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Scottish Budget 2024-25

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This briefing considers the Scottish Government's spending and tax plans for 2024-25. More detailed presentation of the budget figures can be found in our budget spreadsheets. Infographics produced by Andrew Aiton, Kayleigh Finnigan, and Fraser Murray.



SCOTTISH BUDGET

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Executive Summary: Income tax increases and budget cuts to fund government priorities

"Values" drive Budget choices

It is often said that budgets are about choices, a representation of the priorities of the government of the day. This budget was no different, and the Deputy First Minister (DFM) was keen to make this point, with her speech using the word "values" no less than eleven times. The "values" of the Scottish Government was the key theme of the DFM's budget speech.

So what has the Scottish Government chosen to prioritise?

Yet again, the Health Budget has been prioritised, and has been awarded higher increases than other spending areas. Indeed, the DFM told the Chamber that prioritising health spending has meant the government is less able to offer support to the business sector – for example, not being able to replicate the UK government's policy of 75% rates relief to the retail, hospitality and leisure sector in England.

Social Security has also been prioritised. Devolved benefits, as in the rest of the UK, will increase by 6.7% next year, but the Scottish Budget also funds benefits like the Scottish Child Payment that will only be available in Scotland. Application process changes for the Adult Disability Payment are expected to result in a higher number of claimants and again, the cost implications of this must be found in the Scottish Budget. The key impact of the social security choices of the Scottish Government is that spending in this policy area in 2024-25 will exceed the block grant adjustment added to the Scottish budget by more than £1 billion. The Scottish Fiscal Commission (SFC) forecasts suggest that this gap will rise to £1.5 billion by the end of the forecast period in 2028-29. Spending £1 billion over and above the block grant addition to the Scottish budget, means that there is £1 billion less for the other parts of the Scottish budget. Another budgetary choice.

Local government's wish list for this year's Budget probably included a hope for increased funding, an expectation of less ring-fencing from central government and an ask for some multi-year certainty. In some of these areas, the Budget has delivered, in others it has not.

Total revenue funding for local government – used for day-to-day spending such as salaries and the purchasing of goods and services – will go up by 5% in real terms. Capital spending falls by 24% in real terms, although this partly reflects a change in the treatment of capital money previously transferred to the revenue budget to support pay deals. The proportion of local government funding formally ring-fenced for national policies is also smaller than last year. This should allow councils more flexibility over how they spend their allocations, and allow them to use more of their budgets to fund local solutions for local problems.

This is the first budget since the much trumpeted [Verity House Agreement](#), signed by the Scottish Government and COSLA in June. A commitment to reducing ring-fencing was part of this, but so too was an agreement to provide multi-year spending plans "wherever possible". Councils will be disappointed that this year's budget, once again, is for a single year only. Such a situation makes medium-term financial planning difficult for councils and

is arguably counter to the Verity House Agreement's stated aim of supporting the delivery of sustainable public services.

Additional funding of £144 million is provided to local authorities next year, provided they all agree to freeze council tax. With the freeze applying to all properties, including the largest and most expensive, it is arguable whether this particular policy is consistent with the value outlined by the DFM of asking "those with the broadest shoulders...to contribute a little more".

Despite a positive settlement for the revenue budget for local authorities, capital budgets are seeing a significant reduction. This could present challenges in maintaining and improving the school estate and in delivering against net zero targets.

The wider reductions to the capital budget are also seen in the Affordable Housing Supply Programme (AHSP) budget. This is being reduced by 27% in real terms in 2024-25. It is unclear how this will affect the Scottish Government's commitment to complete 110,000 affordable homes by 2032 and to invest £3.5 billion in the AHSP this parliamentary term.

Those with the "broadest shoulders" are certainly contributing more when it comes to income tax.

The introduction of the new "advanced" rate tax band means that those earning more than £75,000 will be paying more than they would have under the 2023-24 Scottish income tax policy. Someone earning £100,000 next year will pay £740 more than they did last year, and £3,346 more than someone earning the same salary in the rest of the UK. The income tax bill on earnings of £150,000 will be £2,120 more than last year and £5,978 more than in the rest of the UK.

When compared with income tax policy in the rest of the UK (rUK), Scottish taxpayers earning less than £28,850 will pay up to £23 less income tax per year than they would in the rest of the UK. This accounts for just over half (51%) of all Scottish taxpayers. Above this earnings level, Scottish taxpayers pay more tax than they would in the rest of the UK and the gap widens rapidly for those earning above £50,000. Those earning more than £50,000 will be paying at least £1,500 more income tax per year than they would in the rest of the UK.

The so-called behavioural impacts of these policies will be something to keep an eye on in the coming years. Behavioural effects might involve steps such as increasing pension contributions (to reduce taxable income), reducing hours worked or moving outside Scotland. The SFC forecast that the creation of the new "advanced" rate of 45p for earning between £75,000 and £125,140 will raise £74 million after taking account of behavioural effects (around 50% of the "static costing" – i.e. before taking account of behaviour). The increase in the top rate of tax is expected to generate just £8 million after accounting for behaviour (only 15% of the static costing).

These costings are the estimated in-year revenue that the new proposals for 2024-25 are expected to raise. Over the years, the various different policy decisions of the Scottish Government in respect of income tax mean that Scottish taxpayers are now paying a total of around £1.5 billion more than they would under rUK income tax policy. The longer term economic impact of a growing tax differential between Scotland and the rest of the UK is not yet clear and is something that the Scottish Fiscal Commission and Scottish Government will continue to explore in the years to come. Many of the assumptions used to analyse Scotland's tax divergence are currently based on international evidence (e.g.

different US states having differing tax regimes), but the Scottish Government now has the opportunity to understand the trade-offs of its tax strategy in a far more local context as more evidence emerges.

Tax revenues forecast to perform well and provide significant new resource to the Scottish Government

The creation of a new tax band (increasing Scotland's total to six bands compared with three in the rest of the UK), fiscal drag and better than expected income tax revenues have boosted the Scottish budget.

In 2024-25, the income tax net position is expected to be £1.4 billion. That is, non-savings non-dividend (NSND) income tax revenues in Scotland are expected to exceed the block grant adjustment (BGA) for income tax by £1.4 billion. The income tax BGA is the amount that is removed from the Scottish budget to account for the fact that most income tax decisions have been devolved to the Scottish Parliament. It reflects what Scotland would have raised in income tax if it had retained the same tax policy as the rest of the UK and if Scotland's per capita tax revenues had grown at the same rate as the rest of the UK. This is a much improved position relative to previous forecasts and is double the income tax net position for 2024-25 that had been estimated at December 2022. This largely reflects much stronger earnings growth in Scotland, both relative to previous forecasts and relative to the rest of the UK. This increases the number of taxpayers and the amount of income tax paid and also pulls taxpayers into higher tax bands ("fiscal drag"). It is these factors that are driving the improved income tax net position, rather than the income tax changes announced this year. As outlined above, these have a relatively minor impact on revenues of £82 million.

The picture is forecast to remain positive in subsequent years, On the basis of latest forecasts, the income tax net position (the difference between expected revenues and the BGA) is expected to reach £2.3 billion by 2028-29, although the SFC note that the net position is highly sensitive to changes in the SFC and UK Office for Budget Responsibility (OBR) forecasts that underpin the calculation.

In contrast to previous years, the net income tax position is now broadly in line with the additional amount that Scottish taxpayers are paying relative to what they would be paying under rUK income tax policy. The Scottish Government estimate that Scottish taxpayers are paying an additional £1.5 billion relative to what they would be paying under rUK income tax policy. This provides additional resources for the Scottish budget, enabling the Scottish Government to fund different policy choices.

A lack of clarity in key policy areas

Despite stating in this year's [medium-term financial strategy](#) (MTFS) and in a [recent letter to the Finance and Public Administration Committee](#) that the Scottish Government would publish multi-year budgets, the DFM delivered a single-year Budget in a move that is likely to have disappointed local government and other public and third sector bodies. These bodies had been hoping for a direction of travel for their funding position in the coming years.

The Scottish Government had also stated it would publish revised capital spending plans following an evaluation of existing plans in light of rising costs (from inflation) and reduced capital funding from the UK government. No revised plans were published.

There was also a lack of detail on public service reform and workforce planning.

Despite stating in advance of the Budget, that "the size of the workforce will have to reduce", there was no information provided in the Budget as to what that might mean in practice. The only additional information came in the form of [a letter sent to the Finance and Public Administration Committee on budget day](#), which set out some government work and planning in this area, but this was about processes rather than the actual implications. The Finance and Public Administration Committee will continue to scrutinise progress in this area.

The Finance and Public Administration Committee had also requested in its [Pre-Budget report](#) that the Scottish Government provide a full response to the Fiscal Commission's recent work on long-term fiscal sustainability and hold a debate on this in the Chamber. The response to the Committee report noted support for the debate, but was silent (as was the Budget document itself) on producing a full response to the SFC fiscal sustainability work.

For the second year in a row, there was no public sector pay policy published with the Budget. The Scottish Government stated that it will "set out pay metrics for 2024-25 following the [UK] Spring Budget", though this is [scheduled for 6 March 2024](#) and likely to take place after the Scottish Budget Bill for 2024-25 has been voted on. Given that public sector pay makes up over half of the Scottish resource budget, this presents another risk to the Scottish budget. In the previous and current financial years, significant revisions to budget plans were required in order to accommodate in-year pay deals.

We noted in our [initial Budget blog](#) that the Scottish Government's Climate Change Assessment of the Budget would include an expanded taxonomy of capital and resource spend, with the aim of improving information on the climate impact of public spending decisions in Scotland. We concluded, however, that the new taxonomy does little to increase the ability of Parliament to understand or scrutinise the impact of the Budget on Scotland's climate.

The previous taxonomy categorised capital spending as either low, neutral or high carbon. There is some additional detail in the new taxonomy – low and high carbon spend has been renamed positive and negative to indicate how it aligns to the Scottish Government's intended outcomes, and split to identify low and high impact spend within these categories. However, the document does not allow for an understanding of how this spending will contribute to meeting Scotland's climate targets. We do not know what outcomes will be achieved by this spending – do the current allocations of negative spending set Scotland on a path to meet the emission reduction targets, to what degree is 'positive' spending offset by 'negative', and how will spending decisions in 2024-25 contribute to emissions in future years?

There is plenty for Parliament to get its teeth into in the coming weeks as it considers whether these Budget and tax proposals should be enacted.

Areas for ongoing Parliamentary scrutiny

The Budget Process Review Group recommended in 2017 that individual ministers respond to committee pre-budget reports and letters within five sitting days of the Budget being published and provide a summary in the Budget document of how the submissions from committees have influenced the formulation of the proposals. As we noted in our [initial blog after the Budget](#), this was not included in the main Budget document, but in an online-only annex. Committees should now have government responses and will now consider these responses before Stage 1 in early February.

In a continuation of the approach of the last three years, within the main Budget document each portfolio includes a table on "intended contribution to the national outcomes", split into "primary" and "secondary" outcomes. This is a useful overview, as far as it goes. However, given the high-level nature of both the outcomes and the portfolios, it is questionable how useful this will be for scrutiny. In pre-budget scrutiny, Committees again expressed frustration at the lack of connection between spending and the national outcomes.

With revised national outcomes due to be published in 2024, committee scrutiny in this area will be important in ensuring the National Performance Framework is more effectively used and linked to spending decisions in future.

The Equality and Fairer Scotland Budget Statement comes in at a total of 265 pages, including annexes. It presents some illustrative case studies of how tackling inequalities has informed policy making, and details at great length the impact on inequalities of different portfolios' spending. However, it is hard to understand how the trade-offs inherent in budget setting have been shaped by equalities issues, and therefore how much of a priority tackling inequality is. The sheer volume of information can make scrutinising it more challenging.

Context for Scottish Budget 2024-25

[Scottish Budget: 2024 to 2025](#)¹ was published on 19 December 2023 and presents the Scottish Government's proposed spending and tax plans for next year. The publication signals the start of an intensive period of parliamentary scrutiny, before MSPs vote on these proposals in the early part of 2024.

The Budget incorporates devolved tax forecasts undertaken by the Scottish Fiscal Commission. As well as producing point estimates for each of the devolved taxes for the next five years, the SFC is also mandated to produce forecasts for Scottish economic growth and spending forecasts for devolved social security powers. The SFC's forecasts can be found in [Scotland's Economic and Fiscal Forecasts](#)² published alongside the Scottish Budget.

The spectre of inflation that escalated following the illegal Russian invasion of Ukraine in February 2022 continued to dominate budget deliberations. This has impacted on the Scottish Budget with significant in-year changes being required in both 2022-23 and the current financial year (2023-24). These changes have been required to fund inflationary pressures on people's "cost of living" and previously [unbudgeted pay deals](#) to maintain public services, resulting in knock-on implications across all other "non-pay" parts of the budget, and indeed, future budgets.

The SFC forecasts that inflation will be higher and more persistent than anticipated last year, although there will still be a considerable easing from the levels seen in the last two years. Higher inflation has fed-in to higher earnings growth, and the SFC has revised up its forecast of real disposable income per person – however the SFC notes that the fall between 2021-2024 is still the largest reduction in Scottish living standards since Scottish records began in 1998.

The SFC forecasts that economic growth will remain fragile in the medium term, albeit the Scottish economy has proven more resilient in 2023 than previously forecast. In December 2022, the SFC was forecasting Scottish GDP would fall by 1% this year, but now expects GDP growth of 0.2% in 2023-24.

The SFC's forecasts of Scottish economic output over the forecast period are presented in the table below.

Table 1: SFC Scottish GDP forecasts

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Economy % growth	0.2	0.8	1.3	1.3	1.3	1.4

Source: Scottish Fiscal Commission Scottish Fiscal Commission, 2023²

What numbers should be used?

As seems to happen every year, there is an abundance of figures being quoted in relation to the overall change in the size of the budget.

In an effort to improve the transparency of the budget numbers presented in the documentation, the Finance and Public Administration Committee wrote [to the Deputy First Minister on 21 September 2023, requesting](#) that the Scottish Government consider

presenting:

“ alongside the Scottish Budget 2024-25 (1) what has actually been spent in each area in 2022-23, (2) what the Scottish Government expects to spend in each area in 2023-24, and (3) what the planned spending is for each area in 2024-25. This same comparative approach can then be followed in subsequent years.”

Finance and Public Administration Committee, [Correspondence to the Deputy First Minister](#), 21 September 2023

However, the Budget published on 19 December 2023 did not contain the information requested by the Committee. Instead, the Scottish Government continued to present its budget document on a "budget to budget" basis meaning that all budget lines were presented in comparison to the previous year's budget as passed by Parliament.

While this approach continues the established convention for budgetary presentation over a number of years, it fails to take into account in-year budgetary movements. As mentioned above, in both 2022-23 and 2023-24 these in-year changes have been significant as revised pay deals and cost-of-living interventions have been required to combat soaring inflation. The result of these changes is that the usual "budget-to-budget" comparisons could be, in some circumstances, misleading, or at least not give the full picture of the effect of the changes in budget from one year to the next.

Helpfully, the SFC forecast document provides a fiscal overview setting out the changes in-year against the plans for next year. This shows that the Scottish Government's budget next year is set to increase by £1.3 billion from the latest position for 2023-24, after taking account of in-year changes. This is a rise of 2.6% in cash terms, or a 0.9% rise after taking inflation into account (so called "real terms").

For the purposes of this briefing, however, we will set out the budgets as presented by the Scottish Government in the Budget documentation. This will allow the best read across between the numbers referred to in the Budget and SPICe analysis.

