
Scotland's Economic and Fiscal Forecasts – Summary

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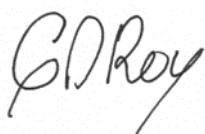
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Foreword

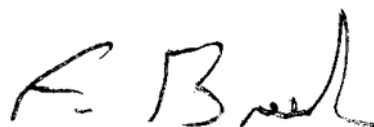
The Scottish Fiscal Commission is the independent fiscal institution for Scotland. Our statutory duty is to provide independent and official forecasts of the Scottish economy, devolved tax revenues and devolved social security spending. Our forecasts represent the collective view of the four Commissioners,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

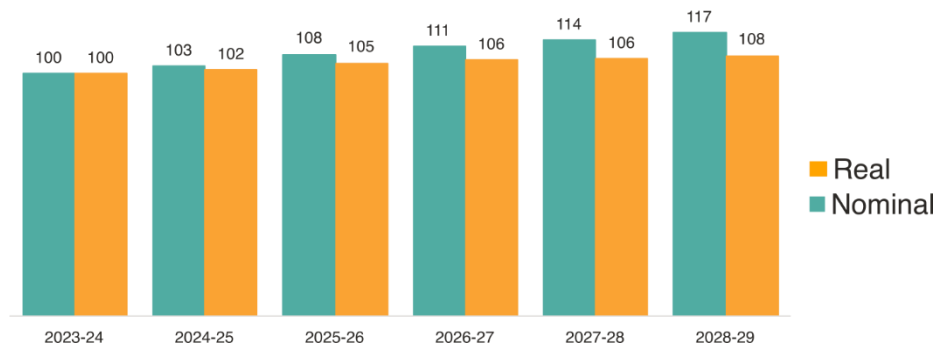
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Fiscal Overview

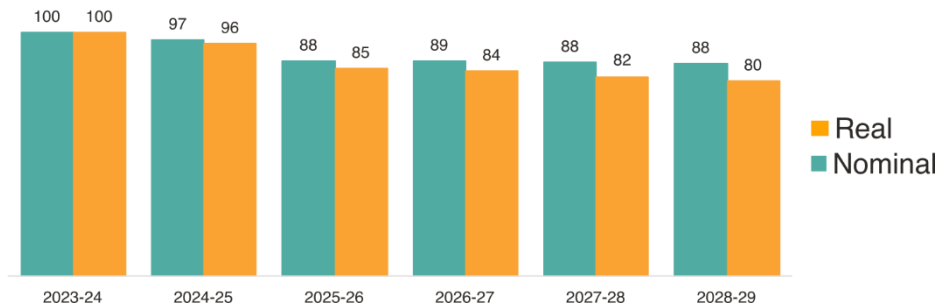
Resource funding is forecast to rise over the next five years by 17 per cent in nominal terms. After accounting for inflation, resource funding rises by 8 per cent by 2028-29.

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.

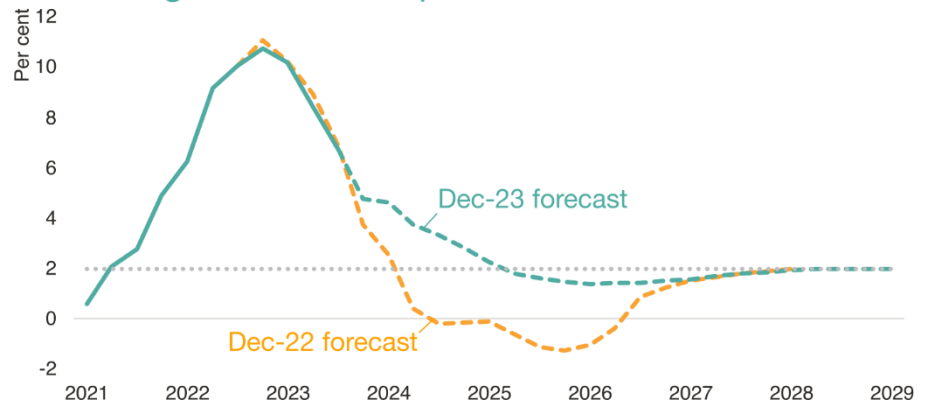
But capital budgets are forecast to fall more rapidly



