
Spending trends in the 2024-25 Scottish Budget

© Crown copyright 2024

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit: <http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at www.fiscalcommission.scot

Any enquiries regarding this publication should be sent to us at: Scottish Fiscal Commission, Governor's House, Regent Road, Edinburgh EH1 3DE or info@fiscalcommission.scot

ISBN: 978-1-911637-67-7

Published by the Scottish Fiscal Commission, January 2024

Laying Number: SFC/2024/1

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 taxes and devolved social security spending, as well as assess the reasonableness of the Scottish Government's borrowing plans. We also provide commentary on the funding position for the Scottish Budget. Our forecasts and assessments represent the collective view of the four Commissioners of the Scottish Fiscal Commission, and we take full responsibility for them.

We have also begun work looking at the Scottish Government's spending plans. In May 2022 and December 2023, we commented on the Scottish Government's resource spending plans on a portfolio basis. In March 2023, our Fiscal Sustainability Report (FSR) included analysis of Scottish Government spending for the first time on a Classification of the Functions of Government (COFOG) basis.

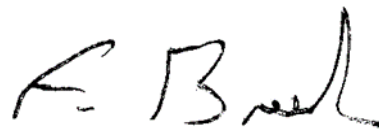
Following the supply of new data, this supplementary paper provides analysis of the public spending plans set out in the 2024-25 Scottish Budget. We have used the Classification of the Functions of Government (COFOG) to show changes in spending year-on-year on a consistent basis.

We hope that this paper supports the scrutiny of the Scottish Budget by the Finance and Public Administration Committee (FPAC) and the Scottish Parliament as well as the wider public. We welcome any feedback on this publication.

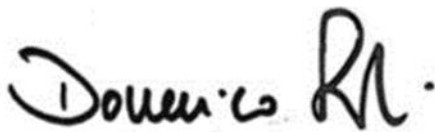
We are grateful to the Scottish Government for their providing us with the data used in this paper.



Professor Graeme Roy



Professor Francis Breedon



Dr Domenico Lombardi



Professor David Ulph

23 January 2024

Contents

Spending trends in the 2024-25 Scottish Budget	3
Introduction	3
Discretionary spending.....	4
How to compare spending over time	6
Spending comparisons.....	6
Total spending.....	7
Resource.....	12
Capital	13
Conclusions	14
Annex A Technical considerations.....	15
COFOG and presentational adjustments.....	15
Verity House restatements	15
Baseline restatements	16
Budget-neutral internal transfers	17
Budget cover from UK Government departments.....	18
IFRS 16.....	19
HMT and Scottish Budget basis	20
Annex B COFOG classification.....	22
Additional Information.....	24
Abbreviations	24
Professional Standards	24
Correspondence and enquiries	24

Spending trends in the 2024-25 Scottish Budget

Introduction

- 1 Our December 2023 forecast report set out the funding position for the 2024-25 Scottish Budget compared to 2023-24.¹ We also provided commentary on how the Scottish Government plans to allocate its resource funding between portfolios, and the real-terms changes between 2023-24 and 2024-25 to support scrutiny of the Budget.²
- 2 The Scottish Government has now provided us with more detailed data allowing us to do new analysis. This analysis differs from that presented by the Scottish Government in its Budget documents. Spending plans published in successive Budgets are presented by portfolio, and because these change over time, consistent comparisons are difficult to make. Instead, we use the UN's Classification of Functions of Government (COFOG) to group spending by function.³ This allows us to present a more consistent comparison of the 2024-25 Budget plans to spending levels in both 2022-23 and 2023-24.
- 3 In this paper we focus on the discretionary share of the Scottish Budget. We outline trends for total spending and then trends for resource and capital spending separately.
- 4 **Annex A** sets out the technical difficulties we have faced in undertaking this work and the limitations of the data used. Despite these, this paper concludes that since 2022-23 we have seen steady and rapid growth in spending on the category of social protection. This is a result of UK-wide trends for rising demand for disability benefits, as well as Scottish Government policy choices, such as:
 - The introduction of new benefits in Scotland like the Scottish Child Payment.
 - Changes to the delivery of social security as payments have been devolved.
 - Linking payment rates to inflation.
- 5 We also conclude that spending on health, by far the largest component of the Scottish Budget, has not kept up with inflation.⁴ Focusing on the resource element, health spending fell in 2023-24, but the 2024-25 Budget returns it to 2022-23 levels in real terms. However, capital spending on health fell substantially in 2023-24 and, despite an increase in 2024-25, it is expected to be 15 per cent below 2022-23 levels in real terms. As 2024-25 progresses, though, health spending may increase if additional funding arises or if there are reprioritisations within the Budget.
- 6 Changes to funding and therefore spending as the year evolves can be significant. For example, provisional outturn data for 2022-23 shows spending almost £1 billion higher than expected when the Budget was set. Therefore, for past and current years we reflect changes to in-year spending to provide more up-to-date comparisons than the position when each budget was presented to

¹ Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023 ([link](#))

² See Figure 2.3 in Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023 ([link](#)). This compares spending plans for 2024-25 to the 2023-24 position when the Budget was introduced in December 2022.

³ **Annex B** provides a full breakdown of the COFOG categories.

⁴ We use the GDP deflator to adjust public spending for inflation.

Parliament. We estimate spending in 2022-23 based on provisional outturn data.⁵ For 2023-24 we focus on the latest position for which we have spending plans, set out in the Autumn Budget Revision (ABR).⁶ Funding was £374 million higher in the ABR than in the 2023-24 Budget as introduced.⁷

- 7 Consistent comparisons between years are complicated by how the Scottish Budget is managed during the year. When the Budget is set, spending is normally included in the relevant portfolio and COFOG category. During the year, as part of Budget Revisions, it may move to the portfolio with the relevant delivery programme, and change its COFOG classification in the process.
- 8 We aim to present a comparison of spending plans in the 2024-25 Budget to previous years, based on up-to-date estimates of the level of funding. Therefore, we had to omit internal transfers between portfolios in both 2022-23 and 2023-24. These are mostly operational, and so we believe they do not distort the analysis because they do not represent change in underlying spending priorities. Internal transfers in all cases add up to zero, but in 2022-23 their absolute value exceeded £3 billion, 6.3 per cent of the 2022-23 Budget as introduced.
- 9 The Scottish Government, in its Budget documents, compares 2024-25 spending plans to the 2023-24 Budget at the time it was introduced. This avoids the issue, since the comparison is made before there are any transfers during the year. However, as we attempt to show the most up-to-date spending position possible, we have made some assumptions and adjustments to the data from earlier years to provide a consistent picture of spending between years.

Discretionary spending

- 10 Throughout this paper, we discuss only the discretionary budget – that which the Scottish Government distributes in line with its own priorities. It is managed as three separate budgets: the resource budget (for running costs), the capital budget (for direct investment in assets) and the financial transactions budget (for investment in assets by lending or purchasing equity). Discretionary funding for one of the three budgets cannot be normally spent on another.⁸
- 11 Not all the spending the Scottish Government manages is discretionary. Some resource expenditure, such as depreciation and impairments, have a dedicated and separate budget (non-cash) that is ringfenced. Annually Managed Expenditure (AME) relating to devolved areas – pensions payments to NHS staff and teachers and the supply of student loans – is not subject to budget limits and is funded by the UK Government. Together they make up a tenth of the overall Scottish Budget, which we exclude from our analysis. Figure 1 shows the scale of each component in the 2024-25 Budget as introduced.

