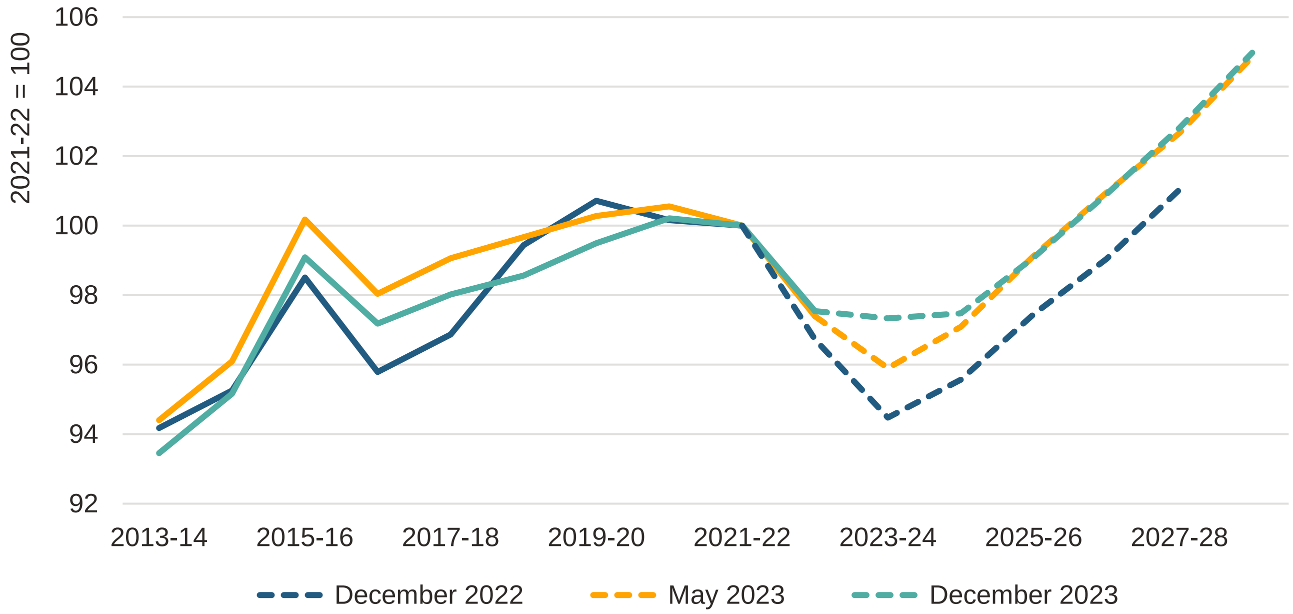
3.3 Declining inflation combined with strong nominal earnings growth mean real earnings have returned to growth this year. As well as earnings and other sources of income, living standards are determined by other factors including all direct taxes paid by households at the Scotland and UK level and mortgage interest payments. This means that, although real earnings are growing, living standards are still set to fall slightly in 2023-24. In general, any individual tax policy changes have a small effect on this.

3.4 We forecast living standards to remain broadly flat in 2024-25 as inflation will largely offset growth in nominal household disposable income. Higher interest rates will continue to reduce disposable income over the next year.[44] In part, this is because the widespread use of fixed-rate mortgages means that the recent rises in interest rates are passing through to mortgage costs with a longer lag than in the past. Personal taxes are continuing to increase due to the freezing of National Insurance and income tax thresholds as well as the latest Scottish Government income tax policies. The National Insurance Contributions (NICs) cut announced in the UK Autumn Statement 2023 only partly offsets some of the recent increases in personal taxes in the UK and Scotland.

3.5 Compared to the UK as a whole, Scotland has lower average house prices and lower average household mortgage debt as a share of income, so higher interest rates tend to have a smaller effect in Scotland. This differential in the impact of UK-wide monetary policy is an important element in our forecast.

Figure 3.2: Real disposable income per person, 2021-22 equals 100

Living standards to take until 2026-27 to recover from the fall between 2021-22 and 2023-24



Description of Figure 3.2: Line chart showing living standards falling by 2.7 per cent from 2021-22 to 2023-24 and regaining their 2021-22 level in 2026-27. The fall is shallower than we forecast in our December 2022 and May 2023.
Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts (link).
Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts. Amounts are indexed so that 2021-22 is equal to 100.

3.6 While on average we forecast living standards to remain broadly flat in 2024-25, the outlook will vary across different household types. There are particular pressures on lower-income households, as they spend a larger share of income on essentials such as energy, food, and housing costs.[45]

[44] Bank of England (2023) Monetary Policy Report – November 2023 (link).
[45] Institute for Fiscal Studies (2023) Housing costs and income inequality in the UK (link).

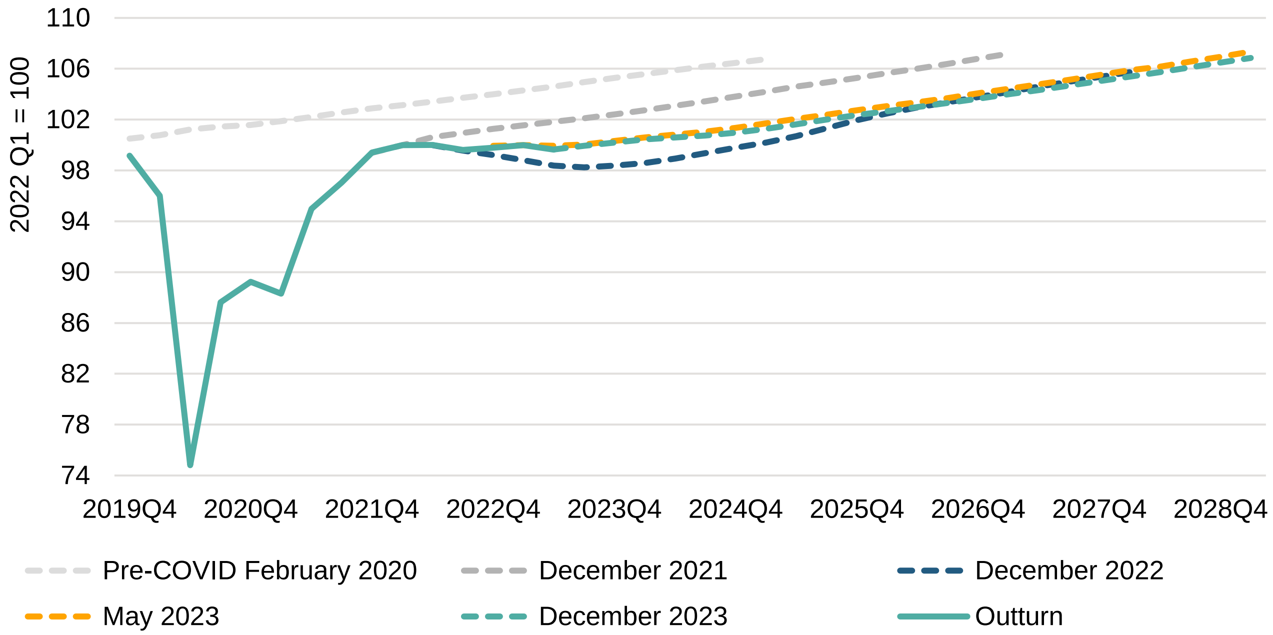
Lower-income households and some mortgage holders are likely to see a further fall in their living standards in 2024-25, while higher-income households who tend to have larger savings are likely to see a boost to their living standards from rising savings income.[46]

3.7 The weak outlook for GDP in the near term prolongs a period of economic stagnation over the last two years. Following recent upward data revisions, Scottish GDP is now estimated to have returned to its pre-COVID 2019 Q4 level in 2021 Q4, but growth has largely been flat since then with some volatility from quarter to quarter.[47] Although a technical recession is not part of our central forecast, the overall environment remains one of slow and fragile economic growth in the near term.

3.8 As highlighted in our December 2022 and May 2023 forecasts, when looking at GDP, we consider that the level of GDP in Scotland over the longer term is more important than the specific path for growth over the short term. Even if a technical recession was to occur over the coming quarters or emerge in future revised data, we do not expect the underlying economic picture to be meaningfully different from that presented in this or our previous two forecasts.

Figure 3.3: Scottish GDP, 2022 Q1 equals 100

GDP to remain stable in the near term but outlook is still of slow and fragile growth next year



Description of Figure 3.3: Line chart showing our recent GDP forecasts. Our December 2023 forecast is broadly flat in the near term, similar to our May 2023 forecast but slightly improved from the shallow recession we had predicted in December 2022.
Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts (link).
Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts. Amounts are indexed so that 2022 Q1 is equal to 100. The pre-COVID February 2020 forecast is rescaled to maintain the same position relative to the December 2021 forecast as with 2019 Q4 equal to 100.

3.9 The outlook for inflation remains uncertain. On the one hand, the conflicts in Ukraine and the Middle East or a domestic wage-price spiral may mean inflation stays higher for longer. On the other hand, we are seeing evidence of more rapid falls in inflation than expected in economies such as Europe and the USA, which could lead to inflation in the UK falling more rapidly too.

3.10 Figure 3.4 shows further detail on our latest economy forecast and compares it to our December 2022 forecast.

[46] Resolution Foundation (2023) The Living Standards Outlook – Summer 2023 Update (link).
[47] The fourth quarter, or Q4, refers to the three months from October to December.

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

Per cent	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
GDP							
December 2022	1.7	-1.0	1.2	2.1	1.9	1.5	
December 2023	2.0	0.2	0.8	1.3	1.3	1.3	1.4
Consumer Price Index							
December 2022	10.1	5.5	0.0	-1.0	0.8	1.8	
December 2023	10.0	6.1	3.0	1.6	1.5	1.8	2.0
Average nominal earnings							
December 2022	4.4	4.1	2.5	2.1	2.7	3.2	
December 2023	4.5	6.6	3.6	3.0	2.9	3.0	3.1
Average real earnings							
December 2022	-4.4	-0.8	2.2	2.7	1.7	1.3	
December 2023	-3.5	1.2	0.3	1.2	1.3	1.1	1.1
Employment							
December 2022	1.7	-0.5	-0.2	0.3	0.5	0.4	
December 2023	2.1	0.5	-0.1	0.1	0.2	0.3	0.3
Unemployment rate							
December 2022	3.4	4.3	4.7	4.6	4.3	4.1	
December 2023	3.2	3.7	4.0	4.2	4.2	4.1	4.1

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022 (link).
Shaded cells refer to outturn available at time of publication. Nominal earnings are adjusted for inflation using the Consumer Expenditure Deflator.

3.11 We continue to monitor our Scottish Economic Policy Uncertainty Index, published for the first time in our August 2021 report.[48] The updated indicator, up to October 2023, can be found in the economy supplementary figures accompanying this report and available on our website. Overall, the level of uncertainty is comparable with that of the UK as a whole.

Forecast comparisons

3.12 Figure 3.5 shows how our December 2023 forecast of GDP growth in calendar years compares to a range of other forecasts for Scotland and the UK.

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

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

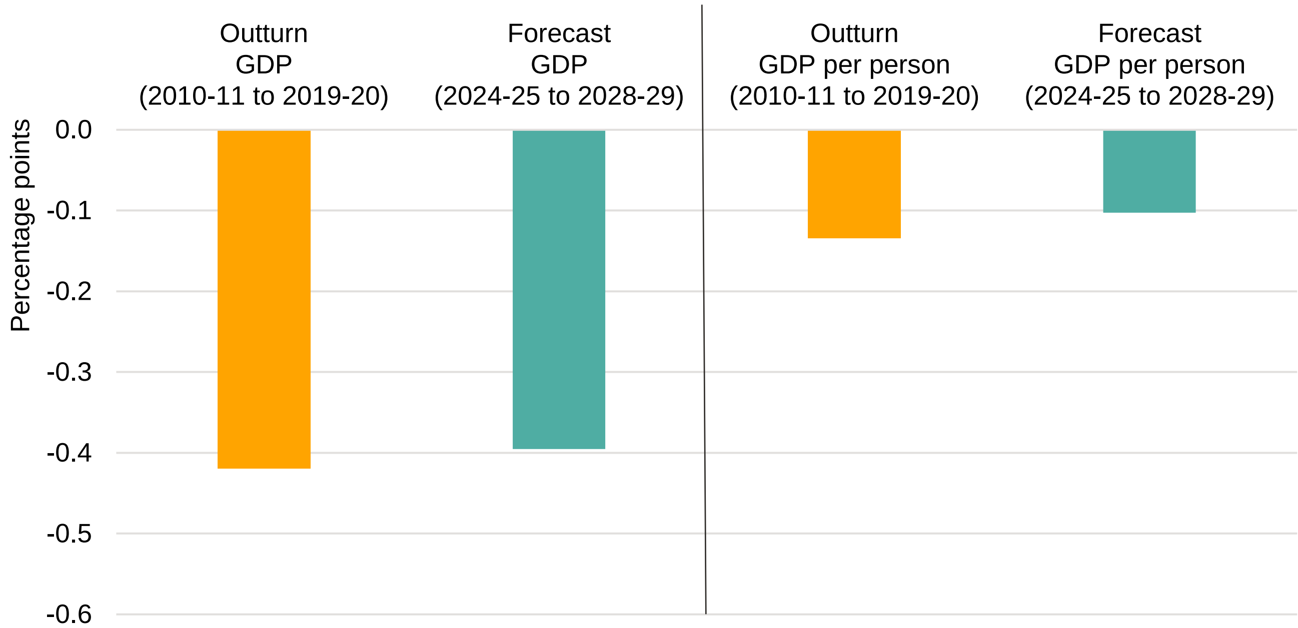
Per cent	2022	2023	2024	2025	2026	2027	2028
Scotland: SFC December 2023	5.2	0.1	0.7	1.1	1.3	1.3	1.4
Scotland: FAI October 2023	5.2	0.2	0.7	1.2			
UK: OBR November 2023	4.3	0.6	0.7	1.4	2.0	2.0	1.7
UK: NIESR November 2023	4.3	0.6	0.5	1.0	1.3	1.5	1.7
UK: BoE November 2023	4.3	0.5	0	0.25	0.75		
UK: HMT average of forecasters Nov 2023	4.3	0.5	0.4				

Source: Scottish Fiscal Commission, Fraser of Allander Institute (2023) FAI Economic Commentary 2023 Q3 (link), OBR (2023) Economic and fiscal outlook – November 2023 (link), NIESR (2023) UK Economic Outlook – November 2023 (link), Bank of England (2023) Monetary Policy Report – November 2023 (link), HM Treasury (2023) Forecasts for the UK economy: November 2023 (link).

3.13 When comparing our forecast to the OBR's forecast for the UK, annual GDP growth in Scotland is 0.4 percentage points lower on average from 2024-25 to 2028-29. This difference exists mainly because of slower total population growth in Scotland, with the negative gap reducing to 0.1 percentage points on a 'GDP per person' basis. Figure 3.6 shows that these gaps in forecast growth rates are in line with historical outturn data over the last decade. The remaining gap is largely due to demographic differences as well as differences in labour market participation rate trends.[49]

Figure 3.6: Average annual gap in GDP growth rates between our forecast for Scotland and the OBR's forecast for the UK

Scotland's slower population growth accounting for most of the GDP growth gap with the UK



Description of Figure 3.6: Bar chart showing a Scotland-UK annual GDP growth gap of -0.4 percentage points on average from 2024-25 to 2028-29 or -0.1 percentage points on a 'GDP per person' basis, in line with the respective historical outturn gaps.
Source: Scottish Fiscal Commission, OBR (2023) Economic and fiscal outlook – November 2023 (link).
Orange bars refer to outturn available at time of publication and teal bars refer to forecasts.

[49] Those aged 25 to 34 and 35 to 49 are among the age groups with the largest divergence between Scottish and UK participation rates from 2015 to 2022, as we discussed in our May 2023 forecast publication. This divergence extends into the forecast period.

3.14 To allow comparisons of our headline GDP forecasts in financial and calendar year terms, Figures 3.7 and 3.8 show our latest and previous forecasts of GDP growth on both bases.

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

Per cent	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
December 2022	1.7	-1.0	1.2	2.1	1.9	1.5	
May 2023	2.0	0.3	1.0	1.3	1.3	1.4	1.4
December 2023	2.0	0.2	0.8	1.3	1.3	1.3	1.4

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts (link).
Shaded cells refer to outturn available at time of publication.

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

Per cent	2022	2023	2024	2025	2026	2027	2028
December 2022	5.0	-1.2	0.7	1.9	2.1	1.6	
May 2023	4.9	0.2	0.9	1.3	1.3	1.4	1.4
December 2023	5.2	0.1	0.7	1.1	1.3	1.3	1.4

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts (link).
Shaded cells refer to outturn available at time of publication.

Main judgements

Figure 3.9: Economy forecast main judgements

Issue	December 2022	December 2023
1. Spare capacity, or output gap	Negative output gap of around 2 per cent of trend GDP emerging in 2023-24 following the recession, before gradually returning to zero.	Slightly positive output gap of 0.1 per cent of trend GDP in 2023-24, staying around zero from 2024-25 onwards.
2. Trend productivity	Growth of 0.1 per cent in 2022-23 and 0.5 per cent in 2023-24, increasing to 1.1 per cent in 2027-28 broadly in line with the OBR's November 2022 assumption.	Growth of 0.3 per cent in 2022-23, 0.6 per cent in 2023-24, and 0.8 per cent in 2024-25. Growth increases to 1.1 per cent in 2028-29 broadly in line with the OBR's November 2023 assumption.
3. Trend unemployment rate	4.1 per cent over the forecast period.	4.1 per cent over the forecast period.
4. Nominal average annual earnings	Growth of 4.4 per cent in 2022-23 and 4.1 per cent in 2023-24, reducing to 3.2 per cent in 2027-28.	Growth of 4.5 per cent in 2022-23 and 6.6 per cent in 2023-24, reducing to 3.6 per cent in 2024-25 and 3.1 per cent in 2028-29.
5. Population projections	Scottish population aged 16 to 64 peaks at mid-2023, then shrinks throughout the forecast.	Scottish population aged 16 to 64 peaks at mid-2023, then shrinks throughout the forecast.
	Net international migration of 19,000 in 2020-21, 30,000 in 2021-22, and 29,000 in 2022-23. For 2023-24 onwards, revised up to the ONS interim 2020-based principal scenario of around 10,000 annually, in line with the OBR's November 2022 assumption.	Net international migration of 19,000 in 2020-21, and 21,000 in 2021-22 and 2022-23. For 2023-24 onwards, aligned to the ONS January 2023 projection of 13,000 annually. This judgement is unchanged from our May 2023 forecast. We discuss the initial Scotland's Census 2022 results in Box 3.2.
6. Forecasts for the UK	Based on the OBR's UK November 2022 forecast.	Based on the OBR's UK November 2023 forecast.
7. Oil and gas	Neutral impact of UK Continental Shelf activity on onshore economy.	Neutral impact of UK Continental Shelf activity on onshore economy.
8. Savings ratio	Savings ratio falling over 2022-23 and 2023-24, remaining broadly stable over the forecast period.	Savings ratio falling over 2022-23 and 2023-24, before gradually rising towards its long-run average.
9. Second round effects	No material effect of any Scottish Government policy changes on economic growth.	No material effect of any Scottish Government policy changes on economic growth.

Source: Scottish Fiscal Commission.

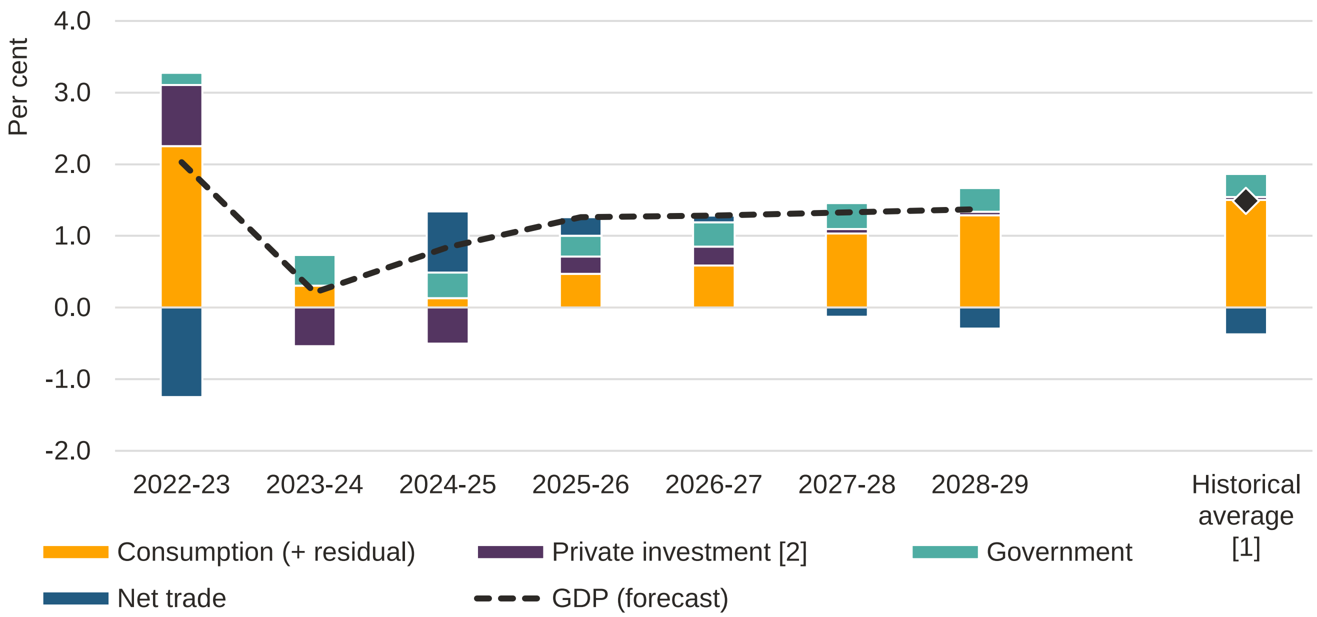
GDP and expenditure components

3.15 Our GDP growth forecast is broadly unchanged since May 2023 but there are small changes in some of its components. We expect household consumption to grow slightly in 2023-24, revised up from the small fall in our previous two forecasts. This is mainly because real disposable income growth has been slightly above expectations this year. We also assume that households continue to support consumption by reducing savings. For 2024-25, we still forecast a weak outlook for growth in real disposable income and household spending. We then expect consumption to increase from 2025-26 onwards as living standards gradually recover.

3.16 The pattern of business investment growth has also changed slightly as the temporary 100 per cent capital allowance measure announced in the UK Spring Budget 2023, which was due to be in place from 2023-24 to 2025-26, has been made permanent in the UK Autumn Statement 2023. This change lowers business investment in the near term, as it removes the incentive to bring forward planned investment from future years, but boosts it in the longer term while increasing total business investment over the forecast period. The higher cost of capital due to recent increases in interest rates also weighs on investment decisions and business investment in the near term.

Figure 3.10: Contributions to annual growth in GDP by component of expenditure

Weak GDP growth in the near term, picking up from 2025-26 driven by household consumption



Description of Figure 3.10: Chart showing our annual GDP growth forecast broken down by its expenditure components, represented by stacked bars, which are household consumption, private investment, government expenditure, and net trade.
Source: Scottish Fiscal Commission, Scottish Government (2023) GDP Quarterly National Accounts: 2023 Quarter 2 (April to June) (link).
[1] Historical average is based on growth from 1999-00 to 2019-20.
[2] Private investment includes business and housing investment.

Box 3.1: UK Continental Shelf oil and gas activity

The oil and gas sector affects the onshore Scottish economy via demand generated by UK Continental Shelf (UKCS) activity in the onshore oil and gas supply chain, particularly via capital and operational expenditure. The UKCS is a mature basin in the latter part of its life cycle. As a result, the demand generated by UKCS activity is in long-term structural decline. Compared to the 45 billion Barrels of Oil Equivalent (BOE) produced since 1975 when extraction started, the UKCS is now left with an estimated resource potential of 10-15 billion BOE, of which 8 billion BOE are technically and financially viable.[50] As we showed in our May 2022 forecast report, total employment supported by the offshore oil and gas industry – including direct, indirect, and induced employment – has already shrunk by more than half in Scotland and the UK compared to 2013 levels.[51]

The decline of North Sea oil and gas activity is one factor explaining slower employment and earnings growth in Scotland relative to the UK since 2016-17. We believe that this relative economic divergence has contributed negatively to the net position for income tax between 2016-17 and 2021-22.

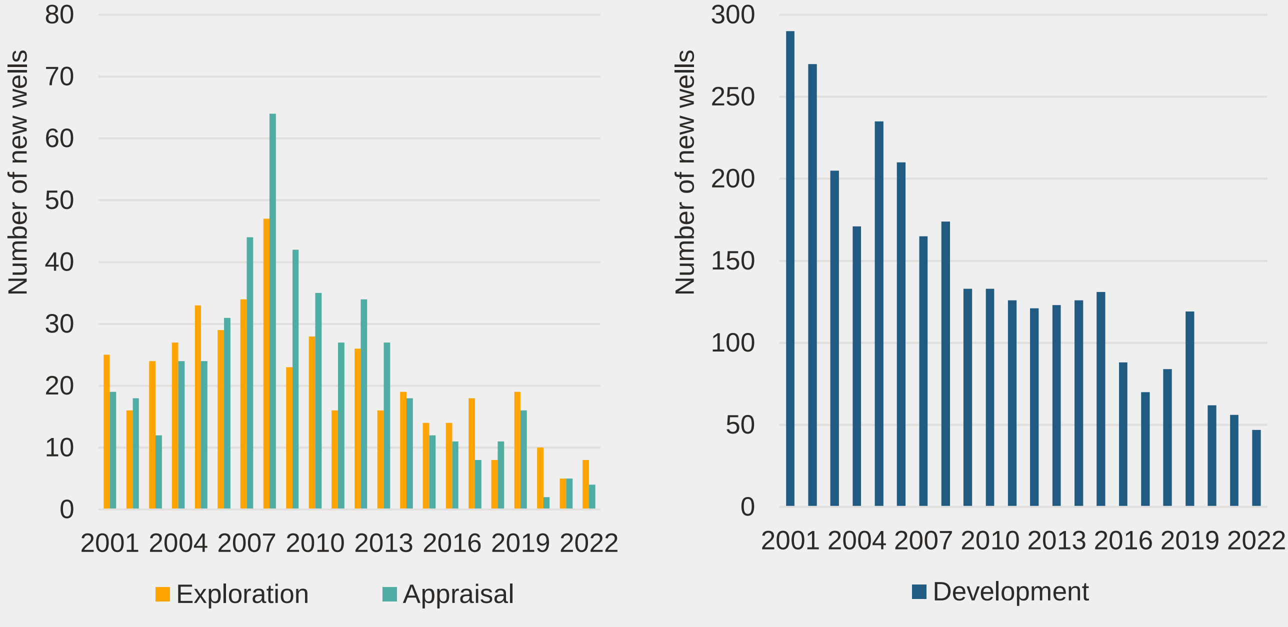
In our December 2022 and May 2023 forecasts, we assumed a more stable near-term outlook for North Sea activity, supported by higher oil prices and greater domestic energy security needs following the conflict in Ukraine. Our current judgement is unchanged from our last forecasts. We expect a neutral effect of North Sea activity on the onshore economy, with the performance of the oil and gas sector no longer a drag on Scotland's employment and average earnings growth over the next five years.

Changes over the last year and current conditions

Current investment conditions in the North Sea remain challenging, with well drilling activity at historically low levels. Some companies are prioritising international business, and moving equipment and workers to more competitive and attractive regions overseas.[52]

Figure 3.11: Drilling activity in the UKCS

Levels of well drilling activity in the UKCS have been falling and are at all-time lows



Description of Figure 3.11: Bar charts showing the number of new wells drilled for exploration, appraisal, or development in each year from 2001 to 2022.

[50] Offshore Energies UK (2023) Economic Report 2023 (link).
[51] Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – May 2022 (link).
[52] Offshore Energies UK (2023) Business Outlook Report 2023 (link).

Source: Scottish Fiscal Commission, North Sea Transition Authority (2023) Drilling activity – June 2023 (link).

Following the thirty-third oil and gas licensing round which closed in January 2023, 115 applications were received, with the first batch of new licenses awarded in October 2023.[53] This compares to a similar number of applications, 113 of them, for the previous licensing round in 2019 when 98 licenses were granted. There has also been the progression of various fields which have been approved for development and production, most prominently Rosebank.

This continued development can help raise confidence and optimism among investors, but prospects for the North Sea will still depend on the broader investment environment. Due to the maturity of the basin, any future investment and production will not fundamentally reverse the past decline of the oil and gas sector in Scotland.

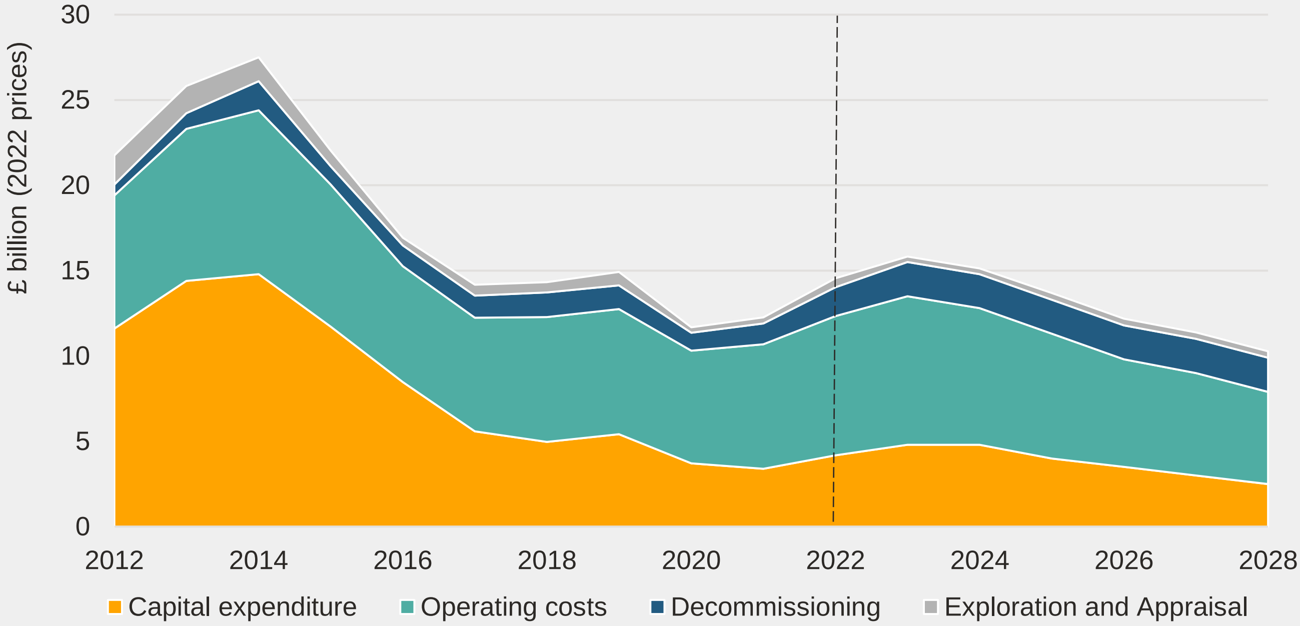
Outlook

The latest projections of UKCS expenditure by the North Sea Transition Authority show a boost in the short run, which includes the Rosebank construction phase, followed by a modest fall. This fall is marginal compared to the decline already experienced over the past decade, indicating that the oil and gas sector is close to a new steady state. In our judgement, it is unlikely that this further fall will be large enough to materially shift our forecast over the next five years.