Economy

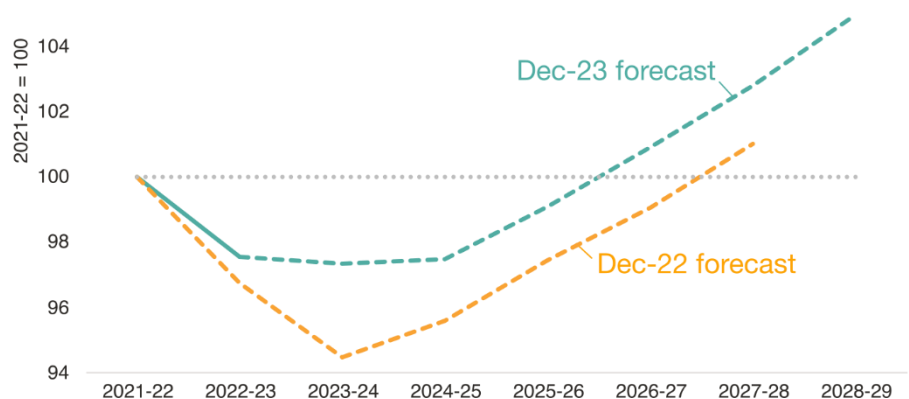
The forecast for inflation is higher and more persistent than last December. We do not expect the Bank of England's target of 2 per cent to be met until the second quarter of 2025, after which the outlook is relatively stable.

Inflation higher and more persistent over the medium term

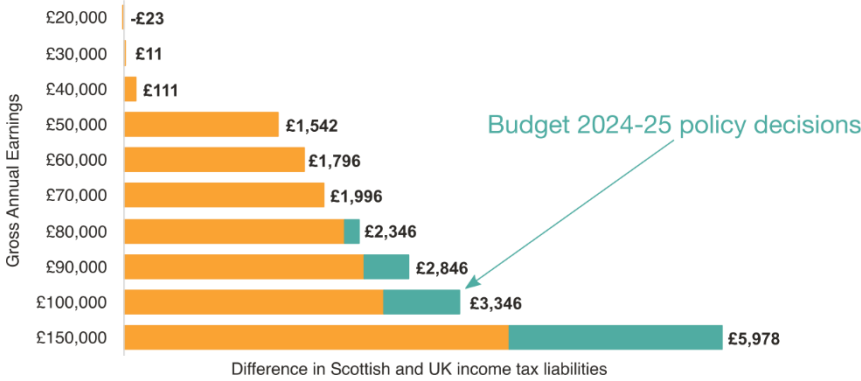


Due to strong earnings growth, we have revised up our forecast of real disposable income per person. Despite this, the drop between 2021-22 and 2023-24 is the largest reduction in living standards since Scottish records began in 1998.

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

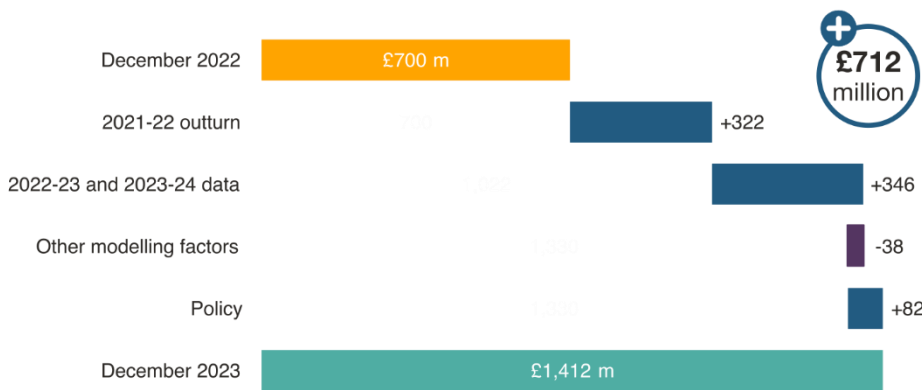


Policy changes further increase additional tax paid by high-earners in Scotland relative to UK



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).