⁵ Specifically, we take the spending plans in the 2022-23 Budget as presented, add any changes to spending funded from newly deployed resources, add adjustments the Scottish Government has made for presentational purposes, and add any variance relative to provisional outturn data. For more details on presentational adjustments, see [Annex A](#).

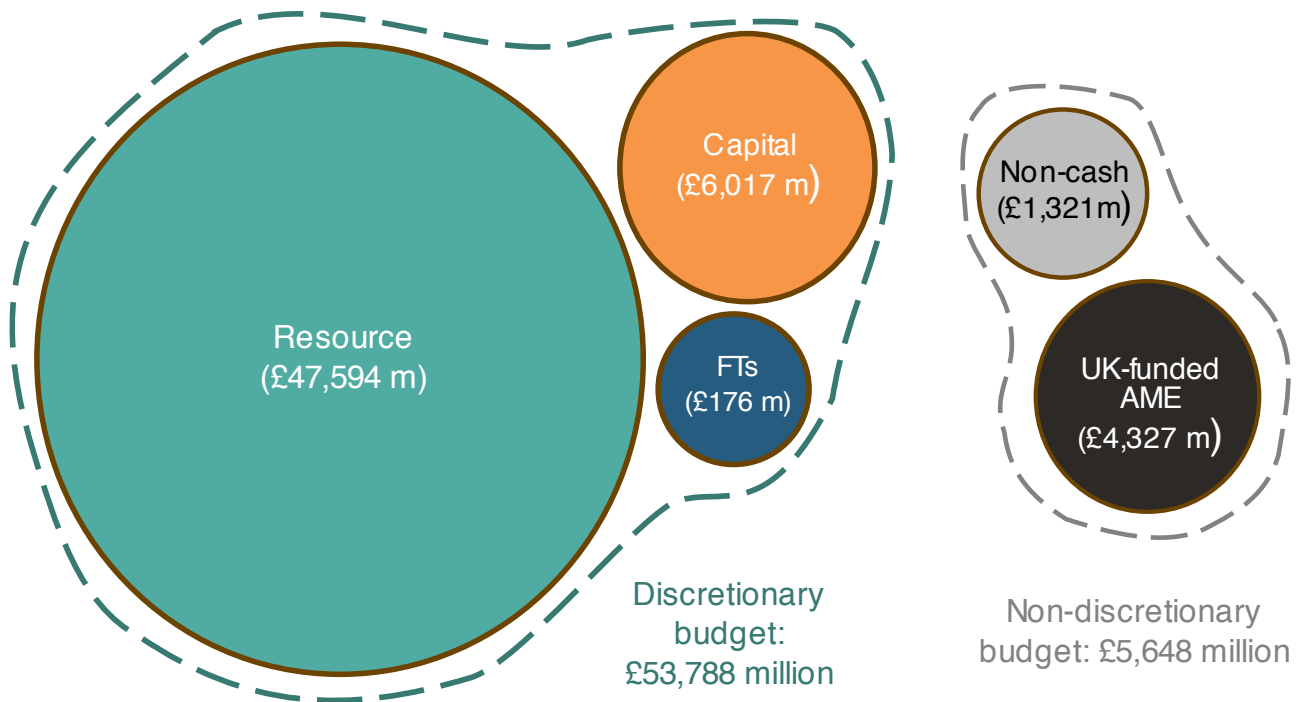
⁶ Also after presentational adjustments. See [Annex A](#) for more details.

⁷ The spending levels for 2023-24 reconcile with the middle column of Annex D in Scottish Fiscal Commission (2023) *Scotland's Economic and Fiscal Forecasts – December 2023* ([link](#)).

⁸ Funds from the resource budget can be moved to the capital budget, and funds from the capital budget can be transferred to the financial transactions budget. These 'budget switches' are one-way only. Any other switch is extraordinary and requires explicit authorisation from HM Treasury.

Figure 1: Composition of spending in 2024-25 Budget Bill

The Scottish Government decides how to spend almost £53,788 million, but it manages an additional £5,652 million over which it has little control



Description of Figure 1: Infographic showing the two main components of the Scottish Budget. In 2024-25, the total budget is £59,436 million. Most of it (90.5 per cent) is the discretionary budget, of which most is for resource spending (£47,594 million), followed by capital spending (£6,017 million) and financial transactions (£176 million). The remaining 9.5 per cent (£5,648 million) is the non-discretionary part of the budget, and it mostly spending that is directly and fully funded by the UK Government (£4,327 million), with the rest being a ringfenced budget for accounting costs called ‘non-cash’ (£1,321 million). Source: Scottish Fiscal Commission

Box 1: HM Treasury (HMT) and Scottish Budget basis

This paper discusses the discretionary share of the Scottish Budget on an ‘HMT basis’. The total reconciles to the budget limits HMT sets for the Scottish Government once we adjust for its devolved sources of funding, as outlined in the Fiscal Overview chapter of our Scotland’s Economic and Fiscal Forecast (SEFF) publications.

However, the Budget and Budget Revision documents show totals on a different basis, the ‘Scottish Budget basis’. This reflects only spending that requires the legal authority of a Budget Act to be lawfully incurred. On this basis, some spending is moved between areas and some spending is excluded from the Scottish Parliament’s vote. These are the numbers that eventually feature in the Budget (Scotland) Act.

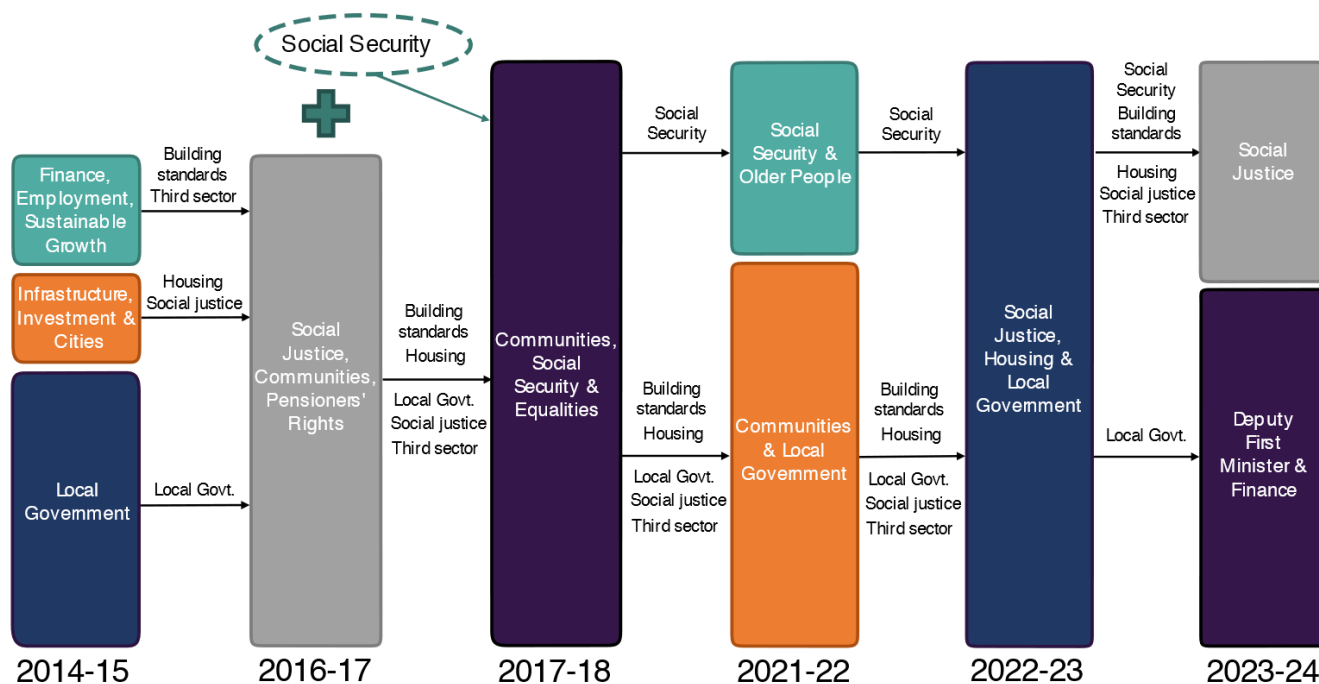
More details about the differences between the bases and how to reconcile them can be found in [Annex A](#). The use of different bases means that care must be taken when comparing between totals in our commentary and in the Budget and Budget Revision documents.