Budget allocations

Total allocations

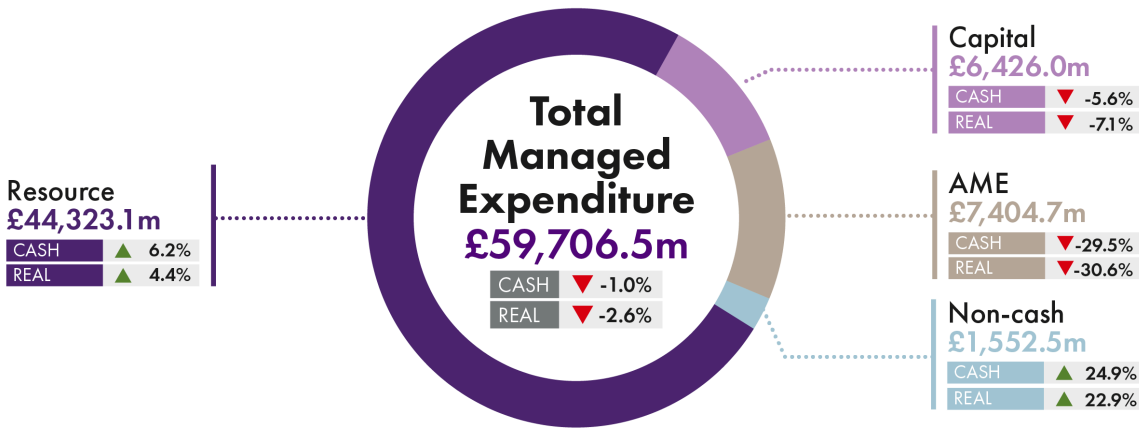
Total Managed Expenditure (TME) comprises Resource, non-cash Resource, Capital and Annually Managed Expenditure (AME). TME in 2024-25 is £59,706.5 million. Figure 1 shows how this is allocated.

Resource (which covers day-to-day expenditure) and Capital (covering spending on buildings and physical assets) are the elements of the budget over which the Scottish Government has discretion. As we can see from the chart, Resource is due to increase by 4.4% in real terms in 2024-25 and Capital is set to fall by 7.1% in real terms.

AME is expenditure which is difficult to predict precisely, but where there is a commitment to spend or pay a charge, for example, pensions for public sector employees. Pensions in AME are fully funded by HM Treasury, so do not impact on the Scottish Government's spending power. AME falls significantly next year due to a technical change to the discount rate for calculating the scale of future pension liabilities for teachers and NHS pensions. This is a UK funded AME line and does not arise from any Scottish Government decision or impact on the discretionary spending power of the Scottish budget.

Non-Domestic Rates income is also classed as an AME item in the budget and forms part of local government spending.

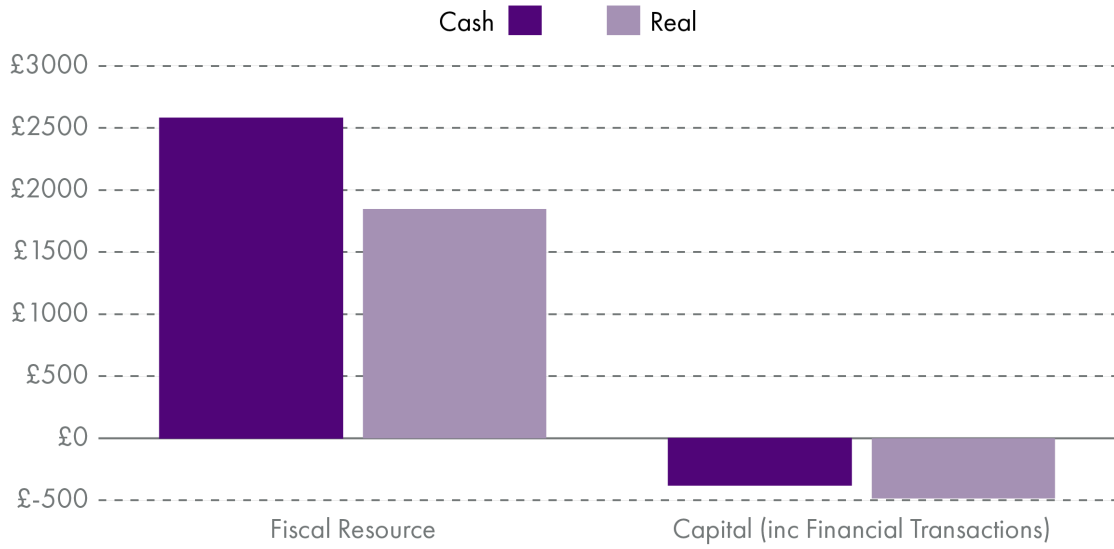
Figure 1: Allocation of TME



Scottish Government

Figure 2 below shows the absolute change in Resource and Capital presented in the document between 2023-24 and 2024-25. Resource will increase by £1,847 million in real terms next year, and Capital (including financial transactions monies) will fall by £484 million.

Figure 2: Absolute change in Resource and Capital, 2023-24 to 2024-25, £m

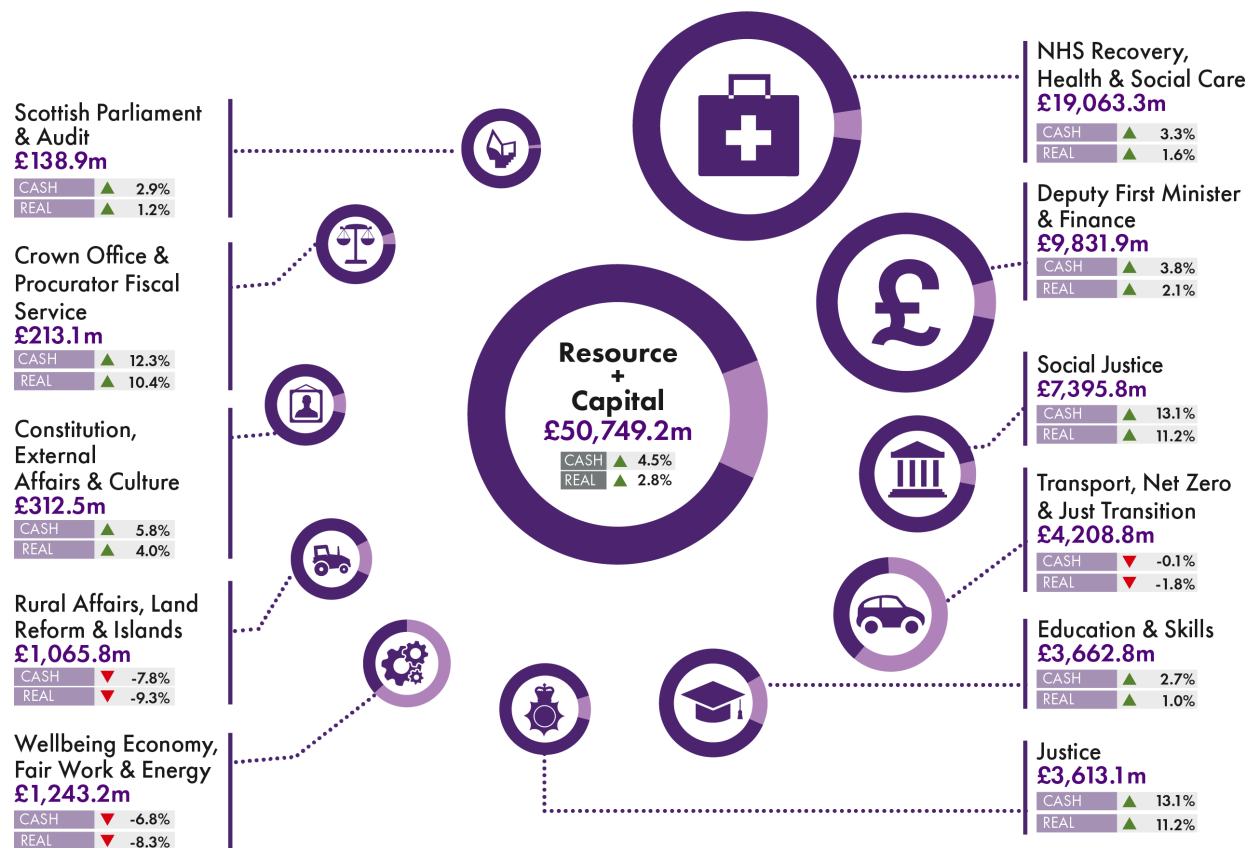


Scottish Government

Portfolio allocations

Figure 3 shows Resource and Capital allocation to portfolios for 2024-25, and how they have changed from the Budget passed by Parliament for the previous year.

Figure 3: Fiscal Resource and Capital, including financial transactions, by portfolio, 2024-25



Scottish Government

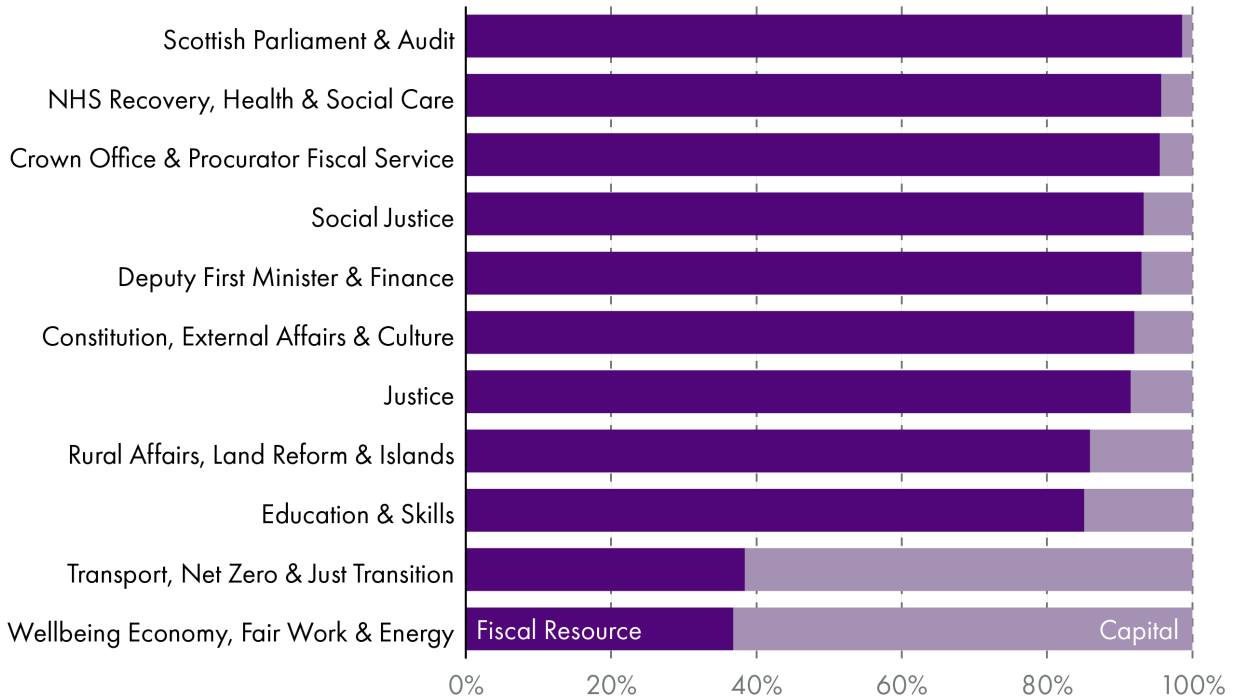
Figure 3 shows the Budget to Budget 2023-24 to 2024-25 portfolio changes in cash and real terms. Key points to note are as follows:

- NHS Recovery, Health and Social Care remains the largest portfolio, comprising 38% of the discretionary spending power (Resource and Capital) of the Scottish Budget in 2024-25.
- Deputy First Minister and Finance is the next largest portfolio comprising 19% of Resource and Capital spend combined. Local government sits within this portfolio, although non-domestic rates income (NDRI) and pensions are not included within the above figure as they are classed as AME items of income/spending.
- Eight of the portfolios increase in both cash and real terms. The largest real terms percentage increases are in Social Justice (which includes social security spending) and Justice – both these portfolios increase by 11.2% in real terms.
- Rural Affairs, Land reform and Islands; Wellbeing, Economy, Fair Work and Energy; and Transport, Net Zero and Just Transition fall in cash and real terms. The largest percentage fall is in the Rural Affairs, Land Reform and Islands portfolio which falls by 9.3% in real terms.

Resource and Capital allocations

Figure 4 below shows the split between Resource and Capital by portfolio. This shows that most portfolios are heavily weighted towards funding day-to-day spending commitments (the Resource budget).

Figure 4: Resource and Capital allocations by portfolio area



Scottish Government

The Transport, Net Zero and Just Transition and Wellbeing, Economy, Fair Work and Energy portfolios have the highest proportion of their budget comprising Capital spending – both over 60%. For the Transport, Net Zero and Just Transition portfolio, this will include projects to progress towards net zero, rail and roads investment and capital investment by Scottish Water. For the Wellbeing, Economy, Fair Work and Energy portfolio, this includes spending on digital connectivity, City Regions, offshore wind projects and investment by the Scottish National Investment Bank (SNIB).

Social Security

With the devolution of certain Social Security powers by Scotland Act 2016 came over £3 billion of spending power via a positive block grant adjustment (BGA) to the Scottish Budget. However, it also brought with it increased budgetary risks, as any spending over and above the BGA must be found from other resources within the Scottish Budget.

The SFC is forecasting that social security spending will significantly exceed the size of the BGA added to the Scottish budget from the UK Government's equivalent spend in 2024-25, and is forecasting that this will increase in subsequent years of the forecast period. This reflects policy decisions around disability benefits and the increase in both the payment amount and eligibility for the Scottish Child Payment.

With spending forecast to be over £6 billion in 2024-25 (see figure 5 below), the SFC expects Social Security spend to be £1.1 billion above the BGA next year and rise to £1.5 billion more than the BGA by the end of the forecast period in 2028-29. This is discussed in more detail in the [section of the briefing on the SFC forecasts](#) .

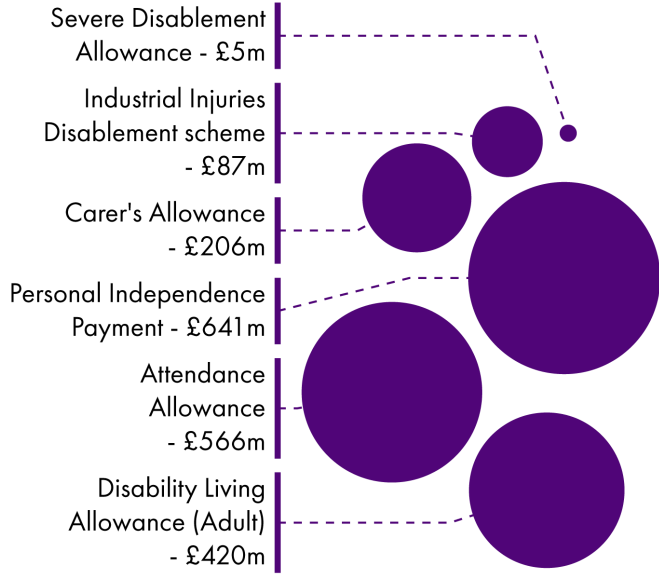
In line with the approach taken by the UK government, the Scottish Government will increase all Social Security benefits over which it has control by the September 2023 rate of inflation of 6.7%.