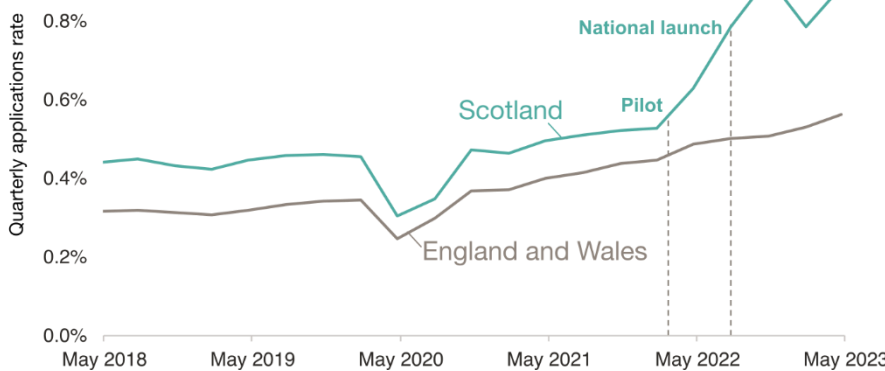
Increases in projected net position driven mostly by data



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.

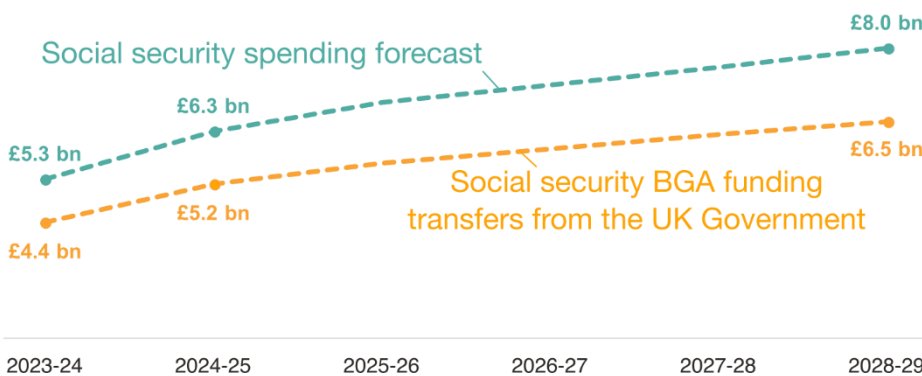
Social Security

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
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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.

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

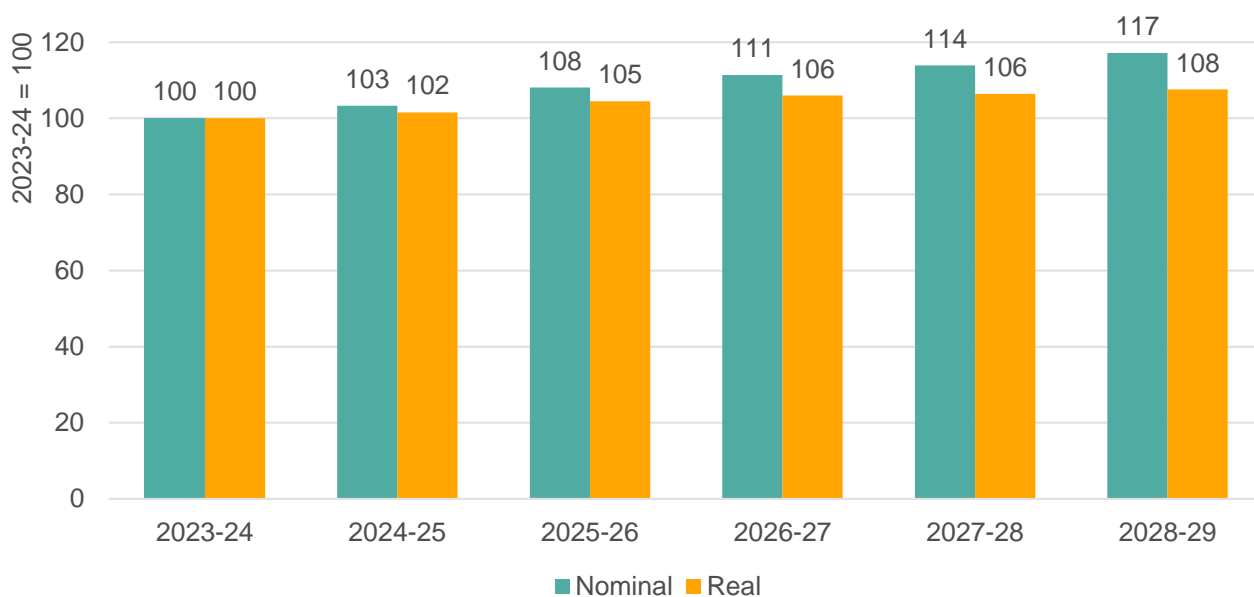
- 16 Between 2023-24 and 2028-29 total funding (resource and capital) is expected to increase by 14 per cent in nominal terms and 4 per cent in real terms. While total funding is expected to grow, capital funding is expected to fall by 20 per cent in real terms between 2023-24 and 2028-29.
- 17 We expect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