Potential future government policy changes and the fiscal, planning, and regulatory environment are a source of uncertainty for our forecast.

Figure 3.12: North Sea Transition Authority (NSTA) projections of UKCS expenditure

Downward trend in UKCS oil and gas investment set to continue but rate of decline slowing



Description of Figure 3.12: Stacked area chart showing annual data on UKCS expenditure from 2012 and projections from 2023 to 2028. Expenditure is broken down by capital expenditure, operating costs, decommissioning, and exploration and appraisal.
Source: Scottish Fiscal Commission, North Sea Transition Authority (2023) Projections of UK Oil and Gas Production and Expenditure – September 2023 (link).
Dashed line denotes the start of the NSTA projections.

53 North Sea Transition Authority (2023) 27 licences offered in first batch of 33rd Oil and Gas Licensing Round (link).

Our judgement of a neutral outlook for the North Sea reflects the potential for new investment expenditure in renewables and low carbon energy sources to offset some of the decline in oil and gas investment expenditure in the coming years. It is estimated that around £200 billion could be spent in offshore energy projects in the UK over the next decade.[54]

The energy transition can create opportunities for some oil and gas workers to move into green sectors such as offshore wind. However, our judgement based upon current plans and the different nature of the two sectors – including the strength of Scottish supply chains – is that these new energy sectors will not fully replace oil and gas as a source of high-paid jobs and income tax revenues over the longer term. The success of the transition will also depend on the long-term success of UK Government offshore wind auctions and investment to strengthen the electric transmission grid.

[54] Offshore Energies UK (2023) Business Outlook Report 2023 (link).

Long-run outlook

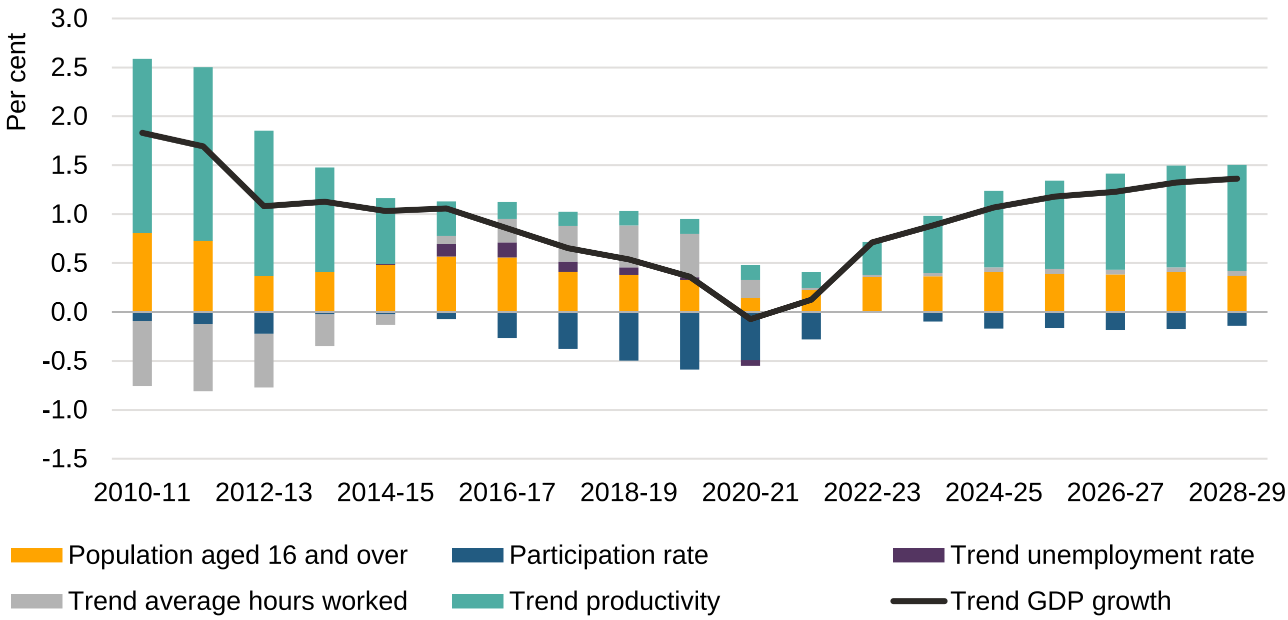
3.17 Trend GDP, or potential output, is the estimated amount of goods and services the economy can sustainably produce without inducing excess price inflation. In the short term, actual output can deviate from potential output, but over the longer term the economy is assumed to be subject to the supply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

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

3.19 Scotland's trend GDP growth has been slowing since the 2008-09 Global Financial Crisis, averaging 1.0 per cent between 2010-11 and 2019-20 compared to 2.0 per cent between 1999-00 and 2009-10. This has been driven by falling productivity growth, slowing population growth, and a declining participation rate due to an ageing population. We expect productivity growth to pick up broadly in line with the OBR's expected path for the UK, making productivity growth the main driver of trend GDP growth over the medium to long term. We forecast trend GDP growth to rise over the forecast period from 0.9 per cent in 2023-24 to 1.4 per cent in 2028-29.

Figure 3.13: Trend GDP growth and contribution of components, 2010-11 to 2028-29

Trend GDP growth mainly driven by productivity growth over the forecast



Description of Figure 3.13: Line chart of trend GDP growth broken down into its component parts: population aged 16 and over; participation rate; trend unemployment rate; trend average hours worked; and trend productivity. These are shown as stacked bars.
Source: Scottish Fiscal Commission.

Figure 3.14: Trend GDP growth and contribution of components, 2023-24 to 2028-29

Year (growth in per cent)	Trend GDP growth	Population aged 16 and over	Participation rate	Trend unemployment rate	Trend average hours worked	Trend productivity
2023-24	0.9	0.4	-0.1	0.0	0.0	0.6
2024-25	1.1	0.4	-0.2	0.0	0.1	0.8
2025-26	1.2	0.4	-0.2	0.0	0.0	0.9
2026-27	1.2	0.4	-0.2	0.0	0.0	1.0
2027-28	1.3	0.4	-0.2	0.0	0.0	1.0
2028-29	1.4	0.4	-0.1	0.0	0.1	1.1
Average	1.2	0.4	-0.2	0.0	0.0	0.9

Source: Scottish Fiscal Commission.
Figures may not sum because of rounding.

Trend GDP growth components

The labour force participation rate

3.20 The labour force is the pool of people aged 16 and over who are in work or actively looking for work. These people are defined as economically active. Those aged 16 and over who are not in the labour force are defined as economically inactive. The economically inactive could be studying, retired, looking after family, or sick. The labour force participation rate is the percentage of the population aged 16 and over who are economically active.

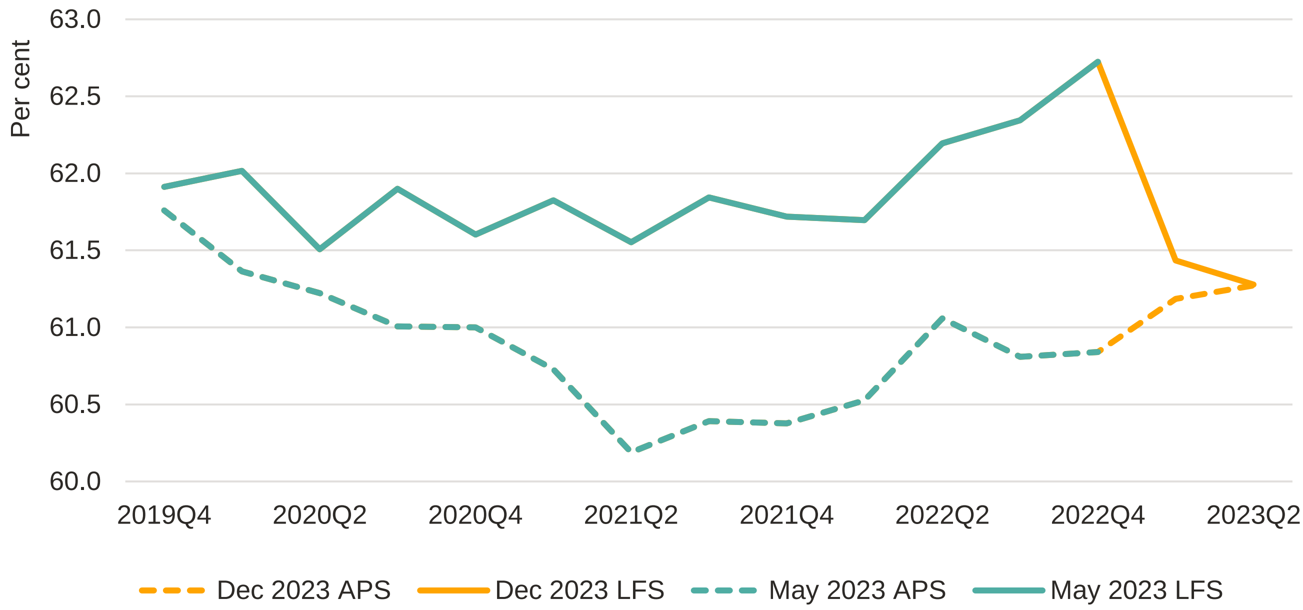
3.21 In our May 2023 forecast, we commented on the divergence between the Labour Force Survey (LFS) and Annual Population Survey (APS) measures of Scotland's labour force participation rate since the pandemic. In May we put more weight on the APS data, which showed a decline in the participation rate since the pandemic, as the APS was more in line with Real Time Information (RTI) data for Scotland and LFS data for the UK.

3.22 At the time of writing, LFS and APS participation rate data have converged again. This is because the LFS participation rate decreased by a percentage point over 2023 Q1 and Q2. This movement in the Scottish LFS data comes at a time of reliability concerns about the existing version of the LFS while the transition is made to the Transformed LFS.[55] Reliability of the traditional estimates has been decreasing because there has been a long-term decline in survey response rates which has accelerated since the pandemic.[56] The Transformed LFS, which is currently being trialled with increased sample size, will be the long-term solution for providing high-quality labour market data for the UK and devolved nations from March 2024.[57]

[55] ONS (2023) Creating the best picture of changes in the labour market – an update (link).
[56] House of Commons Library (2023) Has labour market data become less reliable? (link).
[57] ONS (2023) Labour Force Survey: planned improvements and its reintroduction (link).

Figure 3.15: Labour force participation rate data since the pandemic

LFS and APS data realign following divergence



Description of Figure 3.15: Line chart showing LFS and APS data as available now and at the time of our May 2023 forecast.
Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – May 2023 (link), ONS (2023) HI11 Regional labour market: headline indicators for Scotland (link).

3.23 With the caveat of increased uncertainty around the data, the judgement of the trend participation rate that we made in May 2023 is in line with the latest data and remains relatively unchanged.

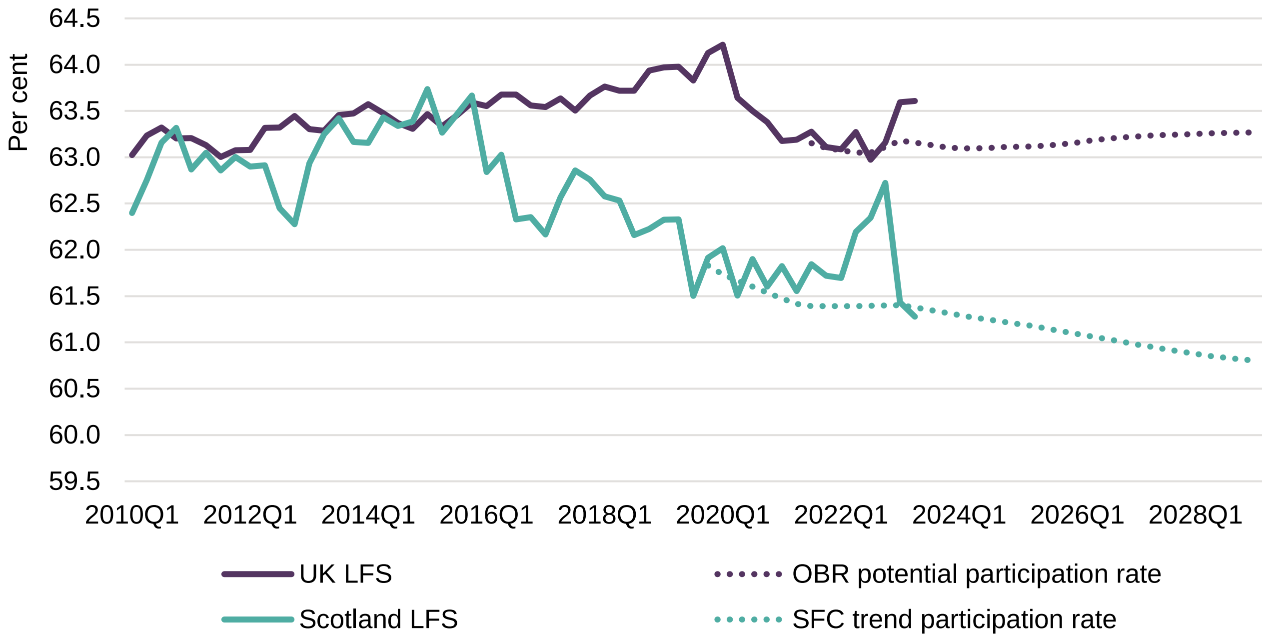
3.24 Ageing population in Scotland and the UK is putting downward pressure on the overall labour force participation rate, as older age groups tend to have lower participation rates. On average, we forecast rising within-age-group participation rates, partly reflecting the increase in the State Pension age (SPa) to 67 over 2026 to 2028.[58] However, the negative contribution from demographic change more than offsets the positive contribution from within-age-group participation rate changes, resulting in our forecast of the trend participation rate declining gradually.[59] The gap in the participation rate between our forecast for Scotland and the OBR's forecast for the UK widens slightly over the forecast horizon.

[58] The Pensions Acts of 1995 and 2011 equalised the State Pension age (SPa) from 60 to 65 for women between May 2010 and November 2018. The Pensions Act 2011 brought forward the increase of the SPa to 66 to October 2020. The Pensions Act 2014 brought forward the increase of the SPa to 67 to the period between 2026 and 2028.

[59] We can disaggregate changes in our participation rate forecast into the effect of changing demographics compared to the effect of changing participation rates within individual age groups. We showed this analysis also in our May 2023 forecast publication: Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – May 2023 (link).

Figure 3.16: Labour force participation rate data and the trend since the pandemic

Small divergence in SFC and OBR trend participation rate forecast

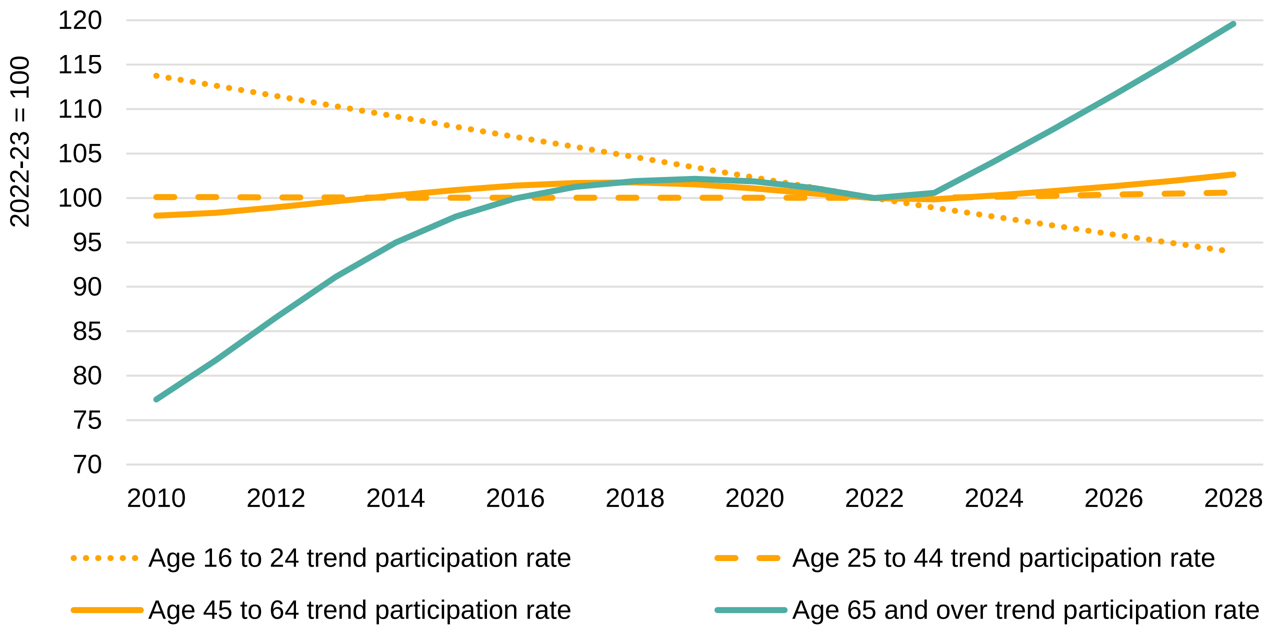


Description of Figure 3.16: Line chart of participation rate, both actual and trend, for Scotland and the UK.
Source: Scottish Fiscal Commission, ONS (2023) HI11 Regional labour market: headline indicators for Scotland (link), ONS (2023) A01: Summary of labour market statistics (link).

3.25 The State Pension age (Spa) has increased following several Pensions Acts.[60] For the 2026-2028 SPa rise, we project a similar increase in participation of those aged 65 and over to previous periods where the SPa has increased. The projection starts to increase before 2026 as people may respond before they reach SPa.

Figure 3.17: Trend labour force participation rate by age group

Growth in participation of those aged 65 and over expected as State Pension age rises



Description of Figure 3.17: Line chart of participation projections by age groups 16 to 24, 25 to 44, 45 to 64, and 65 and over.
Source: Scottish Fiscal Commission, ONS (2023) HI11 Regional labour market: headline indicators for Scotland (link).

[60] UK Parliament (2016) Communication of state pension age changes (link).

3.26 In our May 2023 forecast publication, we analysed in detail the increase in inactivity since the pandemic due to ill health.[61] Long-term sickness continues to be a large and persistent reason for inactivity, based on the latest data, and remains a downside risk to our projection of the labour force participation rate.

Employment capacity and average hours worked

3.27 Reflecting continued levels of low unemployment, we project a structural rate of unemployment of 4.1 per cent over the forecast period. Our projection of average hours worked is broadly flat.

Productivity

3.28 Productivity growth has been slowing globally since just before the 2008-09 Global Financial Crisis in what is known across developed economies as the 'productivity puzzle'.[62] Trend productivity growth in Scotland averaged 1.2 per cent from 1998-99 to 2007-08 compared to 0.7 per cent from 2008-09 to 2021-22.[63]

3.29 Broadly in line with our judgement from December 2022 and May 2023, we forecast trend productivity growth of 0.6 per cent in 2023-24 and 0.8 per cent in 2024-25, rising to 1.1 per cent by 2028-29. This is similar to the path of the OBR's forecast of potential productivity growth for the UK.

Comparisons to the OBR

3.30 Figure 3.18 shows we are forecasting lower population growth and a slightly weaker labour force participation rate for Scotland than the OBR's forecasts for the UK. Our slightly stronger forecast of average hours worked is not enough to offset this, meaning our forecast of Scottish GDP growth is around 0.2 percentage points lower than the OBR's forecast for the UK in 2028-29, the final year of the two forecasts.

Figure 3.18: SFC and OBR trend GDP growth and contribution of components in 2028-29

Forecast (growth in per cent)	Trend GDP growth	Population aged 16 and over	Participation rate	Trend unemployment rate	Trend average hours worked	Trend productivity
SFC Dec-23	1.4	0.4	-0.1	0.0	0.1	1.1
OBR Nov-23	1.6	0.7	0.0	0.0	-0.2	1.1
Gap [1]	-0.2	-0.3	-0.2	0.0	0.2	0.0

Source: Scottish Fiscal Commission, OBR (2023) Economic and fiscal outlook – November 2023 (link).
Figures may not sum because of rounding.
Potential output growth is approximately equal to the sum of the growth rates of population, employment rate, average hours, and productivity.
[1] Gap is expressed in percentage points.

Box 3.2: Initial results from Scotland's Census 2022

The first results from Scotland's Census 2022 were released in September 2023, showing the Scottish population at the time of the March 2022 census. Our forecasts are still based on population estimates up

[61] Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – May 2023 (link).
[62] Bank of England (2017) Productivity puzzles – speech by Andy Haldane (link).
[63] Figures based on our estimation of the trend using Quarterly National Accounts GDP data and Annual Population Survey total hours worked data.

to mid-2021 which were produced before the census results were available. We plan to align our forecast to the census results next year, once National Records of Scotland (NRS) has derived a mid-year population for 2022 and a revised series of population estimates for the decade since the previous census in 2011.

The Block Grant Adjustments included in the 2024-25 Scottish Budget are still based on earlier population estimates and are due to be revised once census-based mid-year population estimates are available.

The Scottish population measured by the census in March 2022 was 5.4 million.[64] This is around 1 per cent lower than both our projections for 2022 and NRS estimates based on rolling forward the previous estimate for 2021, both of which are close to 5.5 million. This is a relatively small difference in the total Scottish population, representing error that has built up over the decade since the 2011 census.

While the difference in the estimate of the total population is small, there are relatively larger differences for some age groups, which may have implications for our forecasts.[65] We do not yet know whether these differences have built up gradually since 2011 or more recently in response to COVID-19 or Brexit.

The biggest difference is that the population aged 25 to 34 was around 8 per cent lower than previously thought. This may mean that Labour Force Survey estimates of overall employment and participation rates up to early 2022 have been slightly too high through giving too large a weight to younger survey respondents. A lower population in these age groups could also imply that the recent decline in birth rates in Scotland has not been as steep.

There were more people aged 60 to 64 and fewer aged 10 to 14, meaning that the size of the working age population could fall more quickly than previously thought over the next five years. There were more people aged 15 to 24, which may simply represent a larger number of students, but could lead to increased labour market participation and employment as this group enters their mid-20s. The number of children aged under 15 is around 2 per cent lower, which will slightly increase our view of the proportion of children that are receiving social security payments.[66]

On 23 November 2023, the ONS published migration statistics for the UK up to June 2023 showing record levels of net international migration during calendar year 2022. These estimates do not include specific figures for net migration to Scotland, but once these are known, higher net migration could potentially offset any reduction in our population projections that comes from aligning to the census.

For this forecast, we have not made specific adjustments to our judgements in order to capture the likely impacts of the changing population age structure on different parts of our forecast. The effect of accounting for this information is unlikely to be material within our forecast horizon, and doing so in an ad-hoc way would potentially cause inconsistencies across our population, economy, and fiscal modelling. We will introduce the change in our forecasts next year once we have sufficient and clear information on all data elements, including the pending updates to the Labour Force Survey.

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64 National Records of Scotland (2023) Scotland's Census 2022 – Rounded population estimates (link).

65 National Records of Scotland (2023) Scotland's Census 2022 – Round population estimates – Quality assurance information (link).

66 This does not change our view of the number of children eligible for Scottish Child Payment as this is derived mainly from data on the qualifying benefits, without reference to population estimates.

Labour market

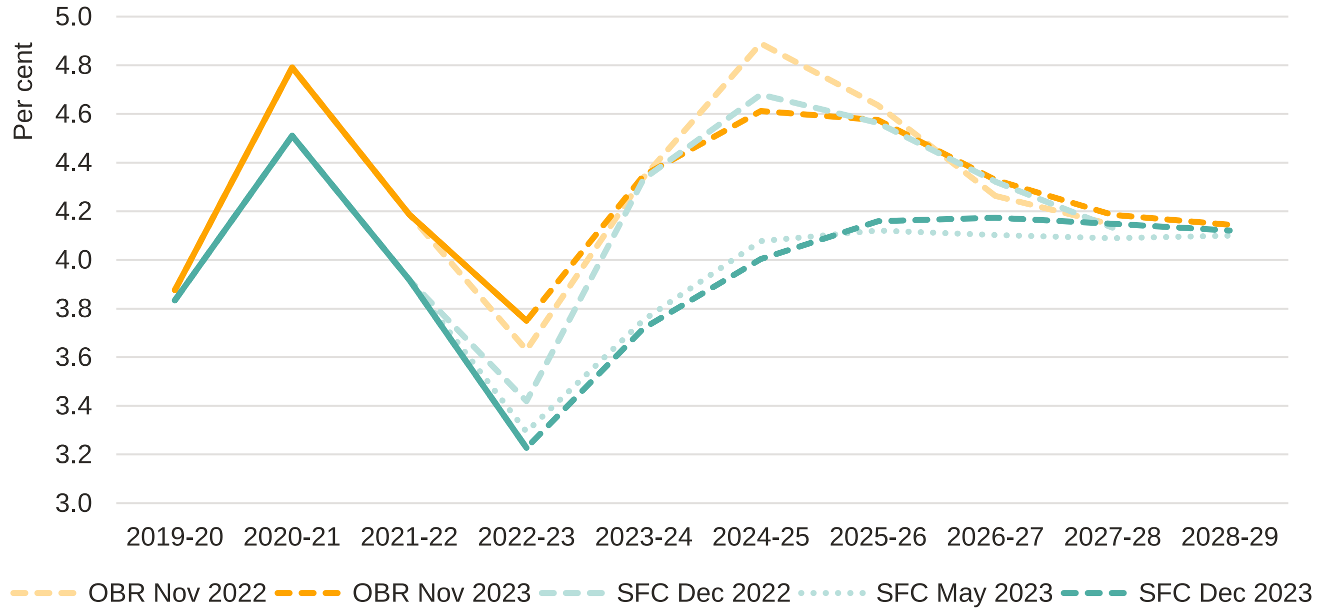
3.31 Our view of the labour market is broadly unchanged from May 2023, but slightly improved from December 2022 when we were forecasting the unemployment rate to rise above trend following a shallow economic recession.

3.32 We forecast Scotland's unemployment rate to increase from 3.2 per cent in 2022-23 to 3.7 per cent in 2023-24, which is still low by historical standards and lower than the OBR's November 2023 forecast for the UK of 4.3 per cent. Our forecast is consistent with other evidence of a tight labour market in Scotland, and tighter than in the UK, such as from the Royal Bank of Scotland Report on Jobs and Adzuna job vacancies data.[67] This is reflected in higher nominal average earnings growth in Scotland compared to the UK in 2023-24.

3.33 We expect labour market conditions to normalise by 2024-25, with our unemployment rate forecast rising to 4.0 per cent. Over the rest of the forecast horizon, we expect Scotland's unemployment rate to remain close to its assumed structural trend of 4.1 per cent and below the OBR's forecast for the UK.

Figure 3.19: Unemployment rate in Scotland and comparison with the UK

Unemployment rate still low, and below the UK, but rising as labour market tightness unwinds



Description of Figure 3.19: Line chart showing our current unemployment rate forecast alongside our previous two forecasts as well as the OBR's from November 2022 and November 2023. The unemployment rate rises gradually in both Scotland and UK. Scotland's rate remains around its 4.1 per cent trend from 2024-25 onwards while the UK rate temporarily exceeds trend.
Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts (link), OBR (2022) Economic and fiscal outlook – November 2022 (link), OBR (2023) Economic and fiscal outlook – November 2023 (link).
Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts.

3.34 We forecast employment growth of 0.2 per cent per year on average from 2023-24 onwards. This is consistent with growth in the population aged 16 and over of 0.4 per cent per year, a slightly declining participation rate due to demographics, and the unemployment rate around 4.1 per cent over the forecast period.

[67] NatWest Group (2023) Royal Bank of Scotland Report on Jobs – October 2023 (link), ONS (2023) Online job advert estimates (link).

Earnings

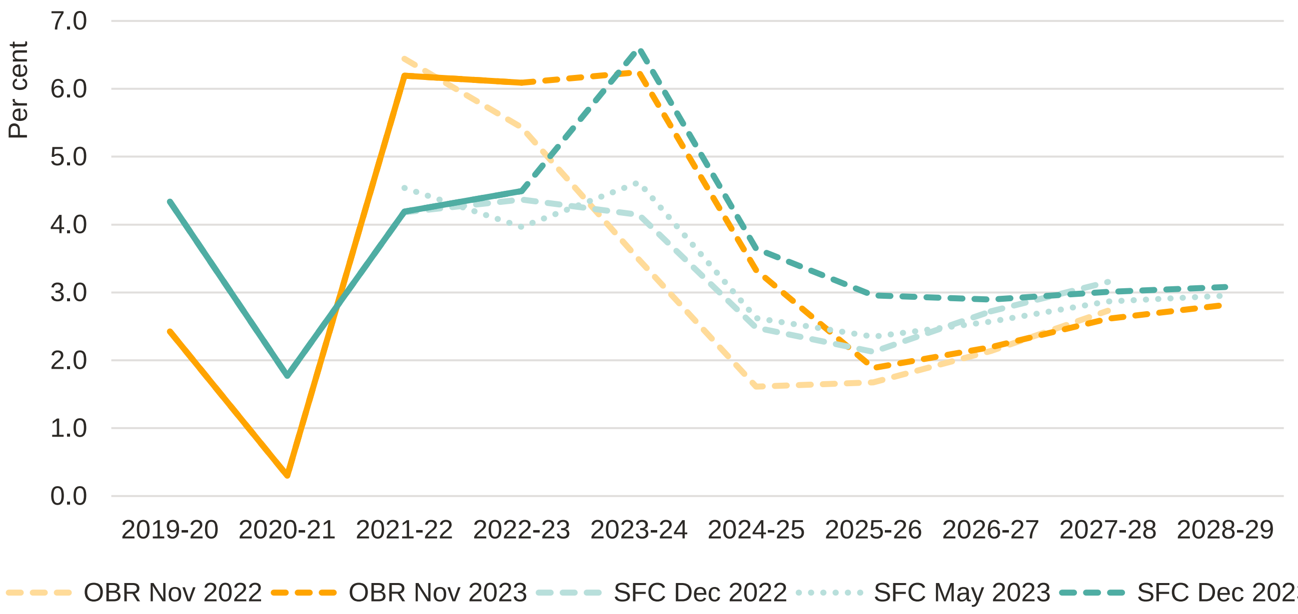
3.35 Our overall earnings outlook is revised up compared to what we forecast in December 2022 and May 2023, and this feeds through to higher income tax revenues. In 2023-24, the upward revision reflects several factors pointing to nominal average earnings growing strongly in Scotland this year, and more strongly than in the UK. In both Scotland and the UK, the ongoing tightness in the labour market and higher inflation have pushed up nominal pay growth by more than we and the OBR had anticipated. However, wage pressures have been greater in Scotland relative to the UK because of tighter labour market conditions in Scotland, such as higher labour shortages and higher vacancies.[68] In the next section, we discuss further evidence from Real Time Information (RTI) on the current drivers of the strength in Scottish earnings growth, including relative to the UK.

3.36 For 2024-25, we expect earnings growth to moderate to 3.6 per cent from a high of 6.6 per cent in 2023-24 as labour market conditions normalise and inflation falls further. The upward revision from our previous two forecasts is mainly driven by higher inflation than we assumed previously. Our forecast of earnings growth remains slightly above the OBR's forecast for the UK as a whole.