Figure 5: Devolved Social Security spend for 2024-25

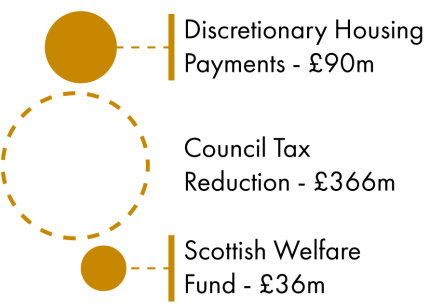
Devolved Social Security spend for 2024-25

£6,258m

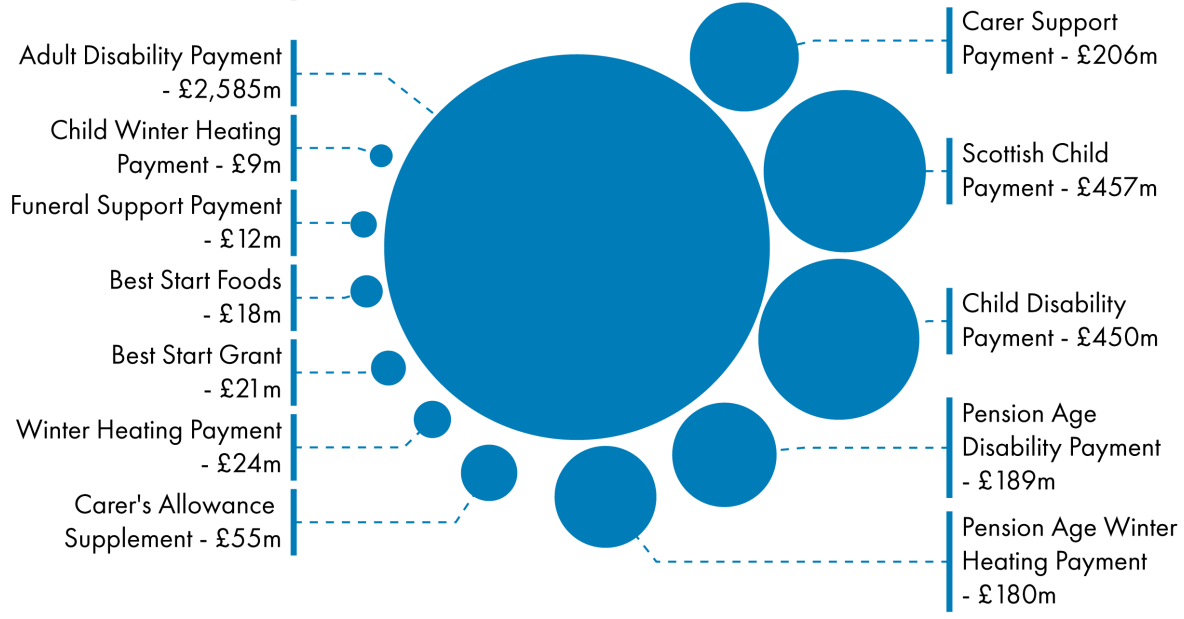
Department for Work and Pensions £1,925m



Local Authorities £126m



Social Security Scotland £4,207m

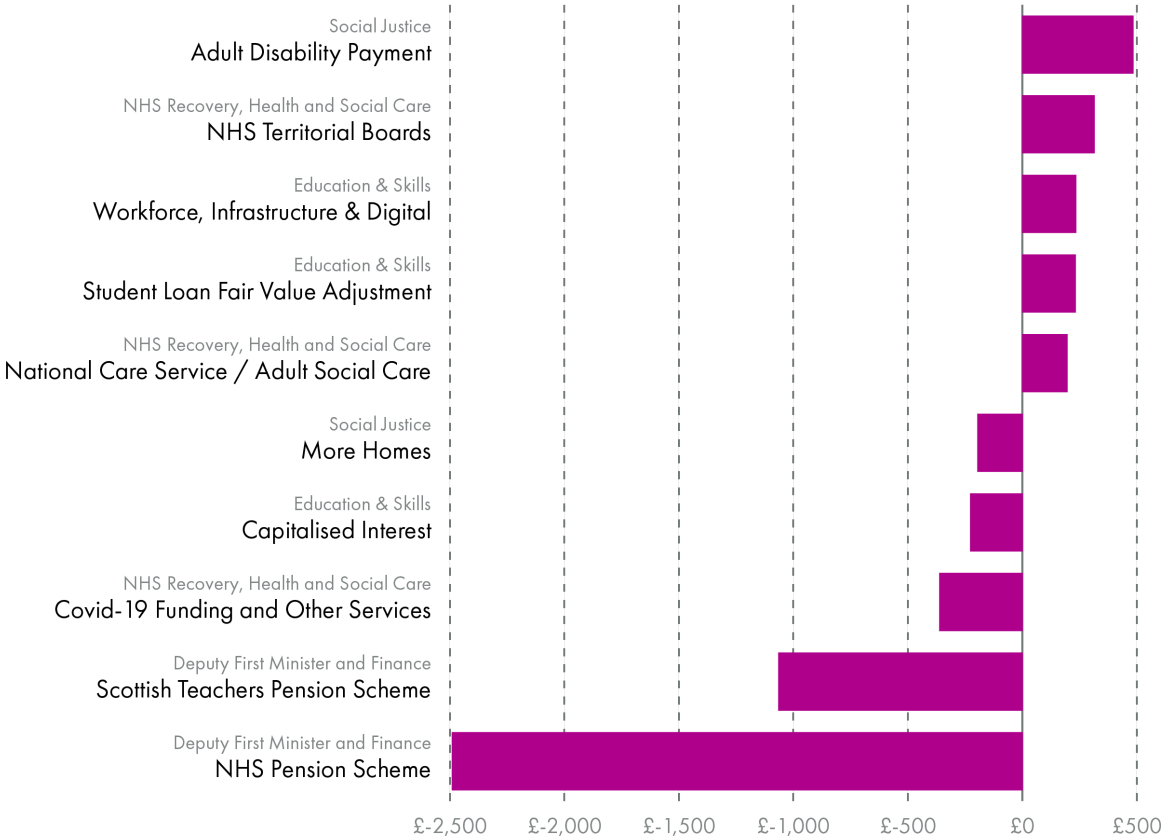


Sources: Scottish Fiscal Commission Fiscal and Economic Forecasts December 2023, Council Tax Reduction Statistics 2022-23.
 Notes: Assumptions about case transfer are: Assumes a 50% split between Carer's Allowance and Carer Support Payment. Assumes 25% spend on Pension Age Disability Payment and 75% on Attendance Allowance. Does not include employability support (£25m), young carer grant (£1m) or job start payment (£0.4m). Council Tax Reduction is income foregone in 2022-23. It is not 'social security' so not included in the totals, but shown here to indicate the scale of support provided.

Largest budget changes

Figure 6 presents the largest (real terms) changes proposed for Level 3 budget lines. (Level 1 is portfolio level budgets, moving to Level 4 for the most detailed budget lines.)

Figure 6: Real terms changes to level 3 budget



Scottish Government

The largest real terms increase next year comes in the Adult Disability payment which increases by just under £500 million in real terms, reflecting differences in the Scottish Government's approach to the payment of this benefit and increased demand. The increase in the NHS territorial boards funding reflects the continued budgetary priority given to Health spending.

The largest reductions come in the Annually Managed Expenditure Teachers and NHS pensions budget lines. As mentioned elsewhere in the briefing, these reflect a technical change to the discount rate for calculating the scale of future pension liabilities and have no impact on the spending power of the Scottish budget. COVID-19 funding and Other Services is the next largest spending reduction, although this budget line includes many items that are not COVID-19 related, making it difficult to understand what is contributing to the reduction.

Topical issues

Public service reform, workforce and pay

There was much discussion in advance of the Budget about the need for public service reform, and the likelihood of reductions to the size of the public sector workforce.

In an interview prior to the Budget, [the Deputy First Minister stated that "the size of the workforce will have to reduce."](#)

This followed the unbudgeted increases in the paybill which have resulted from the high inflation experienced since 2022. In its Economic and Fiscal Forecast report, the Scottish Fiscal Commission states:

“ Increases in public sector pay have been larger than the Scottish Government has previously planned due to inflationary pressures. When the Scottish Government presented its Medium-Term Financial Strategy (MTFS) in May 2023 was based on a central scenario of pay awards growing by 3.5 per cent in 2023-24 and 2 per cent in 2024-25. The Scottish Government now estimates the average public sector pay award in 2023-24 was 6.5 per cent, 3 percentage points higher than estimated in May 2023. The Scottish Government set out in November 2023 how pay deals were around £800 million higher in 2023-24 than had been budgeted for. Pay increases are cumulative and therefore past increases result in higher pay in the future.”

Scottish Fiscal Commission, 2023²

These increases in the paybill have created a budgetary imperative to deal with the size of the paybill, and by implication, the numbers working in the public sector.

The Finance and Public Administration Committee has been critical of the Scottish Government's lack of strategy and leadership in the area of public sector reform. In its pre-budget report it stated:

“ ...that the focus of the Scottish Government's public service reform programme has, since 2022, changed multiple times, as have the timescales for publishing further detail on what the programme will entail. Given the financial challenges facing the Scottish Budget, this represents a missed opportunity to be further along the path to delivering more effective and sustainable public services.”

Finance and Public Administration Committee, [Pre-Budget Scrutiny 2024-25: The Sustainability of Scotland's Finances](#), 6 November 2023

It came as a bit of a surprise, therefore, that the Budget contained no details on plans around public service reform, the size of the public sector workforce, or any details on assumptions and policy for public sector pay in 2024-25. The Scottish Government did say that it will “set out pay metrics for 2024-25 following the [UK] Spring Budget.”, which has since been confirmed for 6 March 2024. This timing might be considered unusual in that it will likely be after the Scottish Parliament has voted through the Budget Bill for 2024-25.

Speaking to the [Finance and Public Administration Committee on 20 December](#), the Chair of the Scottish Fiscal Commission noted that the Scottish Government had not provided the SFC with final policy for public sector pay in 2024-25. As such, in its forecasts², the SFC assumes a 3% increase in pay awards next year and an increase in the overall

paybill of 4.5% (after including staff movements up the pay-grade increment scales).

Having no pay policy presents another risk to the Scottish Government's budget for next year. Where pay increases are larger than the growth in the resource budget, there is a requirement to either reduce the number of public sector employees or reduce spending in other parts of the budget. Audit Scotland made this point in a [recent report on Scotland's public sector workforce and highlighted the need for better strategic workforce planning](#).

The detailed [Level 4 Budget lines](#), which the Scottish Government publishes online separately to the Budget document does refer in the Constitution, External Affairs and Culture (CEAC) portfolio to a "5% efficiency saving that has been taken across all public bodies as part of Public Sector Reform". However, there is no mention of a 5% efficiency savings requirement in the Deputy First Minister's Statement, the main budget document or indeed in the other portfolio level 4 budget lines aside from CEAC. The NHS Recovery, Health and Social Care Level 4 budget includes a rather unhelpfully titled "Other Board Services and Miscellaneous Income" line, which makes reference to efficiency savings in the description, but the scale of efficiencies required is unclear. The DFM has made clear that the health service will be protected from any public sector redundancies, so any savings here would not be in respect of staffing.

The DFM did write separately to the [Finance and Public Administration Committee on Budget day providing a "Progress Update" on public service reform](#). At 48 pages long, this document will be considered in more detail by the Committee in the coming months.

The update notes four new "key" workstreams:

- **Convening:** Agreeing a common vision across the public sectors for achieving sustainable public services and establishing the infrastructure that enables us to collectively make progress.
- **Saving:** Identifying where the Scottish Government and public bodies can deliver clear and quantifiable, cashable savings, setting out clear targets for cost reduction/cost avoidance through achieving efficiencies and which support the longer-term approach to reformed services.
- **Enabling:** Creating the conditions for systemic reform, removing barriers to change and establishing ways that the public can see, understand, and influence the changes. This includes the key efficiency levers outlined in the RSR.
- **Aligning:** Driving policy coherence and consistency across significant policy led reforms that will shape the future service landscape.

Over the next three months, the Scottish Government says it will:

- Agree a shared approach, working with colleagues in local government and with the wider public and third sector to align, enable and deliver.
- Require all Scottish Government portfolios to lay out their savings and reform plans by the end of the financial year, in line with the principles in this document and set out clear savings targets to public bodies.

In relation to savings, the document states that Portfolios and Public Bodies will be asked to follow a "cascade of options" in delivering savings:

- Taking all opportunities to increase the efficiency with which they deliver their functions.
- Taking all opportunities to offer services in different ways.
- Considering reclassification/alignment/merger of bodies or function.
- Reducing service only where these options are exhausted.

The document also makes reference to the need for reductions in workforce in some areas:

“ We must also consider the balance of pay and workforce, with some sectors needing to grow to respond to pressures and others reducing in line with reform opportunities and re-prioritisation of our work.”

Deputy First Minister, [Correspondence to the Finance and Public Administration Committee](#), 19 December 2023

However, there remains a lack of detail on the specifics of what this programme of reform will mean in practice, or how it will help to address the immediate pressures on the budget.

Just transition

The transition to net zero will involve long term structural changes to the economy and key industries. Managing these changes in a way that spreads the benefits and risks equitably is a key challenge for policy makers. In general terms, this is referred to by the Scottish Government as delivering a "just transition".

From a budget angle, delivering the transition to net zero generally requires capital funding. This can finance the infrastructure needed to develop renewable energy industries, decarbonise transport networks, retrofit homes, and develop new technologies (in hydrogen, for example). Delivering this in a "fair" way is key to the concept of a just transition. The Scottish Government's plans for a just transition may therefore have been constrained by the decreasing capital budget, which is forecast to fall by 20% in real terms by 2028-29.

At this stage, a detailed plan for managing a just transition is still emerging. The Scottish Government has published a draft Energy Strategy and Just Transition Plan. It is also developing Just Transition Plans for the Grangemouth area and three sectors: agriculture and land use, construction and the built environment, and transport. Whilst there are few line items in the Budget that explicitly relate to the just transition, different areas of the Budget will shape how the Scottish Government's plans will be delivered.

One of many affected industries is the energy sector, as the renewable energy and oil and gas industries play very different roles in the transition to net zero. Developing a renewable energy industry is a key element of the transition to net zero, particularly somewhere like Scotland, which lends itself to offshore wind power. The Budget includes £32.9 million of capital funding to support the offshore wind supply chain, which forms part of a [recently announced commitment](#) by the Scottish Government to spend £500 million on offshore wind supply chain development. Details on what outcomes this funding is expected to achieve are not given.

Conversely, £30 million of capital funding has been withdrawn from the Energy Industries

budget line (a 43.8% decrease), within the Wellbeing Economy, Fair Work and Energy portfolio. This expenditure supports industrial decarbonisation and includes funding for the Scottish Industrial Energy Transformation Fund, the Hydrogen Innovation Scheme and the Energy Transition Fund.

One area particularly affected by this transition is the North East, which has a large energy sector workforce. The Scottish Government have committed to a 10-year £500 million Just Transition Fund for the North East and Moray to support delivery of a just transition for the region. Funding announced in 2024-25 is £12 million, down from £50 million in 2023-24. In total, budgets between 2022-23 and 2024-25 have allocated £82 million to the fund over the first three years of the fund's life-span.

The Scottish Government's explanation for the forthcoming reduction is a decrease in capital funding and financial transactions allocated to the Scottish Government. Existing multi-year projects will continue to be funded, but the 75% reduction does raise questions over the whether the fund will be open to new applications in 2024-25 and what the future direction of the fund will be.

Also worth noting is that financial transactions allocated to the Scottish National Investment Bank will fall from £238 million in 2023-24 to £174 million in 2024-25. (See [section on Financial transactions](#)). Financial transactions have been repeatedly used to capitalise SNIB. One of SNIB's three missions is "Achieving a Just Transition to net zero by 2045".

There was also an interesting section in the Scottish Fiscal Commission's forecasts:

“ The decline of North Sea oil and gas activity is one factor explaining slower employment and earnings growth in Scotland relative to the UK since 2016-17... New energy sectors will not fully replace oil and gas as a source of high-paid jobs and income tax revenues over the longer term.”