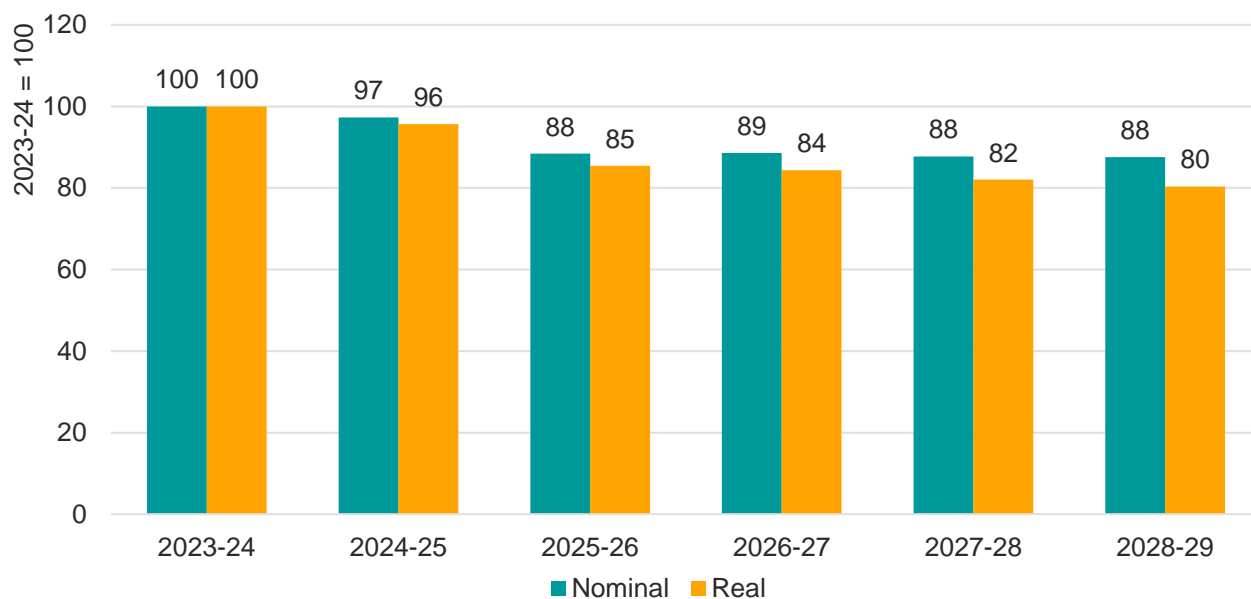
- 21 The Scottish Government's funding will be affected by future income tax reconciliations. The fixing of income tax revenues and their corresponding BGA in the Budget provides the Scottish Government with some certainty in planning its Budget for the year ahead, but any differences between what is 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.