3.37 Over much of the last decade, average earnings in Scotland have grown more slowly than in the UK as a whole. In 2023-24 and 2024-25, Scotland's stronger earnings growth compared to the UK forecast from the OBR should mean a slight recovery in the level of Scottish earnings relative to the UK in these years. This is in line with our expectations from December 2022 and May 2023.

Figure 3.20: Nominal average earnings growth in Scotland and comparison with the UK

Our forecast remains above the OBR's forecast for the UK in the near term, with both revised up



Description of Figure 3.20: Line chart showing our earnings growth forecast, revised up from previous forecasts and still above the OBR's.
Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts (link), OBR (2022) Economic and fiscal outlook – November 2022 (link), OBR (2023) Economic and fiscal outlook – November 2023 (link).
Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts.

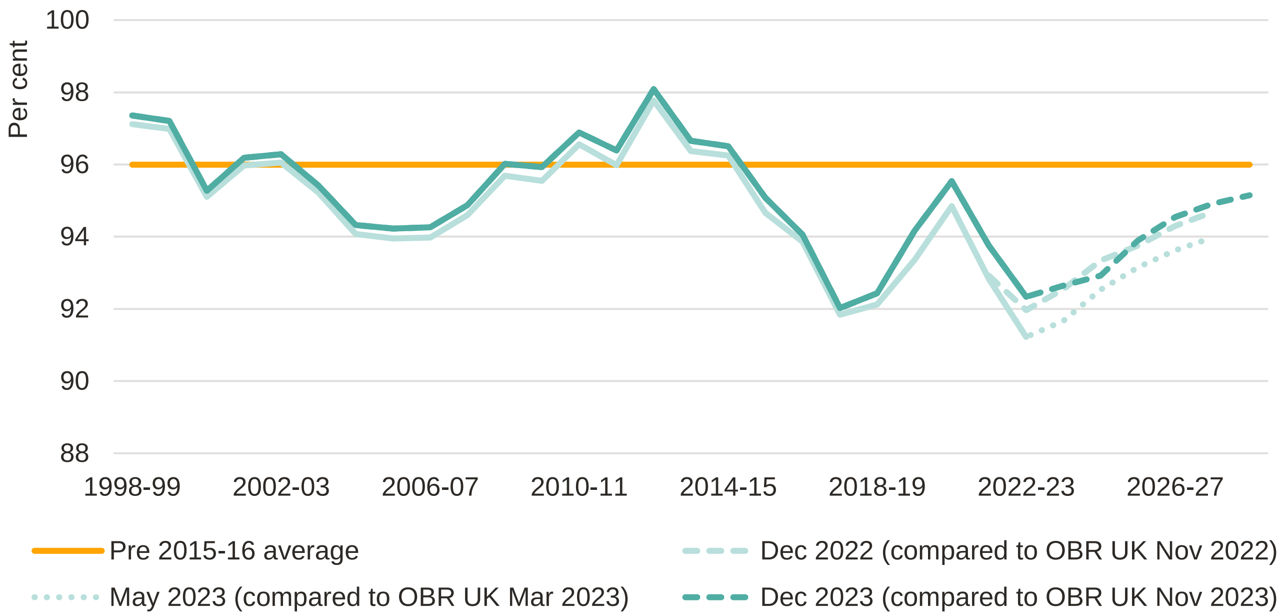
[68] NatWest Group (2023) Royal Bank of Scotland Report on Jobs – October 2023 (link), ONS (2023) Online job advert estimates (link).

3.38 By 2028-29, both we and the OBR expect nominal average earnings growth to return to the historical average of around 3 per cent per year in line with annual productivity growth of around 1 per cent and annual inflation of 2 per cent. However, while we expect earnings growth in Scotland to align to this 3 per cent value by 2025-26, the OBR are anticipating a few years of earnings growth closer to 2 per cent. The HM Treasury summary of UK independent forecasts shows that longer-term forecasts of UK earnings growth lie in the range from 2 to 5 per cent.[69] The difference between our and the OBR's earnings growth forecasts results in a partial narrowing of the gap between Scottish and UK earnings forecasts from 2025-26 to 2028-29. This has important implications for the projected income tax net position for Scotland over this period, as we discuss in Chapter 4.

3.39 On balance, we consider it possible that Scottish earnings will slightly catch up with UK earnings this in 2023-24 and 2024-25. This is supported by RTI mean pay data, which we discuss next. For the period from 2025-26 onwards, we caution that Scottish and UK earnings growth may be more similar than is currently suggested by the latest SFC and OBR forecasts.

Figure 3.21: Scottish nominal average earnings level relative to UK

Difference between our and the OBR's earnings forecasts results in a partial narrowing of gap



Description of Figure 3.21: Line chart of Scottish earnings level as a share of UK, recovering slightly but still below historical norms.
Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts (link), OBR (2022) Economic and fiscal outlook – November 2022 (link), OBR (2023) Economic and fiscal outlook – March 2023 (link), OBR (2023) Economic and fiscal outlook – November 2023 (link).
Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts.

3.40 Our forecast of Scottish average earnings growth includes an assumption for devolved public sector pay growth of 4.5 per cent in 2024-25, which includes an average basic pay award of 3.0 per cent, as well as pay progression and churn. The Scottish Government has not set a formal guideline for public sector pay for 2024-25 and so we need to make our own assumptions. The Scottish Government have told us they will publish further information on pay following the UK Spring Budget.

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

3.41 The pay growth assumption is used as part of our economy and income tax forecasts. We do not model Scottish Government spending, except Social Security, and our pay growth assumption does not feed into the Scottish Government's spending projections.

3.42 We also model and forecast Scottish employment, including public sector employment. Given the information we have on funding, assumptions about pay and the size of the total paybill, and assumptions about the size of the reserved public sector in Scotland, this implies a fall in Scotland's public sector employment from 2023-24 onwards.

Real Time Information (RTI) mean pay data for 2023-24

3.43 The discussion in this section focuses on the short-term picture for earnings growth in the current year, 2023-24, based on the latest RTI mean pay data available up to September 2023.

3.44 Our primary source of earnings data is the Quarterly National Accounts for Scotland (QNAS) publication, but we use the more timely RTI mean pay data to inform our judgement and narrative on Scottish average earnings in the short term.

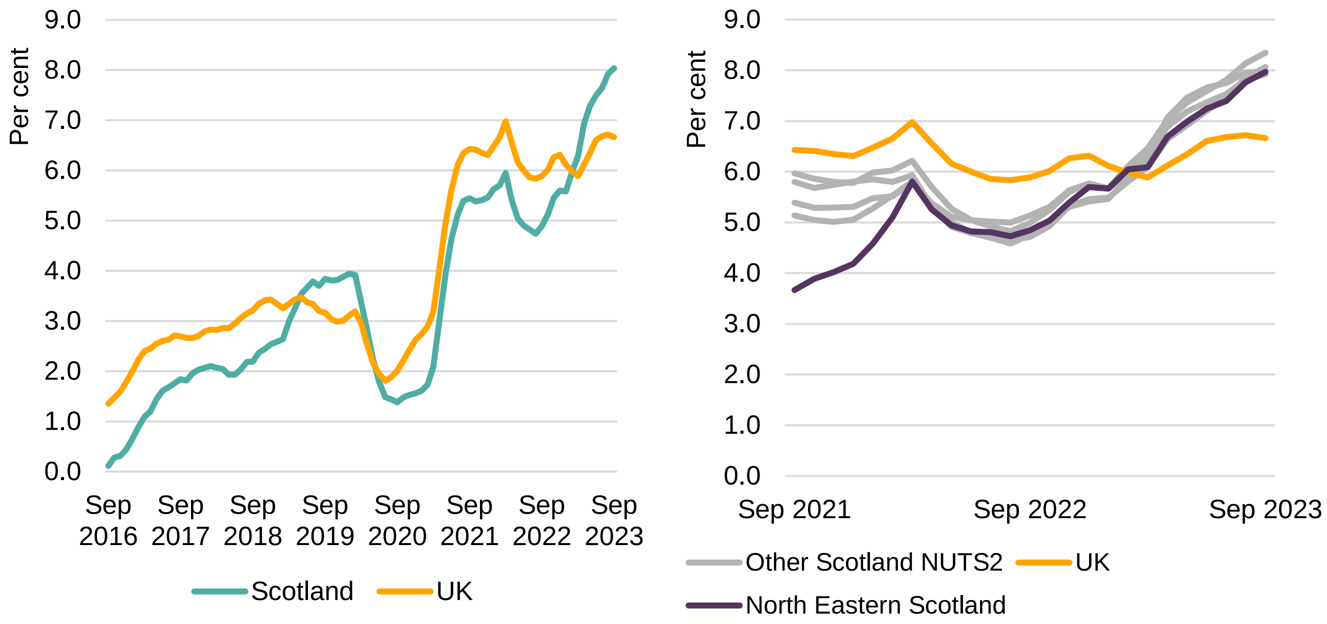
3.45 For earnings and employee numbers, RTI is a monthly statistical publication by the ONS and HMRC based on administrative data from the HMRC Pay As You Earn (PAYE) system. It is a source of monthly data on earnings and employees across regions of the UK, with breakdowns of regional data by sector and age groups updated on a quarterly basis. Its timeliness combined with a reasonable level of disaggregation makes it a valuable source of evidence on the performance of Scottish earnings and comparisons to UK earnings. RTI labour market estimates were first published in December 2019 and continue to be developed.[70]

3.46 Figure 3.22 shows that RTI mean pay growth in Scotland has been rising, and has been faster than in the UK since the start of 2023. This follows several years of Scottish earnings growth largely lagging behind the UK. The strength in Scottish earnings growth in 2023 is broad-based. Figure 3.22 shows that all regions of Scotland are recording mean pay growth of around 8 per cent over the year to September 2023, above the UK average of 6.7 per cent in the same period. Looking at RTI sectoral breakdowns, Figure 3.23 shows that Scotland's stronger earnings growth relative to the UK is being driven by pay growth in the services sector, which accounts for most of the Scottish economy.

[70] These are currently badged as Official Statistics in Development. The Office for Statistics Regulation started a review of this output in October 2022 and in June 2023 published requirements to be fulfilled for the earnings and employment statistics from PAYE RTI to be designated as Accredited Official Statistics.

Figure 3.22: RTI mean pay rolling annual growth in Scotland and the UK

All regions of Scotland seeing RTI mean pay growth above UK average since early 2023



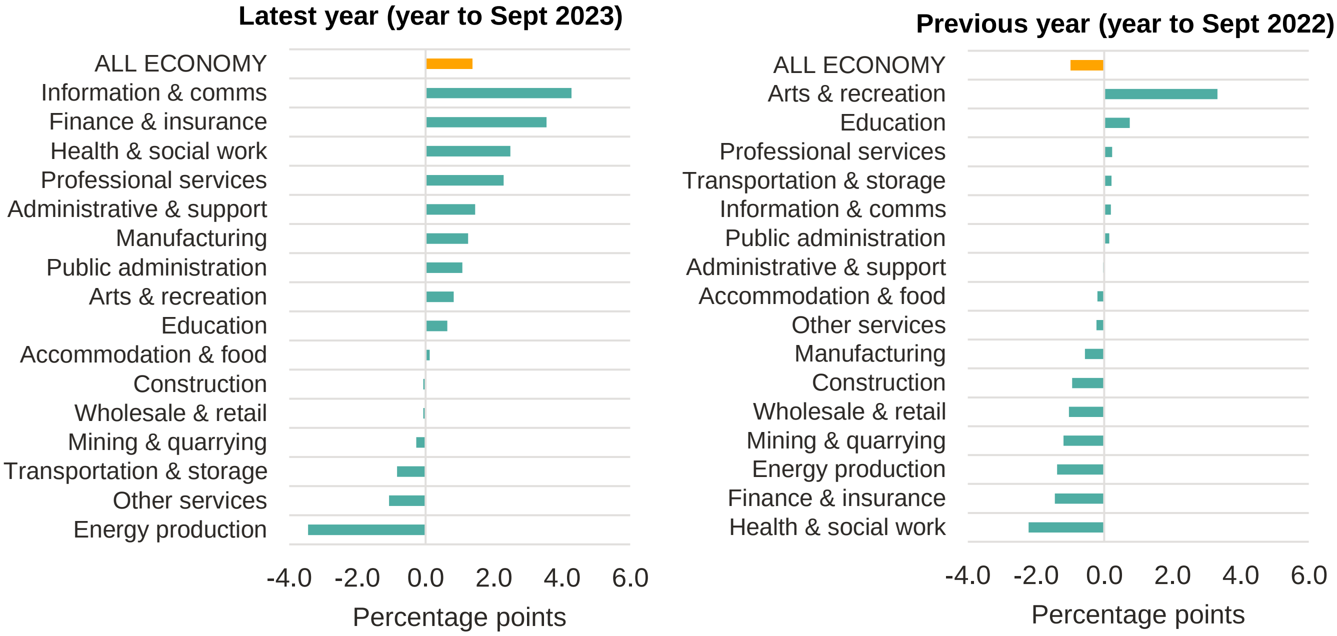
Description of Figure 3.22: Line charts showing RTI mean pay rolling annual growth in Scotland, UK, and Scottish NUTS 2 regions.
Source: Scottish Fiscal Commission, ONS (2023) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted (link).

3.47 Within the services sector, mean pay in financial services in Scotland are currently growing by 3.5 percentage points faster than in the UK. This is in contrast to recent years when we have seen financial services acting as a drag on Scottish earnings growth relative to the UK. This pattern could be related to the different composition of financial sector activities taking place in Scotland compared to rest of UK – primarily London and the South East. In Scotland, financial services are focussed more on pension and insurance services where earnings are steady. London has a bigger weight in investment activities for which a large component of pay comes from bonuses which are inherently volatile.

3.48 Another reason for Scotland's faster relative earnings growth is the withdrawal of the drag placed on average earnings growth by slowing oil and gas activity in the North Sea. Earnings growth in North Eastern Scotland was acting as a drag on Scotland's earnings growth for the last several years up to early 2022. Figure 3.22 shows that, as of mid-2022, earnings growth in North Eastern Scotland has caught up with the Scottish average and is not currently acting as a drag on Scotland's earnings growth. Box 3.1 provides more detail on our judgement about the impact of UK Continental Shelf activity on the onshore economy.

Figure 3.23: Scotland-UK gap in RTI mean pay annual growth rates, by sector

Services sectors, like finance, driving the recent faster RTI pay growth in Scotland relative to UK



Description of Figure 3.23: Bar charts showing pay growth gaps across sectors for the year to September 2023 and previous year.

Source: Scottish Fiscal Commission, ONS (2023) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted (link).

Box 3.3: Economy moving measures

The government affects the economy in many ways. In our forecasts, we include the direct demand-side effects of government spending and taxation on the economy. Our judgements in areas like productivity and labour market participation implicitly capture the impact of government policy on the supply side, alongside everything else that affects these factors. When the government changes policies, we also consider how behavioural responses can affect the tax or social security benefit forecasts in question, which can include an element of changes in economic behaviour.

Another consideration for our forecasts is what we call economy moving measures. In principle, this is when a change in government policy has a sufficiently large effect on economic behaviour that we would actually shift our economy forecasts in response to the introduction of the policy. We set quite a high threshold for considering these impacts in terms of evidence, scale, and additionality of effect – all of this within our five-year time horizon. This is because we are primarily interested in a scenario where an economy moving measure affects one of our tax or social security forecasts – for example, when a policy changes labour market participation which then affects income tax revenues.

The Scottish Government has strict limits on borrowing. In general, the cost of any policy changes must be funded by an equal and opposite change elsewhere in the Scottish Budget. In technical terms, this means most policy changes can be seen as having a relatively neutral impact on demand in the economy. For example, a cut in taxes would mean more spending for households, but may also mean lower spending for the Scottish Government, with a limited effect on total spending in the economy. More significant effects on the economy may come through the supply side – for example, changes in the incentive to participate in the labour market or policies that affect productivity. Such policies would tend to take a long time to have their full effect on the economy.

To date, we have not included economy moving effects in response to policies introduced by the Scottish Government. This does not imply that the policies introduced by the Scottish Government have no effect on the economy but that we have not considered individual policy changes to be economy moving within the relatively strict interest of our tax and social security forecasts.

Beyond our relatively strict definition of economy moving measures, it is important to understand the effect of government policy on the economy. We think the Scottish Government – working with partner organisations in academia and the wider public sector – should do more to appraise, monitor, and evaluate the effect of its policies on the economy, particularly its longer-term performance, and to share this work in public.

In Chapter 4, we discuss the latest income tax policies. We do not judge these policies to be economy moving.

Chapter 4
Tax

Overview

4.1 In this chapter we present our five-year tax forecasts and discuss the effect they have on the 2024-25 Scottish Budget. The persistence of high inflation and earnings growth has affected our forecasts in a significant way.

4.2 We expect large increases in nominal earnings to generate significant growth in income tax revenue. The projected income tax net position is large, positive and increasing from 2022-23 onwards, with stronger relative growth in income tax liabilities in Scotland than in the rest of the UK. We summarise our tax forecasts in Figure 4.1 and show the changes from our December 2022 forecasts in Figure 4.2.

Figure 4.1: Summary of tax forecasts

£ million	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Income tax	17,357	18,844	19,873	20,856	22,056	22,981
Non-Domestic Rates	3,007	3,143	3,219	3,600	3,522	3,517
Land and Buildings Transaction Tax	813	730	795	907	998	1,072
Scottish Landfill Tax	74	58	42	15	16	16
Total	21,251	22,775	23,390	25,379	26,592	27,585

Source: Scottish Fiscal Commission, Revenue Scotland (2023) Annual Report and Accounts 2022-23 – Devolved Taxes Accounts (link).
LBTT and SLfT revenues are net of repayments and exclude penalties, interest, and revenue losses.
Figures may not sum because of rounding.

Figure 4.2: Summary of changes to our tax forecasts since December 2022

£ million	2023-24	2024-25	2025-26	2026-27	2027-28
Income tax	1,547	2,211	2,504	2,609	2,619
Non-Domestic Rates	-67	63	84	195	236
Land and Buildings Transaction Tax	39	2	0	-3	4
Scottish Landfill Tax	-5	-14	-16	-1	-1
Total	1,513	2,263	2,573	2,800	2,858

Source: Scottish Fiscal Commission, Revenue Scotland (2023) Annual Report and Accounts 2022-23 – Devolved Taxes Accounts (link).
LBTT and SLfT revenues are net of repayments and exclude penalties, interest, and revenue losses.
Figures may not sum because of rounding.

4.3 We expect devolved Scottish taxes to raise £22.8 billion of revenue in 2024-25, which is £2.3 billion higher than our December 2022 forecasts. This large increase can mostly be attributed to income tax, where we saw higher than expected outturn for 2021-22 as well as higher than expected Real Time Information (RTI) data on Scottish income tax Pay As You Earn (PAYE) receipts for 2022-23 and 2023-24. As a result of our income tax forecasts there is a more positive income tax net position than in December 2022.

4.4 Since 2017-18, the Scottish Government has made income tax policy more progressive than in the rest of the UK. While increasing nominal earnings growth combined with tax thresholds that are fixed in nominal terms is driving up income tax revenues across the UK, it is happening faster in Scotland. We discuss this further in Box 4.1.

4.5 For Non-Domestic Rates (NDR) a new valuation roll was published on 1 April 2023, which we have included in this forecast. We have also costed a number of policy changes that decrease the amount of revenue we expect in 2024-25.

4.6 For total Land and Buildings Transaction Tax (LBTT), which includes residential LBTT, Additional Dwelling Supplement, and non-residential LBTT, we have revised up our forecast for 2023-24 compared to December 2022 because of higher than expected outturn data. However, from 2024-25 onwards our forecast remains broadly unchanged.

4.7 For Scottish Landfill Tax (SLfT), we have seen much lower than expected revenue in the first half of 2023-24 and so have revised down every year of our forecast. The drop happened despite modelling changes and determinant updates that increased our forecast.

Tax policy changes

4.8 We have produced cost estimates of a number of policy changes that have been introduced in the 2024-25 Scottish Budget. These are shown in Figure 4.3.

Figure 4.3: Summary of Budget 2023-24 tax policy changes

£ million	2024-25	2025-26	2026-27	2027-28	2028-29
Income tax	82	88	96	104	114
Non-Domestic Rates	-34	-36	-39	-37	-43
Total	48	52	57	66	71

Source: Scottish Fiscal Commission.
Figures may not sum because of rounding.

4.9 The Scottish Government has announced that a new advanced rate will be introduced in 2024-25. The advanced rate of 45 per cent will start at £75,000. The Scottish Government has also announced that it will be increasing the top rate by 1 per cent and it will now be 48 per cent from 2024-25. The higher rate threshold will remain frozen in 2024-25, which is in line with our baseline assumptions.

4.10 There are several NDR policy changes included in the 2024-25 Scottish Budget. The Scottish Government has frozen the Basic Property Rate (poundage), while increasing the Intermediate Property Rate and Higher Property Rate. There will also be a 100 per cent Hospitality Relief for Scottish Islands Properties, capped at £110,000 per ratepayer.

Tax forecasts and the Scottish Budget

4.11 For income tax, LBTT, and SLfT, our tax forecasts must be considered alongside the associated Block Grant Adjustments (BGAs) to understand the net effect on the funding for the Scottish Budget. Non-Domestic Rates are treated differently under the fiscal framework.[71]

4.12 The net positions show how much funding the Scottish Government is receiving from Scottish tax revenues less the BGAs. Figure 4.4 shows the net positions for income tax, LBTT and SLfT.

Figure 4.4: Tax net positions

£ million	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Income Tax								
BGA	13,639	14,768	16,530	17,432	18,125	18,960	19,877	20,693
Scottish revenue	13,724	15,309	17,357	18,844	19,873	20,856	22,056	22,981
Net Position	85	542	827	1,412	1,749	1,896	2,178	2,288
LBTT								
BGA	642	697	533	521	592	697	800	905
Scottish revenue	807	848	813	730	795	907	998	1,072
Net Position	165	151	279	209	202	211	199	167
SLfT								
BGA	102	95	82	84	76	77	77	76
Scottish revenue	125	110	74	58	42	15	16	16
Net Position	23	14	-8	-25	-34	-62	-62	-60
Total taxes								
Net position	273	707	1,099	1,596	1,917	2,044	2,315	2,394

Source: Scottish Fiscal Commission, Scottish Government.
Figures may not sum because of rounding. Shaded cells refer to outturn available at the time of publication. 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 net position

4.13 The net position for a tax is the difference between the BGA and revenues. A positive net position means a positive contribution to the budget while a negative net position reduces the budget. We are now projecting a positive income tax net position which increases the funding available to the Scottish Government. The income tax net position needs to be considered alongside wider funding information and is discussed in detail in Chapter 2.

4.14 Projections of the income tax net position are uncertain and are subject to change between forecasts. The scope for significant shifts in the net position increases the further into the future the projections go. The projected income tax net position is the product of comparing two independently produced forecasts of income tax revenues, with the OBR forecasting UK Government income tax revenues and the SFC forecasting Scottish income tax revenues. Each of these forecasts are

[71] Scottish Fiscal Commission (2021) Funding for the Scottish Budget (link).

themselves uncertain. Small variations in the forecasts can lead to a significant movement in the net position. For example, a 1 per cent movement in either the BGA or Scottish income tax forecast would shift the net position by around £200 million.

4.15 Income tax revenues were £10.9 billion in 2017-18. Primarily driven by inflation and rising earnings, revenues are forecast to rise to £23.0 billion by 2028-29, more than doubling in nominal terms. This increase in total income tax revenues means that all expected forecast updates, revisions, errors, and movements in the net position are also growing in scale. For example, a forecast revision of £200 million in 2017-18 might be considered equivalent to a revision of £400 million in 2028-29.

4.16 Overall, the income tax net position has been revised upwards and is projected to rise over time. This is the result of a combination of factors including:

- recent data showing high growth in Scottish income tax revenues
- policy divergence between Scotland and the UK driving higher revenue growth in Scotland
- high inflation boosting the net position through fiscal drag (see Box 4.1)
- high earnings growth estimates for Scotland in recent years
- our forecast of average earnings growth in Scotland from 2025-26 onwards being above the OBR's forecast for the UK

Box 4.1: Scottish tax policy, fiscal drag, inflation, and the net position

Through its policy choices since 2017-18, the Scottish Government has made the income tax system more progressive in Scotland than in the rest of the UK. For earnings above £26,561, tax rates in Scotland are higher than in the UK. For example, in 2024-25, taxpayers in Scotland will start paying the higher rate tax of 42 per cent at earnings of £43,662, compared to the rest of the UK where the higher rate is 40 per cent for earnings above £50,271.

This has two important effects before accounting for any differences in economic performance. Firstly, all else equal, the more progressive tax system in Scotland should deliver a higher level of income tax revenue per person and a positive income tax net position. Secondly, again all else equal and given current assumptions about policy baselines over our five-year forecast horizon, the more progressive system in Scotland should deliver faster growth in income tax revenue per person, and therefore an income tax net position that rises over time.

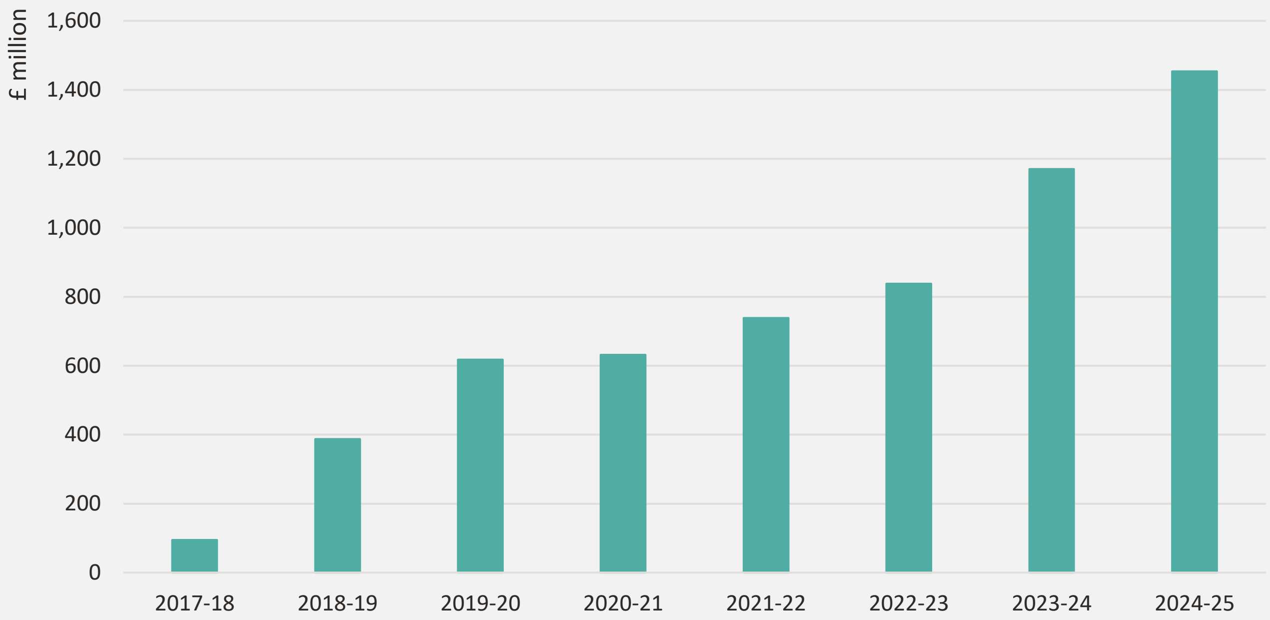
Fiscal drag happens when earnings increase faster than tax thresholds and taxpayers find themselves moving into higher tax bands. Due to high inflation this can happen without an increase in real pay. With high inflation and a number of fixed tax thresholds in both Scotland and the UK, fiscal drag is providing a boost to Scottish and UK tax revenues. Because of Scotland's more progressive system, the fiscal drag effect is greater in Scotland than in the UK.

We estimate that due to fiscal drag each 1 percentage point of earnings growth delivers around £25 million more revenue in Scotland than would be generated with UK tax policy. Based on RTI data, we estimate that nominal earnings in Scotland have risen by 12.7 per cent between 2021-22 and 2023-24, delivering a fiscal drag boost to the income tax net position of approximately £320 million in 2023-24.

Putting relative economic performance to one side, policy differences between Scotland and the UK should mean the income tax net position is both positive and rising. Figure 4.5 shows our estimate of what the income tax net position would be based solely on policy differences between Scotland and the UK.

Figure 4.5: Illustrative policy differences only income tax net position

Given policy differences, the income tax net position is positive and expected to rise over time



Description of Figure 4.5: The bar chart shows the Scottish income tax net position rising over time between 2017-18 and 2024-25.
Source: Scottish Fiscal Commission

Looking only at policy differences between Scotland and the rest of the UK, the income tax net position would be expected to increase by around £700 million between 2021-22, the latest outturn year, and 2024-25. This growth is partly driven by further policy divergences as well as the greater fiscal drag effect that now occurs in Scotland.

The income tax net position in 2024-25

4.17 Recently published data on income tax in Scotland has been higher than expected. Income tax outturn data published in July 2023 showed the income tax net position for 2021-22 was around £322 million higher than previous SFC and OBR forecasts had suggested. This outturn data features in both our and the OBR's forecasts and also contributes to a positive shift in the net position in 2024-25.

4.18 RTI data for 2022-23 and 2023-24 show Scottish income tax revenues growing more rapidly than revenues in the UK. This is driven by higher relative earnings growth and a more progressive income tax regime. Although the outturn position remains uncertain, we think RTI provides the best available evidence on near-term Scottish income tax revenues. We have increased our income tax forecast to reflect this growth in RTI income tax revenues in Scotland in 2022-23 and 2023-24. We also expect Scottish income tax revenues to outperform the UK in 2022-23 and 2023-24. Given our and the OBR's latest forecasts, we estimate that mostly data driven updates in 2022-23 and 2023-24 have added a further £346 million to the income tax net position.