Scottish Fiscal Commission, 2023²

If this judgement materialises, it has implications for the size and spending power of future Scottish budgets, but also raises questions over the future of Scotland's economy and industrial base, which is a key aspect of the just transition. In the Economy and Fair Work Committee's inquiries into a Just Transition, many witnesses have noted the importance of avoiding “the mistakes of the past” in planning for a just transition. In the SFC's judgement, this may be more complicated than simply replacing oil and gas jobs with renewables jobs.

Social security

The Scottish Fiscal Commission has projected that spending on devolved social security will reach £8.0 billion by 2028-29, a significant increase from £4.2 billion in 2022-23. Crucially, there are elements of this that do not trigger funding from block grant adjustments and must be funded from within the Scottish Budget. This occurs when the Scottish Government spends more on a devolved benefit than would be the case if reserved policy applied in Scotland, or if it delivers a benefit that is unavailable in rUK.

The gap between funding from BGAs and the projected spending on social security is forecast to rise from an already-significant £894 million in 2023-24 to £1,502 million in 2028-29. Around two thirds of this gap is due to the Scottish Child Payment and Adult

Disability Payment alone. All of this must be funded either by raising additional devolved tax revenues or by reallocating expenditure that could otherwise be spent on other parts of the Budget.

Other budgetary issues

Health and social care

As has been the case for many years now, the health and social care budget has been awarded higher increases than other areas of spending. The total budget for health and social care is going up 3.3% in cash terms, or 1.6% in real terms. The Scottish Government explicitly state that their decision to prioritise health spending has resulted in them being less able to offer support to the business sector.

The increase in the health and social care budget represents over £600 million in additional funding and goes beyond the Scottish Government's commitment to pass on any additional funds that it receives as a result of increased UK government spending on health. Pay demands are likely to present ongoing challenges for the health budget and there is also a commitment to increase pay for adult social care workers to £12 per hour, which comes at a cost of over £200 million.

The progress of the Scottish Government's flagship National Care Service (NCS) Bill has been delayed and costs have been revised. The budget document does not make clear how much has been set aside for the NCS, with NCS funding included under the broader heading of 'National Care Service / Adult Social Care'. Some of the £1 billion included under this heading will ultimately be transferred to local government for the delivery of social care.

Housing

The Scottish Government has committed to investing £3.5 billion in the Affordable Housing Supply Programme this parliamentary term. The investment in the AHSP funds the Scottish Government's commitment to complete 110,000 affordable homes by 2032.

It is not easy to track progress against this commitment from the Budget document. The AHSP budget for 2024-25 is £556 million, although this figure is not provided explicitly in any of the [budget tables in the budget documents](#) except as a footnote to table A3.03 and in the accompanying text.

The 2024-25 AHSP budget represents a decrease of £196 million (-26%) in cash terms from the previous year and a 27% reduction in real terms. According to the notes accompanying the detailed Level 4 data, these reductions "reflect wider budgetary pressures across Scottish Government".

Enterprise

Enterprise agencies have been particularly impacted, most significantly Scottish Enterprise

which effectively loses all Financial Transactions (FT) funding, falling from a net £28 million in 2023-24 to zero. All agencies face falling resource budgets in cash terms, while the Scottish National Investment Bank's FT budget drops from £238 million to £174 million (net of repayments). This is the lowest budget settlement since 2019-20 when SNIB was launched. Another area within the Wellbeing Economy, Fair Work and Energy portfolio to face a material fall in allocations is capital funding for the energy transition, which falls by around £30 million. However, capital funding for digital is boosted by £60 million, mostly related to the delivery of the R100 broadband programme.

Local government

The local government element of the budget is always one of the most fraught, and complicated, parts of the annual budget process. It is the second largest spending area in the Scottish Budget, after health, and helps fund vital services such as school education, social care, roads, parks, leisure and culture facilities, community and economic development, planning, environment, and so much more. But local government is not a delivery agent of the Scottish Government, albeit that's where most of its budget comes from. Rather, councils have their own democratic mandates and local priorities which they are accountable to their electorates for delivering.

There are two factors which make this year's discussions different to previous years. Firstly, this Budget is published only five months after the [Verity House Agreement \(VHA\)](#), signed between the Scottish Government and COSLA. We therefore have some high-level principles in place – agreed by both parties - which we can measure spending decisions against. These include an assumption against ring-fencing, a commitment to sustainable public services and an agreement to the underlying principle of "no surprises" when it comes to budget discussions. This brings us to the second factor in play this year: the Scottish Government's surprise announcement of a [planned council tax freeze](#) at the SNP annual conference in October and the subsequent debate about what "fully funding" a freeze actually means.

This section summarises some of the changes to the local government settlement in 2024-25 compared to the 2023-24 Scottish Budget document. More detailed analysis of local government budget matters – including a summary of changes over time and discussion of allocations by local authority – will be available in a separate SPICe briefing due for publication in mid-January.

Revenue settlement

The following tables present figures from the Scottish Budget documents for both 2023-24 and 2024-25. This is to ensure we compare like-for-like between the two years. There may well be changes to the 2024-25 local government allocation between now and March when the Local Government Finance Order is finalised. Likewise, there are likely to have been in-year changes made to the 2023-24 settlement which the following tables do not capture.

Tables 2 and 3 show a cash increase of 6.8%, or 5% real-terms, in the total local government revenue settlement when compared to the 2023-24 Budget. This is one of the largest year-on-year increases to the local government settlement seen over the past decade.

Table 2: Local Government revenue settlements 2023-24 and 2024-25 (Cash terms) (£m)

Local Government (Revenue)	2023-24 Budget document	2024-25 Budget document	Cash change (£m)	Cash change %
General Revenue Grant	7,133.9	8,403.9	+1,270.0	+17.8%
Non-Domestic Rates	3,047.0	3,068.0	+21.0	+0.7%
Specific (ring-fenced) Resource Grants	752.1	238.8	-513.3	-68.2%
Revenue within other portfolios	1,471.8	1,534.4	+62.6	+4.3%
Total revenue settlement	12,404.8	13,245.1	840.3	+6.8%

Table 3: Local Government revenue settlements 2023-24 and 2024-25 Real terms (2023-24 prices) (£m)

Local Government (Revenue)	2023-24 Budget document	2024-25 Budget document	Real change (£m)	Real change %
General Revenue Grant	7,133.9	8,265.3	+1,131.4	+15.9%
Non-Domestic Rates	3,047.0	3,017.4	-29.6	-1.0%
Specific (ring-fenced) Resource Grants	752.1	234.86	-517.2	-68.8%
Revenue within other portfolios	1,471.8	1,509.1	+37.3	+2.5%
Total revenue settlement	12,404.8	13,026.6	621.8	+5.0%

The above tables show a significant increase in the General Revenue Grant (GRG) and a big reduction in the Specific Revenue Grant element of the revenue settlement compared to the 2023-24 Budget document. These changes are partly explained by the shifting of £521.9m of previously ring-fenced funding for Early Learning and Childcare Expansion into the GRG. The reduction in ring-fencing is discussed below but will be seen as a positive development for local authorities, giving them greater discretion over how they spend their budget. Furthermore, an additional £120.6 million has been switched from the capital to revenue budget in 2024-25, to help fund local government pay deals, and this has also contributed to the increase in GRG compared to 2023-24.

Tables 2 and 3 also show an increase in the amount of revenue being transferred to local government from other portfolios, mainly relating to education and social care policies. There is always debate over the extent to which this money is ring-fenced or directed (to be discussed further in the Local Government Budget SPICe briefing in January).

Ring-fencing and in-year transfers

The Budget document tells us that reducing ring-fencing is part of the post-[Verity House Agreement](#) relationship between the Scottish Government and local government:

“ [the Budget] displays our commitment to that partnership by reducing levels of ringfenced and directed expenditure by baselining almost £1 billion of funding across Health, Education, Justice, Net Zero and Social Justice, giving authority and autonomy to local partners to achieve the outcomes we share in a way that best meets the needs of local communities.”

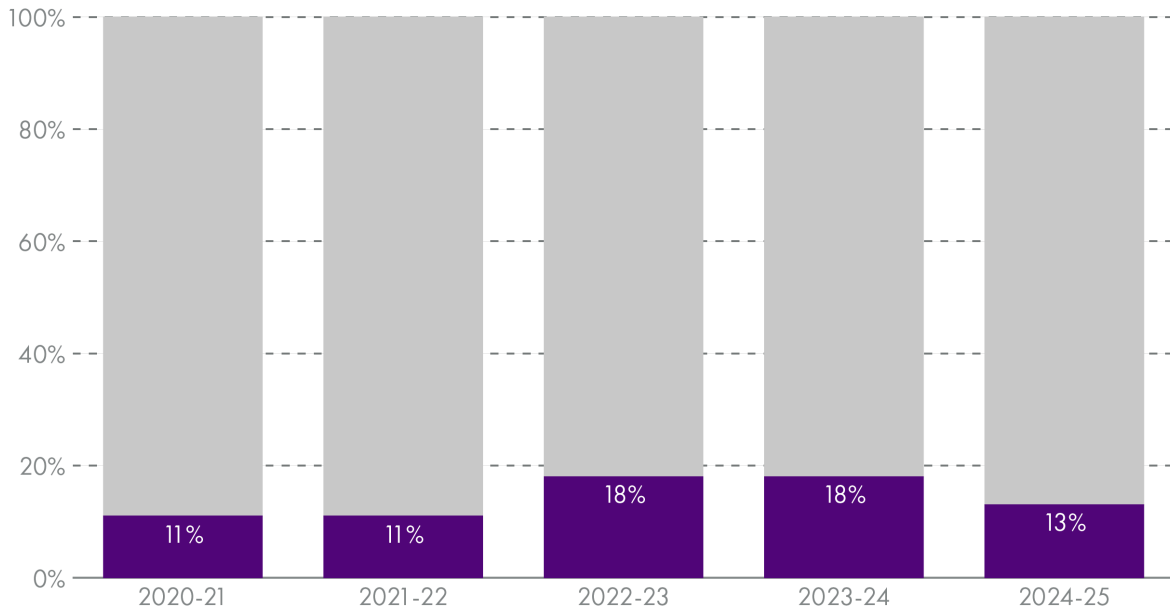
Scottish Government, 2023¹

The £1 billion figure quoted above comprises previously ring-fenced Early Learning and Childcare Expansion grant (£521.9 million) plus a number of funds previously transferred from other portfolios in-year (combined £429 million). These, according to the Budget

document, have been "baselined" into the General Revenue Grant in 2024-25. This goes some way to explaining the big increase seen in the General Revenue Grant in Tables 2 and 3.

Although the combined ring-fenced grants plus in-year transfers for 2024-25 remains very high (at £1.7 billion), as a proportion of the total revenue settlement it is smaller than in the previous two years. Figure 7 shows that the 2024-25 Budget goes some way to reversing the trend of rising ring-fencing/transfers seen in recent years:

Figure 7: Percentage of total revenue settlement either ring-fenced or transferred in-year



SPICe analysis of Scottish Government Budget documents

Capital allocation

The local government budget from the Scottish Government also includes capital funding, which councils spend on new or existing physical assets, e.g. new buildings, repairs, roads, etc., as well as the purchase of vehicles and machinery. Like revenue allocations, capital grants from the Scottish Government take the form of general and specific (ring-fenced) grants. Unlike the revenue budgets discussed above, the 2024-25 capital settlement sees reductions in cash and real terms:

Table 4: Local Government capital settlements 2023-24 and 2024-25 (Cash terms) (£m)

Local Government (Capital)	2023-24 Budget document	2024-25 Budget document	Cash change (£m)	Cash change %
General Capital Grant	607.60	476.90	-130.7	-21.5%
Specific (ring-fenced) capital grants	139.00	121.10	-17.9	-12.9%
Total "core" Capital	746.6	598.0	-148.6	-19.9%
Capital Funding within other Portfolios	80.00	40.00	-40.0	-50.0%
Total capital in Finance Circular	826.6	638.0	-188.6	-22.8%

Table 5: Local Government capital settlements 2023-24 and 2024-25 (Real terms) (£m)

Local Government (Capital)	2023-24 Budget document	2024-25 Budget document	Real change (£m)	Real change %
General Capital Grant	607.60	469.03	-138.6	-22.8%
Specific (ring-fenced) capital grants	139.00	119.10	-19.9	-14.3%
Total "core" Capital	746.6	588.14	-158.5	-21.2%
Capital Funding within other Portfolios	80.00	39.34	-40.7	-50.8%
Total capital in Finance Circular	826.6	627.48	-199.1	-24.1%

The Verity House Agreement includes three shared priorities: tackling poverty, a just transition to net zero and delivering sustainable person-centred public services. The capital budget is clearly central to local government's efforts to move their buildings and vehicles towards a net zero future. In a [recent lobbying document](#), COSLA stated:

“ The scale of this challenge is enormous. One Council estimates that reaching net zero for their own properties alone would cost in excess of £1.2 billion – more than twenty-five times the size of that council's 2023/24 General Capital Grant allocation.”

COSLA, [News release](#), 4 December 2023

Much of the reduction in the capital allocation is accounted for by the £120.6 million switch from capital to revenue budgets (to help fund pay deals). This £120.6 million was in the capital budget line in 2022-23 and 2023-24 (even though it was subsequently transferred to support revenue budget). The treatment is different this year, and it has been included in the GRG line this year. However, even accounting for this, capital budgets are reducing. As such, working towards a net zero future may have become even more challenging for Scotland's councils.

The council tax freeze announcement

Four months after the signing of the VHA, the First Minister announced at the SNP party conference the Government's intention to freeze council tax next year, without having first consulted COSLA. [Council leaders expressed](#) their "extreme disappointment" with the announcement, stating that "the First Minister chose to undermine the spirit and the letter of the Verity House Agreement, so soon after it being signed". Despite this, [the Scottish](#)

[Government argued](#) that it remains "wholly committed" to the VHA, with the Minister for Community Wealth and Public Finance telling the Local Government, Housing and Planning Committee in November:

“ We are very much committed to partnership working right across all aspects of the new deal with local government and specifically with regard to the council tax freeze. We are committed to ensuring that we can implement it in a way that meets the requirements set by the First Minister that it be fully funded and that it deliver a freeze that will be of benefit to people across Scotland.”

Local Government, Housing and Planning Committee 14 November 2023 [Draft], Tom Arthur, contrib. 157³

Council tax is Scotland's only truly local tax, in the sense that Band D rates are set by councils each year, local authorities collect the money, and they use it to fund local services. It is therefore up to councils themselves whether there is a freeze or not.

In addition to the principle of central government announcing a freeze on a local tax before having first consulted local government, there is the practical question of how much a "fully funded" freeze would cost the Scottish Government should local authorities decide to implement a freeze. In her statement to the Parliament, the Deputy First Minister stated:

“ Let me be clear that the Government will fully fund the council tax freeze. This year, in 2023-24, councils set their average council tax increases below the level of inflation. The OBR projection for inflation in the coming year based on the consumer prices index is 3 per cent. Of course, I could fund an inflation-proof 3 per cent council tax freeze, but I want to help support services, so I will go further than that. I will fund an above-inflation 5 per cent council tax freeze, delivering more than £140 million of additional investment for local services.”

Deputy First Minister, [Budget statement](#), 19 December 2023

In its [response to the Scottish Budget](#), COSLA argued that a fully-funded freeze would require the Scottish Government to provide funding of £300 million, £156 million more than the £144 million being offered in the Budget for this purpose. In [a news release published two days after the Budget publication](#), COSLA's President Councillor Shona Morrison said:

“ COSLA's initial analysis of the Budget is that the Council Tax freeze is not fully funded. Leaders from across Scotland agreed today that decisions on Council Tax can only be made by each full Council, and it is for each individual Council to determine their own level of Council Tax. With any sort of shortfall in core funding, the £144m revenue offered for the freeze is immediately worth less.”

COSLA, [News release](#), 21 December 2023

Given COSLA's position on the freeze, and their overall argument that the local government settlement for 2024-25 is far short of what councils need to avoid service cuts and job losses, there is likely to be much more negotiation taking place between these two spheres of government between now and March.