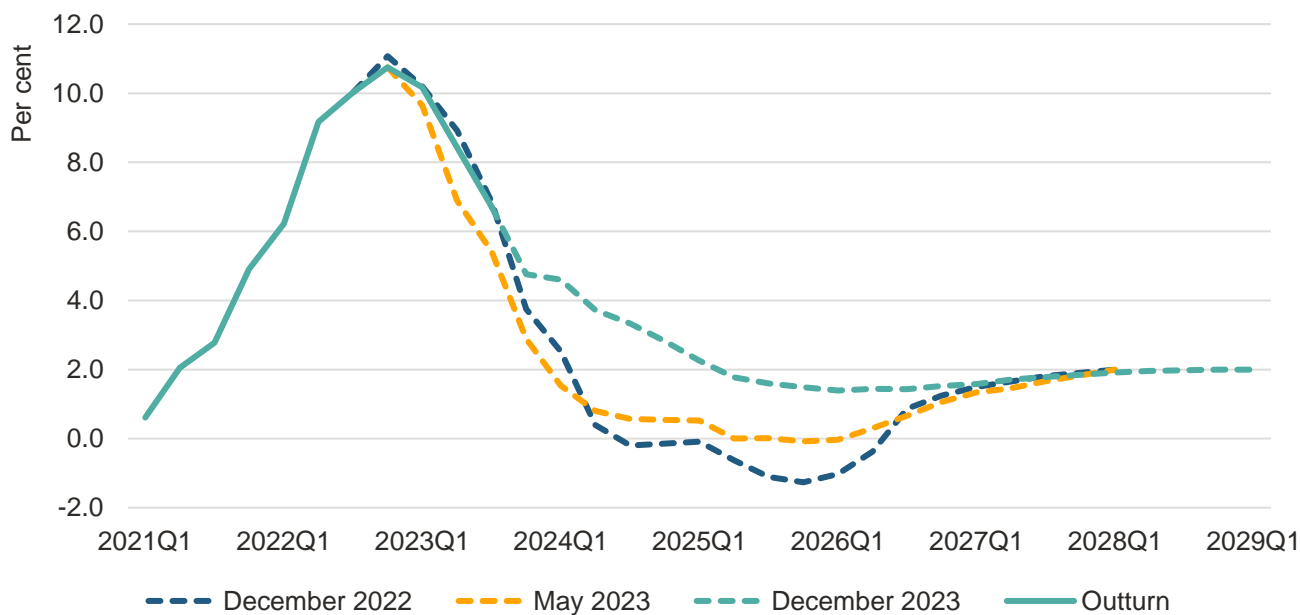
Economy

- 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](#)).

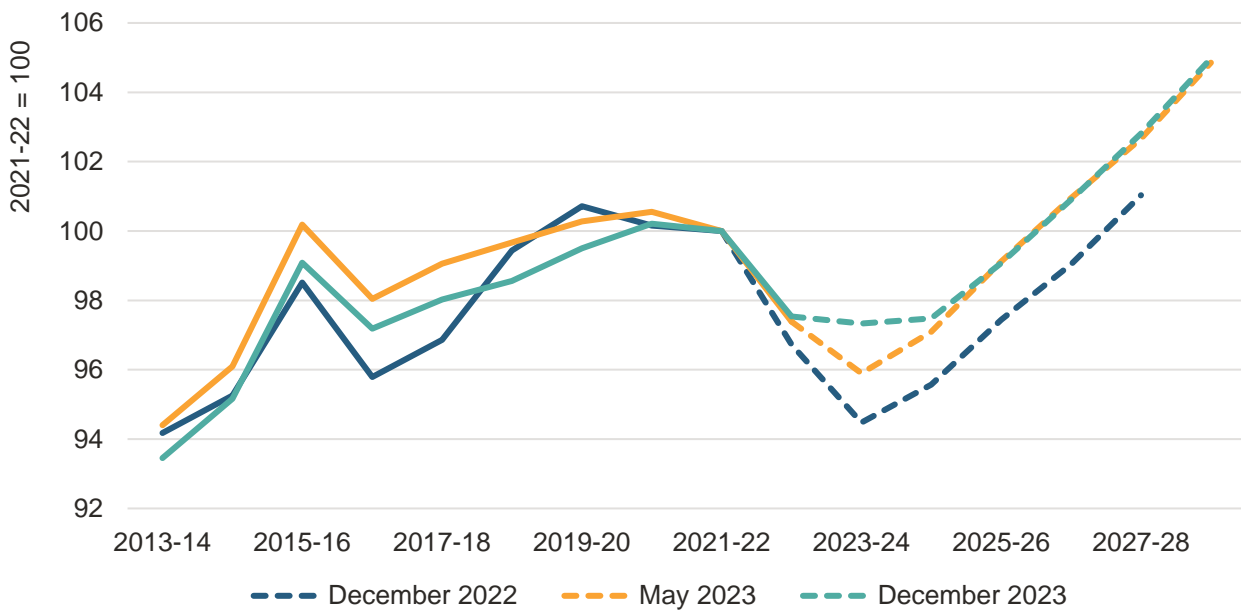
Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts.