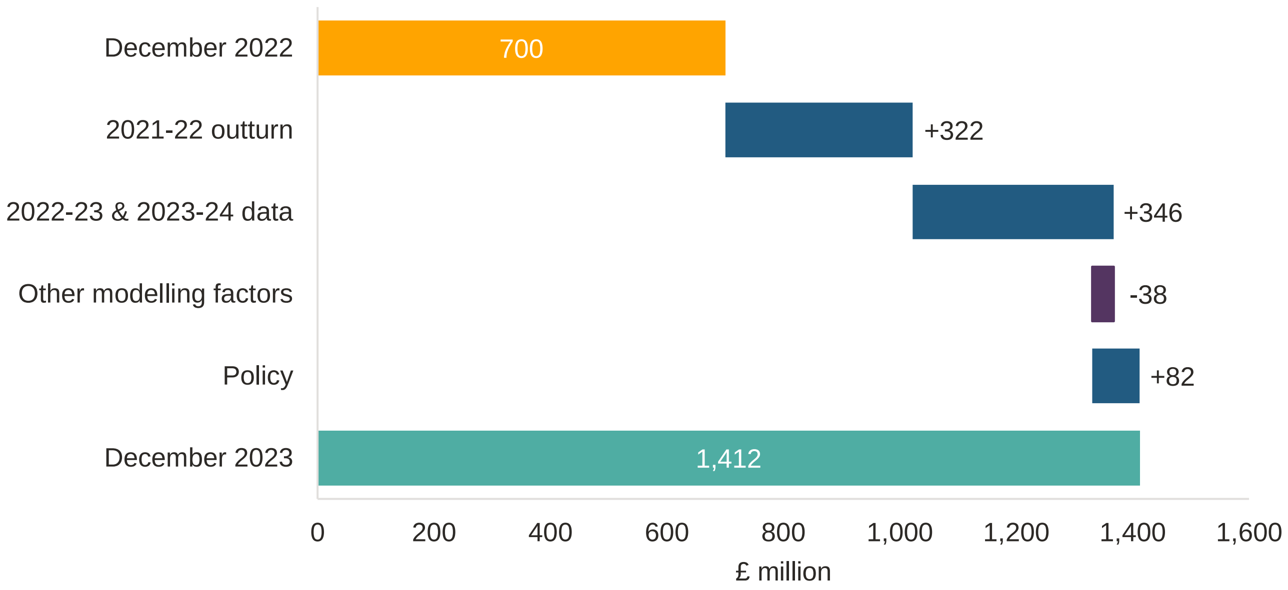
4.19 Figure 4.6 shows how different factors have contributed to changes in the estimate of the income tax net position for 2024-25. We estimate outturn data for 2021-22 and RTI data for 2022-23 and 2023-24 alone contribute an upward revision to the income tax net position in 2024-25 of £668 million. This figure of £668 million is around 3.5 per cent of Scottish income tax revenues, a relatively small shift in terms of income tax forecasts. Shifts in projections of the income tax net position of this magnitude should not be unexpected given the uncertainty around income tax revenues.

4.20 Changes in SFC and OBR modelling factors, judgements and updates have a relatively small effect, reducing the projection by £38 million.

4.21 Policy changes are expected to raise an additional £82 million and contribute to a total upwards shift in the net position of £712 million in 2024-25.

Figure 4.6: Projected income tax net position for 2024-25, latest and December 2022

Increases in projection of the income tax net position for 2024-25 are mostly driven by data



Description of Figure 4.6: The waterfall chat shows contributions to changes in the projected income tax net position for 2024-25. Most of the difference is because of data.
Source: Scottish Fiscal Commission.

4.22 Forecast revisions for 2024-25 are largely driven by new data from 2021-22 to 2023-24. We have used these data in our Scottish income tax revenue forecast and have no strong reasons to believe it is either significantly under or over-estimating Scottish tax revenues. However, there are risks and uncertainties. While the outturn data are final, some of the strength in the 2021-22 data may not be persistent. We know RTI is an imperfect predictor of the outturn data. We also have no information on what might be happening to self-assessment tax revenues in 2022-23 and 2023-24. There are similar uncertainties in the OBR's forecast of UK income tax revenues.

4.23 All of this means we may continue to see swings in projections of the income tax net position for 2024-25 until outturn figures are published. Furthermore, in a high inflation environment, the scale of movements in the net position between forecasts could be larger than usual.

The outlook for the income tax net position

4.24 Given the latest forecasts, the income tax net position is projected to continue rising from 2021-22 onwards. This section explains the drivers of this trend.

4.25 Using RTI data, we estimate earnings growing by 12.7 per cent in Scotland between 2021-22 and 2023-24, compared to 11.5 per cent in the UK. Chapter 3 discusses factors behind recent strong earnings growth in Scotland. Box 4.1 shows that even if earnings growth were the same in Scotland and the UK, the more progressive tax system in Scotland would be expected to deliver a fiscal drag boost to the income tax net position of around £320 million given earnings growth of 12.7 per cent.

4.26 However, since RTI data suggest earnings growth has actually been higher in Scotland over this period there is an additional boost to the net position. Average earnings growth and fiscal drag effects are contributing around £623 million.[72] Using this general guideline, the additional 1.2 percentage points of growth in average earnings in Scotland would add a further £305 million to the income tax net position.

4.27 A high inflation environment, stronger fiscal drag, and higher earnings growth in Scotland all have contributed to an increase in the income tax net position. Average earnings growth and fiscal drag effects are contributing around £623 million to the projected increase in the net position between 2021-22 and 2023-24.

4.28 We use RTI data with caution and have been actively highlighting issues with the data source in previous publications. Box 4.3 discusses a particular issue with recent RTI data. Despite this, we believe RTI remains the best source of information for understanding Scottish income tax revenues before outturn data become available. While the exact magnitude is uncertain, there can be a reasonable degree of confidence that the income tax net position will have moved in a positive direction in 2022-23 and 2023-24.

4.29 In 2024-25, the net position is projected to continue to rise. This is largely a continuation of the factors we have already seen in 2022-23 and 2023-24. These include the ongoing inflation that drives a higher fiscal drag effect in Scotland, slightly stronger earnings growth in Scotland, as well as further policy divergences, which are expected to raise an additional £82 million in Scotland in 2024-25.

4.30 Beyond 2024-25, the projection of the income tax net position becomes increasingly uncertain. Between 2024-25 and 2028-29, it is projected to rise by a further £876 million. Of this increase, around £600 million is explained by the more progressive Scottish income tax system. The remaining amount is largely driven by differences in the independently produced SFC and OBR earnings forecasts.

4.31 Following a period of high nominal earnings growth driven by high inflation in 2022-23 and 2023-24, we and the OBR both expect earnings growth to be close to its historical average of around 3 per cent by the end of the forecast period. However, while we expect earnings growth in Scotland to quickly align to this 3 per cent value, the OBR is anticipating a few years of UK earnings growth

[72] General guidelines for earnings growth:
a) Each 1 percentage point of earnings growth delivers £25 million more tax revenue in Scotland than if UK rates and thresholds were in place. For example, if Scotland and the UK both had exactly 4 per cent nominal earnings growth, this would generate an additional £100 million of tax revenue in Scotland. This is the result of relatively greater fiscal drag in Scotland.
b) Each 0.1 percentage points of additional earnings growth in Scotland relative to the UK delivers an additional £25 million of tax revenue. For example, if the UK had growth of 4 per cent and Scotland had growth of 4.5 per cent, then Scotland would gain an additional £125 million of tax revenue. This is simply the direct result of higher earnings growth.

closer to 2 per cent. The HM Treasury summary of UK independent forecasts shows that longer-term forecasts of UK earnings growth lie in the range from 2 to 5 per cent.[73]

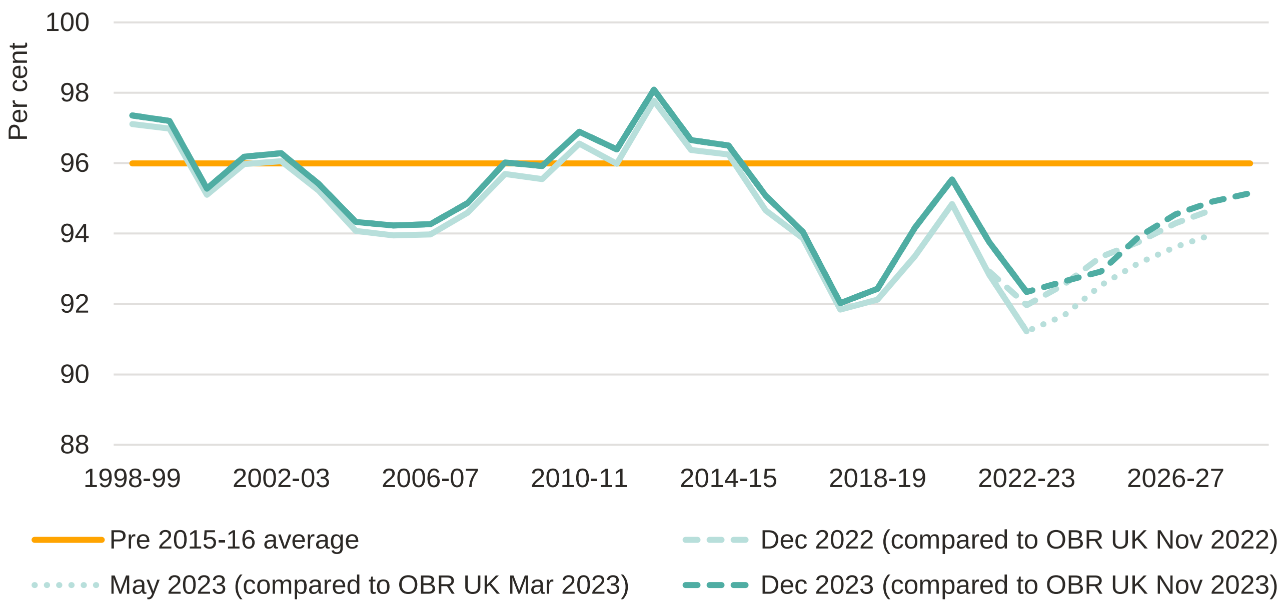
4.32 Figure 4.7 shows Scottish average earnings as a share of average UK earnings. Over much of the last decade, we have seen a gradual widening of the gap between Scottish and UK average earnings. However, the SFC and OBR average earnings forecasts suggest a period of catching up over the next five years.

4.33 It is possible that Scotland will see a period of higher earnings growth than the UK. Data and economic theory suggest that a gap in earnings can only grow so much between closely connected economies. Relatively cheaper labour in Scotland would encourage businesses to expand employment here, leading to a tighter labour market which would push the growth rate of earnings up and narrow the gap between the two economies. Scotland could now be experiencing a few years of catch-up in earnings, as illustrated in Figure 4.7, which would lead to the income tax net position increasing.

4.34 Other factors that could support higher earnings growth in Scotland compared to the UK include more activity in the oil and gas sector than expected, protracted slower growth in financial services in London, and asymmetric effects of higher interest rates across the UK or ongoing tightness in the labour market driven in part by Scotland's demographics.

Figure 4.7: Scottish nominal average earnings level relative to UK

Difference between our and the OBR's earnings forecasts results in a partial narrowing of gap



Description of Figure 4.7: Line chart of Scottish earnings level as a share of UK, recovering slightly but still below historical norms.
Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts (link), OBR – Economic and fiscal outlook (link).
Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts.

4.35 However, we are cautious in placing too much weight on the income tax net position projections which result from these independently produced earnings forecasts. This adds an additional risk factor into the Scottish Budget outlook toward the end of the forecast horizon. It is our judgement that for estimates of the income tax net position from 2025-26 onwards, there is an asymmetric

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

downside risk. If Scottish and UK earnings growth are more closely aligned than the latest SFC and OBR forecasts suggest, the income tax net position will be materially lower.

4.36 For example, if the oil and gas sector in Scotland declines more than expected, or financial services in London have a series of more positive years, then the earnings gap could be much flatter than suggested in Figure 4.7 or even continue to widen.

4.37 A comparison of ours and the OBR's forecasts suggest earnings growth in Scotland around 0.5 percentage points higher than in the UK between 2025-26 and 2028-29. Using our general guidelines on differential earnings growth and the net position, if earnings growth in Scotland is more aligned with the UK in these years, the net position would be £500 million lower in 2028-29 than currently projected. Less of an increase in the net position in the period 2022-23 to 2024-25 than currently projected would also mean a lower net position in later years.

4.38 Figure 4.8 compares the latest estimates of the income tax net position to those published in December 2022. Summarising the discussion above:

- The increase in the net position in 2021-22 is the result of outturn data.
- In addition to the 2021-22 outturn data shifting the net position up, upward revisions to the net position in 2022-23 and 2023-24 are largely data driven. Strong earnings growth, high inflation and its effects on fiscal drag and policy changes have all supported a rising income tax net position.
- This effect continues into 2024-25, with the latest policy changes further increasing the net position.
- From 2025-26 onwards, the net position continues to rise, driven partly by Scottish and UK policy divergence, and partly by differing forecasts of earnings growth by the SFC and OBR. We caution there is a downside risk to the projection of the income tax net position from 2025-26 if higher Scottish earnings growth does not materialise.

Figure 4.8: Income tax net position, latest and December 2022

£ million	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
December 2022								
Income tax net position	-256	-106	325	700	915	1,068	1,332	
December 2023 pre-measures								
Income tax net position	85	542	827	1,330	1,661	1,800	2,075	2,174
Change	342	648	502	630	746	732	743	
December 2023 post-measures								
Income tax net position	85	542	827	1,412	1,749	1,896	2,178	2,288
Change	342	648	502	712	834	828	846	

Source: Scottish Fiscal Commission.
Figures may not sum because of rounding.
Shaded cells refer to outturn available at time of publication.

Income tax reconciliations

4.39 When the Scottish Budget is set, funding from Scottish income tax for the financial year is based on our forecasts and does not change during the year. Only when outturn information on income tax revenues become available is funding brought in line with outturn and a reconciliation applied to the following Scottish Budget.

4.40 We can derive indicative estimates of future income tax reconciliations by comparing our latest forecasts and the latest forecast BGAs to those used in the Budget setting forecasts. We show outturn and indicative estimates of income tax reconciliations in Figure 4.9.

Figure 4.9: Outturn and indicative estimates of income tax reconciliations

Collection year	2021-22	2022-23	2023-24
Applies to Budget for	2024-25	2025-26	2026-27
Reconciliation (£ million)	-390	732	502

Source: Scottish Fiscal Commission.
Shaded cells refer to outturn available at time of publication.

4.41 We are currently projecting large positive reconciliations for collection years 2022-23 and 2023-24. This is a result of revising up our estimates of the income tax net position for those years following higher than expected outturn in 2021-22 and higher than expected relative earnings growth in Scotland in 2022-23 alongside policies to raise additional revenue. Comparing our and the OBR's latest forecasts indicated a large positive reconciliation for 2022-23 of £732 million. Final outturn data should be available in July 2024, with the resulting reconciliation being applied in the Scottish Budget for 2025-26.

4.42 In the forecasts underpinning the Scottish Budget for 2022-23 we and the OBR expected inflation and nominal earnings to be much lower. Figure 4.10 shows how forecasts of Scottish income tax revenues and the BGA have been updated since the 2022-23 Scottish Budget was set based on our December 2021 forecasts.

Figure 4.10: Scottish income tax revenue forecast and BGA for 2022-23

£ million	Budget setting	Latest	Total Change
Scottish income tax	13,671	15,309	1,639
BGA	-13,861	-14,768	-907
Net position	-190	542	732

Source: Scottish Fiscal Commission
Figures may not sum because of rounding.

4.43 Income tax reconciliations are effectively corrections for errors in the estimates of the income tax net position. In our January 2021 forecast we published analysis showing that reconciliations could exceed £300 million in around 27 per cent of cases. Given high inflation increasing all nominal values, this estimate would now be an underestimate of the likely uncertainty.

Income tax

4.44 Our latest forecast of the Scottish income tax is presented in Figure 4.11. Our forecast increases in all years since both our May 2023 and December 2022 forecasts. High inflation leads to higher growth in earnings. This growth is the main driver in the increases although outturn data and the impacts of UK policy announced in the UK Government's Autumn Statement also increase the forecast.

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

£ million	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Revenue	13,724	15,309	17,357	18,844	19,873	20,856	22,056	22,981

Source: Scottish Fiscal Commission, HMRC (2023) Scottish Income Tax Outturn Statistics: 2021-22 (link).
Shaded cells refer to provisional outturn available at time of publication.

Contributions to changes in income tax

4.45 Figure 4.12 shows the changes since our December 2022 forecast. Nominal earnings growth was revised up in our May 2023 forecast and has been revised up further. Inflation has decreased in recent months but remains high by comparison with pre-2019 levels. In line with the OBR, we have increased our inflation forecast in the near term and expect inflation to return to 2 per cent in the second quarter of 2025. Inflation drives up nominal wages and, combined with fiscal drag, increases income tax revenues by £622 million in 2024-25. Employment forecasts raise our forecast by £29 million in 2024-25.

4.46 The 2021-22 outturn figure of £13,724 million published in July 2023 was higher than in December 2022. We use the data to adjust up the start point of our forecast, and also to update our models with the latest Scottish taxpayer distribution. This update adds £341 million in 2022-23 but has less of an effect in the later years.

4.47 Real Time Information (RTI) on Pay As You Earn Revenues (PAYE) are data that are available for the current financial year 2023-24 and provides the latest information on growth in revenues. We discuss the collection and use of these data in Box 4.3. We have six months of data for 2023-24 and we use these data to update our estimates for 2022-23 and 2023-24 revenues. RTI data increase our forecast by an average of around £500 million over the forecast period.

4.48 The UK Government announced a package of policies that have an impact on Scottish income tax revenues. We incorporate the OBR's estimate that these policies will increase revenues by between £136 million and £267 million over the forecast period. The UK Autumn Statement confirmed the State Pension triple lock policy.[74] This means that the State Pension will rise by 8.5 per cent from April 2024, and by at least 2.5 per cent from 2025-26 onwards. This confirmation increases our forecast by £41 million in 2024-25 and an average of £68 million from 2025-26 onwards.

4.49 CPI adjustments to income tax thresholds decrease the forecast in 2022-23 and 2023-24, but increase it in later years. Gift Aid relief claimed by charities reduces the forecast by an average of £12 million per year between 2024-25 and 2027-28.

[74] The State Pension triple lock is a UK Government commitment to uprate the basic and new State Pension every year by the highest of earnings growth, inflation, or 2.5 per cent.

Figure 4.12: Change in NSND income tax forecast since December 2022

£ million	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
December 2022 forecast	13,337	14,575	15,810	16,633	17,370	18,247	19,437
May 23 Economy		-41	577	598	608	517	396
Outturn alignment	387	341	287	232	145	99	48
Economy Earnings		62	258	622	902	1,091	1,218
Economy Employment		-8	23	29	12	-1	-6
RTI / Other [1]		464	446	485	511	537	567
Threshold Uprate (CPI)				-3	-10	-15	-18
UK new policy			7	136	195	231	253
State Pension triple lock		-75	-40	41	62	67	70
HMRC Gift Aid		-7	-12	-11	-11	-12	-13
December 2023 forecast pre-measures	13,724	15,309	17,357	18,762	19,785	20,760	21,952
Policy costings				82	88	96	104
December 2023 forecast post-measures	13,724	15,309	17,357	18,844	19,873	20,856	22,056
Change since December 2022	387	735	1,547	2,211	2,504	2,609	2,619

Source: Scottish Fiscal Commission, Scottish Government, HMRC (2023) Scottish Income Tax Outturn Statistics: 2021-22 (link).
Figures may not sum because of rounding. Shaded cells refer to outturn available at time of publication.
[1] RTI / Other captures the effect of RTI and interactions with economy determinants.

Scottish Government policy

4.50 The Scottish Government has announced income tax policy changes for 2024-25:

- introducing a new advanced rate band with a threshold of £75,000 and rate of 45 per cent
- increasing the top rate of tax to 48 per cent
- the higher rate threshold is fixed at £43,662 which is in line with our baseline assumption

4.51 The advanced rate is a new tax band which begins at £75,000 and finishes at the top rate threshold of £125,140. The advanced rate of 45 per cent will be charged on income in this band. We think that there will be around 114,000 taxpayers in this band in 2024-25, with around 40,000 taxpayers in the top rate band also paying extra as a result of the introduction of the advanced rate band. The contributions of these changes are shown in Figure 4.13.

Figure 4.13: Contributions to income tax policy change

£ million	2024-25	2025-26	2026-27	2027-28	2028-29
Total policy					
Total	82	88	96	104	114
Static costing	199	215	232	251	273
Behavioural costing	-118	-127	-136	-147	-159
Advanced rate of 45 per cent from £75,000					
Total	74	80	87	95	105
Static costing	147	159	172	187	205
Behavioural costing	-73	-79	-85	-92	-100
Top rate of 48 per cent					
Total	8	8	8	9	9
Static costing	53	56	60	63	67
Behavioural costing	-45	-48	-51	-55	-59

Source: Scottish Fiscal Commission.
Figures may not sum because of rounding.

4.52 We expect this policy to raise around £82 million in 2024-25 increasing to £114 million by the end of the forecast period. Around £74 million of the increase is raised from the new advanced rate band. The change to the top rate raises around £8 million. A full breakdown of the costing is in **Annex A**.

4.53 We estimate that behavioural responses reduce the overall yield of the policy by £118 million in 2024-25. Box 4.2 has further information on our approach to modelling behavioural responses to policy changes. When we cost income tax policies, we also consider whether the policy could be economy moving. Our judgement is that these policies are not economy moving. Box 3.3 in **Chapter 3** discusses our approach to economy moving measures.

Policy baselines

4.54 The Scottish Government's announced policy is to create a new advanced rate band of 45 per cent for earnings over £75,000 in 2024-25. The Scottish Government has not provided information on its intentions for the tax threshold from 2025-26 onwards. We therefore need to make assumptions about the tax threshold from 2025-26. To be consistent with our assumptions on the higher rate and top rate thresholds, we assume the advanced rate threshold remains frozen in cash terms over the forecast period.[75] As things stand, if the Scottish Government chooses to change the advanced rate threshold in future budgets, we will treat this as a policy change.

4.55 Alongside our May 2023 publication we launched a consultation on how we approach policy baselines.[76] We intend to report our conclusions from the consultation in early 2024, ahead of our next forecast. Depending on the conclusions reached, we may change our approach to policy baselines for our next forecasts. This would change our assumptions about tax thresholds in the

[75] We assume the top rate threshold remains at the top of the personal allowance taper, currently £125,140. UK Government policy is for the personal allowance to remain fixed until 2027-28, and then increase by inflation in 2028-29. Increases in the personal allowance also increase the personal allowance taper range. We therefore assume the top rate threshold increases by inflation in 2028-29.

[76] Scottish Fiscal Commission (2023) Consultation to our approach to policy baselines (link).

later years of our forecast, as well as the basis on which we consider Scottish Government policy changes.

Effect of policy divergence on individual tax liabilities

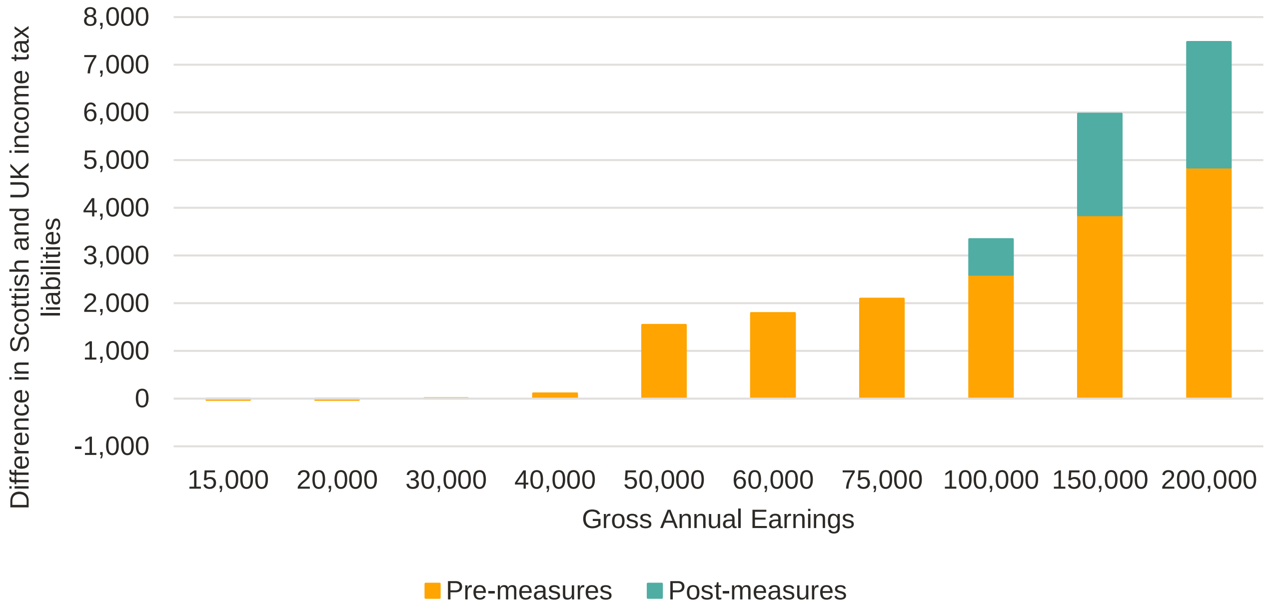
4.56 Since income tax devolution in 2016, income tax rates and thresholds have diverged in Scotland from the rest of the UK. Figure 4.14 shows differences in individual income tax liabilities between the Scottish and UK income tax systems. The values are illustrative as tax circumstances will vary from individual to individual.

4.57 In 2024-25, taxpayers earning over £28,850 will pay more income tax in Scotland than in the rest of the UK. Our income tax forecasts suggest median earnings for Scottish taxpayers in 2024-25 of £28,200. As Figure 4.13 shows, policy divergences between Scotland and the UK, primarily affect those earning over £50,000, broadly the top decile of earners.

4.58 The latest policies only affect individuals earnings over £75,000. For individuals earning £150,000 per year, they may now pay around £6,000 a year more in income tax in Scotland than in the UK.

Figure 4.14: Difference in individual income tax liabilities in Scotland and the UK

Taxpayers with earnings over £28,850 in Scotland pay more income tax than they would in the UK



Description of Figure 4.14: The stacked bar chart shows differences in income tax liabilities in Scotland compared to the UK before and after the policy measures introduced in 2024-25. The chart shows earnings ranging from £15,000 up to £200,000. Source: Scottish Fiscal Commission.

Box 4.2: Behavioural responses to policy change

Increased income tax rates may lead to some taxpayers changing their behaviour, for example, increasing contributions into a pension scheme, reducing their working hours, leaving Scotland or more aggressively pursuing tax avoidance or evasion. We capture these effects in our forecasts through our behavioural modelling. Figure 4.13 shows our estimate of the total behavioural response to the income tax policy introduced at this Budget.

Income tax behavioural responses are highly uncertain. We base our behavioural responses on the available international literature, which we discussed in a paper in 2018.[77] Behavioural responses are highly context dependent, and will vary between countries and over time depending on factors like the structure of the tax system or the strength of enforcement from tax collection bodies. Estimates of past behavioural responses in the USA or Switzerland, two highly studied systems with more localised income tax rates, may not translate well to Scotland. To an extent, the behavioural response in Scotland to current policy changes is unknowable.

It is important to keep the likely scale of behavioural responses in mind. We estimate behavioural responses to the policy changes announced at this budget to be £118 million in 2024-25, less than 1 per cent of total revenues in this year. Even if we under or over-estimated the behavioural response by 50 per cent, this would not pose a significant risk to total Scottish income tax revenues compared to uncertainty around earnings growth. There is only meaningful risk to Scottish income tax revenues if we have very dramatically underestimated behavioural responses. While a remote possibility, we think the evidence so far is reassuring that our behavioural modelling is reasonable.

We cannot directly observe behavioural responses to policy changes even when outturn data are available. Instead, various econometric approaches must be used to estimate behavioural responses, and these estimates are very uncertain. So far, we have found the outturn data reassuring and believe our behavioural modelling is not radically underestimating behaviour. One particular concern had been that higher tax rates at the top end of the income distribution would lead to the highest earners in Scotland moving to elsewhere in the UK. If this were occurring at scale, it would be a notable feature of the outturn data. From the outturn data so far, we do not think such a large scale response is occurring.

In December 2021 HMRC published a study looking at the behavioural response to the income tax policy changes introduced in Scotland in 2018-19.[78] The study was limited by the fact it could only look at the impact of a single set of policy changes on a single year's data, making it hard to draw firm conclusions from its results. However, the results were broadly in line with our current behavioural modelling, and nothing in the study suggested that a significantly larger behavioural response was occurring.

Our judgement is that the behavioural modelling we use, drawing from UK and international literature, is reasonable and central, though we caution there will always be some uncertainty. We will continue to closely monitor the emerging data and evidence in this area. In the coming years, as HMRC produces more data on Scottish income tax revenues, we are planning to do additional research into Scottish behavioural responses.

Our behavioural modelling focusses on the impact over our five-year forecast horizon of individual budget policy changes. Over a longer time horizon, it is possible that the policy divergence between Scotland and the UK will have additional effects beyond those we model, particularly when considering the cumulative policy divergence since 2017-18. As we discuss in Box 3.3 on economy moving measures, we think the Scottish Government needs to appraise, monitor and evaluate the potential long-term effects of policy changes.

Forecast uncertainty

4.59 As we discussed in our August 2023 forecast evaluation report, Self Assessment (SA) income tax grew by 20.1 per cent in 2021-22 and comprised 13 per cent of non-savings, non-dividends (NSND)

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77 Scottish Fiscal Commission (2018) How we forecast behavioural responses to income tax policy (link).

78 HM Revenue and Customs (2021) Estimating Scottish taxpayer behaviour in response to Scottish Income Tax changes introduced in 2018 to 2019 (link).

income tax revenues in Scotland. This raise was partially driven by rises in income at the top end of the distribution. We have no data on SA liabilities for 2022-23 and 2023-24. Given historical volatility of SA, this is a significant source of uncertainty for our forecast.

4.60 Our income tax forecast depends on our forecasts for earnings and to lesser extent for employment and inflation. The uncertainty about inflation and its impact on earnings lead to uncertainty in our forecasts for income tax. The uncertainties in our economy forecast are discussed in **Chapter 3**.

4.61 Our forecasts also depend on how we judge that income tax thresholds will change in future years. We currently assume that the Scottish higher rate, the advanced rate, and top rate thresholds are frozen over the forecast horizon and that other thresholds rise in line with CPI inflation. If the thresholds are different to what we assume, income tax revenues may be higher or lower.

4.62 We use a range of data to make our forecast. The use of RTI is discussed in Box 4.3. We also use the Survey of Public Incomes Public Use Tape (SPI PUT) in our simulation model. These data are comprehensive but subject to considerable lag. We are currently using data from 2019-20 which we have aligned with the latest outturn data which are for 2021-22 as the basis for our taxpayer distribution. This introduces uncertainty as we may not fully capture changes in the distribution in response to economic developments or policy changes since 2021-22.

4.63 We have incorporated costings from the OBR on the impact of UK policies from the UK Government's Autumn Statement. These costings are uncertain and may increase or decrease our forecasts. We also use incorporations modelling from HMRC which quantifies behavioural changes in the way that owner-managers arrange their tax affairs. There is no way to measure the income tax liabilities that would have been paid so the impacts of these behavioural changes are uncertain.