Tax

Income tax

Income tax proposals

The Scottish Government set out its proposals for income tax from April 2024⁴ as part of the Scottish Budget 2024-25. These proposals need to be approved by a Scottish Rate Resolution, which must precede Stage 3 of the Budget Bill process. Income tax then cannot be changed during the financial year.

The proposals set out by the Scottish Government involve:

- Increasing the basic rate and intermediate rate thresholds by 1.0% and 3.4% respectively
- Freezing the higher and top rate thresholds
- Introducing a new "advanced" rate band for earnings between £75,001 and £125,140, with a tax rate of 45p
- Increasing the top rate of tax from 47p to 48p.

The proposed increases to the basic and intermediate rate thresholds are below inflation, but have the effect of ensuring that the amount of income at which starter rate tax and basic rate tax is paid increases in line with inflation. For example, in 2023-24, the first £2,162 of taxable income was taxed at 19%. Under the proposals for 2024-25, the first £2,306 will be taxed at 19%, which is in line with the September 2023 consumer price index (CPI) increase of 6.7%.

The proposed rates and bands are shown below.

Table 6: Proposed Scottish tax bands and thresholds, 2024-25

Bands	Band name	Rate (%)
Over £12,570* - £14,876	Starter	19
Over £14,877 - £26,561	Basic	20
Over £26,562 - £43,662	Intermediate	21
Over £43,663 - £75,000	Higher	42
Over £75,001 - £125,140**	Advanced	45
Above £125,140**	Top	48

* Assumes individuals are in receipt of the standard UK personal allowance (£12,570 in 2024-25)

** Those earning more than £100,000 will see their personal allowance reduced by £1 for every £2 earned over £100,000

The UK government sets the personal allowance and this is unchanged from 2022-23, at £12,570. The UK government has also frozen its own higher rate threshold at £50,270 and plans to keep both the personal allowance and higher rate threshold at the current levels

until 2027-28, as announced at the [Autumn Statement 2022](#).

Table 7: Rest of UK (rUK) tax bands and thresholds, 2022-23 to 2027-28

Bands	Band name	Rate (%)
Over £12,570* - £50,270	Basic	20
Over £50,270 - £125,140**	Higher	40
Above £125,140**	Additional	45

* Assumes individuals are in receipt of the standard UK personal allowance (£12,570)

** Those earning more than £100,000 will see their personal allowance reduced by £1 for every £2 earned over £100,000

Income tax revenues

The Scottish Fiscal Commission forecasts that, with the proposals set out in the budget, non-savings non-dividend income tax revenues will total £18,844 million in 2024-25. Forecasts for subsequent years are shown in Table 4. These forecasts are based on the assumption that the Scottish Government will continue to freeze the higher and top rate thresholds, and also the newly-introduced advanced rate threshold, but that the width of lower tax bands will be uprated in line with the previous September's CPI inflation.

Table 8: NSND income tax forecasts, 2024-25 to 2028-29, £ million

	2024-25	2025-26	2026-27	2027-28	2028-29
NSND income tax	18,844	19,873	20,856	22,056	22,981

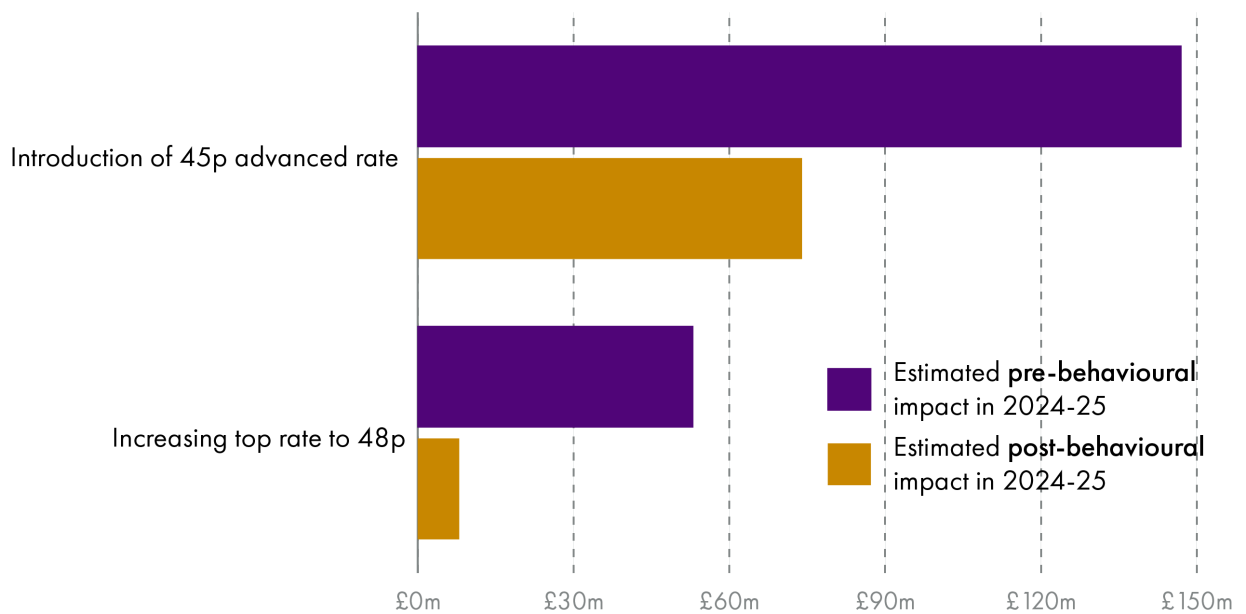
Source: Scottish Fiscal Commission Scottish Fiscal Commission, 2023²

The SFC income tax estimates for 2024-25 are more than £2 billion higher than had been forecast in the December 2022 forecasts. This reflects both a stronger outlook for nominal earnings growth and Scottish Government policy decisions.

The SFC estimates that the income tax decisions taken by the Scottish Government in this year's budget will, after taking account of behavioural changes, raise an additional £82 million relative to what would have been raised if the starter and basic rate band widths had been increased in line with inflation. Figure 8 shows how this total is broken down, showing both the estimated impact before behavioural responses and the post-behavioural estimate.

This shows that most of the increase in revenues results from the introduction of the new "advanced" rate of 45p for earnings between £75,000 and £125,140. This is expected to raise £74 million after taking account of behavioural responses of taxpayers to the change in tax policy. The increase in the top rate from 47p to 48p is expected to raise only £8 million after behavioural effects. This is because taxpayers are expected to take measures in response to the tax increase to limit their exposure to the higher tax. This might involve steps such as increasing pension contributions (to reduce taxable income), reducing hours worked or moving outside Scotland. The SFC note that estimates of behavioural responses are, by their nature, "highly uncertain". A [SPICe blog provides further discussion of the modelling of behavioural responses](#).

Figure 8: Impact of Scottish Government tax policy decisions on income tax revenues, 2024-25



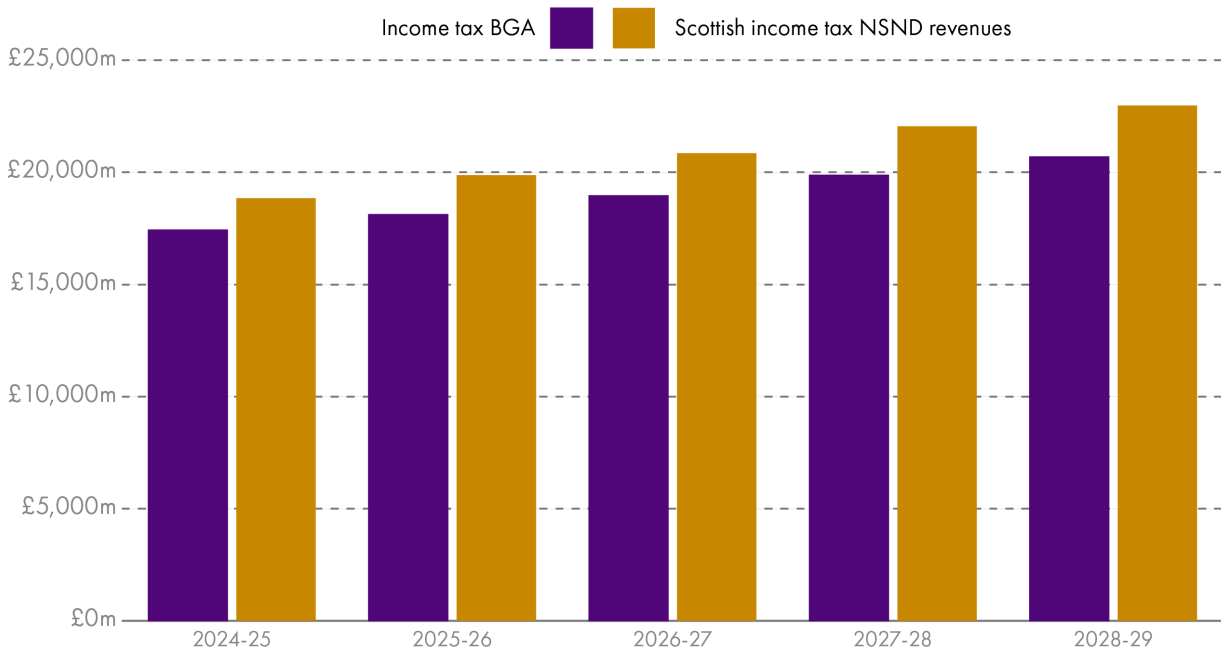
Scottish Fiscal Commission

Income tax net position

In 2024-25, the income tax net position is expected to be £1.4 billion. That is, NSND income tax revenues in Scotland are expected to exceed the block grant adjustment for income tax by £1.4 billion. The income tax BGA is the amount that is removed from the Scottish budget to account for the fact that most income tax decisions have been devolved to the Scottish Parliament. It reflects what Scotland would have raised in income tax if it had retained the same tax policy as the rest of the UK and if Scotland's per capita tax revenues had grown at the same rate as the rest of the UK. This is a much improved position relative to previous forecasts and is double the income tax net position for 2024-25 that had been estimated at December 2022. This largely reflects much stronger earnings growth in Scotland, both relative to previous forecasts and relative to the rest of the UK.

On the basis of latest forecasts, the income tax net position (the difference between expected revenues and the BGA) is expected to reach £2.3 billion by 2028-29, although the SFC note that the net position is highly sensitive to changes in the SFC and OBR forecasts that underpin the calculation.

Figure 9: Income tax net position, £ million



Scottish Fiscal Commission

In contrast to previous years, the net income tax position is now broadly in line with the additional amount that Scottish taxpayers are paying relative to what they would be paying under rUK income tax policy. The Scottish Government estimate that Scottish taxpayers are paying an additional £1.5 billion relative to what they would be paying under rUK income tax policy. This provides additional resources for the Scottish budget enabling the Scottish Government to fund different policy choices.

Impact on individuals

Income tax at various levels of earnings under the Scottish Government proposals is shown in Table 9.

When compared with rUK income tax policy, Scottish taxpayers earning less than £28,850 will pay up to £23 less income tax per year than they would in the rest of the UK. This accounts for just over half (51%) of all Scottish taxpayers. Above this earnings level, Scottish taxpayers pay more tax than they would in the rest of the UK and the gap widens rapidly for those earning above £50,000. Those earning more than £50,000 will be paying at least £1,500 more income tax per year than they would in the rest of the UK.

The introduction of the new "advanced" rate tax band means that those earning more than £75,000 will be paying more than they would have under last year's income tax policy. However, the majority of taxpayers will pay slightly less tax next year than they are paying this year – around £10 less over the whole year for most taxpayers.

Table 9: Differences between Scottish and rUK income tax, 2024-25

Annual earnings	Scottish Government proposals 2024-25 income tax payable - £ per year	Difference compared with 2023-24 - £ per year	Difference compared with rUK - £ per year
15,000	463	-1	-23
20,000	1,463	-1	-23
25,000	2,463	-1	-23
30,000	3,497	-10	11
35,000	4,547	-10	61
40,000	5,597	-10	111
45,000	6,928	-10	442
50,000	9,028	-10	1,542
55,000	11,128	-10	1,696
60,000	13,228	-10	1,796
65,000	15,328	-10	1,896
70,000	17,428	-10	1,996
75,000	19,528	-10	2,096
80,000	21,778	140	2,346
85,000	24,028	290	2,596
90,000	26,278	440	2,846
95,000	28,528	590	3,096
100,000	30,778	740	3,346
150,000	59,681	2,120	5,978

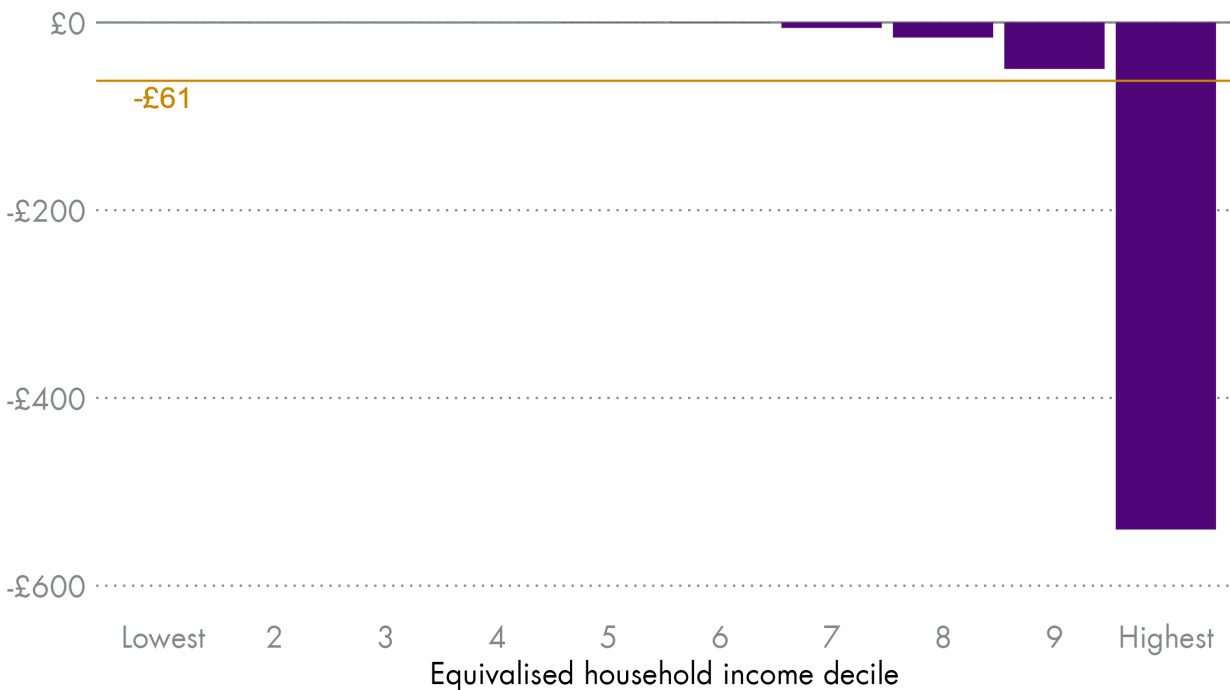
Impact on household incomes

The proposed income tax changes do not affect all households equally. The households with the highest incomes see the largest tax increases. However, these increases reduce overall household incomes only slightly. This is because household income is made up of the earnings of all individuals in the household plus income from other sources, such as social security payments. High earners might share a household with people who have lower or no earnings and are less affected by the proposed income tax changes.

On average, household incomes are reduced by £61 per year, but this is driven by larger reductions for the 10% of households with the largest incomes (average reduction is £540), whereas most households (the bottom 60%) see hardly any change.