- 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](#)).

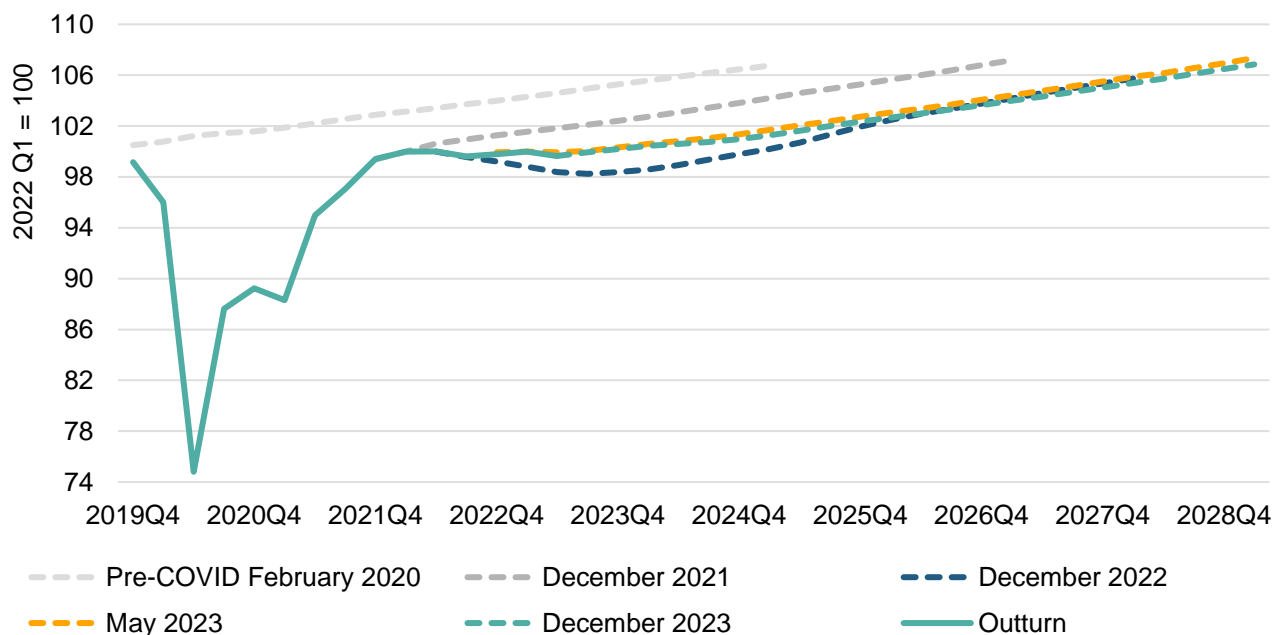
Solid lines refer to outturn available at time of publication and dashed lines refer to forecasts. Amounts are indexed so that 2021-22 is equal to 100.

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.