How to compare spending over time

12 The Scottish Budget is divided into portfolios, each being the responsibility of a Cabinet Secretary. Portfolios group spending by function, but their make-up changes over time because of shifts in political priorities and changes in ministers. Figure 2 shows the movements of some policy areas across portfolios as an illustration of this.

Figure 2: Example of movements of spending areas through portfolios

Portfolios are reshaped over time, and policy areas move around in consequence.



Description of Figure 2: Infographic showing movement across portfolios of six policy areas from 2014-15 to 2023-24. Building standards, third sector, housing, social justice and local government, initially in separate portfolios, are consolidated into one in 2016-17. The portfolio is expanded in 2017-18 with a new addition (social security). In 2021-22 social security goes on to form its own separate portfolio, while the other five policy areas remain in a renamed, smaller portfolio. The two are merged again in 2022-23. In 2023-24, the portfolio is split into two once again, now with local government being the only policy area that is separate from the other five.

Source: Scottish Fiscal Commission

13 The United Nations' Classification of the Functions of Government (COFOG) classifies spending by function.⁹ It groups public spending into functional categories such as health, education, or public order. Classifications are standardised enabling comparisons over time and internationally. We use COFOG as the basis of our analysis. [Annex B](#) provides a full breakdown of the spending areas falling within each of the ten broad categories we use in this paper.

Spending comparisons

14 With limited scope for borrowing, the Scottish Government's spending plans must match the available funding at all times. Our forecast reports focus on how much the Scottish Government can spend, its funding. In this paper we consider the allocation of that funding among areas of devolved responsibility.

⁹ United Nations (2003) Classification of Expenditure According to Purpose: Functions of Government (COFOG) ([link](#))

- 15 Figure 3 shows the total spending levels we are comparing in this paper. More details on the sources of funding can be found in our December 2023 report.¹⁰
- 16 Inflation also needs to be considered as it affects the actual value of spending levels. Spending on a certain area might fall in real terms even when the budget allocation is larger in nominal terms than in earlier years. Therefore, we show spending in nominal and real terms using the GDP deflator.

Figure 3: Discretionary levels of spending

£ million, nominal terms unless specified	2022-23	2023-24 (Budget Bill)	2023-24 (ABR)	2024-25 (Budget Bill)
Resource spending	43,191	44,991	45,315	47,594
Capital spending	5,772	6,363	6,413	6,193
Total spending	48,963	51,354	51,728	53,788
Total spending (2023-24 prices)	51,949	51,354	51,728	52,901
Real growth rate (per cent) [1]		-1.1	0.7	2.3

Source: Scottish Fiscal Commission, based on Scottish Government data.

Shaded cells refer to provisional outturn; final amounts will be confirmed in the 2022-23 Scottish Budget Consolidated Accounts.

Figures exclude IFRS16 adjustments and internal transfers; detail on why these are omitted can be found in [Annex A](#).

[1] Growth rates relative to the previous column.

Total spending

- 17 Planned spending in the 2024-25 Budget has grown by almost £2.1 billion compared to 2023-24.¹¹ Figure 4 shows our estimate of discretionary spend for each COFOG category over the three-year period. Although for 2023-24 we focus on the spending plans at the ABR, we also show them at the time the Budget was introduced for consistency with the Scottish Budget documents.

¹⁰ See Chapter 2 and Annex D of Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023 ([link](#))

¹¹ 2023-24 position at the time of the ABR.

Figure 4: Discretionary spending by COFOG category

£ million, nominal terms	2022-23	2023-24 (Budget Bill)	2023-24 (ABR)	2024-25 (Budget Bill)
Health	17,597	18,115	18,165	18,817
General public services [1]	12,225	12,159	12,427	12,746
Social protection	5,157	5,992	6,028	7,120
Education [1]	3,403	3,666	3,672	3,725
Public order and safety	3,589	3,435	3,482	3,873
Transport	2,891	3,196	3,196	3,291
Economic affairs excl. transport	2,480	2,742	2,717	2,489
Housing and community amenities	848	913	909	656
Environmental protection	455	810	806	746
Recreation, culture and religion	316	327	327	324
Total spending (resource and capital)	48,963	51,354	51,728	53,788

Source: Scottish Fiscal Commission, based on Scottish Government data.

Figures may not sum because of rounding.

Shaded cells are our estimates based on provisional outturn data.

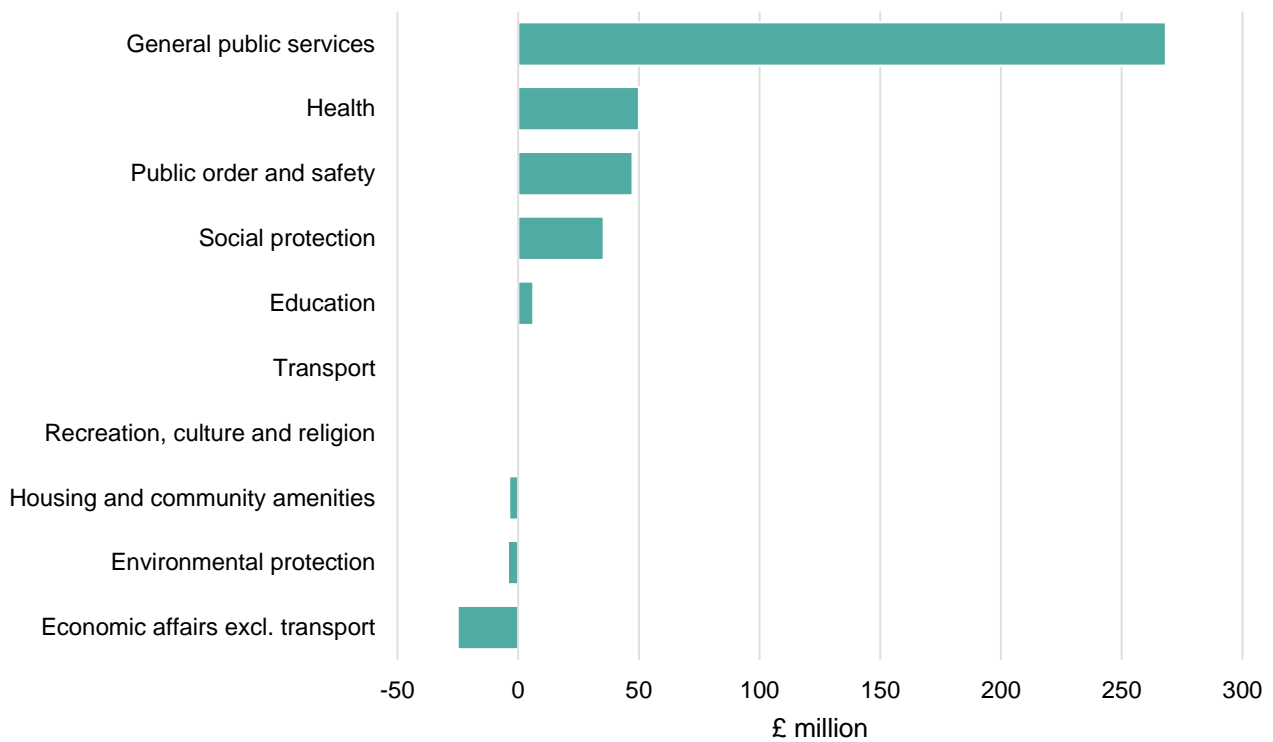
Figures exclude IFRS16 adjustments and internal transfers; detail on why these are omitted can be found in [Annex A](#).