Note that this analysis is similar to [analysis produced by the Scottish Government](#); however, we use different baselines for comparison. In line with the SFC, we compare the proposed income tax policy to a hypothetical policy without the new advanced rate and the 1p increase to the top rate. By contrast, the Scottish Government's baseline includes an uprated higher rate threshold, thereby treating the freeze of the higher rate threshold in the 2024-25 income tax policy an explicit policy decision. However, the SFC now considers a frozen higher rate threshold the default position and [note that this approach was previously agreed with the Scottish Government](#). As a result of this difference in our baseline assumptions, our analysis shows smaller effects.

Figure 10: Impact of income tax changes on household incomes, £ per year



SPICe analysis using UKMOD

Interaction with rUK tax policy

Decisions on national insurance contributions (NICs) are made by the UK government, but will interact with the Scottish Government's decisions on NSND income tax to determine overall tax rates. In the 2023 Autumn Statement ⁵, the UK government announced plans to reduce the main form of NICs (Class 1 employee NICs) by two percentage points. This means that the NICs rate on earnings between the personal allowance and £50,270 will be 10% from 6 January 2024. Above this level of earnings, the NICs rate drops to 2%. However, since this NICs threshold is linked to the rUK higher rate threshold of £50,270, it means that Scottish taxpayers who earn between the proposed Scottish higher rate threshold (£43,662) and the rUK higher rate threshold (£50,270) will pay 42% income tax and 10% NICs on their earnings between these two amounts – a combined tax rate of 52%.

There are also very steep marginal tax rates for those earning between £100,000 and £125,140 due to the tapering of the personal allowance (which is withdrawn at a rate of £1 for every £2 earned above £100,000). In Scotland, with the new advanced rate, taxpayers face a marginal rate of 69.5% (including NICs) on earnings in the range £100,000-£125,140. However, the decision to taper the personal allowance is reserved to the UK government so the Scottish Government has no control over this.

Devolved tax policy and forecasts

This section sets out the Scottish Government's proposals on devolved taxes other than

Non-Savings Non-Dividend income tax. The taxes covered in this section are:

[Non-domestic rates](#)

[Land and Buildings Transaction Tax](#)

[Scottish Landfill Tax](#)

[Other devolved taxes](#)

Non-domestic rates

Non-domestic rates (NDR) are local taxes paid on land and heritages used for non-domestic purposes in the private, public and third sectors. The tax is administered and collected by local authorities, but tax rates and reliefs are set by the Scottish Government.

The amount of tax due depends on the rateable value of the property, set by independent assessors, multiplied by the poundage rates set by the Scottish Government. The Scottish Government proposes to maintain the poundage rates from 2023-24 at 49.8 pence for the basic property rate, but to increase the intermediate and higher property rates in line with inflation. Figure 11 below sets out the three different rates proposed for 2024-25.

Figure 11: Non-domestic rates poundage rates, 2024-25



Scottish Government

In the recent UK Autumn Statement, the Chancellor announced a one-year extension of their retail, hospitality and leisure (RHL) relief introduced in the 2022 Autumn statement. This RHL relief provides a 75% discount to businesses occupying eligible retail, hospitality and leisure properties in England, with a cap of £110,000 per business. It does not apply in Scotland as non-domestic rates are devolved. The [OBR estimated the UK announcement generated £230 million in Barnett consequential for the Scottish Budget](#). In their Budget Report, the [Fraser of Allander Institute suggested that replicating this relief in Scotland would cost up to £360 million](#), explaining that this would be more expensive in Scotland as:

“ The higher cost of the relief is largely due to there being less concentration in the RHL industries in Scotland, which means relatively fewer businesses affected by the cap. We think less than 1% of RHL businesses would get no relief at all if the same cap applied.”

Fraser of Allander Institute, [Scotland's Budget Report 2023](#), 15 December 2023

The Scottish Government did not introduce a relief for the wider hospitality sector but did announce that hospitality businesses on Scottish islands would benefit from 100% rates relief for 2024-25, capped at £110,000 per business. The SFC estimates that this will cost £4 million. The Scottish Government has also announced plans to phase out the enterprise areas relief, which the SFC forecasts will generate £1 million more NDR revenue from 2025-26 onwards.

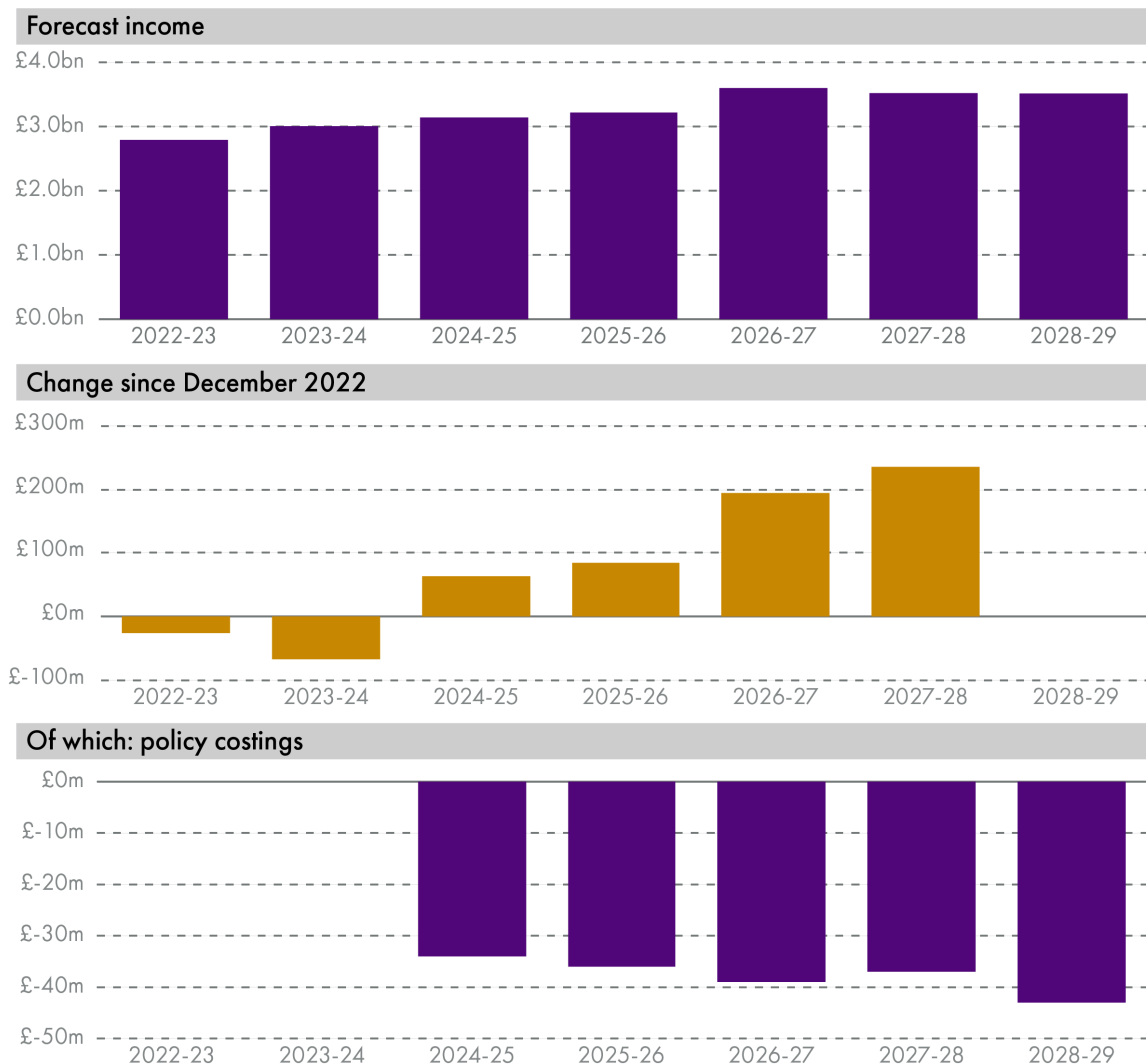
A widening of the eligibility criteria for the District Heating relief, and a two-year extension to the telecommunications mast relief are not expected to have a material impact on revenues and so have not been costed by the SFC.

The Scottish Fiscal Commission notes there are five new policies announced in the 2024-25 Budget which will materially impact NDR revenues:

1. Freezing the basic property rate
2. Increasing the intermediate property rate
3. Increasing the higher property rate
4. The introduction of 100% relief for hospitality businesses in Scottish Islands
5. The phasing out of enterprise areas relief over the next two years

Of these changes, the most significant impact on revenues come from the decisions on poundage. The SFC forecasts that the cost of freezing the basic property rate is around £200 million per year, however the increase to the intermediate and higher property rates will increase revenues by around £170 million each year giving a smaller net effect. Figure 12 below shows the forecast for NDR revenue and the total change since the December 2022 forecast:

Figure 12: Forecast income from non-domestic rates



Scottish Fiscal Commission

Land and buildings transaction tax (LBTT)

Land and buildings transaction tax is the tax applied to purchases of residential and non-residential land and buildings, as well as commercial leases. The Scottish Government has maintained the residential and non-residential rates and bands at their current level, along with the relief available to first time buyers.

In the Budget, the Scottish Government does commit to introduce legislation to make various amendments to LBTT, including to extend the timelines related to the additional dwelling supplement, addressing concerns around scenarios with joint buyers, and extending the scope of residential LBTT relief for local authorities. The Scottish Government [published a summary of responses to a consultation on these changes on 8 February 2023](#).

The SFC forecasts that LBTT will raise a total of £730 million in 2024-25, a small increase from the forecast in December 2022. The majority of LBTT revenues are expected to come from residential transactions over the forecast period, with total receipts falling in 2024-25 before recovering in the outer years of the forecast period. The main driver of this is the

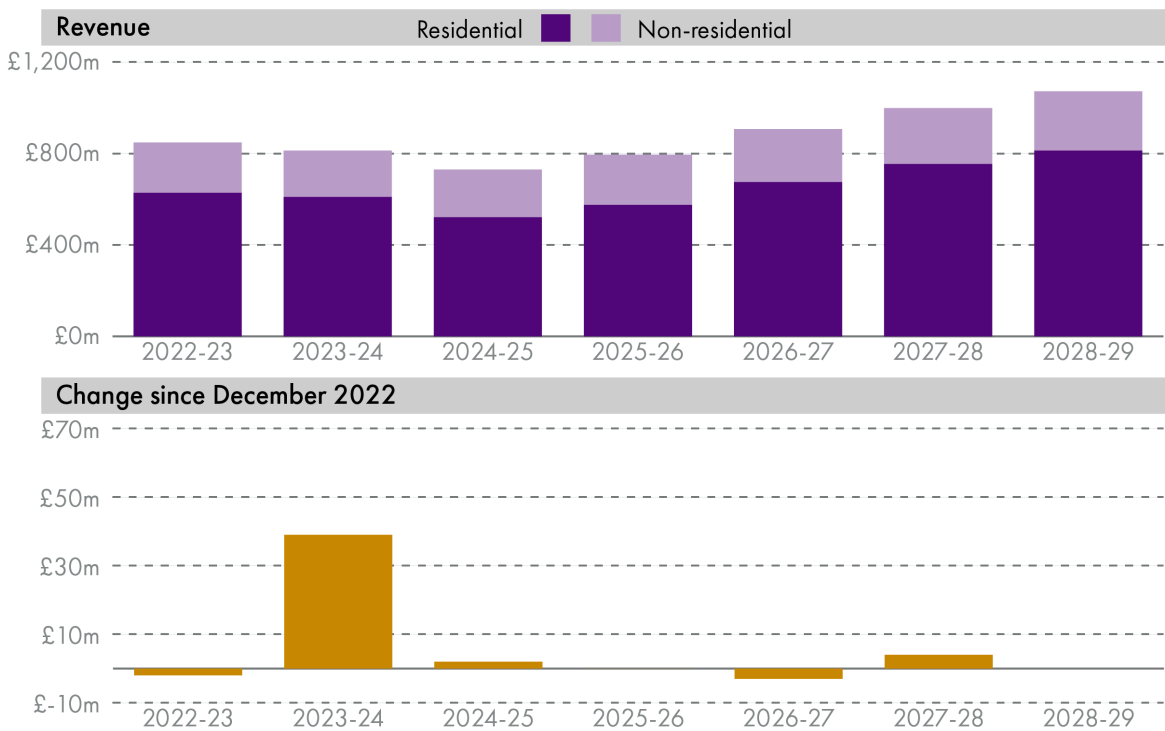
expected fall in house prices up to 2025-26, before a gradual recovery. The projected fall in house prices, of around 4 per cent from the 2022-23 peak, is smaller than the SFC expected in the December 2022 or the May 2023 forecast. This is also a smaller fall than the OBR expects, with the SFC explaining that:

“ In line with a judgement made in our prior two forecasts, we assume the Scottish housing market will remain more resilient than the wider UK market as a result of the average stock of outstanding debt per household relative to income being lower in Scotland compared to the rest of the UK, and average house prices being lower in Scotland compared to the rest of the UK. As a result, we assume homeowners and prospective homebuyers will be less vulnerable to higher mortgage payments in Scotland in the face of higher interest rates.”

Scottish Fiscal Commission, 2023² , Para 4.101

Figure 13 below sets out the forecasts for revenues from LBTT.

Figure 13: Forecast income from Land and Buildings Transaction Tax

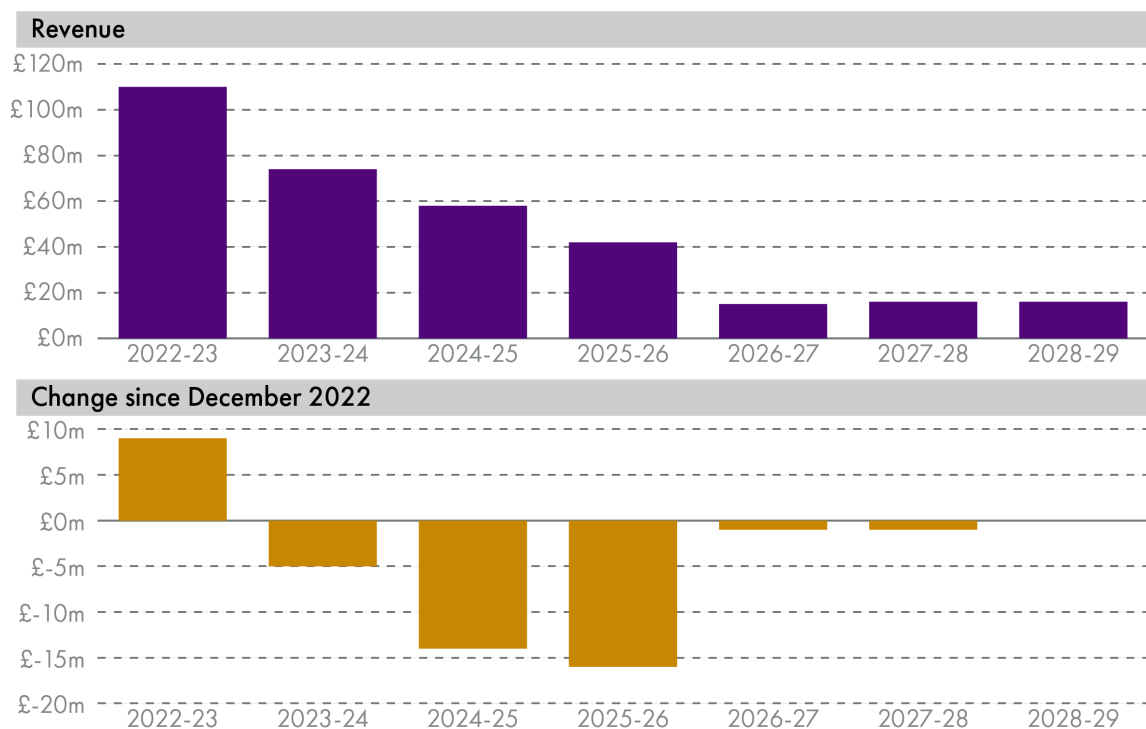


Scottish Fiscal Commission

Scottish landfill tax (SLfT)

The Scottish Government has increased the standard and lower rates of SLfT to £103.70 per tonne and £3.30 per tonne for 2023-24 respectively. As in previous years, these changes maintain parity with the UK rates. The SFC forecasts relatively minor changes to revenues since December 2022, noting that outturn data in 2023-24 has been significantly lower than expected, offset by modelling changes which increase the amount of waste which is liable to SLfT. The policy goal of SLfT remains behavioural change – the expectation is that over time these revenues will reduce. The SFC now expects a faster reduction in 2024-25 and 2025-26.