Box 4.3: Use of Real Time Information (RTI) in our forecasts

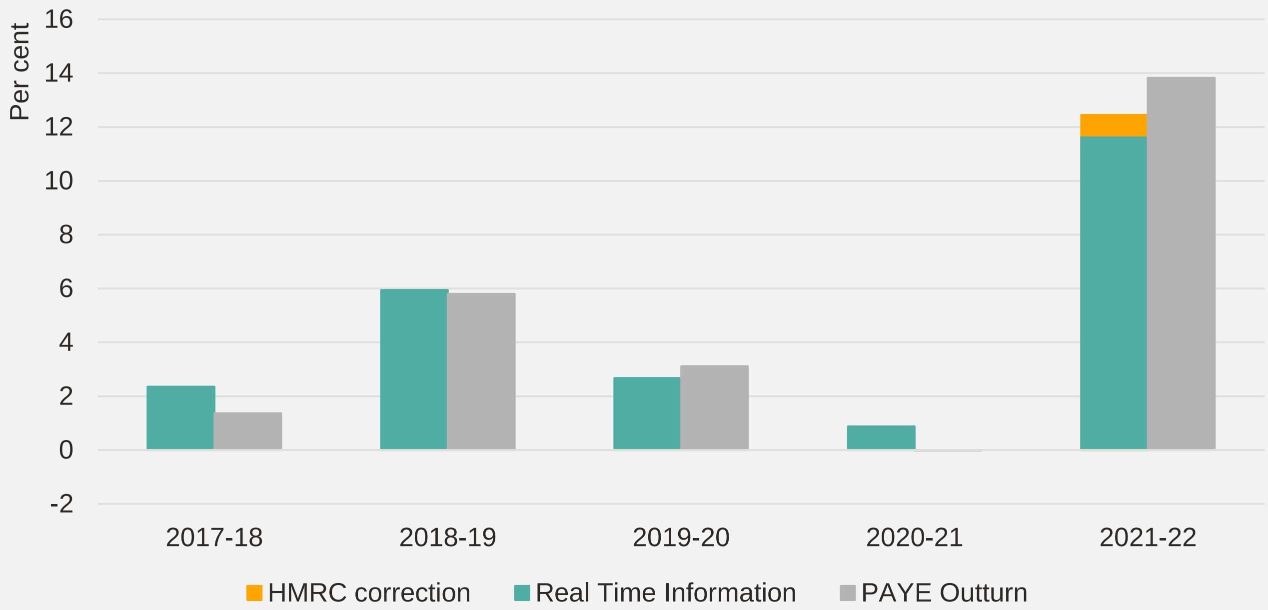
In our 2023 Forecast Evaluation Report we discussed our May 2023 estimate of income tax liabilities in 2021-22 which was our final estimate before outturn was published in July 2023.[79] [80] Our estimate was £337 million lower than outturn and this error was largely explained by higher than expected income tax revenues at the top end of the income distribution and an underestimate of PAYE growth using RTI. In this box we focus on the underestimate of PAYE growth because variations in the income tax distribution are always difficult to predict, particularly during a year that was still affected by the COVID-19 pandemic.

HMRC has looked into why RTI growth was lower than PAYE growth and concluded this was partly because of a one-off error that inflated the Scottish (and Welsh) figures for 2020-21. When compared to RTI data for 2021-22, this resulted in a lower growth rate than if the correct figures were used (a difference of around 0.8 percentage points). HMRC estimated what the growth rate would have been had the correct figures been used and this is shown in Figure 4.15. HMRC assured us this was a one-off error and does not affect future years RTI data and that there is no impact on the Scottish income tax outturn data.

[79] Scottish Fiscal Commission (2023) Forecast Evaluation Report – August 2023 (link).
[80] HM Revenue and Customs (2023) Scottish Income Tax Outturn Statistics: 2021 to 2022 (link).

Figure 4.15: Growth rate of Scottish income tax RTI and Scottish income tax PAYE outturn

RTI has some predictive power but is not a perfect indicator of eventual outturn figures



Description of Figure 4.15: The bar chart illustrates the growth rate of RTI against the growth rate for PAYE outturn between 2017-18 and 2021-22. The growth rates look similar but do not match. 2021-22 Includes a HMRC correction.
Source: Scottish Fiscal Commission, HMRC (2023) Scottish Income Tax Outturn Statistics: 2021-22 (link).

While we appreciate that errors can happen when dealing with complicated data series such as RTI, this error has indirectly affected our forecasts used in setting the 2022-23 and 2023-24 Scottish Budgets. We estimate that this error explains around £100 million of the error in our May 2023 estimate of 2021-22 Scottish income tax revenue. This is because the growth rates we applied to our 2021-22 estimates that preceded those Budget years were too low.

HMRC provide us with in-year RTI data on a monthly basis, and while Figure 4.15 shows RTI is not a perfect predictor of outturn, it is a much more timely and frequent than the published outturn data. For example, our December 2023 forecast is based on outturn data from 2021-22 but the latest RTI data we have received are from September 2023, which gives us information on PAYE liabilities for the first half of 2023-24.

We rely upon high quality data and information to inform the judgements and assumptions in our forecasts. RTI remains the best indicator we have for what has happened to income tax liabilities in the two years prior to the budget setting year and so is crucial in making our forecast judgements and providing context for the decisions on the Scottish Budget. We continue to work with HMRC to better anticipate and interpret future issues with RTI.

Comparison to OBR

4.64 The OBR produces tables that allow comparisons between the key figures used in their November 2023 Autumn Statement forecasts and our forecasts.[81] In Figure 4.16 we compare

[81] OBR (2023) Economic and fiscal outlook – November 20203 (link).

growth rates and in Figure 4.17 we show the changes in the level of income tax revenues and economic determinants for the forecast period indexed to 2021-22.

4.65 The OBR's forecasts for NSND income tax in England and Northern Ireland are used to calculate the Scottish Government's BGAs. These BGAs are used alongside our forecasts for Scottish income tax and affect the funding for the Scottish Government in any given year. When the outturn is available a process of reconciliation is carried out. Historical reconciliations are shown in Figure 4.9 alongside our indicative projections of reconciliations to be applied from 2024-25.

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

Source	Per cent change	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Income tax revenue	OBR[1]	8.7	12.4	5.9	4.4	5.0	5.3	4.5
Income tax revenue	SFC[2]	11.5	13.4	8.6	5.5	4.9	5.8	4.2
Employment	OBR	1.0	0.1	0.2	0.7	1.0	0.9	0.7
Employment	SFC	2.1	0.5	-0.1	0.1	0.2	0.3	0.3
Average nominal earnings	OBR	6.1	6.2	3.3	1.9	2.2	2.6	2.8
Average nominal earnings	SFC	4.5	6.6	3.6	3.0	2.9	3.0	3.1
Total nominal earnings	OBR[3]	7.0	6.4	3.6	2.5	3.0	3.3	3.3
Total nominal earnings	SFC	7.0	7.3	3.5	3.0	3.1	3.3	3.3

Source: Scottish Fiscal Commission, OBR (2023) Economic and fiscal outlook – November 2023 (link).
Shaded cells refer to outturn available at time of publication.
[1] UK NSND excluding SIT and Welsh rate of income tax (WRIT).
[2] Scottish NSND income tax.
[3] This refers to OBR's wages and salaries series.

Figure 4.17: Comparison of SFC and OBR economic determinants (cumulative growth paths)

Source	Index 2021-22 = 100	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Income tax revenue	OBR [1]	109	122	129	135	142	150	156
Income tax revenue	SFC [2]	112	126	137	145	152	161	167
Employment	OBR	101	101	101	102	103	104	105
Employment	SFC	102	103	102	103	103	103	103
Average nominal earnings	OBR	106	113	116	119	121	124	128
Average nominal earnings	SFC	104	111	115	119	122	126	130
Total nominal earnings	OBR [3]	107	114	118	121	125	129	133
Total nominal earnings	SFC	107	115	119	122	126	130	135

Source: Scottish Fiscal Commission, OBR (2023) Economic and fiscal outlook – November 2023 (link).
Shaded cells refer to outturn available at time of publication.
[1] UK NSND excluding SIT and WRIT.
[2] Scottish NSND income tax.
[3] This refers to the OBR's wages and salaries series.

4.66 The OBR's growth rates of income tax revenue are lower than ours in all years except 2028-29.[82] This is a reflection of differing employment and earnings forecasts as well as different policy environment for income tax. Employment growth is higher in our forecast in 2022-23 and 2023-24 but lower than the OBR's figures from 2024-25 onwards. For average nominal earnings our growth rates are higher than OBR figures from 2023-24. For total nominal earnings our figures are higher or level in every year measured with the exception of 2024-25.

Non-Domestic Rates

Forecast

4.67 Non-Domestic Rates (NDR), also known as business rates, are payable by the occupiers of non-domestic properties. Our latest forecast is shown in Figure 4.18. For 2024-25 the tax is forecast to raise £3,143 million.

Figure 4.18: Forecast revenue for Non-Domestic Rates

£ million	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Revenue	2,792	3,007	3,143	3,219	3,600	3,522	3,517

Source: Scottish Fiscal Commission.
Shaded cells refer to provisional outturn available at time of publication.

Changes since December 2022

4.68 Figure 4.19 shows how our forecast has changed since December 2022.

Figure 4.19: Change in Non-Domestic Rates forecast since December 2022

£ million	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
December 2022	2,818	3,075	3,080	3,135	3,405	3,286
Assumption change	0	26	72	50	13	28
Methodology change	34	-85	-12	-59	-5	5
Data updates	-60	4	30	20	27	25
Policy recosting		-13	10	9	6	7
Inflation update		0	-4	100	192	209
December 2023 pre-measures	2,792	3,007	3,176	3,255	3,639	3,559
Policy costing			-34	-36	-39	-37
December 2023 post-measures	2,792	3,007	3,143	3,219	3,600	3,522
Change since December 2022	-26	-67	63	84	195	236

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022 (link).
Shaded cells refer to outturn available at time of publication. Figures may not sum because of rounding.

[82] OBR growth rates of UK NSND income tax excluding SIT and WRIT, SFC growth rates of SIT.

Inflation update

4.69 In our baseline we assume that the Scottish Government sets the Basic Property Rate (BPR), also known as poundage, in line with inflation. The BPR is the rate that non-domestic properties with a rateable value up to and including £51,000 are liable to pay. As the inflation rate applied to BPR at the start of 2024-25 is slightly lower than we had forecast, the projected BPR for 2024-25 is 0.1 pence lower than in December 2022. This lowers our baseline forecast of NDR revenue in 2024-25 by £4 million.

4.70 We assume in our baseline forecast that the Intermediate Property Rate (IPR), which applies to non-domestic properties with a rateable value between £51,001 and £100,000, will be 1.3 pence above the BPR. We also assume that the Higher Property Rate (HPR), which applies to non-domestic properties with a rateable value above £100,000, will be 2.6 pence above the BPR. We refer to the BPR as making up part of both the IPR and HPR.

4.71 Our forecast for inflation from 2025-26 onwards is higher than in December 2022, with inflation expected to persist longer than previously expected. Compared to December 2022, this has increased our projected baseline NDR revenue before policy decisions are included by £100 million in 2025-26 and by £209 million in 2027-28.

Assumption and methodology changes

4.72 We reduced our assumption on appeals losses from 6.0 per cent to 5.5 per cent in response to information on the current state of losses in the 2017 revaluation appeals cycle. This increased our forecast by £72 million in 2024-25.

4.73 A new two-stage appeals system was introduced on 1 April 2023.[83] We have included it in our modelling and described the new system in detail in our December 2021 and May 2022 publications.[84] The effects of the new system on appeals losses are not yet known as we only have data for the first three months. Therefore, our modelling of appeals losses may change as appeals data become available.

Data updates

4.74 We have incorporated several data updates in our forecast. These include:

- audited returns of councils' NDR revenue and reliefs for 2021-22
- notified returns of councils' NDR revenue and reliefs for 2022-23
- mid-year estimates of councils' NDR revenue and reliefs claimed for 2023-24
- revaluation appeals data up to the end of June 2023

4.75 Together, these updates increase our forecast of 2024-25 revenues by £30 million. Within this, the mid-year estimates of NDR revenues and reliefs for 2023-24 have decreased our forecast by £71 million in 2024-25, compared to our December 2022 forecast. We have adjusted the mid-year estimates for Small Business Bonus Scheme (SBBS), Small Business Transitional Reliefs (SBTR), Parks Transitional Relief, and appeals losses to improve our modelling of likely final values. Appeals loss estimates historically increase after mid-year estimate provision.

[83] Scottish Government (2023) Non-domestic rates revaluation 2023 in Scotland (link).
[84] Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts (link).

Budget 2024-25 Policy Changes

4.76 Budget policy costings are provided in Figure 4.20. Our forecast includes five new policies introduced in the 2024-25 Scottish Budget.

- freezing the 2024-25 Basic Property Rate (BPR) (poundage) at 49.8 pence
- increasing the 2024-25 Intermediate Property Rate (IPR) to 54.5 pence
- increasing the 2024-25 Higher Property Rate (HPR) to 55.9 pence
- Hospitality Relief for Scottish Islands Properties of 100 per cent, capped at £110,000 per ratepayer
- Enterprise Areas relief phased out over the next two years

Figure 4.20: NDR policy costings

£ million	2024-25	2025-26	2026-27	2027-28	2028-29
Baseline	3,176	3,255	3,639	3,559	3,560
Basic Property Rate	-199	-199	-213	-205	-208
Intermediate Property Rate	22	21	23	22	22
Higher Property Rate	149	145	155	149	147
Policy recostings	-2	-4	-5	-4	-4
Scottish Islands Hospitality relief	-4				
Enterprise area costing	0	1	1	1	1
Forecast with policy changes	3,143	3,219	3,600	3,522	3,517
Difference	-34	-36	-39	-37	-43

Source: Scottish Fiscal Commission.
Figures may not sum because of rounding.

4.77 The BPR will be set at 49.8 pence for 2024-25, which is frozen at the same rate as in 2023-24. This is below the inflation-linked BPR of 53.1 pence used in our baseline forecast and so will decrease our forecast of NDR revenue in 2024-25 by £199 million. The BPR was frozen in 2023-24 and in several previous years as we show in Figure 4.21.

4.78 The IPR will be set at 54.5 pence in 2024-25, which is 4.7 pence above BPR. The HPR will be set at 55.9 pence in 2024-25, which is 6.1 pence above BPR. We forecast the increases to these rates compared to what they would have been had they remained at 1.3 pence and 2.6 pence above the new BPR rate, respectively. We estimate the combined effect of the IPR and HPR changes increase NDR revenue in 2024-25 by £171 million, which offsets some of the reduction in revenue from the BPR decrease. There is more detail in Annex A on how we produced these costings alongside commentary on the Scottish Government's updated presentation of these costings.

4.79 The Scottish Government will introduce a 100 per cent relief for Scottish Islands properties in the hospitality sector. We estimate this relief to cost £4 million in 2024-25. The Enterprise Areas relief will be phased out over the next two years, which has a minimal effect on the forecast.

4.80 There are changes to Renewables District Heating relief and Telecommunications Mast relief which we have not included in our policy costings. The cost of these policies is below our materiality threshold and we provide further detail in Annex C.

Forecast uncertainty

4.81 Our assumption around the total rateable value lost from revaluation appeals for the 2023 cycle onwards may change once more data from the new appeals system become available. We do not have enough data to suggest how the changes to the appeals system will affect the lodging or processing of appeals, or the total number of appeals made successfully.

4.82 We have assumed that appeals losses will happen earlier than in the previous cycle because of the shorter cycles and changes in appeals processing. We may revise our assumptions as more data become available. This assumption does not affect our forecast of total NDR revenue, but does shift revenue between years.

4.83 The BPR is the rate that non-domestic properties with a rateable value up to and including £51,000 are liable to pay. Prior to the policy decision by the Scottish Government to freeze the BPR, we assumed BPR would increase in line with inflation, taking into account increases in rateable value after revaluation and assumed appeal losses over the next revaluation cycle.

4.84 From 2025-26, we use forecasts of CPI inflation to estimate the BPR, with changes in inflation contributing to changes in BPR. Although we have used a projected BPR based on CPI in our forecast for 2025-26 onwards, the Scottish Government may choose to set the BPR at a different value. We also assume that IPR and HPR will remain at 4.7 pence and 6.1 pence above the BPR from 2025-26 onwards, though the Scottish Government may also choose to set these at a different value.

4.85 In Figure 4.21 we compare our projected BPR based on CPI inflation forecasts against actual BPR set by the Scottish Government in previous budgets. The BPR has rarely increased exactly in line with inflation, either in revaluation years or otherwise. If the Scottish Government chooses to set BPR at a lower level than we have estimated for 2025-26 onwards, as it has done in previous years, then revenue will be lower than we have forecast.

Figure 4.21: Estimated and actual Basic Property Rates in past years

BPR (pence)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Estimated	49.6	49.8	50.1	50.5	54.8	53.1
Actual	49.0	49.8	49.0	49.8	49.8	49.8

Source: Scottish Fiscal Commission.
BPR estimated based on September CPI inflation in the previous year.

Land and Buildings Transaction Tax

Forecast

4.86 Land and Buildings Transaction Tax (LBTT) is payable on transactions of residential and non-residential properties and land. Rates and bands are detailed on Revenue Scotland's website.[85] Additional Dwelling Supplement (ADS) is a surcharge of 6 per cent on purchases of additional

[85] Revenue Scotland – Land and Buildings Transaction Tax (link).

residential properties. We are forecasting £730 million in LBTT revenue in 2024-25. Figure 4.22 shows our five-year forecast.

4.87 For total LBTT, we have revised up our forecast for 2023-24 compared to December 2022 because of higher than expected outturn data in the first half of the year. For 2024-25 onwards, our forecast remains broadly unchanged, but this masks changes to our modelling methodology as well as our price and transactions forecasts that largely offset each other.

Figure 4.22: Forecast revenue for Land and Buildings Transaction Tax

£ million	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Residential [1]	628	610	521	575	675	754	813
Non-residential	220	203	209	220	232	245	259
Total LBTT	848	813	730	795	907	998	1,072

Source: Scottish Fiscal Commission, Revenue Scotland (2023) Annual Report and Accounts 2022-23 – Devolved Taxes Accounts (link).
Figures may not sum because of rounding. Shaded cells refer to outturn available at time of publication. LBTT revenue is net of repayments and excludes penalties, interest, and revenue losses.
[1] Including Additional Dwelling Supplement (ADS).

Residential LBTT

4.88 In December 2022, we forecast that house prices would rise in 2022-23 by 6.0 per cent and transactions fall by 10.8 per cent. Outturn data from Registers of Scotland show that house prices rose by 7.1 per cent and transactions fell by 7.9 per cent.[86] Figure 4.23 shows how residential LBTT outturn (including ADS) for 2022-23 was £7 million (1 per cent) higher than we had forecast in December 2022.

4.89 Outturn from Revenue Scotland covering the first half of 2023-24 has the volume of residential transactions down 10.6 per cent relative to the same time in 2022-23.[87]

4.90 Relative to both our December 2022 and subsequent May 2023 forecasts, we have revised up our forecasts for house price growth. While we are still expecting a fall in house prices, we are not expecting as large a fall as we did in previous forecasts. Whereas our December 2022 forecast had prices falling a cumulative 5 per cent by 2024-25 compared to 2022-23 levels, our latest forecast has prices falling 4 per cent over that period. By 2028-29, we are forecasting that prices will be 8 per cent above their 2022-23 levels.

4.91 A similar situation can be seen in our forecast for transactions growth in the short-term. Whereas December 2022 had the volume of residential sales falling a cumulative 13 per cent by 2024-25 relative to 2022-23 levels, our latest forecast has sales falling by 12 per cent over that period. However, over the medium-term, we are now forecasting a more muted recovery, with the volume of transactions in 2027-28 expected to sit 11 per cent above 2022-23 levels, rather than the 13 per cent we were forecasting in December 2022.

4.92 The combined effect of the forecasts for price and transactions growth implies that residential LBTT revenues fall by 17 per cent from their 2022-23 high of almost £628 million to £521 million in 2024-25.

[86] Registers of Scotland (2023) Quarterly House Price Statistics: 2023-24 Q2 (July to September 2023) (link).
[87] Revenue Scotland (2023) 2023-24 Q2 LBTT data (link).

4.93 As part of this forecast, we have changed how we adjust our forecasts based on in-year outturn data. In past forecasts, adjustments for differences between our forecast and in-year outturn were applied to the current year and rolled forward into later years in the expectation that in-year performance would continue to future years. In this forecast we have only made the adjustment for the current financial year to reflect our current outlook on the residential property market. This is reflected in Figure 4.23 where our model updates have a negative effect on the forecast for years 2024-25 onward.

4.94 We have recosted the Scottish Government's policy of extending the timelines applying to ADS, including the repayment timeline, from 18 months to 36 months.[88] We had previously assumed that this would be implemented in Autumn 2023; we now assume this policy will be implemented in spring 2024. This recosting is presented in full in **Annex B**.

Figure 4.23: Change in total residential LBTT (including ADS) forecast since December 2022

£ million	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
December 2022	621	557	510	566	669	740
Model updates	0	0	-48	-53	-63	-70
Data updates	7	40	37	41	48	54
Prices	0	8	11	18	44	59
Transactions	0	5	8	-2	-23	-24
ADS window extension	0	0	4	5	-1	-6
December 2023 forecast	628	610	521	575	675	754
Changes since December 2022	7	53	11	8	6	14

Source: Scottish Fiscal Commission, Revenue Scotland (2023) Annual Report and Accounts 2022-23 – Devolved Taxes Accounts (link).
Figures may not sum because of rounding. Shaded cells refer to outturn available at time of publication. LBTT revenue is net of repayments and excludes penalties, interest, and revenue losses.

House prices

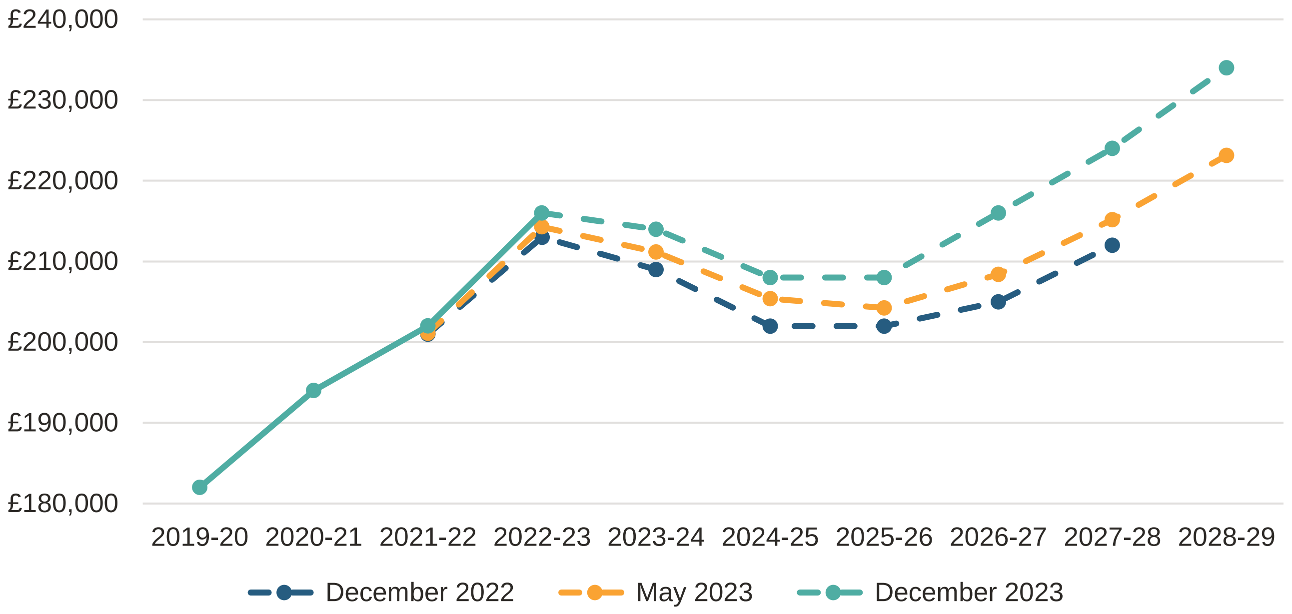
4.95 We do not anticipate house prices returning to their 2022-23 nominal levels until 2026-27, one year earlier than we had forecast in May 2023. Our December 2022 forecast for house prices did not see prices returning to their 2022-23 nominal levels within the forecast horizon.

4.96 As part of our May 2023 forecast, we had expected annual house price growth to first enter negative territory in 2023-24 Q1 at negative 1.0 per cent. However, outturn that quarter was in fact positive 2.7 per cent, higher than was expected.[89] Likewise, we had expected a negative annual price growth of 2.5 per cent in 2023-24 Q2. Outturn was again higher than expected at negative 1.1 per cent, but this marked the first time prices had declined on an annual basis since 2018-19 Q4.

[88] Scottish Government (2023) Land and Buildings Transaction Tax – Additional Dwelling Supplement legislation changes: consultation (link).
[89] Registers of Scotland (2023) Quarterly House Price Statistics: 2023-24 Q2 (July to September 2023) (link).

Figure 4.24: Average house price, Scotland, 2019-20 to 2028-29

Nominal house prices forecast to fall and not recover until 2026-27



Description of Figure 4.24: Line chart showing nominal house price outturn alongside our latest forecast and previous two forecasts from May 2023 and December 2022. Our latest forecasts are above our previous two, with nominal house prices forecast to fall from £216,000 in 2022-23 to £208,000 by 2024-25 and not recover to their 2022-23 levels again until 2026-27.
Source: Scottish Fiscal Commission, Registers of Scotland (2023) Quarterly House Price Statistics: 2023-24 Q2 (July to September 2023) (link).
Solid lines refer to outturn available at time of publication and dashed lines refer to forecast. Note that the vertical axis begins at £180,000.

Property transactions

4.97 Similar to our forecasts from December 2022 and May 2023, we do not anticipate housing transactions returning to their 2022-23 level until 2026-27.

4.98 For ADS, we have outturn data from Revenue Scotland which show that transactions where ADS was declared due are down by 16.0 per cent so far this financial year relative to the same time last year.

Comparison to OBR

4.99 The OBR published its latest house price and transactions forecasts for the UK in its November 2023 Economic and fiscal outlook.[90] Similar to our forecasts, the OBR expects house prices to fall until 2024-25, rising thereafter. However, it also expects prices to experience a larger cumulative fall of 6 per cent by 2024-25, whereas we are forecasting a shallower cumulative drop of 4 per cent.

4.100 For transactions, the OBR is forecasting a steeper drop relative to 2022-23 levels, with transactions expected to decline a cumulative 23 per cent by 2024-25. This compares with our forecast of a cumulative drop of 12 per cent.

4.101 In line with a judgement made in our prior two forecasts, we assume the Scottish housing market will remain more resilient than the wider UK market as a result of the average stock of outstanding debt per household relative to income being lower in Scotland compared to the rest of the UK, and

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

average house prices being lower in Scotland compared to the rest of the UK. As a result, we assume homeowners and prospective homebuyers will be less vulnerable to higher mortgage payments in Scotland in the face of higher interest rates.

Figure 4.25: Comparison of SFC and OBR house price and transactions growth rates

Per cent	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
House prices SFC	7.1	-0.7	-3.2	0.4	3.6	3.9	4.2
House prices OBR	8.6	-0.9	-4.9	1.2	3.6	3.7	3.7
Transactions SFC	-7.9	-9.4	-2.9	7.7	11.4	5.3	0.3
Transactions OBR	-12.3	-20.0	-3.4	8.4	11.2	11.2	9.3

Source: Scottish Fiscal Commission, OBR (2023) Economic and fiscal outlook – November 2023 (link).
Shaded cells refer to outturn available at time of publication. Note that the OBR and SFC forecast are not necessarily directly comparable as they use different data sources.

Non-residential LBTT

4.102 Figure 4.26 shows how our non-residential LBTT forecast has changed since December 2022. Outturn for 2022-23 was £9 million (4 per cent) lower than we had forecast in December 2022.

4.103 Relative to the first half of 2022-23, the volume of non-residential conveyance transactions is down 7.7 per cent, with some evidence suggesting the distribution of conveyance transactions has become more concentrated toward the lower-end of the market.[91] [92] As a result, LBTT revenue from non-residential conveyances in the first two quarters of 2023-24 is down 18.3 per cent relative to the same time last year.

4.104 Although the volume of conveyances is down this financial year compared to last, statistics from Revenue Scotland show 5.1 per cent growth in the volume of leases relative to the same period last year (April to October).[93] However, as the majority of non-residential LBTT revenues have historically been driven by conveyances, this positive growth in leases is unable to compensate for the fall in conveyances.

4.105 In line with the model update for the residential sector, we have adjusted how we account for in-year outturn data in the non-residential sector.

Figure 4.26: Change in non-residential LBTT forecast since December 2022

£ million	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
December 2022	229	216	218	228	241	255
Model updates	0	0	11	11	11	12
Data updates	-9	-6	-1	-6	-12	-18
Prices	0	3	7	10	12	12
Transactions	0	-11	-26	-23	-20	-16
December 2023 forecast	220	203	209	220	232	245
Change since December 2022	-9	-14	-9	-8	-9	-10

Source: Scottish Fiscal Commission, Revenue Scotland (2023) Annual Report and Accounts 2022-23 – Devolved Taxes Accounts (link).
Figures may not sum because of rounding. Shaded cells refer to outturn available at time of publication. LBTT revenue is net of repayments and excludes penalties, interest, and revenue losses.

[91] Revenue Scotland (2022) LBTT Forecasting – November 2022 (link).
[92] Revenue Scotland (2023) LBTT Forecasting Data – June 2023 - SFC (link).
[93] Revenue Scotland (2023) LBTT Statistics - 01-04-15-31-10-23.xlsx (link).

Forecast uncertainty

4.106 Larger than expected rises in mortgage rates are a source of downside risk for both forecasts. Additional sources of downside risk include negative shocks to both the economy and living standards.

4.107 Non-residential LBTT revenue has historically been heavily influenced by a small number of transactions in the upper-end of the market. In 2022-23, 2 per cent of non-residential conveyance transactions accounted for more than 50 per cent of LBTT revenue from non-residential conveyances.[94] The upper-end of the market thus presents a material source of risk for revenues in future years.

Scottish Landfill Tax

Forecast

4.108 Scottish Landfill Tax (SLfT) is a tax levied on certain types of waste sent to landfill and is paid by operators of landfill sites. We forecast SLfT will raise £58 million in 2024-25. We expect revenues to fall after the Biodegradable Municipal Waste (BMW) ban is introduced at the end of 2025. Figure 4.27 provides our forecast for SLfT.

Figure 4.27: Forecast revenue for Scottish Landfill Tax

£ million	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Revenue	110	74	58	42	15	16	16

Source: Scottish Fiscal Commission, Revenue Scotland (2023) Annual Report and Accounts 2022-23- Devolved Taxes Accounts (link).
Shaded cells refer to provisional outturn available at the time of publication. SLfT revenue is net of repayments, excludes penalties and interest and also excludes revenue losses.

Changes since December 2022

4.109 Outturn data from 2023-24 indicate that the amount of waste sent to landfill is substantially lower than expected. This reduces revenue in each year of our forecast.

4.110 This decline is partially offset by modelling changes. These were introduced as we were underestimating waste liable to SLfT. We have also postponed an assumption that some ash from incineration will begin to be landfilled this year and altered the way that GDP and Household Consumption affect our forecast. Overall, these changes have increased our forecast until 2025-26.

4.111 We now expect slightly less incineration to be available in 2023-24. This has changed revenue expectations for 2024-25 despite no new incineration capacity being scheduled. This is because it slightly changes our expectations of waste produced in Scotland for that year. We also expect new Energy from Waste (EfW) sites to start operating earlier in 2025 reducing revenue for 2025-26 as more waste is diverted from landfill to incineration.

4.112 In predicting future levels of waste we use our GDP and Household Consumption forecast. We also use the Retail Price Index (RPI) forecasts to predict future SLfT rates. These determinants have caused our forecast to rise slightly in 2023-24 and 2025-26.

[94] Revenue Scotland (2023) LBTT Forecasting Data – May 2023 – SFC (link).