[1] In 2022-23 and 2023-24, £521.9 million has been moved from the 'Education' category to the 'General public services' category to account for Early Learning and Childcare grants to local government that have changed classification. This provides a consistent classification of the spending across all three years but differs from the COFOG data published by the Scottish Government alongside the 2024-25 Budget. [Annex A](#) has more details.

- 18 Figure 4 shows Budget Bill spending plans for 2023-24 increased by £374 million at the Autumn Budget Revision (ABR). Figure 5 shows how this additional funding was allocated across categories. Most of the planned increase was allocated to general public services, which covers grants to local government.

Figure 5: Changes in spending plans in 2023-24 (Budget Bill to Autumn Budget Revision)

In the ABR most of the additional funding deployed was for general public services



Description of Figure 5: Bar chart showing the changes in spending plans in 2023-24 implemented at the Autumn Budget Revision. Most additional funding was allocated to general public services, £268 million. Health, public order and safety, social protection and education also saw small increases of between £6 and £50 million. Transport and recreation, culture and religion were unchanged. Housing and community amenities, environmental protection and economic affairs excluding transport saw their allocations slightly decreased to provide funding for other areas.

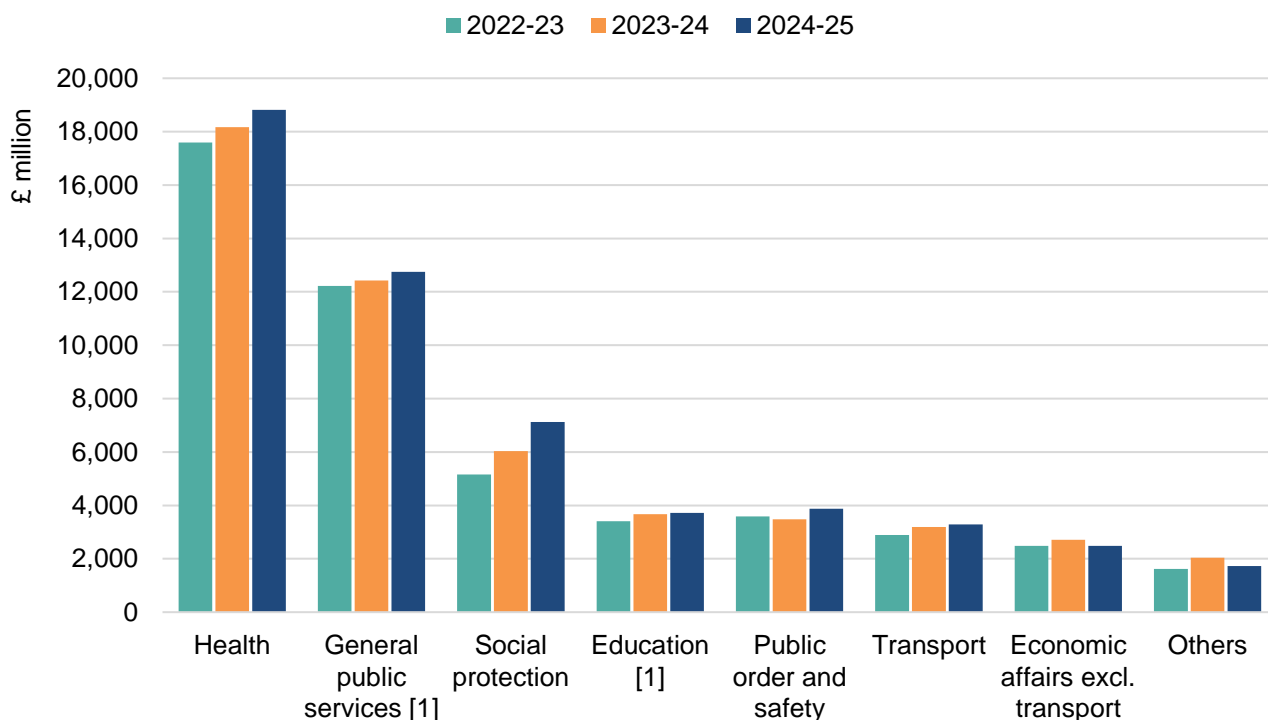
Source: Scottish Fiscal Commission, based on Scottish Government data.

Figure excludes IFRS16 adjustments and internal transfers; detail on why these are omitted can be found in [Annex A](#).

19 Figure 6 shows spending trends since 2022-23 in nominal terms. The increased funding has been mostly spent on health, general public services, social protection, and public order and safety. Social protection, which includes devolved social security payments, has grown most rapidly, by almost 38 per cent over three years. Other areas of spending, in contrast, have received relatively similar levels of resources over time. The ranking of priorities has remained broadly constant.

Figure 6: Spending levels by COFOG since 2022-23

Health, general public services and social protection get most of the additional funding year-on-year, with social protection growing the fastest.



Description of Figure 6: Column chart showing total spending levels from 2022-23 to 2024-25 based on COFOG category. Spending in health, general public services and social protection are the largest areas of spend and have seen their allocations increase year-on-year, especially social protection. Education saw a small rise in 2023-24 but is broadly flat in 2024-25. Public order and safety saw a slight drop in 2023-24 but has seen a rise in 2024-25. Transport has seen small increases in 2023-24 and 2024-25. Economic affairs excluding transport and other COFOG categories all saw an increase in 2023-24 but have decreased in 2023-24.

Source: Scottish Fiscal Commission, based on Scottish Government data.

Figure excludes IFRS16 adjustments and internal transfers; detail on why these are omitted can be found in [Annex A](#).

[1] In 2022-23 and 2023-24, £521.9 million have been moved from the 'Education' category to the 'General public services' category to account for Early Learning and Childcare grants to local government that have changed classification. This differs from the COFOG data published by the Scottish Government alongside the 2024-25 Budget. Annex A has more details.