Figure 14: Forecast income from Scottish Landfill Tax



Scottish Fiscal Commission

Other devolved taxes

There are no new policy announcements in relation to the Airport Departure Tax (ADT), with the Scottish Government restating its position that it remains committed to introduce ADT "in a way that protects Highlands and Islands connectivity and complies with the UK Government's subsidy control regime".

The Scottish Government introduced the [Aggregates Tax and Devolved Taxes Administration \(Scotland\) Bill](#) in November 2023, which makes provision for a Scottish Aggregates Tax. Subject to Parliamentary approval, the Scottish Government intends to introduce a Scottish Aggregates Tax from 1 April 2026. The Bill provides for a replacement tax that retains the fundamental structure of the UK Aggregate Levy, while allowing scope to consider a tailored approach in Scotland.

On VAT Assignment, which was also devolved in the Scotland Act 2016, the Scottish Government notes the 2023 Fiscal Framework Agreement⁶ with the UK Government and states:

“ The 2023 Fiscal Framework Agreement with UK Government outlines that once completed and agreed by officials the assignment methodology and operating arrangements will be presented for joint UK and Scottish Government ministerial sign-off.”

Scottish Government, 2023¹

The Budget also outlines plans for five new taxes, many of which were announced in the 2023-24 Programme for Government:

- The Scottish Government is seeking powers from the UK Government to introduce a Building Safety Levy, which would raise revenues to fund the Scottish Government's cladding remediation programme. This would replicate the UK Government's own levy which covers England.
- The Scottish Government pledges to continue to work with COSLA and local authorities to scope the request that discretionary powers be provided to introduce a Cruise Ship Levy. While the Scottish Government is 'exploring' whether this can be included in the Visitor Levy Bill, it notes that significant engagement with businesses and other stakeholders will be required, and that the Visitor Levy Bill will not be delayed.
- The [John Muir Trust has proposed a Carbon Emissions Land Tax](#), and the Scottish Government pledges to work with stakeholders during 2024-25 to explore this and other fiscal options.
- The Scottish Government plans to explore reintroducing a Public Health Supplement for large retailers ahead of the next budget. The previous iteration of this tax was levied on large supermarkets which sell alcohol and tobacco, and expired in 2015.
- Finally, the Scottish Government pledges to continue to explore an Infrastructure Levy, to be implemented by spring 2026.

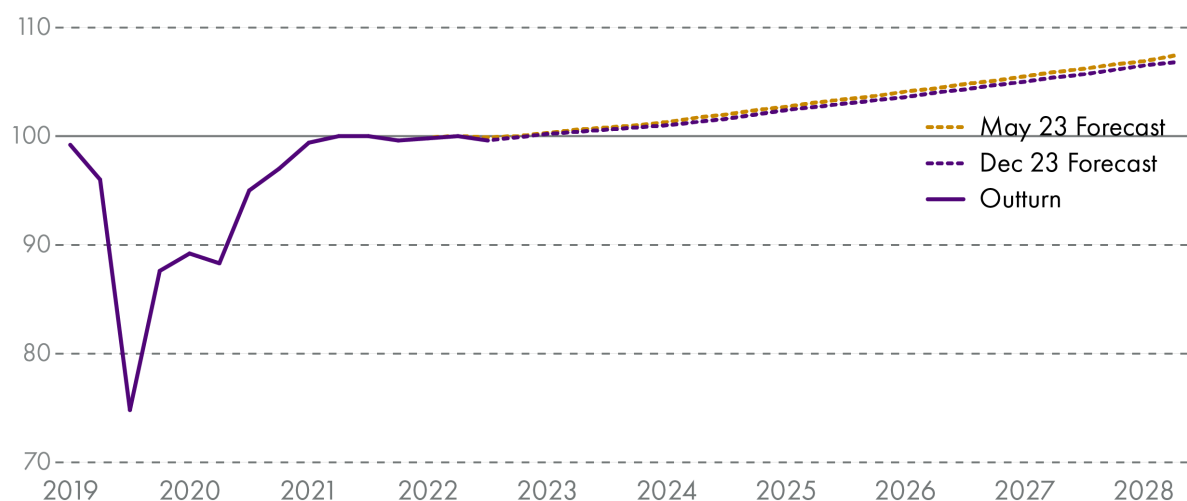
The Scottish Fiscal Commission forecasts

Economic growth and living standards

The Scottish Fiscal Commission's December forecasts for Scotland's economy² are largely unchanged from their May 2023 forecasts. GDP is forecast to grow by 0.2% in 2023-24 and 0.8% in 2024-25, compared with May 2023's forecast of 0.3% and 1.0% respectively. Recent data revisions mean that Scottish GDP returned to its Q4 2019 level in Q4 2021, but growth has largely been flat since.

Crucially, the outlook for growth remains low over the longer term. This would constrain future budgets and household living standards. The SFC notes that the main drivers of subdued long term GDP growth are falling productivity growth, slowing population growth, and a declining participation rate due to an ageing population.

Figure 15: Scottish GDP, 2022 Q1 = 100



Scottish Fiscal Commission

Beyond the headline figures, there are some changes in the composition of forecasted GDP growth. A small growth in household consumption in 2023-24 contrasts with a previously forecasted fall, primarily driven by higher-than-expected pay growth and a reduction in household savings. The higher cost of borrowing and changes to the UK's tax treatment of capital allowances see forecasted business investment fall in 2023-24 and 2024-25, but return to growth thereafter.

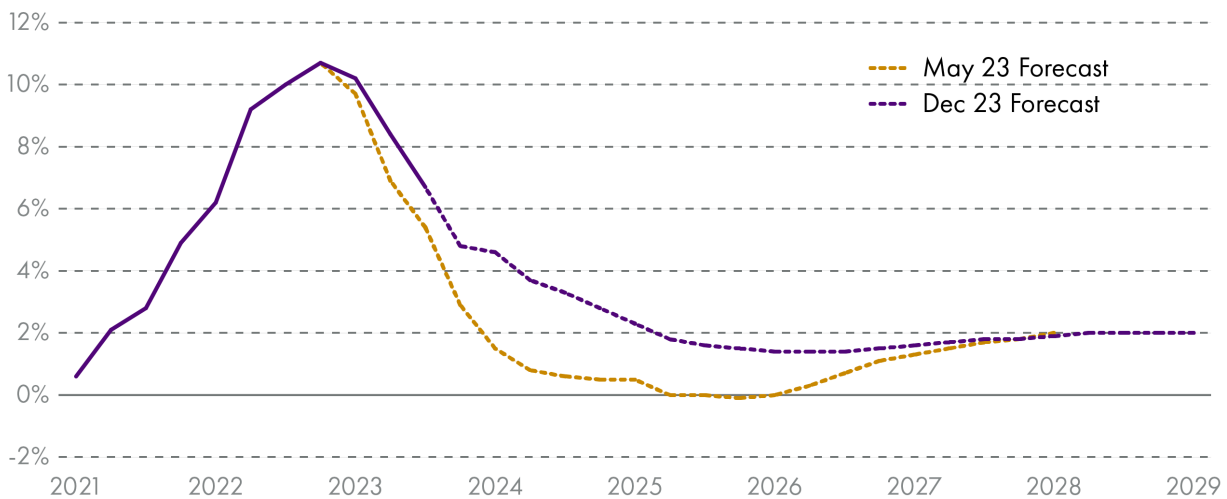
Living standards are measured by real disposable income per person. Whilst earnings are now rising in real terms, this is largely offset by an increasing personal tax burden at a UK and Scottish level, and higher mortgage interest payments. Living standards are forecast to fall by 2.7% between 2021-22 and 2023-24 and not recover until 2026-27. The SFC notes that the outlook will vary across household types, with lower income households facing particular pressures, as they spend a greater share of income on energy, food and housing costs. Higher income households and those who own their home outright are more likely to hold savings, and so will benefit from rising interest rates.

Inflation

Inflation has been a key driver of increasing cost pressures on the Budget but has also resulted in additional income tax revenues. This is due to a combination of nominal earnings growth and fiscal drag – the freezing of income tax thresholds at the higher rate and above, and the UK government's decision to freeze the personal allowance.

The Scottish Fiscal Commission's latest projections are for above-target inflation to persist for longer than previously forecast. CPI is now forecast to be 6.1% in 2023-24 and 3.0% in 2024-25, compared with May 2023's forecasts of 4.1% and 0.6% respectively. For context, December 2023's CPI inflation rate was 3.9% - lower than market expectations. The main reason that the SFC is forecasting more persistent inflation is "domestically driven pressures", primarily rising labour costs. This may see the pressure that inflation places on the budget (and public sector pay in particular) return as a theme of future budgets.

Figure 16: CPI inflation, year-on-year growth



Scottish Fiscal Commission

Labour market and earnings

The unemployment rate is forecast to grow from 3.2% in 2022-23 to 3.7% in 2023-24 and 4.0% in 2024-25, which is low by historical standards and in line with its assumed structural trend rate. This implies a return to "normalised" labour market conditions next year.

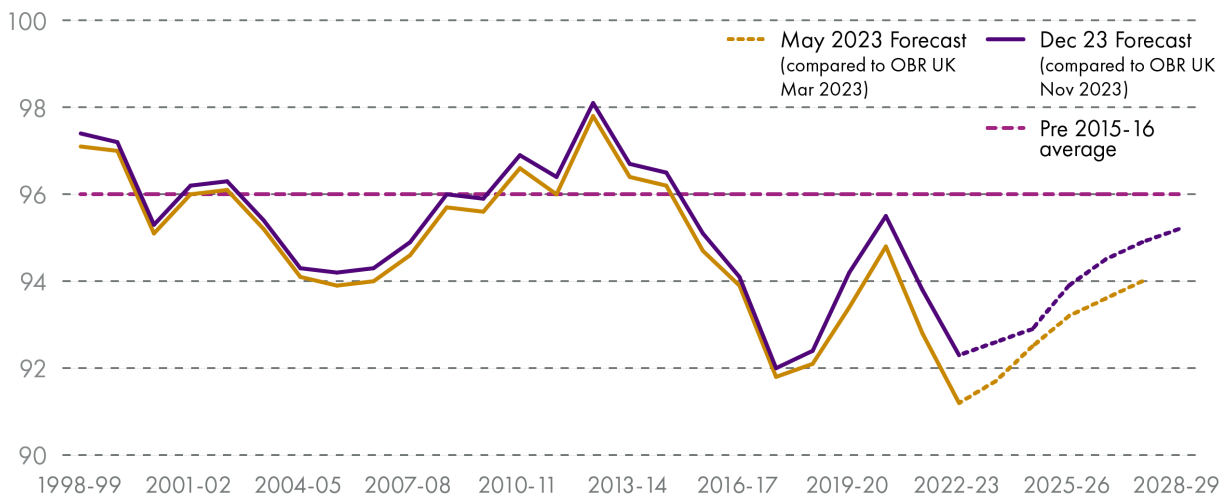
Falling inflation and higher-than-previously-forecast nominal earnings growth have driven an increase in real earnings this year. In nominal terms, earnings are now forecast to grow by 6.6% in 2023-24 and 3.6% in 2024-25.

In 2023-24, higher labour shortages and vacancy rates have seen a tighter labour market in Scotland than in rUK. This has put upward pressure on earnings, which have grown more strongly in Scotland than across the UK. Indeed, the SFC is projecting a "narrowing of the gap" in earnings between Scotland and rUK over the forecast period.

This matters for the [income tax net position](#) in future years – stronger earnings growth in Scotland would expand the tax base and, due to the partial devolution of income tax, the

Scottish Budget stands to benefit. Of course, the reverse is true if earnings growth does not outpace the UK, as has happened in recent years. However, the SFC caution against "placing too much weight" on these projections, as they are based on different, independently generated forecasts from the SFC and OBR.

Figure 17: Scottish average earnings as % of average UK earnings



Scottish Fiscal Commission

Forecast comparison

Between 2024-25 and 2028-29, the SFC's forecast for GDP growth in Scotland is an average of 0.4 percentage points lower than the OBR's forecast for the UK. This gap is primarily due to slower population growth in Scotland – on a 'GDP per person' basis, the difference falls to 0.1 percentage points. This forecasted gap is similar to historical trends over the last decade or so.

Social security

Some elements of social security spending are devolved. The headline decision in this Budget was to increase devolved benefits in line with September's CPI inflation rate of 6.7%, as had been widely expected.

Social security spending is higher than previously forecasted, primarily due to higher inflation and record high applications for disability benefits across the UK. The SFC attributes this to "a long-term increase in mental health related cases, NHS waiting lists, and the cost of living crisis".

Spending on devolved benefits is budgeted a real-terms increase of 16.6% between 2023-24 and 2024-25, reaching £6.3 billion. By 2028-29, this is projected to reach £8.0 billion.

Table 10: Social security spending forecast (£ million)

Benefit	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Adult Disability Payment	2,027	2,677	3,226	3,616	3,895	4,178	4,496
Pension Age Disability Payment	554	660	755	824	861	897	918
Scottish Adult Disability Living Allowance	446	444	420	384	344	307	272
Scottish Child Payment	213	427	457	475	486	489	492
Child Disability Payment	292	378	450	505	552	598	642
Carer Support Payment	314	359	412	473	519	543	564
Other benefits	349	355	562	584	596	603	613
Total spending	4,193	5,299	6,283	6,861	7,253	7,616	7,999

Source: Scottish Fiscal Commission Scottish Fiscal Commission, 2023²

Overall, the Scottish Government has chosen to spend more on social security than would have been the case if reserved policy applied in Scotland. For example, they have established new benefits that are unavailable in rUK, such as the Scottish Child Payment. They have also changed the application process for the Adult Disability Payment, which results in a higher number of claimants.

The result is that the difference between social security funding through block grant adjustments and the spending that must be met from within the Scottish Budget will reach £1,092 million in 2024-25. This is forecast to rise to £1,502 million in 2028-29, £491 million of which will relate to the Adult Disability Payment alone. This places significant pressure on other parts of the Budget.