Figure 4.28: Change in Scottish Landfill Tax forecast since December 2022

£ million	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
December 2022	101	79	72	58	16	16
Model changes	12	13	9	7	0	0
Determinants	0	2	0	2	0	0
Incineration	0	2	-1	-7	0	0
Outturn	-3	-22	-22	-18	-1	-1
December 2023	110	74	58	42	15	16
Change since December 2022	9	-5	-14	-16	-1	-1

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022 (link), Revenue Scotland (2023) Annual Report and Accounts 2022-23 – Devolved Taxes Accounts (link). Figures may not sum because of rounding. Shaded cells refer to provisional outturn available at the time of publication. SLfT revenue is net of repayments, excludes penalties and interest and also excludes revenue losses.

Forecast Uncertainty

4.113 The main area of uncertainty in our SLfT forecast is the amount of waste landfilled in Scotland. In 2021-22 and 2022-23 there was much more waste being landfilled than we have observed in the most recent outturn data. If the amount of waste sent to landfill changes substantially this will affect SLfT revenues and the accuracy of our forecast.

4.114 There is uncertainty associated with the BMW ban. We assume that waste liable to the BMW ban will be mostly burned in new EfW facilities. This requires significantly more incineration capacity by the time of the ban. If the operational timelines of these facilities change our forecast will have to be adjusted. This is a particular uncertainty for 2025-26 due to the BMW ban coming into force on the last day of 2025. However, our current view is that there will be sufficient incinerator capacity available when the ban comes into force.

4.115 There is also waste composition uncertainty. Waste composition can affect incineration capacity and will be the deciding factor of what can legally be landfilled after the BMW ban takes effect.

Chapter 5
Social security

Overview

5.1 In this chapter we present our forecast of devolved social security spending, the changes in the forecast since the 2023-24 Scottish Budget, and the effect of these changes on the 2024-25 Scottish Budget.

5.2 We forecast that spending on social security will increase from £6.3 billion in 2024-25 to £8.0 billion in 2028-29. One factor driving this increase is higher spending on disability payments. This arises in part because of a UK-wide increase in the demand for disability payments increasing the number of people receiving disability payments. In part too because of the policy and operational changes to disability payments introduced by the Scottish Government.

5.3 Inflation is another key factor driving the increase in spending over time. Most of the payment rates are increased by inflation each year, and in our forecasts those payment rates are uprated to reflect our latest inflation forecast.

5.4 Since the 2023-24 Scottish Budget was published in December 2022, our forecast for social security spending in 2024-25 has increased by £120 million. The increase reflects increased demand for disability payments across the UK, and more successful applications than anticipated for Child Disability Payment (CDP). These upward pressures are partly offset by a lower number of people receiving carer payments than we expected and refinements to some of our costings.

Figure 5.1: Change in social security spending forecast since December 2022

£ million	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
December 2022	4,187	5,244	6,163	6,554	6,903	7,267	
December 2023	4,193	5,299	6,283	6,861	7,253	7,616	7,999
Change since December 2022	6	55	120	307	350	349	

Source: Scottish Fiscal Commission, Social Security Scotland, Scottish Government.
Figures may not sum because of rounding. Shaded cells refer to outturn available at time of publication.

5.5 In this chapter we present the spending on social security payments alongside the funding the Scottish Government receives from the UK Government through the associated Block Grant Adjustments (BGAs). This is to demonstrate the net effect of social security devolution on the Scottish Budget.[95]

5.6 Figure 5.2 presents a summary of our social security forecasts. This contains the audited 2022-23 outturn spending, and the forecast for the current year and for the next five years for each payment.

[95] BGAs are not ring-fenced and can therefore be used to fund any element of the Scottish Budget.

Figure 5.2: Social Security spending forecast

£ million	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Adult Disability Payment [1]	2,027	2,677	3,226	3,616	3,895	4,178	4,496
Best Start Foods	13	14	18	20	20	20	20
Best Start Grant	21	22	21	21	21	21	21
Carer's Allowance Supplement	44	48	55	62	68	71	74
Carer Support Payment [2]	314	359	412	473	519	543	564
Child Disability Payment [3]	292	378	450	505	552	598	642
Child Winter Heating Payment	6	7	9	9	10	11	11
Discretionary Housing Payments	81	82	90	97	103	109	115
Employability Services [4]	24	21	25	25	25	25	25
Employment Injury Assistance [5]	78	84	87	87	87	86	83
Funeral Support Payment	10	13	12	13	13	13	14
Pension Age Disability Payment [6]	554	660	755	824	861	897	918
Pension Age Winter Heating Payment [7]			180	184	185	184	187
Scottish Adult Disability Living Allowance [8]	446	444	420	384	344	307	272
Scottish Child Payment	213	427	457	475	486	489	492
Scottish Welfare Fund	38	36	36	36	36	36	36
Self-Isolation Support Grant	8						
Severe Disablement Allowance	6	6	5	5	4	3	3
Winter Heating Payment	20	22	24	25	24	24	24
Total spending	4,193	5,299	6,283	6,861	7,253	7,616	7,999

Source: Scottish Fiscal Commission, Social Security Scotland, Scottish Government.
Figures may not sum because of rounding. Shaded cells refer to outturn available at time of publication.
[1] Adult Disability Payment has replaced Personal Independence Payment. Figures include spending on Personal Independence Payment until case transfer is complete.
[2] Carer Support Payment will replace Carer's Allowance. Figures include spending on Carer's Allowance until case transfer is complete and Carer's Additional Person Payment which will be introduced after case transfer is complete.
[3] Child Disability Payment spending includes spending on the UK Government Disability Living Allowance for children, while recipients are transferred to the new payment.
[4] Employability Services is an indicative forecast and includes spending on Fair Start Scotland service and a similar level of provision for the client group, who are currently supported by Fair Start Scotland from 2024-25, as part of No One Left Behind.
[5] Employment Injury Assistance is an indicative forecast and includes our estimate of the change in the baseline Industrial Injuries Disablement Scheme and changes arising from the introduction of Employment Injury Assistance.
[6] Pension Age Disability Payment replaces Attendance Allowance. Figures include spending on Attendance Allowance until case transfer is complete.
[7] Pension Age Winter Heating Payment replaces Winter Fuel Payment in winter 2024.
[8] Scottish Adult Disability Living Allowance is an indicative forecast and includes our estimate of Disability Living Allowance Adult and changes arising from the assumed introduction of Scottish Adult Disability Living Allowance.

Changes since December 2022

5.7 Our forecasts have been updated to incorporate recent outturn data and our revised assumptions and judgments on future spending. Figure 5.3 shows the changes in forecast spending broken down by its components since our December 2022 forecast.

Figure 5.3: Change in total social security spending forecast since December 2022

£ million	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
December 2022	4,187	5,244	6,163	6,554	6,903	7,267
Higher inflation forecast			-7	194	307	351
Disability payments – Higher demand	3	72	128	114	63	19
Adult Disability Payment – Caseload	4	4	-11	-25	-39	-57
Terminal illness transition	-8	-29	-27	-12	-3	0
Child Disability Payment – Additional applications	10	40	47	47	48	50
Carer payments – Lower proportion of carers	0	-32	-37	-43	-45	-47
Scottish Government – Policy changes			-3	-4	5	5
Other changes	-3	0	30	37	13	28
December 2023	4,193	5,299	6,283	6,861	7,253	7,616
Change since December 2022	6	55	120	307	350	349

Source: Scottish Fiscal Commission, Social Security Scotland, Scottish Government.
Figures may not sum because of rounding. Shaded cells refer to outturn available at time of publication.

Higher inflation

5.8 Most of the payments are uprated each year by inflation. Changes in the inflation outturn and forecast have a direct and proportional effect on our main forecasts. A one percentage point increase in the inflation assumption increases their payment rates and our spending forecast by around 1 per cent.

5.9 In April 2024, the Scottish Government will increase payment rates using the ONS September 2023 outturn CPI of 6.7 per cent.[96] This was slightly lower than the 6.9 per cent uprating that we assumed last December and decreases our forecast by £7 million in 2024-25.

5.10 For the subsequent years, our inflation forecast matches the OBR's forecast published in November 2023, which, overall, is higher than previously assumed.[97] Figure 5.4 shows the compounding effect of higher uprating each year.[98] This increases spending by £194 million in 2025-26 and £351 million in 2027-28.

[96] ONS (2023) Consumer price inflation, UK: September 2023 (link).

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

[98] The effect of inflation compounds year on year. As presented in Figure 5.4, the compounding effect of inflation is 10.2 per cent in 2025-26, relative to 2023-24. This is higher than simply adding the CPI outturn in 2024-24 (6.7 per cent) and the CPI forecast in 2025-26 (3.3 per cent). While the difference may seem small over two years, the compounding effect of inflation increases over a longer period.

Figure 5.4: Uprating assumptions

Per cent	2024-25	2025-26	2026-27	2027-28	2028-29
December 2022	6.9	0.0	0.0	0.9	1.8
December 2023	6.7	3.3	1.6	1.4	1.8
Compounding effect of uprating relative to 2023-24					
December 2022	6.9	6.9	6.9	7.9	9.8
December 2023	6.7	10.2	12.0	13.6	15.6

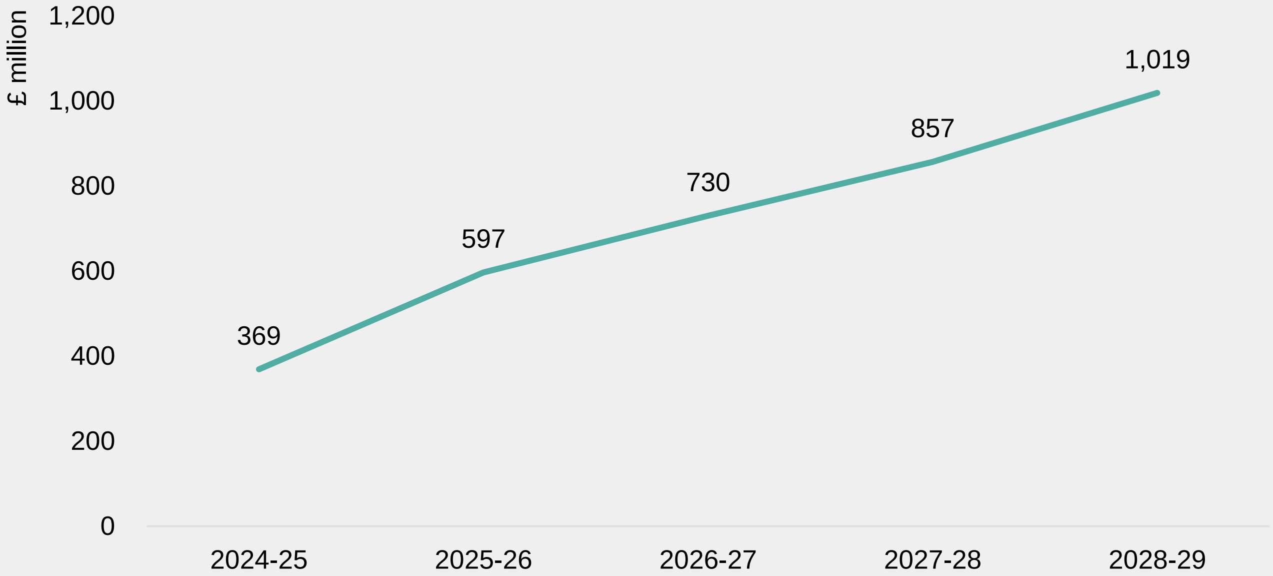
Source: Scottish Fiscal Commission.
Shaded cells refer to outturn available at time of publication.

Box 5.1: Effect of inflation on spending and funding

We forecast social security spending to rise from £5.3 billion in 2023-24 to £8.0 billion in 2028-29, an increase of £2.7 billion. Isolating the effect of uprating payments by inflation shows an increase in spending of £369 million for 2024-25 compared to 2023-24. The compounding effect of uprating by inflation each year is an overall increase of over £1 billion by 2028-29, relative to 2023-24.

Figure 5.5: Effect of inflation-led uprating on spending relative to 2023-24

Compounding effect of inflation raises spending by £1 billion by 2028-29



Description of Figure 5.5: Line chart showing the compounding effect of inflation in isolation compared to 2023-24. Inflation increases spending by £369 million in 2024-25, increasing to £1,019 million by 2028-29.
Source: Scottish Fiscal Commission.

We estimate that approximately 85 per cent of this increase in spending is matched by proportional increase in the funding received by the Scottish Government through the BGAs, as UK Government spending on equivalent payments in England and Wales is also expected to increase with inflation. Of the estimated £1,019 million that the Scottish Government will spend on social security because of inflation-led uprating, £851 million will be matched by corresponding increases in the BGAs.

This analysis excludes the uprating to the 2024-25 payment rates for Best Start Food, the three Best Start Grants payments, Child Winter Heating Payment, and Winter Heating Payment. We treat the £5 million increase in spending on these payments as a policy change as the Scottish Government does not have a statutory duty to uprate them, and our baseline policy assumption is that they remain frozen for future years.

Disability Payment – Higher demand

5.11 In December 2022, we noted that there had been months of record high inflows and applications for disability payments across the UK. We introduced a UK-wide demand assumption to reflect these higher trends which increased our disability payment forecast. The OBR incorporated similar increases in their forecasts for disability payments in England and Wales.

5.12 We agreed with the OBR that this increase in demand could be due to a range of possible explanations such as the long-term increase in mental health related cases, the NHS waiting lists, and the cost of living crisis, which together could exacerbate existing health conditions as well as increase the likelihood of people applying for disability payments.

5.13 The high volume of applications has continued and we have revised our assumption, further increasing our Adult Disability Payment (ADP), Child Disability Payment (CDP) and Pension Age Disability Payment (PADP) forecasts. Our assessment of the explanation for the increase in the ADP demand has also developed and we now allocate more weight to the role of the cost of living crisis. Therefore, in the future, as the cost of living pressures ease and real household income levels return to pre-pandemic levels, some of the additional demand for disability payments is expected to ease. We expect the current level of over 6,000 approved applications per month will fall and stabilise at 4,500 application per month by 2026; this is still higher than the pre-pandemic levels as current health trends still show a persistent increase in the number of people with limiting long-term health condition.

Adult Disability Payment – Caseload

5.14 Adult Disability Payment (ADP) replaced Personal Independence Payment (PIP) in Scotland. Prior to this the Department for Work and Pensions (DWP) introduced PIP in 2013, replacing Disability Living Allowance (DLA). Our ADP forecast comprises three main groups of clients: people who were in receipt of DLA and were migrated and reassessed into PIP by DWP, people who applied directly to DWP for PIP, and people who have successfully applied to Social Security Scotland for ADP. Clients in the first two groups have or will be transferred from PIP to ADP.

5.15 Since our December 2022 forecasts, we have adjusted the exit rate and payment rates of the clients who directly applied to PIP which increases our forecast. We have also increased the exit rate of the groups of clients previously reassessed from DLA to PIP reducing our forecast. The combined effect of these changes reduces our ADP forecast by £57 million in 2027-28.

Special Rules for Terminal Illness

5.16 Based on data published by Social Security Scotland we have revised our assumption on the number of people qualifying for ADP and Pension Age Disability Payment (PADP) under the new Special Rules for Terminal Illness (SRTI).[99] While there has been an increase in the number of people receiving ADP under SRTI, the rate of growth has been slower than we previously forecast. Therefore, we have adjusted our ADP and PADP profiles to reflect a slower transition to our previous forecast. These changes reduce our forecast by £27 million in 2024-25.

5.17 We appreciate Social Security Scotland's efforts to continue developing its statistical publications. We will continue to review our assumptions as more data become available, and the emerging

[99] Social Security Scotland (2023) Adult Disability Payment: high level statistics to 31 July 2023 (link).

trends become clear. Further detail can be found in our evaluation of the ADP assumptions at the end of this chapter.

Child Disability Payment – Additional applications

5.18 Our CDP forecast is informed by the changes in the volume of successful applications for payments for disabled children across the UK and in Scotland. At both Scotland and UK level we have observed higher levels of successful applications than previously forecast. This has led to an increase in our forecast of the number of children that will receive CDP.

5.19 Despite the higher than expected levels of successful applications the payment amount clients are receiving is lower than we previously forecast. A person can receive a combination of mobility and care rates and we forecast the average payment that a client in CDP will receive. Approved applications receiving high value award combinations has been higher than we expected, but this has been offset by an even greater proportion of applications receiving lower value award combinations than we expected. This results in a decrease in the average payment award.

5.20 Our current forecast reflects a higher number of approved applications to align with the latest data in the short term, though we expect the number of applications will return to a lower level in the medium term. We assume the high level of approved applications with a lower average payment award is a temporary effect and is the result of clients who may have previously been narrowly unsuccessful at a DWP assessment process or were discouraged to apply for DLA but are now willing to apply for CDP. We forecast that these effects will increase our forecast by around £50 million from 2024-25 onwards.

Carer Payments – Lower proportion of carers

5.21 Our forecast for carer payments is based on the number of people receiving disability payments as to be eligible to receive a carer payment, a carer must provide regular and substantial unpaid care for a person in receipt of specific types and rates of disability payments. Our spending forecast reflects an observed decrease in the proportion of people receiving a disability payment with a carer receiving a carer payment.

5.22 We have also observed a sudden drop in the proportion of disabled children with a qualifying carer. Our analysis suggests that multiple factors have contributed to that decrease, the most relevant being the recent rise in the number of children receiving the lower rates of CDP, the lag between a disability application and the respective carer application being approved and potentially the longer processing times for disability payments. We expect that these factors will have a short-term effect in reducing the qualifying benefit proportion for children before it stabilises from 2027-28 onwards.

5.23 Taken together these factors reduce our forecast for carer payments by £25 million in 2024-25 and by £39 million in 2027-28.

Policy changes

5.24 In September 2023, we presented an updated costing for Carer Support Payment (CSP) which reflected the change of the national launch from spring 2024 to October 2024 and the extension of the pilot from November 2023 to October 2024.[100] The later introduction of CSP nationally, as well as the phased approach for the pilot, lead to a lower expenditure forecast in the first two years of the

[100] Scottish Fiscal Commission (2023) Supplementary Costing – Carer Support Payment – September 2023 (link).

payment. Compared to our costing in our May 2023 forecast, the total expenditure for CSP is lower by £9 million in 2024-25 and by £10 million in 2025-26.

5.25 The Scottish Government has informed us that the 2024-25 payment rates for Best Start Food, the three Best Start Grants payments, Child Winter Heating Payment and Winter Heating Payment will all increase with inflation rather than remain constant. The combined uprating of these payments increases our forecast by £5 million in 2024-25.

5.26 In previous forecasts, we included indicative costings for Pension Age Disability Payment and Pension Age Winter Heating Payment. These were initially produced to support the Scottish Government multi-year Resource Spending Review in May 2022.[101] As these payments will be introduced in the 2024-25 Budget year, we have now included a formal costing for these payments in **Annex A**. These payments were already part of our December 2022 forecast, so any changes in their spending forecast are not described as a policy change.

Other changes

5.27 Since our December 2022 publication, our models have been updated with further outturn data and adjusted to improve the accuracy of the forecast. In this section, we report on the combined effect of data updates and changes in assumptions that, in isolation, have a small effect on our forecast.

5.28 Since December 2022, our forecast of the number of children receiving Scottish Child Payment has been reduced slightly in the short term because of lower estimates of the number of children eligible but is marginally higher from 2026-27 as we now assume a higher take-up rate.

5.29 We estimate that the number of children currently eligible is nearly 370,000 and will fall towards 350,000 over the next five years. We now forecast the Scottish Child Payment caseload to peak at over 330,000 in 2026-27, with the take-up rate exceeding 90 per cent, and then the caseload starts to fall, as the dominant effect will be that the total number of children in Scotland is falling.

5.30 There is only a small change compared to our December 2022 forecasts. We expect 17,000 more children to receive Scottish Child Payment than in our May 2023 forecast, as recent data suggest that a higher level of take-up was achieved over the summer.

5.31 We have increased our Child Winter Heating Payment forecast as the latest data show more people receiving this payment than we have previously forecast.

5.32 In our current forecast we have considered the effect of various policy changes announced in the UK Autumn Statement which affect devolved social security spending.[102] Forecasting these changes is highly uncertain, but we make the judgment that they will broadly offset each other. For example, while the increase in the Local Housing Allowance may have a small upward effect on Scottish Child Payment eligibility we expect these changes to be offset by National Insurance cuts and the changes to the Work Capability Assessment.

5.33 We have modelled a small increase in spending on Discretionary Housing Payments benefit cap mitigation due to the increase in Local Housing Allowance rates. This increases our Discretionary Housing Payment forecast by £0.6 million from 2024-25 onwards.

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[101] Scottish Government (2022) Resource Spending Review 2022 – May 2022 (link).
[102] HM Treasury (2023) Autumn Statement 2023 (link).

Figure 5.6: Change in social security spending forecast since December 2022, by payment

£ million	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
December 2022	4,187	5,244	6,163	6,554	6,903	7,267
December 2023	4,193	5,299	6,283	6,861	7,253	7,616
Change since December 2022, of which:	6	55	120	307	350	349
Adult Disability Payment [1]	-20	-12	8	103	100	62
Best Start Foods	0	-3	-2	1	1	1
Best Start Grant	0	2	2	2	2	2
Carer's Allowance Supplement	0	-3	-3	-3	-2	-3
Carer Support Payment [2]	2	-13	-25	-25	-30	-39
Child Disability Payment [3]	24	51	76	109	135	171
Child Winter Heating Payment	1	2	4	4	5	5
Discretionary Housing Payments	-3	-2	-1	3	4	5
Employability Services [4]	0	-4	0	0	0	0
Employment Injury Assistance [5]	-1	0	-1	2	5	5
Funeral Support Payment	-2	1	0	0	0	0
Pension Age Disability Payment [6]	14	46	71	85	91	96
Pension Age Winter Heating Payment [7]			0	-1	-1	-1
Scottish Adult Disability Living Allowance [8]	6	6	3	13	15	13
Scottish Child Payment	-13	-15	-12	13	25	32
Scottish Welfare Fund	3	0	0	0	0	0
Self-Isolation Support Grant	-1					
Severe Disablement Allowance	0	0	0	0	0	0
Winter Heating Payment	-2	-2	1	1	1	0

Source: Scottish Fiscal Commission, Social Security Scotland, Scottish Government.
Figures may not sum because of rounding. Shaded cells refer to outturn available at time of publication.
[1] Adult Disability Payment has replaced Personal Independence Payment. Figures include spending on Personal Independence Payment until case transfer is complete.
[2] Carer Support Payment will replace Carer's Allowance. Figures include spending on Carer's Allowance until case transfer is complete and Carer's Additional Person Payment which will be introduced after case transfer is complete.
[3] Child Disability Payment spending includes spending on the UK Government Disability Living Allowance for children, while recipients are transferred to the new payment.
[4] Employability Services is an indicative forecast and includes spending on Fair Start Scotland service and a similar level of provision for the client group, who are currently supported by Fair Start Scotland from 2024-25, as part of No One Left Behind.
[5] Employment Injury Assistance is an indicative forecast and includes our estimate of the change in the baseline Industrial Injuries Disablement Scheme and changes arising from the introduction of Employment Injury Assistance.
[6] Pension Age Disability Payment replaces Attendance Allowance. Figures include spending on Attendance Allowance until case transfer is complete.
[7] Pension Age Winter Heating Payment replaces Winter Fuel Payment in winter 2024.
[8] Scottish Adult Disability Living Allowance is an indicative forecast and includes our estimate of Disability Living Allowance Adult and changes arising from the assumed introduction of Scottish Adult Disability Living Allowance.

Funding related to social security

5.34 The Scottish Government receives funding through Block Grant Adjustments (BGAs) from the UK Government for most of the devolved social security spending. BGAs are based on the spending in England and Wales on the equivalent payments. For these devolved payments, any additional spending that results from Scottish Government changes to policy or delivery is not covered by the BGAs and must be met from the overall Scottish Budget.

5.35 The Scottish Government has implemented operational changes to improve the experience of people applying for its payments and with the aim of maximising the take-up. The Scottish Government has also introduced policy changes, such as an extension of terminal illness rules and the introduction of light touch award reviews for the disability payments. The effect of these changes is to increase spending above the level of the BGA funding received. We estimate that spending on social security payments with a BGA will be 11 per cent higher than the corresponding funding received through the BGAs in 2028-29.

5.36 Figure 5.7 shows the difference between the BGA funding estimate and our spending forecast on the corresponding Scottish payments. Differences in the net position need to be interpreted with caution. The net position is calculated from our forecast of devolved social security spending and the social security BGAs which are informed by the OBR forecast of spending in England and Wales. Thus, the net position is sensitive to changes in both sets of forecasts.

5.37 The net position mainly reflects the effects of changes to policy and operational delivery for devolved payments compared to the DWP payments they have replaced. The negative net position is forecast to increase each year with the difference between spending and funding widening from £225 million in 2023-24 to £694 million in 2028-29.

5.38 Since December 2022, the forecast social security net position in 2027-28 has narrowed from £775 million to £590 million. The narrowing of the net position can be explained partly by changes in the OBR's modelling of the DLA to PIP case transfer which increases their forecast and subsequently the BGAs and partly by a decrease in our forecast of spending on ADP.

Figure 5.7: Comparison of social security spending forecast and BGAs

£ million	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Block Grant Adjustment [1]	4,405	5,191	5,625	5,931	6,231	6,497
Spending on social security payments with BGAs [2]	4,630	5,559	6,103	6,471	6,821	7,191
Social security net position (BGA less spending), of which:	-225	-368	-478	-540	-590	-694
Attendance Allowance	-17	-30	-58	-77	-97	-87
Carer's Allowance	-6	-22	-57	-85	-91	-105
Cold Weather Payment	-17	-19	-19	-19	-19	-19
Disability Living Allowance	-2	7	20	29	37	22
Industrial Injuries Disablement Scheme	-1	-2	-3	-6	-7	-7
Personal Independence Payment	-183	-300	-358	-379	-409	-491
Severe Disablement Allowance	0	0	0	0	0	-1
Winter Fuel Payment	0	-2	-3	-4	-4	-6

Source: Scottish Fiscal Commission, Social Security Scotland, Scottish Government.
Figures may not sum because of rounding. Shaded cells refer to outturn available at time of publication.
[1] The latest BGA estimates are based on the OBR's November 2023 Economic and fiscal outlook (link).
[2] Our forecasts of social security spending reflect spending in Scotland on the current payments and additional spending arising from the Scottish Government's policy changes, including our indicative forecasts of future policy commitments.

5.39 Figure 5.8 presents the difference in spending and funding received by the Scottish Government, including payments without BGA funding, once the remaining social security payments are included spending is much higher than the social security BGAs. This reflects the Scottish Government's intention to implement a more person-centred social security system in Scotland and the introduction of new payments.

5.40 The Scottish Government has introduced new payments which are only available in Scotland and consequently for which no BGA funding is available. These include Scottish Child Payment, Carer's Allowance Supplement and Child Winter Heating Payment. The spending on these payments is forecast to increase to £694 million by 2028-29.

5.41 There is a group of Scottish Government payments that replaced UK Government payments which do not have a BGA. When these payments were first devolved, the Scottish Government received additional Block Grant funding through Machinery of Government transfers from the UK Government for these payments. However, the funding has now been included in the wider Block Grant and it is not possible to attribute funding amounts for those payments.

Figure 5.8: Social security spending above BGAs

£ million	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Social security net position [1]	-225	-368	-478	-540	-590	-694
Spending on payments without BGAs, of which:						
New social security payments [2]	-566	-614	-646	-669	-682	-694
Other social security payments [3]	-103	-110	-112	-113	-113	-113
Social security spending above BGAs [4]	-894	-1,092	-1,236	-1,322	-1,384	-1,502

Source: Scottish Fiscal Commission

Figures may not sum because of rounding.

[1] Social security net position is the difference between funding the Scottish Government receives for social security through the Block Grant Adjustments and spending on the corresponding payments. This covers the disability payments, carer payments, winter heating payments and employment injury assistance. Detailed information can be found in Figure 5.7.

[2] New social security payments include Scottish Child Payment, Carer's Allowance Supplement, Child Winter Heating Payment, Best Start Grant Early Learning Payment, and Best Start Grant School Age Payment. We also include spending through Discretionary Housing Payments on bedroom tax mitigation and the extra costs of the new commitment to mitigating Benefit Cap deductions.

[3] Other social security payments devolved through the general Block Grant and therefore included in the Barnett formula are Sure Start Maternity Grant (replaced by Best Start Grant Pregnancy and Baby payment), Funeral Payments (replaced by Funeral Support Payment), Employability Services (replaced by Fair Start Scotland), elements of the social fund (replaced by Scottish Welfare Fund), Healthy Start Vouchers (replaced by Best Start Foods), and Discretionary Housing Payments (DHPs). In our December 2018 forecasts, we presented Machinery of Government transfers for DHPs, Employability Services, Best Start Grant and Funeral Support Payment totalling around £40 million in 2019-20. This funding is now part of the overall Block Grant, and it is not possible to provide an updated estimate.

[4] The total level of social security spending above the social security Block Grant Adjustments which the Scottish Government must allocate for as part of the Budget setting process.

Adult Disability Payment assumptions

5.42 In August 2021, we produced our first forecast for Adult Disability Payment (ADP).[103] ADP replaced Personal Independence Payment (PIP) nationally in Scotland from August 2022.

5.43 While the eligibility criteria and payment rates of ADP are aligned with PIP, there are differences in the processes for applying, award reviews, and appeals. Clients are offered support when applying for ADP and during the application process a wider range of supporting information is considered. We think these changes will lead to more successful applications for ADP than there would have been for PIP, meaning more people who are entitled to the benefit will receive the payment. When existing awards are reviewed there is a process called light touch reviews which we expect could lead to people continuing to receive ADP for longer than they would have received PIP. There are also changes to policy introduced with ADP such as the new Short-Term Assistance and the changes to the special rules for terminal illness.

5.44 Our initial costing in 2021 was based on evidence from the introduction of previous measures and information from Scottish Government officials on how the payment would operate. Inevitably our initial costing and early forecasts were heavily judgement based. We have been reviewing these assumptions as more information on the payment became available and as the UK-wide disability prevalence has changed. In previous forecasts since August 2021, we reviewed some of our initial assumptions to better reflect the policy changes and aligned them to the latest trends.

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

5.45 Figure 5.7 shows that spending on ADP is estimated to be £183 million more than the BGA funding associated with PIP in 2023-24, with the gap rising to £491 million in 2028-29. These figures illustrate the large effect of the changes made with ADP relative to PIP.

5.46 As more ADP outturn data from Social Security Scotland becomes available, we have been able to evaluate some of the judgements in our ADP forecast. At this stage, we have evaluated the following three elements:

- **Approved applications**. This covers our assumptions on the initial spike in the number of applications, the higher long-term number of applications, and their higher success rate. Combined these assumptions mean that we forecast more people will receive ADP than would have received PIP.
- **Average payment award for approved applications**. We assume an increase of the average payment award for the new applications compared to PIP.
- **Change in the definition of terminal illness**. Our assumption is an increase in the number of eligible people and take-up for the Special Rules for the Terminal Illness (SRTI) caseload because of the change in definition of terminal illness.

5.47 We are unable to validate the assumptions on award length and the outcome of the light touch reviews as there have only been a limited number of award reviews to date and robust data is not available yet.