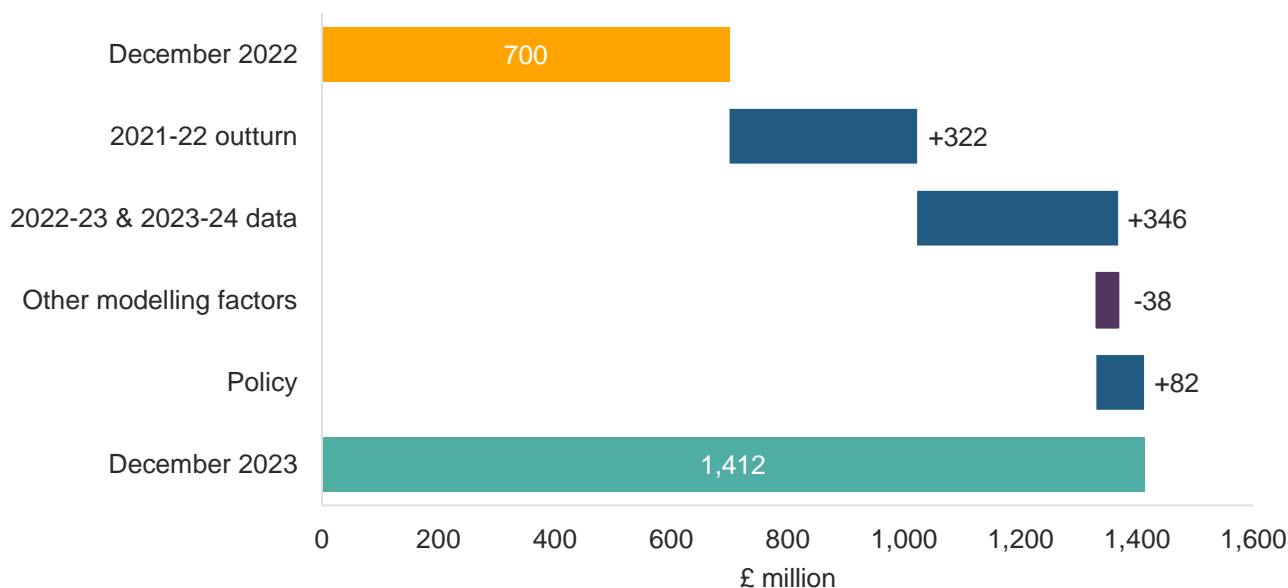
39 Recently published data on income tax in Scotland has been higher than expected. Income tax outturn data published in July 2023 showed the income tax net position for 2021-22 was around

£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 chart 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 updated 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.

Additional Information

Abbreviations

BGA	Block Grant Adjustment
CDP	Child Disability Payment
COFOG	Classifications of Functions of Government
CPI	Consumer Price Index
DHP	Discretionary Housing Payment
DLA	Disability Living Allowance
DWP	Department for Work and Pensions
EU	European Union
FAI	Fraser of Allander Institute
FT	Financial Transactions
GDP	Gross Domestic Product
IFRS16	The International Financial Reporting Standards 16
LBTT	Land and Buildings Transaction Tax
MTFS	Medium Term Financial Strategy
NDR	Non-Domestic Rates
NHS	National Health Service
NICs	National Insurance Contributions
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Cooperation and Development
ONS	Office for National Statistics
PAYE	Pay As You Earn
PIP	Personal Independence Payment
PUT	Public Use Tape
RTI	Real Time Information
SFC	Scottish Fiscal Commission
SPI	Survey of Personal Incomes
SRTI	Special Rules for Terminal Illness
UK	United Kingdom

A full glossary of terms is available on our website:

<https://www.fiscalcommission.scot/explainers/glossary/>

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⁸ OECD (2014) Recommendation on Principles for Independent Fiscal Institutions ([link](#)).

⁹ Scottish Fiscal Commission (2018) Compliance with the Code of Practice for Official Statistics ([link](#)).

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All charts and tables in this publication have also been made available in spreadsheet form on our website. For technical enquiries about the analysis and data presented in this paper please contact the responsible analyst:

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