- 20 Although there are greater levels of planned spending for most areas in nominal terms, we are in a period of high inflation. In 2022-23 the GDP deflator reached 6.7 per cent and the Consumer Price Index (CPI) reached 10.0 per cent.¹² In 2023-24, the rate of increase in the GDP deflator is still expected to be high at 6.1 per cent, before falling to 1.5 per cent in 2024-25.
- 21 Spending levels in real terms in 2023-24 at the ABR are roughly the same as in 2022-23. We expect total funding in 2024-25 to be around 2 per cent higher in real terms than in 2022-23. The increases in real-terms funding do not translate into proportional uplifts across all areas of devolved spending, as shown in Figure 7.
- 22 The largest component of the Scottish Budget is health. In real terms, once we omit internal transfers that happen during the year, we estimate that total health spending fell by 3 per cent in 2023-24. In 2024-25 it has increased, but not enough to fully restore the 2022-23 levels.
- 23 General public services, which includes most grants to local government, saw significant real-terms falls in 2023-24. The cash increase in the 2024-25 Budget shown in Figure 5 will translate to some

¹² A discussion on the differences between the GDP Deflator and the Consumer Price Index measure of inflation can be found in Chapter 2 of Scottish Fiscal Commission (2022) Scotland's Economic and Fiscal Forecasts – December 2022 ([link](#))

real-terms growth, but this category will remain 3.3 per cent below 2022-23 levels. Social protection is the only one of the three major areas of devolved spend that has grown steadily and rapidly year-on-year even in real terms.

Figure 7: Real terms change in total spending (resource and capital) by COFOG category

2022-23 = 100, unless otherwise specified	Share of budget (per cent) [2]	2022-23	2023-24 (Budget Bill)	2023-24 (ABR)	2024-25 (Budget Bill)
Health	35.0	100	97	97	99
General public services [1]	23.7	100	94	96	97
Social protection	13.2	100	110	110	128
Education [1]	6.9	100	102	102	101
Public order and safety	7.2	100	90	91	100
Transport	6.1	100	104	104	106
Economic affairs excl. transport	4.6	100	104	103	93
Other	3.2	100	119	119	99
Total spending (resource and capital)	100.0	100	99	100	102

Source: Scottish Fiscal Commission, based on Scottish Government data.

Figures may not sum because of rounding.

Figure excludes IFRS16 adjustments and internal transfers; detail on why these are omitted can be found in [Annex A](#).

[1] In 2022-23 and 2023-24, £521.9 million have been moved from the 'Education' category to the 'General public services' category to account for Early Learning and Childcare grants to local government that have changed classification. This provides a consistent classification of the spending across all three years but differs from the COFOG data published by the Scottish Government alongside the 2024-25 Budget. [Annex A](#) has more details.

[2] Of the 2024-25 Budget as introduced.

- 24** In 2023-24, despite total spending levels being flat in real terms, education, transport, economic affairs excluding transport, and other categories all saw increases in their allocations. In contrast, there was a real-terms reduction of 8.6 per cent in spending on public order and safety.
- 25** In 2024-25, when total spending levels are expected to be 2 per cent greater in real terms than in 2022-23, expenditure on public order and safety is expected to return to 2022-23 levels. Both education and economic affairs (excluding transport) will see their allocations reduced, with education ending up close to 2022-23 levels and economic affairs excluding transport 7 per cent below 2022-23 levels.
- 26** Most health spending is in the resource budget, 96 per cent on average. So, the health trend is mostly defined by what is happening to resource spending. But the capital allocation for health is falling much more rapidly and reduces overall health spending by 1 per cent. The next sections discuss trends for each budget in more detail.
- 27** Growth rates in the 'Other' category are volatile because each of its three components has relatively low levels of spending.¹³ In 2023-24 planned growth is very strong, driven mostly by the 'environmental protection' category. In contrast, in 2024-25 the fall is similarly sharp but in this case driven by the 'housing and community amenities' category.

¹³ The 'Other' category covers 'environmental protection', 'housing and community amenities' and 'recreation, culture and religion'.

Resource

- 28 In the resource budget some areas of spending are relatively unchangeable and pre-determined by earlier decisions.
- Social security is demand-led, and so once policy has been set the Scottish Government needs to pay all those who are eligible. Spending on social security is therefore not easily adjusted when resource funding levels shift unless eligibility changes. In 2023-24 social security payments accounted for 81 per cent of spending in the 'social protection' category.
 - Revenue from Non-Domestic Rates (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 government. In 2023-24, NDR revenues accounted for around a quarter of spending in the category 'general public services'.
- 29 Even though resource funding is expected to increase in 2024-25, after social security and NDR the Scottish Government has a real-terms cut in the amount to allocate among all other areas of devolved resource spending in 2024-25.¹⁴
- 30 Figure 8 shows the real-terms changes in resource spending by category. Spending on social protection is the only area where spending increases notably above 2022-23 levels.
- 31 Health resource spending fell by 2 per cent in real terms in 2023-24 but returns to 2022-23 levels in the 2024-25 Budget. The Resource Spending Review (RSR) in May 2022 had set out that the Health & Social Care portfolio, which accounted for almost all health spending, would maintain its 2022-23 levels in real terms in 2023-24 and grow by 1 per cent in real terms in 2024-25.
- 32 This may be difficult to achieve because of two factors. Firstly, around £205 million was added to health spending during 2022-23. The baseline is higher, so the commitment to grow it by 1 per cent requires more resources. Secondly, inflation expectations for 2023-24 are significantly higher now than when the RSR was published. In May 2022, we expected the increase of the GDP deflator to be 2.4 per cent for 2023-24, while in our latest forecasts we expect it to reach 6.1 per cent. With resource health spending being more than a third of the overall discretionary budget, keeping it constant in real terms in 2023-24 and growing it by an extra 1 per cent in 2024-25 would require substantially more resources in both years, reducing funding available for other areas.
- 33 Resource spending on education has been broadly constant in real terms since 2022-23. For transport, and for public order and safety, levels are planned to fall in 2023-24, but then increase again in 2024-25. Resource spending on transport ends up 1 per cent above the level spent in 2022-23 while on public order and safety it ends up 3 per cent below 2022-23 levels.

¹⁴ See Figure 2.7 in Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023 ([link](#))

Figure 8: Real terms change in resource spending by COFOG

2022-23 = 100, unless otherwise specified	Share of resource budget (per cent) [2]	2022-23	2023-24 (Budget Bill)	2023-24 (ABR)	2024-25 (Budget Bill)
Health	38.0	100	98	98	100
General public services [1]	26.6	100	94	96	97
Social protection	14.8	100	110	111	129
Education [1]	6.7	100	99	100	101
Public order and safety	7.5	100	89	91	97
Transport	3.2	100	98	98	101
Economic affairs excl. transport	2.2	100	103	100	100
Other	1.0	100	114	113	101
Total resource spending	100.0	100	98	99	102

Source: Scottish Fiscal Commission, based on Scottish Government data.

Figures may not sum because of rounding.

Figure excludes IFRS16 adjustments and internal transfers; detail on why these are omitted can be found in [Annex A](#).

[1] In 2022-23 and 2023-24, £521.9 million have been moved from the 'Education' category to the 'General public services' category to account for Early Learning and Childcare grants to local government that have changed classification, this provides a consistent classification of the spending across all three years. This differs from the COFOG data published by the Scottish Government alongside the 2024-25 Budget. [Annex A](#) has more details.

[2] Of the 2024-25 Budget as introduced.