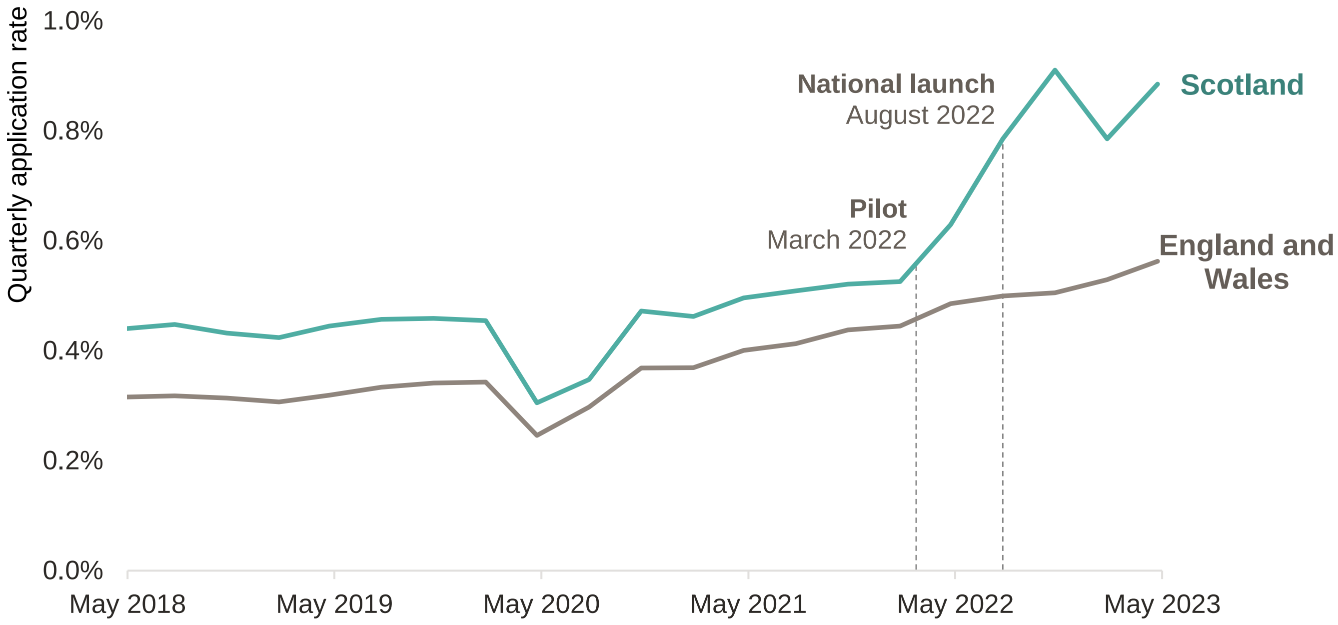
Approved applications

5.48 In our May 2023 ADP forecast we assumed that there would be an initial spike of approved applications lasting 18 months from the national launch, and a further increase in the long-term number of applications and a higher success rate, relative to the situation of PIP continuing. We consider these assumptions together as they all relate to more people receiving ADP than they would have under PIP and it is not possible to separate the effects at this stage.

5.49 Figure 5.9 shows the trend of quarterly applications as a proportion of the working age in Scotland (for ADP) and England and Wales (for PIP) started to diverge from the start of the pilot in March 2022. These have further widened after the national launch in August 2022.

Figure 5.9: Quarterly applications as percentage of working age population

Stronger demand for working age disability payment in Scotland since ADP launch



Description of Figure 5.9: Line charts showing the quarterly number of applications to PIP in England and Wales as a percentage of their working age population, and the combined quarterly number of applications to PIP and ADP as percentage of the working age population in Scotland from 2018 to 2023. The trends start to diverge when the ADP pilot starts in March 2022, and further widens when ADP is nationally launched in August 2022.
Source: Scottish Fiscal Commission.

5.50 Our analysis shows that the current application approval rate of ADP is higher than the PIP successful clearance rate in England and Wales. Even after allowing for the effect of the reviewing of initial decisions and appeals, the approval rate is higher in Scotland. While informative, this evidence needs to be carefully interpreted as the approval rate in Scotland may be skewed by the types of application processed so far. It is reasonable to assume that a larger percentage of straightforward applications with strong supporting evidence could be processed more quickly, and applications which require further evidence gathering may take longer to process. If so, then the success rate for ADP could fall over time.

5.51 Based on our analysis of application volumes and approval rates, we have concluded that, at this stage, there is not strong evidence for us to change our assumption that more people will apply for and receive ADP than would have received PIP. We estimate that our assumptions are still broadly in line with the observed data.

Average payment award for approved applications

5.52 We have evaluated the average payment award for successful new applications to ADP. There has been some volatility in the average award level. When ADP launched, the average payment for approved applications was noticeably higher than the payment received by successful PIP applications in England and Wales. This difference has been decreasing over time.

5.53 We believe the variation in ADP average payment award levels is related to the complexity and processing times of awards. For example, awards for terminal illness cases where people receive the highest awards are likely to be processed more quickly.

5.54 As the average award level for new applications has not yet stabilised, we do not think there is strong enough evidence for us to revise our assumptions on award levels for new applications.

5.55 When a client's award is transferred from DLA or PIP to ADP, they continue receiving the same payment until their ADP award is reviewed by Social Security Scotland. Robust data on the outcome of ADP reviews is not available yet so we are unable to review our assumptions on award levels for awards transferred from PIP at this stage. We aim to evaluate this assumption in future forecasts.

Change in the definition of terminal illness

5.56 We have reviewed our assumption on the effect of the change in the special rules for terminal illness (SRTI). Our analysis has found that the number of people categorised under SRTI for ADP has risen and is higher than it would have been if the definition had remained the same as for PIP.

5.57 While the number of people under SRTI has increased, it has not increased as fast as we had initially forecast. Our assumption on the increase in SRTI caseload was based on evidence provided by Scottish Government analysis; we do not think that current data provide enough evidence to change our long-term assumption.[104] However, we have adjusted the transition from the current level of SRTI to our long-term assumptions. We will continue to monitor the trend in terminal illness cases.

[104] Scottish Government (2021) Estimating the impact of the new definition of terminal illness for disability assistance in Scotland: research (link).

Annex A
Policy Costings

Policy costings

Introduction

A.1 This annex sets out the steps and judgments taken to arrive at our costings of changes in Scottish Government policy since our May 2023 forecasts were published.[105]

New policy costings

A.2 Figure A.1 shows a summary of new policy costings included in our forecasts. Negative values represent lower tax revenues or higher social security spending. Positive values represent higher tax revenues or lower social security spending. In the later sections covering the individual policy measures, social security changes are shown as positive if they increase spending.

Figure A.1: Policy costings summary

£ million	2024-25	2025-26	2026-27	2027-28	2028-29
Income tax					
Introduction of advanced rate band and rate of 45 per cent	74	80	87	95	105
Top rate increase to 48 per cent	8	8	8	9	9
Total income tax policy	82	88	96	104	114
Non-Domestic Rates					
Freeze Basic Property Rate at 49.8 pence for 2024-25	-199	-199	-213	-205	-208
Intermediate Property Rate increase to 54.5 pence in 2024-25	22	21	23	22	22
Higher Property Rate increase to 55.9 pence in 2024-25	149	145	155	149	147
Hospitality Relief on Scottish Islands	-4				
Social Security					
Introduction of Pension Age Disability Payment	-6	-34	-56	-79	-87
Introduction of Pension Age Winter Heating Payment	-180	-184	-185	-184	-187

Source: Scottish Fiscal Commission.
Figures may not sum because of rounding.

[105] Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – May 2023 (link).

Taxes

Title of measure

Income tax – Introduction of advanced rate of 45 per cent starting at £75,000

Measure description

A.3 This measure introduces a new band, the advanced rate band, which starts at £75,000 and has a rate of 45 per cent.

The cost base

A.4 The cost base is those taxpayers whose NSND taxable earnings are over £75,000. They will pay income tax at a rate of 45 per cent on those earnings.

The costing

A.5 Figure A.2 shows how much we expect the policy to raise, including our estimate of the behavioural response to the costing. We have updated our model inputs to include the new band and rate, then used our Scotting Income Tax Model (SITM) to estimate the revenues raised and behavioural effects.

Figure A.2: Income tax – introduction of advanced threshold and rate

£ million	2024-25	2025-26	2026-27	2027-28	2028-29
Static costing	147	159	172	187	205
Behavioural change, of which:	-73	-79	-85	-92	-100
METR effect	-59	-64	-69	-75	-81
AETR effect	-14	-15	-16	-18	-19
Post-behavioural costing	74	80	87	95	105

Source: Scottish Fiscal Commission.

Uncertainties about the costing

A.6 The Advanced rate threshold divides the previous higher rate band into two sections. In outturn data, we have information about the total of taxpayers in this band, not the distribution.[106] Our base dataset, the Survey of Personal Incomes – Public Use Tape, includes data on the income of taxpayers which we use to assign taxpayers between the two sections. We expect to receive outturn data for 2024-25 in July 2026 which will give the actual number of taxpayers in this band. Until then our estimates of taxpayers and liabilities in the Advanced rate band will be less certain.

A.7 The introduction of a new threshold and rate may cause taxpayers to change their behaviour. We have modelled these changes but this policy could induce behavioural effects we have not anticipated.

[106] HMRC (2023) Scottish Income tax outturn statistics 2021-22 (link).

Title of measure

Income tax – Top rate increase to 48 per cent

Measure description

A.8 This measure raises the top rate of income tax to 48 per cent. Figure A.3 shows how much we expect this policy to raise.

The cost base

A.9 The cost base is those taxpayers whose NSND taxable earnings are over £125,140 in 2024-25. They will pay income tax at a rate of 48 per cent on those earnings.

The costing

A.10 Figure A.3 shows our estimate of how much we expect this policy to raise including our estimate of behavioural responses to the costing. We have updated our model inputs to include a top rate of 48 per cent, then used our SITM to estimate the revenues raised and behavioural effects.

Figure A.3: Income tax – Change in top rate to 48 per cent

£ million	2024-25	2025-26	2026-27	2027-28	2028-29
Static costing	53	56	60	63	67
Behavioural change, of which:	-45	-48	-51	-55	-59
METR effect	-45	-48	-51	-55	-59
AETR effect	0	0	0	0	0
Post-behavioural costing	8	8	8	9	9

Source: Scottish Fiscal Commission.

Uncertainties about the costing

A.11 The introduction of a new threshold and rate may cause taxpayers to change their behaviour. We have modelled these changes but this policy could induce behavioural effects we have not anticipated.

Title of measure

Non-Domestic Rates – Basic Property Rate (poundage) set at 49.8 pence in 2024-25

Measure description

A.12 This measure sets the Non-Domestic Rates (NDR) Basic Property Rate (BPR) (poundage) to 49.8 pence in 2024-25. From 2025-26 onwards, we assume that it will rise in line with Consumer Price Index (CPI) inflation. Figure A.4 shows how the policy BPR compares to our baseline assumption that it will rise with September 2023 outturn CPI.

Figure A.4: Comparison of baseline and policy BPR assumptions

Pence	2024-25	2025-26	2026-27	2027-28	2028-29
Baseline	53.1	54.7	55.5	56.3	57.3
Policy	49.8	51.3	52.1	52.9	53.8
Difference	-3.3	-3.4	-3.4	-3.4	-3.5

Source: Scottish Fiscal Commission.
Figures may not sum because of rounding.

The cost base

A.13 This measure affects the entire NDR tax base.

The costing

A.14 The costing compares two scenarios, which are set out in Figure A.4. The two scenarios are:

- our baseline assumption, that the BPR for 2024-25 will be raised in line with outturn September 2023 CPI inflation
- a BPR of 49.8 pence in 2024-25

A.15 In both scenarios, the BPR is uprated with forecasts of CPI inflation in Quarter 3 of the previous year from 2025-26 onwards. We estimate revenues will be £199 million lower in 2024-25 for the policy compared to our baseline assumption. Figure A.5 shows the costing of the policy.

Figure A.5: Costing of setting the BPR at 49.8 pence in 2024-25

£ million	2024-25	2025-26	2026-27	2027-28	2028-29
	-199	-199	-213	-205	-208

Source: Scottish Fiscal Commission.

Uncertainties about the costing

A.16 This measure affects the entire NDR tax base and assumes that the BPR makes up part of the rate for ratepayers with a rateable value above £51,000 and therefore liable for the IPR and HPR. In this Budget, the Scottish Government have updated their presentation of the rates and are treating the BPR, IPR and HPR as three separate rates that do not affect each other.

A.17 Using the Scottish Government's updated presentation of the rates, the BPR freeze would only affect non-domestic properties with a rateable value of £51,000 and below. The Scottish Government estimate that the BPR freeze would cost £37 million using this approach. Under the Scottish Government's approach to the presentation of changes, the additional revenue from increases to IPR and HPR are smaller than the figures shown in the subsequent sections of this annex.

A.18 The different approach to presenting the effect of policy changes is purely presentational. The combined cost of the changes to the BPR, IPR and HPR is the same for both approaches. The presentation of changes to BPR, IPR and HPR is something we might consider when we report on our conclusions to our consultation on baselines in early 2024.[107]

A.19 In our forecasts we assume the BPR rises with inflation for 2025-26 onwards. In recent years the Scottish Government has frozen or increased BPR at below-inflation rates. If this approach is continued then our forecast will overestimate revenue for 2025-26 onwards.

[107] Scottish Fiscal Commission (2023) Consultation to our approach to policy baselines (link).

Title of measure

Non-Domestic Rates – Intermediate Property Rate set at 54.5 pence in 2024-25

Measure description

A.20 This measure sets the NDR Intermediate Property Rate (IPR) to 54.5 pence in 2024-25. The IPR is paid on all properties with a rateable value between £51,001 and £100,000.

A.21 In 2023-24, the IPR is set at 51.1 pence, or 1.3 pence above the BPR. In 2024-25 it is set at 54.5 pence, which is 4.7 pence above the new BPR. We assume that this difference of 4.7 pence will remain throughout the forecast period. Figure A.6 shows our baseline and policy assumptions for the IPR.

Figure A.6: Comparison of baseline and policy IPR assumptions

Pence	2024-25	2025-26	2026-27	2027-28	2028-29
IPR difference from poundage					
Baseline	1.3	1.3	1.3	1.3	1.3
Policy	4.7	4.7	4.7	4.7	4.7
Difference	3.4	3.4	3.4	3.4	3.4
Total IPR					
Baseline	51.1	52.6	53.4	54.2	55.1
Policy	54.5	56.0	56.8	57.6	58.5
Difference	3.4	3.4	3.4	3.4	3.4

Source: Scottish Fiscal Commission.
Figures may not sum because of rounding.

The cost base

A.22 This measure affects any property with a rateable value between £51,001 and £100,000.

The costing

A.23 The costing compares two scenarios, which are set out in Figure A.6. The two scenarios are:

- our baseline assumption, that the IPR is 1.3 pence above the poundage from 2024-25 onwards
- the IPR raised to 4.7 pence above BPR in 2024-25, and stays there throughout the forecast period

A.24 We estimate that revenues will be £22 million higher in 2024-25 for the policy compared to our baseline assumption.

Figure A.7: Costing of setting the IPR at 54.5 pence in 2024-25

£ million	2024-25	2025-26	2026-27	2027-28	2028-29
	22	21	23	22	22

Source: Scottish Fiscal Commission.

Uncertainties about the costing

A.25 We have explained in the BPR measure section how our presentation of changes to BPR, IPR and HPR is different to the Scottish Government's presentation.

A.26 Another uncertainty for this costing is the number of properties liable to pay the IPR in 2024-25. We do not believe that there will be any behavioural responses to the policy change.

Title of measure

Non-Domestic Rates – Higher Property Rate set at 55.9 pence in 2024-25

Measure description

A.27 This measure sets the NDR Higher Property Rate (HPR) to 55.9 pence in 2024-25. The HPR is paid on all properties with a rateable value above £100,000.

A.28 In 2023-24, the HPR is set at 52.4 pence, or 2.6 pence above the BPR. In 2024-25 it is set at 55.9 pence, which is 6.1 pence above the new BPR. We assume that this difference of 6.1 pence will remain throughout the forecast period. Figure A.8 shows our baseline and policy assumptions for the IPR.

Figure A.8: Comparison of baseline and policy HPR assumptions

Pence	2024-25	2025-26	2026-27	2027-28	2028-29
HPR difference from poundage					
Baseline	2.6	2.6	2.6	2.6	2.6
Policy	6.1	6.1	6.1	6.1	6.1
Difference	3.5	3.5	3.5	3.5	3.5
Total HPR					
Baseline	52.4	53.9	54.7	55.5	56.4
Policy	55.9	57.4	58.2	59	59.9
Difference	3.5	3.5	3.5	3.5	3.5

Source: Scottish Fiscal Commission.
Figures may not sum because of rounding.

The cost base

A.29 This measure affects any property with a rateable value above £100,000.

The costing

A.30 The costing compares two scenarios, which are set out in Figure A.9. The two scenarios are:

- our baseline assumption, that the HPR is 2.6 pence above the poundage from 2024-25 onwards
- the IPR raised to 6.1 pence above poundage in 2024-25, and stays there throughout the forecast period

A.31 We estimate that revenues will be £149 million higher in 2024-25 for the policy compared to our baseline assumption.

Figure A.9: Costing of setting the HPR at 55.7 pence in 2024-25

£ million	2024-25	2025-26	2026-27	2027-28	2028-29
	149	145	155	149	147

Source: Scottish Fiscal Commission.

Uncertainties about the costing

A.32 We have explained in the BPR measure section how our presentation of changes to BPR, IPR and HPR is different to the Scottish Government’s presentation.

A.33 Another uncertainty for this costing is the number of properties liable to pay the HPR in 2024-25. We do not believe that there will be any behavioural responses to the policy change.

Title of measure

100 per cent relief to the hospitality sector in the Scottish Islands, capped at £110,000 per ratepayer

Measure description

A.34 The Scottish Government has announced that the hospitality sector on the Scottish Islands will receive 100 per cent relief for 2024-25. The total cash value of the relief is capped at £110,000 for each ratepayer.

The cost base

A.35 The cost base is all hospitality sector businesses in the Scottish Islands. We consider the Scottish Islands to be as defined in the Islands (Scotland) Act 2018.[108] The costing

A.36 We have used the NDR valuation roll to identify properties in the hospitality sector on Scottish Islands. We also used data from the NDR billing system snapshot (BSS) to identify which properties had previously claimed the retail, hospitality and leisure (RHL) relief in 2021-22 or 2022-23.

A.37 Outturn data on the RHL reliefs in 2021-22 and 2022-23 were 90 per cent and 59 per cent of the original costings, respectively. We assume this is because of lower than 100 per cent take-up and uncertainties in the original costings. For this relief we assume that 70 per cent of eligible relief will be claimed in 2024-25, as the policy is closer to that of 2022-23 than the uncapped RHL relief in 2021-22.

Figure A.10: Costing of 100 per cent Islands hospitality relief in 2024-25, capped at £110,000

£ million	2024-25	2025-26	2026-27	2027-28	2028-29
	-4				

Source: Scottish Fiscal Commission.

Uncertainties about the costing

A.38 The main uncertainty around the costing is the number of claims of the relief. In 2022-23, the total value of the RHL relief was 41 per cent lower than our costing of the policy. We assume that this policy will broadly match lower take-up seen for RHL in that year, but do not account for specific take-up rates for hospitality businesses or those based on the Scottish Islands.

[108] National Records of Scotland (2018) – Islands (Scotland) Act 2018 (link).

Social Security

Title of measure

Pension Age Disability Payment

Measure description

A.39 Pension Age Disability Payment (PADP) is a social security payment for disabled people over the State Pension age to help meet the additional costs of care relating to an individual's disability or health condition(s). This includes physical and mental disabilities and health conditions which are severe enough that an individual needs someone to help look after them.

A.40 PADP will replace Attendance Allowance (AA) in Scotland for individuals over the State Pension age who are making a new application for a disability payment.

A.41 PADP will be piloted by Social Security Scotland from autumn 2024. Social Security Scotland will then accept new applications from individuals across all of Scotland in 2025. We expect that the case transfer from AA to PADP will start at national launch and will be completed by the end of 2025.

A.42 The eligibility criteria for PADP broadly aligns with the eligibility criteria for AA. However, the Scottish Government is making improvements to the application process and the collection of supporting information about an individual's disability, to better meet the needs of individuals eligible for PADP. We expect these changes will increase the number of people receiving payment.

A.43 In our previous forecasts, we showed indicative costings, including PADP, to support the Scottish Government's multi-year Resource Spending Review.[109] This policy costing is an update to the indicative forecasts and incorporates updated details on timings for the rollout of the payment. The policy costing also updates some of the assumptions using recently published outturn data and we have reviewed our assumptions based on evidence from the introduction of other disability payments.

A.44 As the differences between PADP and AA mainly apply to how the payments are delivered and the approach taken by Social Security Scotland, these are particularly difficult to model and inevitably our costing is based on several judgements. Once PADP has launched and we start to receive data on how the policy is operating in practice our forecast will become less dependent on judgements.

A.45 The details of the policy changes and how we have forecast spending are set out below. Full details on PADP can be found in the Scottish Government's draft policy note and draft legislation.[110]

The cost base

A.46 We use our AA forecast model as a baseline. It is based on historical data on the caseload, number of people entering and leaving the caseload, and average award.

[109] Scottish Government (2022) Resource Spending Review 2022 (link).

[110] Draft Disability Assistance for Older People (Scotland) Regulations 2024: Draft Policy Note (link), Scottish Government (2019) Disability Assistance (link).

A.47 We use our population projections in forecasting successful new applications. National Records of Scotland (NRS) statistics on causes of death inform our assumptions for terminal illness claims.[111]

The costing

A.48 To estimate the change in spending on PADP when the payment is introduced, we use the forecast for AA as a baseline and then incorporate estimates of the effect of the introduction of PADP delivery and policy changes. Our forecast includes spending on PADP recipients and AA recipients in Scotland prior to case transfer.

A.49 Figure A.11 shows the breakdown of the policy costing for PADP from each of the policy and delivery changes we have factored in. We forecast spending to increase from £755 million in 2024-25 to £918 million in 2028-29.

Figure A.11 Overall policy costing for PADP

£ million	2024-25	2025-26	2026-27	2027-28	2028-29
Baseline	749	791	805	819	831
Additional spending, of which:	6	34	56	79	87
Increase in approved applications – Pilot	1	3	2	2	2
Increase in approved applications – Initial spike	1	17	14	12	10
Increase in approved applications – Long term	0	6	19	31	40
Average award increase	4	8	12	16	17
Terminal illness costing	0	0	8	18	19
Total PADP spending	755	824	861	897	918

Source: Scottish Fiscal Commission.
Figures may not sum because of rounding.

A.50 Figure A.12 shows the caseload for PADP from delivery in 2024-25.

Figure A.12 Forecast caseload for PADP

Thousand	2024-25	2025-26	2026-27	2027-28	2028-29
Caseload	151	159	162	166	167

Source: Scottish Fiscal Commission.

Additional spending on PADP:

A.51 Our costing is based on the policy note published by the Scottish Government with the Draft Disability Assistance for Older People (Scotland) Regulations, and the Disability Assistance for Older People: Position paper.[112,113] If the final regulations differ from the current policy position, we may revise our assumptions and costing.

[111] National Records of Scotland – Vital Events – Deaths (link).
[112] Scottish Government (2020) Disability Assistance for Older People: position paper (link).
[113] Scottish Government (2023) Draft Disability Assistance for Older People (Scotland) Regulations 2024 – Draft Policy Note (link).

Increase in approved applications – Pilot

A.52 The Scottish Government have publicly announced that a pilot for PADP will be launched in autumn 2024.[114] We assume that the pilot would be introduced progressively in an increasing number of local authorities similar to the pilots for Child Disability Payment (CDP) and ADP.[115]

A.53 We assume that there will be a small increase in applications because of the pilot before the national launch of PADP as it has been seen for other disability payments.

Increase in approved applications – Initial spike

A.54 We assume that PADP will be launched nationally at the start of 2025. We assume that there will be short-term increase in inflows for the three months immediately following the introduction of PADP. This is because we expect the Scottish Government to have a promotional campaign around the launch of PADP, as has been the case with all new payments launched so far. While we do not have any information on the size or scale of this potential promotional campaign, after considering evidence from CDP and Adult Disability Payment (ADP) introduction, we assume an additional 3,500 successful applications in the first six months.

Increase in approved applications – Long-term

A.55 Compared to AA, for PADP the Scottish Government aims to improve the application process and make it easier to navigate, provide clients with more support during the application process, and increase the overall awareness of the payment in Scotland. It is not yet possible to use evidence on CDP or ADP to evaluate the long-term effect on inflows of these changes for those payments. For this reason, our current assumption for PADP is informed by the effect on take-up from campaigns for AA in the 2000s. We assume that the introduction of PADP will see a 10 per cent long-term increase in inflows after the three months following its introduction.

Average award increase

A.56 There are two award levels for PADP with the level of award (high or low) based on the level of help the recipient is determined to need. We forecast the average award level, which is dependent on the proportion of recipients getting high or low awards.

A.57 Most of the people in receipt of AA currently receive an indefinite award, and only a small proportion receive an award of a fixed length. The characteristics of those on AA, specifically older disabled people, might mean they are less likely to request a change of circumstances if their condition worsens than those on other disability payments. Given their age, recipients' conditions are likely to worsen, or they will need extra care because of new conditions. This means that there is a cohort on AA who are receiving a lower payment award than they could be.

A.58 Given the approach of Social Security Scotland and its principles of dignity, fairness and respect, we assume that once these clients are transferred to PADP, they may request to have their award reviewed. Consequently, more of these clients are likely to receive a higher award. However, as about two thirds of the clients are already receiving the high award for AA, we do not think there is a lot of scope for a large increase in the average award level.

A.59 AA and PADP only have a high and low care component so there is less scope for an increase in the average award compared to the combinations available from both CDP and ADP, where we

[114] Scottish Government (2023) Social Security business case: February 2023 – executive summary (link).
[115] Scottish Government (2022) Adult Disability Payment pilot opens for new applications (link).

assumed 10 per cent and 5 per cent increases, respectively. We assume a cumulative 0.5 per cent increase in the average payment award each year until it reaches 2.0 per cent in 2027-28. This assumption covers the new applicants receiving a higher payment award, and existing clients receiving higher payment after having their award review.

A.60 We allow for an increase in the number of change of circumstances by the increase in our average award assumption. We do not model this separately.

Terminal illness costing

A.61 A person is considered to be terminally ill if they have a progressive condition from which death may reasonably be expected. Payments awarded under Special Rules for Terminal Illness (SRTI) by Social Security Scotland differ from the DWP in two ways:

- Social Security Scotland does not require a healthcare professional to determine life expectancy
- these are lifetime awards and will not be reviewed unless circumstances change

A.62 Allowing clients with a prognosis in excess of 12 months to also qualify for PADP under the SRTI expands eligibility, and therefore, we forecast that more people will receive PADP under SRTI than would have received AA.

A.63 Our terminal illness costing estimate incorporates the increase in eligibility as a result of the change in the terminal illness definition, people receiving payment for longer, and how much their payments would cost.

Increase in time on terminal illness caseload under PADP rules

A.64 Scottish Government research suggests that the average length of time individuals could receive payments under SRTI could increase by 130 per cent.[116] The Commission internal analysis for the effect of SRTI on ADP estimates suggests the ADP SRTI caseload could increase by 63 per cent. We assume the mid-point between these two estimates and increase the length of time on the caseload by 96 per cent.

Increase in terminal illness take-up rate

A.65 We define the terminal illness take-up rate as the proportion of people receiving PADP under SRTI out of the eligible terminally ill population.

A.66 We estimate that around 6 per cent of the people with a terminal illness are receiving AA under the SRTI. To infer the number of people with a terminal illness in a year, we estimate the number of deaths from a terminal illness among the pension age population, and their life expectancy since their prognosis. [117]

A.67 There are no data on the conditions of clients who receive AA under SRT|, so our assumptions are based on judgment and data on other disability payments. The increase in take-up reflects the wider awareness of the payment and the treatment under SRTI. We assume the terminal illness take-up rate will double to 13 per cent. This increase in take-up is considerably lower than the assumption

[116] Scottish Government (2021) Estimating the impact of the new definition of terminal illness for disability assistance in Scotland: research (link).
[117] Murtagh et al. (2014) How many people need palliative care? A study developing and comparing methods for population-based estimates (link).

applied to the change in terminal illness definition costing in ADP, in which we assume that take up would increase by 2.5 times, based on data on ADP clients' conditions and our assessment of how likely they are to qualify under SRTI.[118]

Percentage of clients entirely new to the terminal illness caseload

A.68 The Scottish Government's analysis does not provide any evidence for what proportion of clients covered by the new terminally ill definition are already in receipt of AA.

A.69 We assume that half of the increase in the new SRTI caseload, because of the change in eligibility and take-up, will come from new clients coming onto PADP, and the other half from clients who are already in receipt of AA because of other conditions, but who will be newly eligible for terminal illness under the new definition.

A.70 These clients who are eligible for AA under non-terminal illness rules are likely to already receive the high award. This is because 64 per cent of the AA caseload currently receives the high award and it would be reasonable to assume that clients with a terminal illness but with longer than 6 months to live would likely be in this group. We therefore assume that anyone who is eligible under non-terminal illness rules, does not incur an extra cost under PADP's new terminal illness definition. This means the additional cost of the terminal illness change only relates to new clients on PADP, and not clients moving from normal rules to SRTI.

Areas of no change compared to Attendance Allowance

A.71 There are elements of PADP for which we assume the effect will be negligible or covered by other aspects of our costing. These elements are explained below.

Case transfer

A.72 We expect that the case transfer from AA to PADP will start at national launch in spring 2025 and will be completed by the end of 2025. We assume that clients' awards will be transferred from AA to PADP and will continue to receive the same award rate as in AA. Their PADP award will be reviewed by Social Security Scotland if their fixed AA award had been due to be reviewed or the client reports a change in circumstances. Any increase in spending due is covered by our average award increase assumption.

Approval rate

A.73 The AA application and decision-making process does not have any face-to-face assessments, meaning the changes between AA and PADP are less than those between PIP and ADP. Furthermore, 87 per cent of clients who apply for AA are successful at their first attempt. The already high success rate leaves little room for an increase.

A.74 Currently, we assume that all the increase in inflows is because of an increase in applications and not because of the approval rate changing.

Award length

A.75 Historical data on AA show that almost all exits from the caseload are because of death. DWP officials indicated that 90 per cent of the caseload receives an indefinite award. This means that only 10 per cent of the caseload goes through an award review, and very few people leave the caseload

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

because of being disallowed at an award review at the end of their award. Additionally, we assume that, given the nature of their condition and their age, clients are unlikely to have their award disallowed. Therefore, any changes to award length are unlikely to have a material effect on spending as clients are not disallowed.

Award reviews

A.76 Current data indicate that the longer a client is in receipt of AA, the higher their award tends to be. We do not expect there to be a significant change to this trend following the introduction of PADP. Any additional spending from the award review is implicitly covered by the increase in our average award assumption.

Short-term Assistance

A.77 Short-term Assistance (STA) provides financial support for people while they challenge a decision to reduce or stop ongoing payment of certain devolved payments.

A.78 Since very few people exit the caseload because of reasons other than death, we expect the cost will be negligible.

Uncertainty in the costing

A.79 Our costing is highly uncertain. Our assumptions were informed by the introduction of Child Disability Payment and Adult Disability Payment, evidence from the launching of other policies, and our assumption on the effect of media campaigns on take up.

A.80 We have also consulted with relevant policy officials from the Scottish Government and the DWP to inform our judgments.