Capital

- 34 The Scottish Government is facing a reduction in its capital budget in 2024-25. While overall resource spending levels are expected to be 3.3 per cent greater in 2024-25 than in the previous year, the capital budget is forecast to fall by 5.7 per cent in the same period.
- 35 Figure 9 shows that the 2023-24 capital budget is larger than 2022-23. Allocations increase for education, public order and safety, transport and other economic affairs but fall substantially for health, social protection, and general public services. Big shifts in percentage terms for capital spending in the areas of social protection and general public services are not surprising since they are a relatively small part of the capital budget. However, health has a relatively large share of the capital budget, so its decrease in percentage terms is more meaningful.
- 36 In 2024-25 the capital budget falls to the extent that it ends up smaller than in 2022-23, and the areas prioritised change. The categories of education, economic affairs excluding transport and others see reductions relative to 2023-24. Capital spending is increasing for general public services, social protection, and public order and safety. Again, the first two categories are relatively small parts of the capital budget, so big changes in percentage terms year-on-year are not surprising. However, public order and safety has a relatively larger share of the capital budget, so the big change in percentage terms is notable.
- 37 Capital spending in health also recovers somewhat, but in real terms the levels in 2024-25 are expected to be 15 per cent below 2022-23. This is the main reason why total health spending has not kept up with inflation in 2023-24 and 2024-25.

Figure 9: Real terms change in capital spending by COFOG

2022-23 = 100, unless otherwise specified	Share of capital budget (per cent) [1]	2022-23	2023-24 (Budget Bill)	2023-24 (ABR)	2024-25 (Budget Bill)
Health	12.2	100	67	73	85
General public services	1.4	100	42	42	119
Social protection	1.3	100	74	74	80
Education	8.5	100	116	116	106
Public order and safety	5.3	100	107	108	155
Transport	28.2	100	110	110	110
Economic affairs excl. transport	23.2	100	105	105	89
Other	20.0	100	121	121	98
Total capital spending	100.0	100	104	105	99

Source: Scottish Fiscal Commission, Scottish Government.

Figures may not sum because of rounding. Figure excludes IFRS16 adjustments and internal transfers; detail on why these are omitted can be found in [Annex A](#).

[1] Of the 2024-25 Budget as introduced.

Conclusions

- 38 The amount of funding available changes over time. As the Scottish Budget must be broadly balanced, overall spending levels must change accordingly.
- 39 Social protection is the only one of the three major areas of public expenditure seeing steady and rapid growth over the three-year period. This is a result of UK-wide trends for rising spending on disability benefits as well as Scottish Government commitments on social security and the linking of payment rates to inflation.
- 40 Spending on health, by far the largest component of the Scottish Budget, has not kept up with inflation. Currently we expect spending in 2024-25 to be around 1 per cent below 2022-23 levels in real terms. If we look at the two components of the discretionary budget separately, we can see resource spending in 2024-25 is expected to return to 2022-23 levels in real terms. However, a rapid fall in health capital spending means that, in real terms, the Scottish Government plans to spend less in health than it did in 2022-23.
- 41 We encourage the Scottish Government to publish and share with us spending data that enable more detailed analysis. The provision of COFOG data alongside more detailed spending information provides improved understanding of trends in Scottish Government spending over time. However, the usefulness would be even greater if the complexities outlined in [Annex A](#) could be resolved.

Annex A

Technical considerations

- A.1 Scottish Budget documents show a hierarchy of spending lines. Portfolios are at the top of the hierarchy and are followed by three levels of further detail: Level 2, Level 3 and Level 4. While Level 3 and 4 lines themselves are relatively stable over time, as Figure 2 shows they are often moved around as portfolios are reshuffled.
- A.2 Our analysis is based on data the Scottish Government has provided to us showing spending by Classification of Function of Government (COFOG). This allows us to track spending more clearly over time and show how spending within broad consistent categories is changing.
- A.3 Our analysis resembles what the Scottish Government published alongside the 2024-25 Scottish Budget.¹⁵ However, there are three differences:
- We use as comparators the latest spending positions for 2022-23 (based on provisional outturn data) and 2023-24 (as in the Autumn Budget Revision), rather than spending plans when the corresponding Budgets were introduced.
 - We look at the total discretionary spending rather than only what is included in Budget (Scotland) Bills.
 - The Scottish Government has restated the three years in its COFOG data to include IFRS16 related changes. We have excluded these adjustments.
- A.4 The use of COFOG allows for a more consistent comparison of spending by function over time. There are however limitations to the data because of the way it is used in practice. Differences between our analysis and that of the Scottish Government, as well as explanations of the complexities faced while carrying out this analysis are explained in this annex.

COFOG and presentational adjustments

- A.5 Limitations on the COFOG data have been identified because of two Scottish Government decisions on COFOG category allocations for some spending.

Verity House restatements

- A.6 In June 2023 the Scottish Government and the Confederation of Scottish Local Authorities (COSLA) signed the Verity House Agreement. This agreement set out that, moving forward, the default position should be no ringfencing of funding for local government, and so all specific grants should be merged into the General Revenue Grant.¹⁶
- A.7 Until recently, function-specific grants to local government were classed as the COFOG category the funds are intended for. For instance, the Local Government Attainment Grant within the Education &

¹⁵ See 'Analysis by Classification of Functions of Government', Scottish Government (2023) Scottish Budget 2024-2025 ([link](#))

¹⁶ See Paragraph 5 in Scottish Government (2023) New Deal with Local Government – Verity House Agreement ([link](#))

Skills portfolio was in the 'education' category. However, following the Verity House Agreement, it has been decided to class most grants as 'general public services' from the outset.

A.8 This made a comparison to earlier years difficult, so in its COFOG analysis the Scottish Government applied some presentational adjustments. Specifically, most function-specific grants in 2022-23 and 2023-24 that were in the spending plans when each Budget was presented were moved from their original function to 'general public services'. As Figure A.1 shows, the presentational adjustments are budget-neutral, but looking at specific categories, they are large for health.

Figure A.1: Verity House restatements

£ million, nominal terms	2022-23	2023-24	2024-25
Health	-261.5	-376.5	-
General public services	269.4	429.0	-
Social protection	-6.9	-6.9	-
Education	-	-42.2	-
Public order and safety	-	-	-
Transport	-	-	-
Economic affairs excl. transport	-	-	-
Others	-1.0	-3.4	-
Total adjustments	0.0	0.0	-

Source: Scottish Fiscal Commission, based on Scottish Government data. Figures may not sum due to rounding.

- A.9 However, the restatement was missed for early learning and childcare grants. These resource grants were worth around £0.5 billion, more than 10 per cent of the Education & Skills portfolio in 2023-24. Since they were classified in the sub-category 'pre-primary education' in 2022-23 and 2023-24, but classed as 'general public services' in 2024-25, there was a break in the data.
- A.10 We have included the Verity House restatements shown in Figure A.1 in the spending positions we show for 2022-23 and 2023-24. Accordingly, health spending is notionally lower in those two years so that they can be compared to 2024-25. For the missed restatement, we have made an adjustment ourselves so that the comparison in Figures 4, 6, 7 and 8 is also meaningful for education.
- A.11 We understand that the final function of grants to local government cannot always be ascertained as local government decides on spending allocations based on its overall levels of funding. However, we encourage the Scottish Government to consistently adhere to the same COFOG classification whenever resources are transferred to local government on account of pressures created by a certain public service it is responsible for providing. Otherwise, it will not be possible to use COFOG data to track spending over the years.

Baseline restatements

A.12 Although Level 3 spending lines are fairly stable over time, on some occasions they are redefined. Sometimes a spending line is merged with another, and sometimes a certain spending line is split into two or more new lines.

- A.13** In general, assigning a COFOG category is independent from where in the portfolio hierarchy a spending line sits, which is why it is our measure of choice for this analysis. However, assignment is done at the Level 3 spending line level, and there is only one COFOG category assigned to each.
- A.14** As a result, redefinition of Level 3 spending lines in 2024-25 has caused some changes in the COFOG classification. As with Verity House, the Scottish Government restated COFOG spending in 2022-23 and 2023-24 to make the three years comparable. As Figure A.2 shows, they also add up to zero, but their scale is much less material.

Figure A.2: Baseline restatements

£ million, nominal terms	2022-23	2023-24	2024-25
Health	-4.4	-3.1	-
General public services	1.5	16.2	-
Social protection	-	4.8	-
Education	-	-21.0	-
Public order and safety	-	-2.5	-
Transport	-	-	-
Economic affairs excl. transport	-	2.7	-
Others	2.9	2.9	-
Total adjustments	0.0	0.0	-

Source: Scottish Fiscal Commission, based on Scottish Government data.
Figures may not sum due to rounding.

- A.15** We have included the baseline restatements in the spending positions we show for 2022-23 and 2023-24. As with Verity House agreement adjustments, we encourage the Scottish Government to disclose them transparently in future COFOG reports.

Budget-neutral internal transfers

- A.16** The Scottish Parliament passes the Budget (Scotland) Act before the start of the financial year, where it sets out spending plans for the year ahead. Over the course of the year Budget Revisions amend the portfolio allocations in the Act, reflecting changes in funding available and shifts in the Government's spending priorities.
- A.17** The movements we track and report on are those which reflect changes in spending policy:
- Underspends arising during the year in certain areas that are redistributed in line with spending pressures at the time.
 - Decisions to deploy more or less discretionary funding than previously planned, such as proceeds from ScotWind or new drawdowns from the Scotland Reserve.
 - New additional funding from the UK Government that is deployed – either Barnett consequentials, Block Grant Adjustment (BGA) funding, or budget cover from UK Government departments (discussed in the next section).

- A.18 We do not report on internal budget transfers, which are made in Budget Revisions. This ensures spending plans for the current and previous financial years are comparable to those for an upcoming year in which we only have spending plans at the Budget Bill stage. We think this is reasonable because internal transfers are mostly operational. Therefore, they do not reflect changes to spending priorities and they are not made in response to specific pressures.
- 42 Internal transfers across portfolios primarily move budget from the portfolio with the policy lead area to the one with the relevant delivery programme. For instance, at Budget time spending allocated to social care normally sits with the Health & Social Care portfolio. However, at Budget Revisions it moves to the portfolio responsible for local government because it is local government that currently provides social care services.
- A.19 Internal transfers have a neutral effect on total spending as they add up to zero, but they affect COFOG classifications. Building on the previous example, social care spending was classed as ‘Social protection’ on a COFOG basis at Budget time, but it moves to ‘General public services’ at Budget Revisions. This makes sense, since most grants to local government are not ringfenced, so the final function of that spending cannot be determined with certainty. As explained, the Verity House Agreement between the Scottish Government and local authorities means a greater share of spending will be classified as ‘general public services’ from the outset. This will partially reduce the noise in the COFOG data following Budget Revisions, but also reduce the specificity of the data.
- A.20 Still, some internal transfers are within Level 2 spending lines, rather than across portfolios. These may reflect changes within a business area and could be to address specific pressures within their overall allocations. It could be that, as a result, the COFOG category of part of the expenditure changes.
- A.21 Therefore, by omitting internal transfers altogether we are missing this change in spending policy. We do not expect these to significantly change the results, especially because we have focused our analysis at a high level of classification – but it means the numbers in this analysis should be treated with caution.

Budget cover from UK Government departments

- A.22 Most funding available to the Scottish Government is either its own Block Grant and BGAs from the UK Government or its own devolved tax revenues. However, sometimes UK Government departments transfer part of their own budgets to the Scottish Government. We normally include these as ‘Other’ funding in the Fiscal Overview chapter tables of our SEFFs.
- A.23 This funding, known as budget cover, materialises over the course of the year. Sometimes it has been assumed and committed at the time of setting the Budget. Sometimes it has not been assumed, or the amounts end up being different, and so spending plans must be amended accordingly.
- A.24 Although budget cover has a different nature to the Block Grant and BGAs, in practice it contributes to the overall amount of funding available just the same. Therefore, in this paper we have included but not singled out spending changes that are funded with budget cover transfers.
- A.25 The Scottish Government refers to budget cover from UK Government departments as ‘transfers from Whitehall’. It is an umbrella term that covers:

- Budget Cover Transfers (BCT): a transfer of budget by a UK Government department. Sometimes a reserved decision has a financial impact on a devolved area. For example, the decision to welcome Ukrainian and Afghan refugees was made by the UK Parliament as immigration policy is reserved. However, the decision resulted in greater spending pressures in schools and education is devolved. In such cases, the UK Government department whose aim is aligned with the reserved decision will normally cede some budget to the Scottish Government to make up for the additional costs, in this case, the Department for Education.
- Machinery of Government (MoG) transfers: a special kind of one-off BCT. Sometimes a new programme is created within a UK Government department, for example the Common Agricultural Policy programme within the Department for Environment, Food & Rural Affairs following the UK's exit from the European Union. Agriculture is a devolved area. There is accordingly a permanent transfer of budget from that UK Government department to the Scottish Government so that it has resources to undertake these new functions. Once the budget transfer is complete, the programme is included in the Barnett calculations. In the future changes in UK Government spending on this programme result in consequentials.

IFRS 16

- A.26** International Financial Reporting Standards (IFRS) 16 is a new accounting rule concerning leases. It impacts on the magnitudes of spending when looking at resource and capital separately, but it does not affect the actual spending power of the Scottish Government during its implementation period. None of the figures in this paper or our December report reflect IFRS16 adjustments to avoid misleading comparisons. This is because of their fiscally neutral effect during the implementation period, and the fact that the adjustments are not evenly distributed over the three years of adoption.
- A.27** In the public sector IFRS16 is being adopted progressively. 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 has been set with some amounts relating to IFRS16 from the outset.
- A.28** Before the application of IFRS16, operational and financial leases were treated differently.
- Operational leases: like standard rental agreements, lessees do not normally have a right to own the asset at the end of the lease payments. For accounting purposes, the entirety of the lease payments was treated as an expense.
 - Financial leases: like hire purchase agreements, once the last lease payment is made, the lessee becomes the owner of the asset or has the option to acquire it for a residual sum. The accounting for financial leases was more complex. An asset and a liability were created in the balance sheet at the time of entering the lease. Only the part of payments that related to interest was an expense. The rest was a capital repayment that gradually reduced the value of the debt in the balance sheet. Meanwhile, the asset was routinely depreciated to reflect its loss in value.
- A.29** IFRS16 removes this distinction – all leases are to be treated as financial leases. Consequently, any existing operational leases must be capitalised.
- A.30** In the public sector the adoption of IFRS16 requires increasing capital budgets, so that leased assets can be acquired, and greater non-cash budgets to be able to recognise new depreciation

costs. At the same time resource budgets can be reduced, because only the interest will now be considered an expense, rather than the entirety of the lease payments.