A.81 Should any of the judgments or assumptions that we have based the costing on turn out to not be correct, there is a risk that the forecast may be too low or high. Once PADP has launched, we will revise our models and assumptions as more policy and delivery details become available.

Title of measure

Pension Age Winter Heating Payment

Measure description

A.82 Pension Age Winter Heating Payment (PAWHP) will be introduced in the winter 2024-25 to replace the UK Government's current Winter Fuel Payment (WFP). The payment provides financial support to most people of State Pension age to help towards meeting heating costs in winter.

A.83 The Scottish Government plans to replace WFP with PAWHP on a like-for-like basis in terms of eligibility criteria and the standard annual payment amounts for individuals. PAWHP will be delivered through Social Security Scotland.

A.84 The current WFP is an automatic annual payment to people of State Pension age. The standard payment rates are £100, £150, £200 or £300 for individuals based on the age and living situation of the recipients. In addition to the standard rates, the UK Government has used the WFP as a mechanism to provide additional 'cost of living' payments in 2022-23 and 2023-24 when qualifying pensioners received an extra £150 or £300. The additional 'cost of living' payment is excluded from this costing.[119]

A.85 The current eligibility and payment rates for WFP are based on the individual's age, specifically the date of reaching State Pension age, and their circumstances during the qualifying week in terms of their living arrangements and other recipients in the same household. Any eligible person who has previously received a WFP, will automatically receive a PAWHP with no need to make a separate or new claim. Individuals who are not in receipt of a DWP-administered benefit or have not previously received a WFP will need to apply for PAWHP.

A.86 The details of how we forecast spending for PAWHP are set out below.

The cost base

A.87 The cost base is the number of people that will be affected by the proposed changes to be introduced through PAWHP policy. In our costing, we forecast the number of people to receive the payment with the introduction of PAWHP from 2024-25.

A.88 Because the Scottish Government plans to replace WFP with PAWHP on a like-for-like basis, there will be no change in the current eligibility criteria or payment rates. Therefore, our estimate is based on the number of people currently receiving WFP in Scotland and an assumption of the same long-term trends in the caseload.

A.89 Figure A.13 shows the estimated number of people to receive PAWHP from its introduction in 2024-25 and the overall expenditure of £180 million in 2024-25 and £187 million in 2028-29. In this costing, we assume that the standard rates will remined fixed, and no further 'cost of living' payment will be added to these rates.

[119] UK Government (2022) Cost of Living Payment 2022 (link), UK Government (2023) Cost of Living Payments 2023 to 2024 (link).

Figure A.13: Forecast caseload and expenditure for PAWHP from delivery in winter 2024-25

£ million	2024-25	2025-26	2026-27	2027-28	2028-29
Spending	180	184	185	184	187
Thousand	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**
Caseload	1,035	1,058	1,065	1,055	1,068

Source: Scottish Fiscal Commission.

Uncertainty in the costing

A.90 We forecast the number of eligible people for PAWHP using population projections. These projections are influenced by changes to mortality rates and UK migration policies. Any substantial changes to these elements will require a revision of the population projections and will affect our forecast of the caseload for PAWHP.

A.91 The Scottish Government has published a public consultation for PAWHP that will close by 15 January 2024.[120] The responses to the consultation will be analysed and will inform the final policy set out in draft regulations which are planned to be laid in Parliament before the delivery of the payment. Scottish Government might introduce changes to the current policy following the consultation. Any changes in the policy will be reflected in our future forecast.

[120] Scottish Government (2023) Pension Age Winter Heating Payment (PAWHP): consultation (link).

Annex B
Policy Recostings

Introduction

B.1 This annex contains updates to costings for which we do not yet have outturn data that includes the effect of the policy. For example, the changes made to income tax in 2022-23 will not be captured in outturn data until summer 2024.

Policy recostings

B.2 Figure B.1 shows the latest recostings. Tax policies are shown as positive if they increase revenue and negative if they reduce it. Social security policies are shown as positive if they reduce spending and negative if they increase spending.

Figure B.1: Latest policy recostings

£ million	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Income tax: Changes in top rate threshold and rate, higher rate threshold rate, basic and starter rate band freeze	4	146	164	177	190	205	220
Income tax: Higher rate threshold freeze in 2022-23 [1]	122	122	121	125	132	141	150
NDR: New entry parks transitional relief		-4	-2				
NDR: Transitional relief (universal)		-74	-15	-5			
NDR: Small Business Bonus Scheme changes (SBBS)		64	64	65	67	68	70
NDR: Transitional relief (SBBS)		-47	-44	-37			
LBTT: Increase in ADS repayment period		0	4	5	-1	-6	-7
LBTT: Increase of ADS from 4 per cent to 6 per cent	14	40	32	38	44	47	53
Introduction of Carer Support Payment [2]			-6	-42	-70	-73	-76
Remove Best Start Foods income thresholds		0	-3	-5	-6	-6	-6

Source: Scottish Fiscal Commission.
[1] The higher rate threshold freeze in 2022-23 was costed against a baseline of thresholds increasing with inflation. This recosting uses the same baseline but updated with the latest inflation figures. New policies are costed against a baseline with the higher rate threshold frozen at the 2021-22 level.
[2] The total costing figures include expenditure on additional Carer Support Payment, Carer's Additional Person Payment (CAPP) and additional Carer's Allowance Supplement (CAS).

B.3 Figure B.2 shows the change since the previous version of each costing. These are all compared against the versions shown in our May 2023 forecast publication, except for Carer Support

Payment, which is compared against the supplementary costing we published in September 2023.[121]

Figure B.2: Change since last costing

£ million	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Income tax: Changes in AR threshold and rate, HR threshold freeze and rate, basic and starter rate band freeze	0	13	17	20	22	24	10
Income tax: Higher rate threshold freeze in 2022-23 [1]	13	18	-27	-6	34	26	13
NDR: New entry parks transitional relief		0	0				
NDR: Transitional relief (universal)		-4	2	-1			
NDR: Small Business Bonus Scheme changes (SBBS)		8	4	6	8	9	9
NDR: Transitional relief (SBBS)		-9	-7	-5			
Land and Buildings Transaction Tax: Increase in ADS repayment period		-1	-1	3	4	-1	-1
LBTT: Increase of ADS from 4 per cent to 6 per cent	1	5	4	4	6	10	18
Introduction of Carer Support Payment [2]			0	0	0	0	1
Remove Best Start Foods income thresholds		0	-1	0	0	0	0

Source: Scottish Fiscal Commission.
[1] The higher rate threshold freeze in 2022-23 was costed against a baseline of thresholds increasing with inflation. This recosting uses the same baseline but updated with the latest inflation figures. New policies are costed against a baseline with the higher rate threshold frozen at the 2021-22 level.
[2] The Carer Support Payment costing is compared against the version published in September 2023.

[121] Scottish Fiscal Commission (2023) Supplementary Costing – Carer Support Payment – September 2023 (link).

Annex C
Materiality and Policy Costings

Introduction

C.1 Some policies announced by the Scottish Government will have a very small effect relative to the size of the total Scottish Budget. The SFC publishes detailed information on policies which have a material effect on the Scottish Budget in Annex A. This annex covers the policies which do not have a detailed costing because they have only a small effect, some of which are still included in our forecasts.

C.2 Our approach to materiality was first set out in our December 2018 publication. We increased the materiality thresholds in January 2021, and most recently reviewed them in February 2023. We plan on reviewing our materiality policy every two years.

C.3 We also consider materiality in our approach to error correction, as detailed in our statement of compliance with the Code of Practice for Statistics.[122] We categorise errors based on materiality and then use this to help us decide on an appropriate response.

Materiality policy

Negligible policies

C.4 The SFC has set thresholds under which policies will not be costed. The threshold for negligible policies is £2 million.

Small policies

C.5 For policies over £2 million but under a threshold of £5 million, we will decide whether to cost the policy or not.

C.6 Our criteria for when not to cost a small policy require some, or all, of the following:

- a high degree of confidence that the cost of the policy is low, even if there is a high degree of relative uncertainty as to the precise cost
- the cumulative changes being made do not push the policy above the materiality threshold
- limited risk of significant behavioural response

C.7 We also consider the likely level of political and media interest in our decision whether to cost a policy.

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

Materiality decisions for December 2023 forecasts

C.8 Since our May 2023 forecasts, the SFC has decided not to produce costings for the following policy changes and legislation.

Changes included in forecasts with an effect below the materiality threshold

C.9 Some policies are judged not to be material so are not given a full costing in **Annex A**, but are still included in our forecasts, typically because they are simple to model.

- The Scottish Government has announced that Non-Domestic Rates (NDR) Enterprise Area relief will be phased out over 2024-25 and 2025-26. Once fully implemented this raises an additional £1 million annually.

- The Scottish Government has decided that all social security payments will be uprated in line with September 2023 CPI inflation of 6.7 per cent in April 2024. This adds just under £5 million to our forecast across Best Start Foods, Best Start Grant, Child Winter Heating Payment, and Winter Heating Payment, as there is no statutory duty to uprate these payments and our baseline policy assumption is that they are not uprated.

Changes judged not to be material and not included in forecasts

C.10 Some changes are judged to be small or negligible and there is no estimate included in our forecast.

- NDR Renewables District Heating relief is continued to 31 March 2027, and available to all district heating networks powered by renewables for at least 80 per cent of overall energy generated. We do not expect this to have a material effect on revenues.

- NDR Telecommunications mast relief to be extended from 31 March 2029 to 31 March 2031. This policy does not affect any year of our forecast period for this report.

- The Scottish Government made various amendments to the regulations for devolved disability payments, mainly designed to improve the transition for young people moving from Child Disability Payment to Adult Disability Payment.[123] We do not expect these to have a material effect on spending.

- The Scottish Government has introduced emergency legislation, mirroring similar emergency provisions for benefits in the rest of the UK, to ensure that people fleeing Israel, the West Bank, the Gaza Strip, East Jerusalem, the Golan Heights or Lebanon can access devolved benefits without meeting all the usual residence requirements.[124] We do not expect this to lead to material additional spending on devolved social security.

- The Best Start Foods regulations laid on 7 December 2023 implement the removal of income thresholds, which we have already costed, but also include some small changes around eligibility which we expect to have negligible costs, and which are not wholly captured in our models.[125]

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[123] Scottish Government (2023) The Disability Assistance (Miscellaneous Amendment) (Scotland) Regulations 2023 (link).
[124] Scottish Government (2023) The Social Security (Residence and Presence Requirements)(Israel, the West Bank, the Gaza Strip, East Jerusalem, the Golan Heights and Lebanon)(Scotland) Regulations 2023 (link).
[125] Scottish Government (2023) The Welfare Foods (Best Start Foods) (Scotland) Amendment Regulations 2023 (link).

Social Security Amendment Bill

C.11 The Scottish Government has also recently introduced the Social Security (Amendment) (Scotland) Bill.[126] This Bill does not directly change spending on social security, but does give the Scottish Government new powers which could affect spending in the future depending on how and when these are used.

C.12 The Bill gives the Scottish Government powers to create a new Care Leaver Payment, and a consultation on its design is under way.[127] At this point we have not produced a forecast for the new payment, as the details and timing are not yet confirmed. We note that while the Scottish Government has a broader commitment to provide £10 million of annual support, the indicative costs set out in the financial memorandum are below our materiality threshold.

C.13 The Bill also gives powers for recovery of benefit payments where a person is 'doubly compensated' in relation to an accident, injury or illness. For example, where a disability benefit has been awarded relating to an industrial injury but the recipient subsequently wins a compensation claim against the employer. The amounts that the Scottish Government expects to recover do exceed our £5 million materiality threshold in 2028-29, but we have not made any adjustment to our forecasts, as similar recoveries are made in relation to the payments still administered by DWP and our forecasts already implicitly assume that recoveries will continue to be made in a similar way for the devolved disability payments.

C.14 The Bill also gives the Scottish Government powers to create new childhood assistance payments. This will give the Scottish Government greater flexibility to make changes to Scottish Child Payment, which is currently based on narrower devolved powers which allow for a 'top-up' payment to people receiving UK Government benefits. Any changes would have to be introduced through new regulations, which we will consider and cost separately if relevant.

Review of previous materiality decisions

C.15 Figures C.1 and C.2 show changes which we have previously judged not to be material, and which are not yet captured in outturn data or in our forecasts.

[126] Scottish Parliament (2023) Social Security (Amendment)(Scotland) Bill (link).
[127] Scottish Government (2023) Care Leaver Payment: consultation (link).

Figure C.1: Tax policies previously assessed as below materiality threshold

Policy	Description and reason not to cost	Timing of original decision
LBTT Green Freeports relief	Introduction of a LBTT Green Freeports relief, applying to non-residential LBTT. We expect that transactions in new Green Freeports will mostly involve leases which only represents a small fraction of non-residential LBTT revenues with any land potentially available for sale being of minimal value. As the majority of non-residential LBTT revenue is collected from the higher end of conveyances we assumed this policy would be below our materiality threshold and made no formal costing.	May 2023
LBTT Additional Dwelling Supplement amendments	Amendments to the LBTT Additional Dwelling Supplement (ADS) which will have a negligible effect on overall ADS revenue: • Relief from residential LBTT, including ADS for local authority purchases for affordable housing purposes. As the maximum cost of relief would not be more than total residential LBTT liabilities by local authorities and that figure has historically been below our materiality threshold we have not costed this amendment. • Provisions in ADS to address potential unfair outcomes in existing legislation where there are joint buyers. • ADS relief in the event a property is inherited after missives have been signed on a new property. • An exemption for ADS where a taxpayer acquires or holds an interest in a property valued at less than £40,000. • Relief from ADS where a new property is purchased and an interest in a previous main residence is required to be retained by court order or separation agreement.	May 2023
NDR changes to Business Growth Accelerator and Fresh Start Relief	There were small changes to Business Growth Accelerator Relief and Fresh Start Relief in Non-Domestic Rates, which will allow relief to continue while taking into account revaluation.	December 2022

NDR exemptions for onsite renewable energy generation	Non-Domestic Rates rating exemptions introduced for prescribed plant and machinery used in onsite renewable energy generation and storage in Scotland from April 2023.	December 2022

Figure C.2 Social Security policies previously assessed as below materiality threshold

Policy	Description and reason not to cost	Timing of original decision
Sudan regulations	Emergency legislation to ensure that people fleeing the conflict in Sudan could access social security assistance without meeting all the usual residence requirements. We judged that this was unlikely to lead to material costs.	May 2023
Young Carer Grant	Annual payment from Social Security Scotland for young carers. We keep this under review, and so far have excluded it from our forecasts as annual spending is less than £1 million.	December 2018

Annex D
Fiscal Update

Introduction

D.1 In this annex we track the changes to funding levels in 2023-24 from the May 2023 position to the latest estimated position. The comparison between December 2022 and May 2023 can be found in Annex D of our previous forecast report.[128]

D.2 Funding for the Scottish Budget can materially change throughout the year. It can do so for many reasons. For example, new UK Government spending announcements in devolved areas generate Barnett consequentials. Revised SFC and OBR forecasts of revenue or spending affect devolved tax revenues and social security spending as well as their corresponding Block Grant Adjustments.

D.3 These changes are why we track the Scottish Government's funding throughout the year. From April 2020 to May 2022 we published standalone Fiscal Updates. Since December 2022 we have tracked the in-year changes to Scottish Government funding as an annex in our Scotland's Economic Fiscal Forecasts (SEFF) publications.

2023-24: changes since May 2023

D.6 Funding available in 2023-24 was first estimated on 15 December 2022 when the 2023-24 Scottish Budget was presented to the Scottish Parliament.[129] That position underpinned the Budget Bill as it progressed through parliament, and the bill was enacted before the start of the financial year.[130]

D.7 We reported on changes in funding after the first two months of the financial year in our May 2023 SEFF.[131] The position at that stage reflected:

- our updated forecasts of devolved tax revenues
- indicative in-year changes in the Block Grant Adjustments (BGAs based on the March 2023 OBR forecasts
- an estimate of the Barnett consequentials and other funding from the UK Main Estimates 2023-24, published shortly before our May 2023 SEFF[132]

D.8 Although funding levels for 2023-24 had already shifted by May 2023, the Budget was only changed later when the Scottish Government published the Autumn Budget Revision (ABR).[133] Budget

[128] Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – May 2023 (link).
[129] Scottish Government (2022) Scottish Budget: 2023-24 (link).
[130] At Stage 3 of the 2023-24 Budget Bill in February 2023 the SG decided to increase grants in local government by an extra £100 million, to be funded from a new source – underspends in 2022-23 that would be carried forward through the Scotland Reserve. However, the Budget Bill was not amended, and the change was left for the Autumn Budget Revision (ABR). Source: Scottish Parliament (2023) Official Report, Meeting of the Parliament on 21 February 2023 (link).
[131] Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts (SEFF) - May 2023 (link).
[132] HM Treasury (2023) Main Supply Estimates 2023 to 24 (link).
[133] Scottish Government (2023) Autumn Budget Revision 2023 to 2024 – supporting document (link).

Revisions formally amend the Budget Act so most assumed changes to the funding position are not incorporated in the ABR. We therefore show the differences between the estimated position in May 2023 and the ABR.

D.9 The most significant difference is that the ABR did not reflect the updated tax or BGA forecasts from May 2023. We then show the changes from the ABR to the latest position. This will be formally implemented in early 2024 when the Scottish Government publishes the Spring Budget Revision (SBR). The last changes to 2023-24 will be covered in our next SEFF report, expected in May 2024.

D.10 Since the ABR, the main event affecting funding levels for 2023-24 was the UK Autumn Statement 2023.[134] This generated Barnett consequentials. The OBR also published new forecasts alongside the Autumn Statement which determined the in-year adjustments to the tax and social security BGAs.[135] Finally, we have updated our devolved tax forecasts for 2023-24 in this forecast report. Income tax funding in 2023-24 remains fixed at the level forecast in December 2022 – a reconciliation for the error in this forecast will be confirmed in summer 2025 and applied to the 2026-27 Budget.

Resource

D.11 Figure D.1 shows changes to 2023-24 resource funding levels since May 2023. The ABR added £55 million, and since then there has been a further £768 million. Taking these additions together with the increase of £269 million reported in our May 2023 SEFF, we now expect that there is almost £1.1 billion more resource funding in 2023-24 than when the Scottish Budget was presented in December 2022. That is an increase of 2.4 per cent.

D.12 Changes between May 2023 and the ABR are:

- A reversal of the £11 million rise in devolved tax revenue based on our May 2023 forecasts. While they were the best estimates of fully devolved tax revenue at the time, the Scottish Government did not reflect them in the ABR.
- A reversal of the change in the tax and social security BGAs (£0.5 million and £73 million respectively). In May an indicative update was made using the March 2023 OBR forecasts of devolved tax and social security in the rest of the UK. The Scottish Government did not reflect these changes at the ABR as it is the OBR's autumn forecasts which determine the in-year adjustment.
- An increase of £181 million in reserve drawdowns. The Budget was originally set with no funding assumed to come from underspends carried forward through the Scotland Reserve. However, increased funding for local government was announced in February 2023 as part of the Budget Bill process. Since the Budget Bill was not amended at the time, the reserve drawdown plans were left for the ABR.[136]
- An overall decrease of £40 million in 'Other' resource funding. This is a result of two changed to assumed and confirmed 'Other' funding. Firstly, the extra £40 million of additional revenue from the UK-levied Migrant Surcharge that had been assumed for the May 2023 MTFS was removed. As the UK Government had not confirmed this increase, it was not reflected in the ABR. Secondly, £33 million of funding assumed in May 2023 moved to confirmed. The approval of UK Main Supply Estimates 2023-24 endorsed the assumed

[134] HM Treasury (2023) Autumn Statement 2023 (link).
[135] OBR (2023) Economic and fiscal outlook – November 2023 (link).
[136] Scottish Government (2023) Scottish Budget Bill passed (link).

amounts relating to the correction of the Home Office comparability factor and machinery of government transfers. These sources were therefore used in the ABR.

Figure D.1: 2023-24 Budget – resource funding position over time

£ million	Source of funding	Position in May 2023	Changes up to 28 Sept 2023	Position at the ABR	Changes up to 19 Dec 2023	Latest position
Block Grant	Barnett baseline [1]	34,942		34,942		34,942
	Barnett consequentials	1,176		1,176	+223	1,399
	Non-Barnett funding [2]	715		715		715
Fiscal framework funding	Forecast devolved revenues [3]	16,699	-11	16,688	+34	16,722
	Tax and non-tax BGAs	-16,130	-0	-16,131	+1	-16,129
	Social security BGAs	4,434	-73	4,360	+45	4,405
	Adjustment for forecast error	87		87		87
	Reconciliations	46		46		46
	Resource borrowing	41		41		41
	Scotland Reserve drawdown	0	+181	181	+70	251
Other funding sources	Other funding	508	-40	468	+394	863
	of which: assumed [4]	193	-73	120	+233	353
	of which: confirmed [5]	315	+33	348	+162	510
	NDR distributable amount	3,047		3,047		3,047
less: resource borrowing costs		-114		-114		-114
less: capital borrowing costs		-103		-103		-103
Resource funding available for discretionary spend		45,260	+55	45,316	+768	46,083

Source: Scottish Fiscal Commission, Scottish Government.
Figures may not sum because of rounding. Amounts exclude IFRS16 funding adjustments.
[1] As set in the Spending Review 2021.
[2] Funding agreed between the UK and Scottish Governments at the Spending Review 2021 not based on the use of the Barnett formula. It comprises £609 million of replacement EU farming and fisheries funding, £80 million for a Network Rail resource grant and £26 million of funding for the Bew Review.
[3] These include £25 million for Fines, Forfeitures and Fixed Penalties (FFFPs).
[4] The latest position comprises £160 million regarding the Migrant Surcharge, £133 million of extra budget cover transfers from UK Government departments, and £60 million of a capital-to-resource budget switch.
[5] The latest position comprises £460 million of ScotWind proceeds, £20 million for the correction of the Home Office comparability factor, £13 million of Machinery of Government transfers, £16 million of other Crown Estate Scotland income and £1 million of resource City Deals.

D.13 Changes since the ABR are:

- An increase of £223 million in Barnett consequentials from policies the UK Government announced as part of the Autumn Statement 2023.
- An increase of £34 million in forecast devolved revenues. We now forecast that LBTT will raise an additional £40 million, partially offset by £6 million less from SLfT.

- An increase in £46 million following the in-year adjustment of tax and social security BGAs, which have been updated using the more recent OBR forecasts in November 2023.

- An increase of £70 million from additional reserve drawdowns. Final outturn for 2022-23 is not yet available, but the Scottish Government plan to use the amount available in the latest projections at the Spring Budget Revision.

- An increase of £233 million in assumed 'Other' resource funding. This mostly relates to larger budget cover transfers assumed to come from UK Government departments later in the year, namely from the Department for Health and Social Care and the Department for Housing, Levelling Up and Communities. It also includes an assumed rise in the Migrant Surcharge that the Home Office shares with the Scottish Government, expected to result in £150 million, up £30 million from the original estimation. The exact size of the bundle will be confirmed at the UK Supplementary Estimates towards the end of the financial year. Finally, there are £60 million relating to a one-off switch from capital to resource budgets which HM Treasury authorised.[137] The plan is to use it, but the decision will not be confirmed until later in the year. A corresponding reduction in capital funding can be seen in Figure D.2.

- An increase of £162 million of confirmed 'Other' resource funding. This is mostly related to change in the planned use of ScotWind proceeds. The Scottish Government had planned to use £350 million in 2024-25, but this has been reduced to £200 million, and the £150 million difference is being brought forward to 2023-24. There is also an extra £17 million of other Crown Estate Scotland proceeds and resource City Deals. Finally, the amounts are slightly offset by a decision at this stage not to use any proceeds from the King and Lord Treasurer's Remembrancer (KLTR).

Capital

D.14 Figure D.2 shows changes to the capital funding position for 2023-24. Funding has decreased by £46 million since May 2023. In May 2023 it was estimated that capital funding had increased by £51 million since the Budget was set in December 2022. This means that currently the capital budget is only £5 million larger than the amount estimated when the Budget was initially set.

D.15 The main changes between May 2023 and the ABR were:

- A £39 million reduction in capital and a £12 million increase in financial transactions Barnett consequentials, effectively reversing funding assumptions made in May 2023 following the initial publication of UK Main Estimates 2023-24.

- A net increase of £14 million in reserve drawdowns across capital and financial transactions. For capital, the Budget had been set with no funding assumed to come from underspends carried forward through the Scotland Reserve. For financial transactions there was a drawdown assumption of £50 million. Provisional outturn figures for the 2022-23 gave an indication of underspends, which the Scottish Government decided to use at the ABR. In the case of financial transactions, it had to revise down the planned drawdown to match the available balance in the reserve.

[137] UK Government (2023) £15 million announced for flood recovery in Northern Ireland (link).

Figure D.2: 2023-24 Budget – capital funding position over time

£ million	Source of funding	Position at May 2023 SEFF	Changes up to 28 Sept 2023	Position at the ABR	Changes up to 19 Dec 2023	Latest position
Capital (Excluding financial transactions)						
Block Grant	Barnett baseline [1]	4,757		4,757		4,757
	Barnett consequentials	63	-39	25	+44	69
	Non-Barnett funding [2]	632		632		632
Fiscal framework funding	Capital borrowing	250		250	+200	450
	Scotland Reserve drawdown	0	+25	25	+5	30
Other funding sources	Other funding	302	-2	300	-277	24
	of which: assumed [3]	300		300	-277	24
	of which: confirmed	2	-2	0		0
Total capital funding (excluding FTs)		6,004	-16	5,989	-27	5,962
Financial transactions						
Block Grant	Barnett baseline	186		186		186
	Barnett consequentials	-13	+12	-1	-12	-13
Fiscal framework funding	Scotland Reserve drawdown	50	-11	39	+5	44
Other funding sources	Other funding	188	+12	200	-12	188
	of which: assumed [4]	188		188	-12	176
	of which: confirmed	0	+12	12		12
Total financial transactions		410	+13	423	-19	404
Total capital funding		6,415	-2	6,412	-46	6,366

Source: Scottish Fiscal Commission, Scottish Government.

Figures may not sum because of rounding. Amounts exclude IFRS16 funding adjustments.

[1] As set in the Spending Review 2021.

[2] Capital grant funding for Network Rail, this funding was agreed between the UK and Scottish Governments at the Spending Review 2021 and is not based on the use of the Barnett formula.

[3] The latest position comprises £82 million of expected capital City Deals funding and £2 million of other capital funding, partially offset by a £60 million reduction due to a capital-to-resource budget switch.

[4] The latest position is a one-off £176 million transfer to correct a historic error on how financial transactions funding had been allocated.

D.16 The main changes since the ABR are:

- An increase of £33 million in Barnett consequentials between capital and financial transactions. There was an increase of £39 million to the capital Block Grant with consequentials generated at UK Main Supply Estimates 2023-24, which had not been added to the budget at the ABR, and a further £6 million increase announced at the Autumn Statement 2023. For financial transactions, the UK Main Supply Estimates 2023-24 confirmed a reduction of £12 million in consequentials.

- An increase of £200 million in the capital borrowing plans, with the Scottish Government now planning to borrow the maximum under the fiscal framework limits (£450 million).
- A reduction of £277 million in 'Other' capital funding. £200 million of the assumed additional funding will now be borrowed. £60 million reflects the planned use of the one-off switch from capital to resource that HM Treasury authorised. This switch cancels out the £60 million increase in resource funding outlined in Figure D.1. Finally, £17 million relate to a downward revision of how much the Scottish Government expects to receive in capital City Deals.
- An increase of £10 million from additional reserve drawdowns, split evenly between capital and financial transactions. Final outturn for 2022-23 is not yet available, but the latest projections suggest underspends will be large enough to allow this further drawdown.

Additional Information

Abbreviations

AA	Attendance Allowance
ABR	Autumn Budget Revision
ADS	Additional Dwelling Supplement
AETR	Average Effective Tax Rate
APS	Annual Population Survey
BGA	Block Grant Adjustment
BMW	Biodegradable Municipal Waste
BoE	Bank of England
BOE	Barrels of Oil Equivalent
BPR	Basic Property Rate
CA	Carer’s Allowance
CAPP	Carer's Additional Person Payment
CAS	Carer’s Allowance Supplement
CDEL	Capital Departmental Expenditure Limit
CDP	Child Disability Payment
COFOG	Classifications of Functions of Government
CPI	Consumer Price Index
CSP	Carer Support Payment
DHP	Discretionary Housing Payment
DLA	Disability Living Allowance
DWP	Department for Work and Pensions
EfW	Energy from Waste
EU	European Union
FAI	Fraser of Allander Institute
FFFPS	Forfeitures and Fixed Penalties
FT	Financial Transactions
GDP	Gross Domestic Product
HMRC	His Majesty’s Revenue and Customs
HMT	His Majesty’s Treasury
HPR	Higher Property Rate
IFRS16	The International Financial Reporting Standards 16
IPC	Indexed-Per-Capita
IPR	Intermediate Property Rate
KLTR	King and Lord Treasurer’s Remembrancer
LBTT	Land and Buildings Transaction Tax
LFS	Labour Force Survey
METR	Marginal Effective Tax Rate
MTFS	Medium Term Financial Strategy
NDR	Non-Domestic Rates
NHS	National Health Service
NICs	National Insurance Contributions
NIESR	National Institute of Economic and Social Research
NLF	National Loans Fund
NRS	National Records of Scotland
NSND	Non-Savings and Non-Dividends
NSTA	North Sea Transition Authority
NUTS	Nomenclature of Territorial Units for Statistic
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Cooperation and Development

ONS	Office for National Statistics
PADP	Pension Age Disability Payment
PAWHP	Pension Age Winter Heating Payment
PAYE	Pay As You Earn
PIP	Personal Independence Payment
PUT	Public Use Tape
QNAS	Quarterly National Accounts Scotland
RDEL	Resource Departmental Expenditure Limit
RHL	Retail, Hospitality and Leisure
RPI	Retail Price Index
RTI	Real Time Information
RV	Rateable Value
SBBS	Small Business Bonus Scheme
SBR	Spring Budget Revision
SBTR	Small Business Transitional Reliefs
SEFF	Scotland's Economic and Fiscal Forecasts
SFC	Scottish Fiscal Commission
SG	The Scottish Government
SITM	Scottish Income Tax Model
SLfT	Scottish Landfill Tax
SPa	State Pension age
SPI	Survey of Personal Incomes
SRTI	Special Rules for Terminal Illness
STA	Short-Term Assistance
UC	Universal Credit
UKCS	UK Continental Shelf
UK	United Kingdom
WFP	Winter Fuel Payment
WRIT	Welsh Rate of Income Tax

A full glossary of terms is available on our website:

https://www.fiscalcommission.scot/explainers/glossary/

Professional Standards

The Commission 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).[138]

The Commission 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.[139]

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.

[138] OECD (2014) Recommendation on Principles for Independent Fiscal Institutions (link).
[139] Scottish Fiscal Commission (2018) Compliance with the Code of Practice for Official Statistics (link).

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:

Economy	Silvia Palombi	Silvia.Palombi@fiscalcommission.scot
Public funding	Caroline Carney	Caroline.Carney@fiscalcommission.scot
Tax	Will Jones	Will.Jones@fiscalcommission.scot
Social security	Francisco Forner	Francisco.Forner@fiscalcommission.scot

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