A.31 Adopting IFRS16 standards in the public sector is a centrally managed project across the UK. HM Treasury provides capital and non-cash budget cover to all government departments, including Devolved Administrations, while at the same time reducing their resource budget. Therefore, during the implementation period the Scottish Government's spending power has been broadly unaffected by IFRS16 adjustments.

HMT and Scottish Budget basis

A.32 Spending amounts on this paper are reported on an HM Treasury (HMT) basis. The amounts featuring in Budget Acts and Budget or Budget Revision documents are on a Scottish Budget basis.

A.33 One of the main differences between the bases relates to non-cash budgets. We omit these as they are not discretionary spend, so they fall outside the scope of this paper. However, some adjustments made to arrive at the Scottish Budget basis amounts do entail a change in the aggregates we report on. Therefore, amounts in this paper and the SEFF, and those in Budget Acts and related documentation are not the same.

A.34 Amounts on an HMT basis reconcile to the applicable Departmental Expenditure Limits (DEL) for the Scottish Government once we adjust them for devolved sources of funding, as outlined in the Fiscal Overview chapter of our SEFFs.

A.35 In contrast, amounts on a Scottish Budget basis add up to the totals shown on the schedule of Budget (Scotland) Acts. Budget Revisions lead to amendments of those Acts, so they are also on a Scottish Budget basis. To arrive at those, some spending is moved between portfolios with neutral effect. Some is removed altogether because it is legislation other than Budget Acts that give the Scottish Government authority to withdraw resources from the Scottish Consolidated Fund.¹⁷

A.36 Figure A.3 shows the changes made to the spending on an HMT basis to arrive at the amounts that the Scottish Parliament votes on, both as part of the Budget Bill process and in Budget Revisions.

¹⁷ Scottish Government (2023) Scottish Budget 2023 to 2024 – Table E.02 ([link](#))

Figure A.3: Reconciliation of spending levels from HMT to Scottish Budget basis

Neutral changes	Non-neutral changes
Transfer of specific local government grants from the LG portfolio to those of the relevant area (Education, Justice, Transport)	Exclusion of non-cash budgets of NDPBs
Transfer of budget from relevant portfolios to Non-Departmental Public Bodies (NDPBs). For example, from the Justice portfolio to the Scottish Court & Tribunals Service, or from the Health & Social Care portfolio to Food Standards Scotland	Exclusion of loan repayments of public corporations (Scottish Water)
	Exclusion of salaries for the judiciary and police loan charges
	Exclusion of animal licence fees
	Adjustments for Private Finance Initiative (PFI) investments

Source: Scottish Fiscal Commission

A.37 As Figure A.3 shows, non-cash budgets of NDPBs are excluded from the Scottish Budget approved by parliament. Therefore, the difference between both bases is larger during the IFRS16 adoption period. HMT provides extra non-cash budget cover for all public sector bodies, including NDPBs, but non-cash budgets for NDPBs are not included when reporting on a Scottish Budget basis.

Annex B

COFOG classification

Figure B.1: COFOG category breakdown

Government broad objective (division)	Sub-items (groups)
General public services	<ul style="list-style-type: none"> • Executive and legislative organs, financial and fiscal affairs, external affairs • Foreign economic aid • General services • Basic research • R&D related to general public services • Public debt transactions • Transfers of a general character between different levels of government. • General public services not elsewhere classified (n.e.c.)
Defence [1]	<ul style="list-style-type: none"> • Military defence • Civil defence • Foreign military aid • R&D related to defence • Defence n.e.c.
Public order and safety	<ul style="list-style-type: none"> • Police services • Fire-protection services • Law courts • Prisons • R&D related to public order and safety • Public order and safety n.e.c.
Economic affairs	<ul style="list-style-type: none"> • General economic, commercial and labour affairs • Agriculture and forestry, fishing and hunting • Fuel and energy • Mining, manufacturing and construction • Transport • Communication • Other industries • R&D related to economic affairs • Economic affairs n.e.c.
Environmental protection	<ul style="list-style-type: none"> • Waste management • Water waste management • Pollution abatement • Protection of biodiversity and landscape • R&D related to environmental protection • Environmental protection n.e.c.
Housing and community amenities	<ul style="list-style-type: none"> • Housing development • Community development • Water supply • Street lighting • R&D related to housing and community amenities • Housing and community amenities n.e.c.

Health	<ul style="list-style-type: none"> • Medical products, appliances and equipment • Outpatient services • Hospital services • Public health services • R&D related to health • Health n.e.c.
Recreation, culture and religion	<ul style="list-style-type: none"> • Recreational and sporting services • Cultural services • Broadcasting and publishing services • Religious and other community services • R&D related to recreation, culture and religion • Recreation; culture and religion n.e.c.
Education	<ul style="list-style-type: none"> • Pre-primary and primary education • Secondary education • Post-secondary non-tertiary education • Tertiary education • Education non definable by level • Subsidiary services to education • R&D related to education • Education n.e.c.
Social protection	<ul style="list-style-type: none"> • Sickness and disability • Old age • Survivors • Family and children • Unemployment • Housing • R&D related to social protection • Social protection and social exclusion n.e.c.

Source: Eurostat (2019) Manual on sources and methods for the compilation of COFOG statistics — Classification of the Functions of Government ([link](#))

[1] This COFOG category does not feature in our analysis because the data we have suggest the Scottish Government does not incur any defence-related spending.

Additional Information

Abbreviations

ABR	Autumn Budget Revision
AME	Annually Managed Expenditure
BGA	Block Grant Adjustment
BCT	Budget Cover Transfers
CPI	Consumer Price Index
COFOG	Classification of Function of Government
FPAC	Finance and Public Administration Committee
FSR	Fiscal Sustainability Report
GDP	Gross Domestic Product
GRG	General Revenue Grant
HMT	His Majesty's Treasury
IFRS16	International Financial Reporting Standard
MoG	Machinery of Government
NDR	Non-Domestic Rates
NDPBs	Non-Departmental Public Bodies
NHS	National Health Service
OECD	Organisation for Economic Co-operation and Development
PFI	Private Finance Initiative
RSR	Resource Spending Review
SBR	Spring Budget Revision
SEFF	Scotland's Economic and Fiscal Forecasts
SFC	Scottish Fiscal Commission

A full glossary of terms is available on our website:

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

Professional Standards

The SFC is committed to fulfilling our role as an Independent Fiscal Institution, in line with the principles set out by the Organisation for Economic Cooperation and Development (OECD).¹⁸

The SFC also seeks to adhere to the highest possible standards for analysis. While we do not produce official statistics, we voluntarily comply as far as possible with the UK Statistic Authority's Code of Practice for Statistics. Further details and our statement of voluntary compliance can be found on our website.¹⁹

Correspondence and enquiries

We welcome comments from users about the content and format of our publications. If you have any feedback or general enquiries about this publication or the SFC, please contact

info@fiscalcommission.scot. Press enquiries should be sent to press@fiscalcommission.scot.

¹⁸ OECD (2014) Recommendation on Principles for Independent Fiscal Institutions ([link](#))

¹⁹ 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:

Public funding

Claire Murdoch

Claire.Murdoch@fiscalcommission.scot

© Crown copyright 2024

This publication is available at www.fiscalcommission.scot

ISBN: 978-1-911637-67-7

Published by the Scottish Fiscal Commission, January 2024