Capital and infrastructure

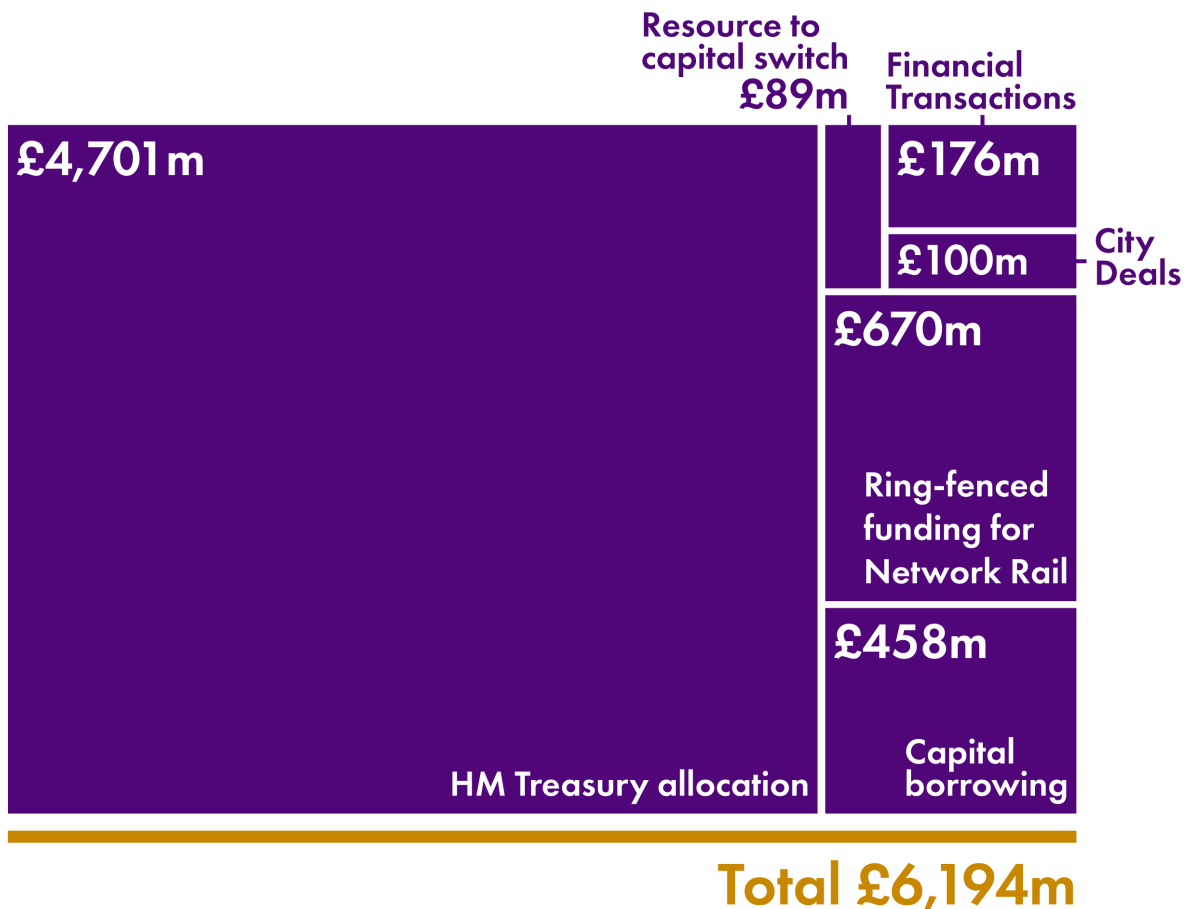
The 2024-25 capital budget from HM Treasury is £4,701 million, a 1.2% decrease in cash terms (or a 2.8% decrease in real terms) compared with 2023-24. There is also £670 million of capital funding ring-fenced for Network Rail and a further £100 million anticipated to come from the UK government in support of City Deals.

In addition to this, the Scottish Government states its intention to make full use of its capital borrowing powers (£458 million) to support capital investment in 2024-25. In line with the [revised Fiscal Framework agreed with the UK government](#), the £450 million annual capital borrowing limit is now updated annually in line with the forecast GDP deflator (1.7% for 2024-25).

Financial Transactions (FT) funding of £176 million is also available for 2024-25 and is discussed further below.

The Scottish Government also intends to transfer £89 million from its resource budget to support capital expenditure in 2024-25 and to offset some of the reduction in the capital allocation from the UK government.

Figure 18: Total capital budget, 2024-25, £ million



Scottish Government

When all sources of capital funding are taken into account, the total capital budget is 2.7% lower in cash terms than in 2023-24 (4.3% lower in real terms). In their report, the SFC

notes that:

“ The capital funding outlook is set to worsen. The [capital] Block Grant, which is directly linked to the UK Government investment plans, is expected to fall in nominal terms over the next five years.”

Scottish Fiscal Commission, 2023² , Para 2.76

In previous years, the Scottish Government has used revenue financing to increase the level of infrastructure investment that can be achieved through the capital budget alone. Revenue financing means that the Scottish Government does not pay the upfront construction costs, but is committed to making annual repayments to the contractor, typically over the course of 25-30 years. The Budget document does not make any reference to the use of revenue financing and the Scottish Government's Medium Term Financial Strategy ⁷ published in May 2023 noted that:

“ The increased cost of borrowing, exacerbated by supply chain issues and material inflation has resulted in revenue financed investments being more expensive than expected, and therefore impacting value for money assessments.”

Scottish Government, 2023⁸ , Page 67

Borrowing powers

The Scottish Government is able to borrow up to £458 million in 2024-25 for capital investment, up to a cumulative total of £3,050 million. The Budget sets out plans to borrow the maximum £458 million to support infrastructure expenditure in 2024-25. As noted above, the capital borrowing limits are now being updated in line with the GDP deflator, reflecting the revised Fiscal Framework agreed with the UK government. Reviewing the Scottish Government's capital spending plans, the SFC noted that this would give greater flexibility for the Scottish Government in future years:

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

Scottish Fiscal Commission, 2023² , Para 2.73

However, even with the increased limits, the SFC notes that:

“ ... the scale of expected reductions in capital budgets over the next five years cannot be countered by capital borrowing without limiting future scope for borrowing.”

Scottish Fiscal Commission, 2023² , Para 2.77

Financial transactions

The 2024-25 Budget includes £176 million for financial transactions. These FTs relate to Barnett consequentials resulting from a range of UK government equity/loan finance schemes (primarily the UK housing scheme, Help to Buy) and have been a regular source of funding since 2012-13. The Scottish Government has to use these funds to support equity/loan schemes beyond the public sector, but has some discretion in the exact

parameters of those schemes and the areas in which they will be offered. This means that the Scottish Government is not obliged to restrict these schemes to housing-related measures and is able to provide a different mix of equity/loan finance.

Although the FT amount is less than half of the £424 million in 2023-24, it should be noted that the 2023-24 was inflated by a correction of £188 million for previous errors. After this is stripped out the main FT budget is still reduced, but by only £10 million.

Individual tables in the budget document show the following profile for financial transactions.

Table 11: Net financial transactions, 2024-25, £ million

Portfolio	£ million
Social Justice	-30.8
Deputy First Minister and Finance	25.0
Wellbeing Economy, Fair Work & Energy	192.9
Education & Skills	-8.9
Transport, Net Zero and Just Transition	-2.2
Total	176.0

Where figures in the table above are negative, this reflects the fact that, in 2024-25, repayments of FT monies are expected to exceed new allocations. The Scottish Government is required to make repayments to HM Treasury in respect of FT allocations. These repayments are spread over 30 years, reflecting the fact that the majority of FT allocations relate to long term lending to support house purchases and the construction sector. The repayment schedule is based on the anticipated profile of Scottish Government receipts.

In previous years, FT money has been used to support housing equity and loan schemes, but in 2024-25, anticipated repayments for the Social Justice portfolio (which includes housing) outstrip planned use of FTs. The main area where FTs will be used is in relation the Scottish National Investment Bank, where £174 million of FTs will be used to support its investment activities.

According to the Scottish Government, FT repayments totalled £243 million in 2021-22, but there were no FT repayments in 2022-23. There is limited published information on FT repayments.

Revenue financing and the 5% cap

Annual repayments resulting from revenue financed projects and borrowing come from the Scottish Government's resource budget. The Scottish Government has previously committed to spending no more than 5% of its total resource budget (excluding social security) on repayments resulting from revenue financing (which includes NPD/hub, previous PPP contracts, regulatory asset base (RAB) rail investment) and any repayments resulting from borrowing. Neither the Budget nor the most recent Medium-Term Financial Strategy make reference to this commitment, so it is not clear whether it remains government policy. The lack of any plans to use revenue financing for infrastructure investment in 2024-25 will mean little upward pressure on repayments from this source in the short-term. However, increased borrowing and associated repayments along with

higher interest rates will increase repayment costs.

Scottish Government Bonds

The [Scotland Act 2016](#) gave powers to Scotland to allow for the issuing of government bonds for capital investment. These powers have not been used to date. However, in October 2023, the [Scottish Government announced its intention to start actively exploring the issuing of bonds](#), with a view to using the finance raised to support infrastructure investment. The Scottish Government said it had:

“...commissioned initial work including due diligence assessments with the aim of making the bonds available to the market by the end of the current parliamentary session.”

Scottish Government, [Government bonds to issue in first for Scotland](#), 17 October 2023

Bonds are a commonly-used form of borrowing for governments and can be used to support spending in a range of areas, including on major infrastructure projects, with the purchasers of bonds earning interest on their initial investment over a specific period of time. This is effectively another form of borrowing and would be included in the overall capital borrowing limits that apply through the Fiscal Framework agreement⁶ (see [section on Borrowing](#)).

Alongside the 2024-25 Budget, the Scottish Government published a [Memorandum on Scottish Government Capital Borrowing and Bonds](#). This stated that:

“Diversification through bond issuances or other sources may provide options for infrastructure financing to be structured more effectively for the specific requirements of future Scottish Budgets, subject to appropriate due diligence.”

Scottish Government, [Memorandum on Scottish Government Capital Borrowing and Bonds](#), December 2023

The Memorandum also set out the strategic aims of the bond issuance programme:

- To ensure the Scottish Government can access diverse and cost-effective sources of capital funding and enhance Scotland's fiscal sustainability
- To raise Scotland's profile to financial investors
- To develop Scotland's institutions and fiscal disciplines.

It stated that further details would be included in the next update to the Medium Term Financial Strategy (May 2024).

Review of infrastructure investment plans

The Scottish Government's Medium Term Financial Strategy⁷ published in May 2023 acknowledged that capital budgets were unlikely to be sufficient to enable the Scottish Government to achieve its plans for infrastructure investment, as set out in the [Infrastructure Investment Plan](#).

In the light of these challenges, the Scottish Government said:

“ To help to address the difference between the capital funding and spending outlook, we plan to publish a reset of the project pipeline, first set out in 2014 and last updated at the publication of the 2021 Infrastructure Investment Plan, alongside the 2024-25 Budget – providing transparency over which projects may now be delivered over a longer timescale. To do this we will undertake a prioritisation exercise to ensure we target the available capital spending to support employment and the economy through the Scottish Government's infrastructure plans, support the achievement of net zero emissions targets and underpin the provision of high-quality public infrastructure and services across Scotland. Without further funding and increased fiscal flexibility through increased borrowing powers from the UK Government, tough decisions will need to be made as we prioritise infrastructure investment to meet the core missions set out in the policy prospectus.”

Scottish Government, 2023⁷, Chapter 1

However, no further information on infrastructure investment plans was provided alongside the Budget.

Climate change

Climate change assessment of the Budget

In the 2023-24 Budget, the Scottish Government published [a climate change assessment narrative section](#) for the first time. This section provided an overarching narrative highlighting policy and spending across portfolios, which aim to deliver the Scottish Government's ambition of a [just transition](#) to net zero. The second climate change assessment in the 2024-25 Budget provides a similar update, supported by the [usual carbon assessment](#) and an [expanded taxonomy](#). Perhaps more notable than the sources of data we do have are those which were expected but have been delayed. In last year's Budget it was expected that the Climate Change Plan update and four sectoral Just Transition Plans would have been published by now (for energy, agriculture and land use, building and construction, and transport sectors). To date, only one of these Just Transition Plans has been published, for the energy sector, [and it remains in draft form](#).

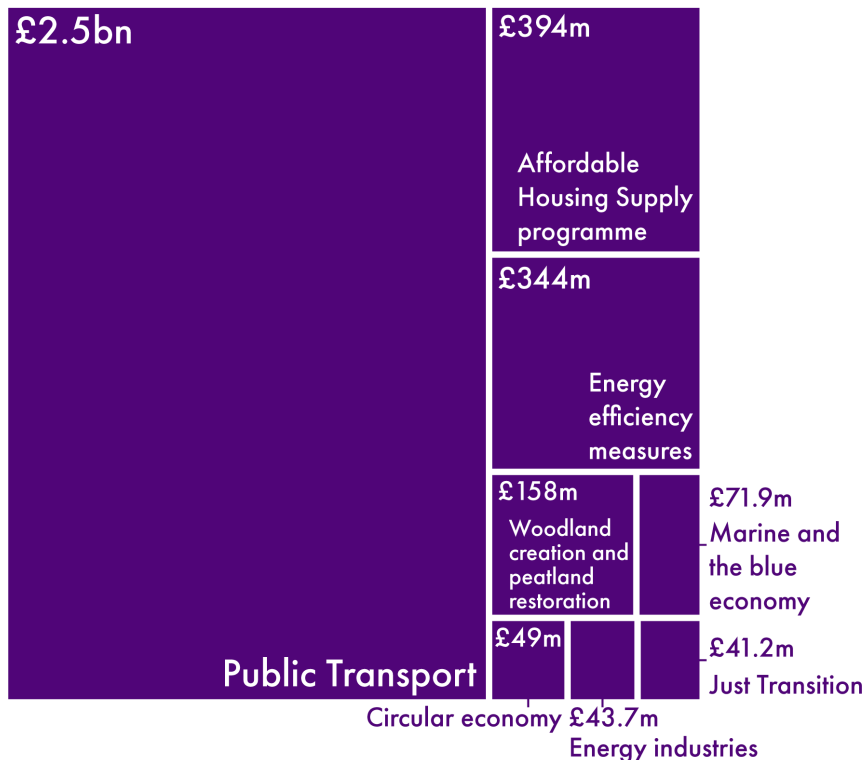
The expanded taxonomy included in the 2024-25 Budget and this climate assessment section are two of the three strands from the final report of the Joint Budget Review Group, which also recommended the development of a Scottish Government wide Net Zero Assessment. In her [response to the Net Zero, Energy and Transport Committees pre budget report](#), the Cabinet Secretary for Transport, Net Zero and Just Transition stated that a pilot of this net zero test would commence before the end of the year, but that:

“ The aim of the net zero assessment is to support and influence the development of policies; it is not applied as part of the annual budget setting process – it can and will be applied to policies as they develop. The intention is for the iterative development to continue throughout 2024, with a proposed roll-out to the wider Scottish Government during Quarter 4.”

Cabinet Secretary for Transport, Net Zero and Just Transition, [response to the Net Zero, Energy and Transport Committees pre budget report, 19 December 2023](#)

This year's climate change assessment therefore draws from a similar evidence base as the previous year's. The assessment outlines that £4.7 billion across capital and resource funding is for activities which will have a positive impact on the Scottish Government's climate change goals. The main contributors to the £4.7 billion are set out in Figure 19 below:

Figure 19: Key policy and budget allocations expected to contribute to meeting the Scottish Government climate goals in 2024-25



Scottish Government

Of this, £2.5 billion relates to public transport budgets, £394 million to the Affordable Housing Supply Programme which from December 2023 will focus on homes with zero emissions heating, £344 million for energy efficiency, £158 million to increase woodland creation and restore peatland, and £71.9 million for marine and blue economy.

The Climate Change Committee have suggested that by 2030, Scotland will require an additional £5 to 6 billion in investment in low carbon infrastructure annually. The Scottish Government highlight the challenging expected reduction in capital funding from the UK Government, a projected fall of 10 per cent in real terms between 2023-24 and 2027-28.

The Scottish Government notes that the latest emissions data show that Scotland has reduced emissions by nearly 50 per cent compared to a 1990 baseline. With the data currently at their disposal, the Scottish Government is not able to quantify how much existing policy commitments will contribute towards progressing further to meet the interim 2030 or 2045 emissions reduction targets, or what volume of future emissions have been 'locked in' by existing policy commitments. The Climate Change (Emissions Reduction Targets) (Scotland) Act 2019 requires that future Climate Change Plans include estimates of the costs and benefits of policies to reduce emissions. The next plan is expected in 2024, so this remains an area where progress is required to understand whether Scotland is on track to meet its ambitious targets, and how much of the remaining reductions will be delivered by current and future policy.

Carbon assessment

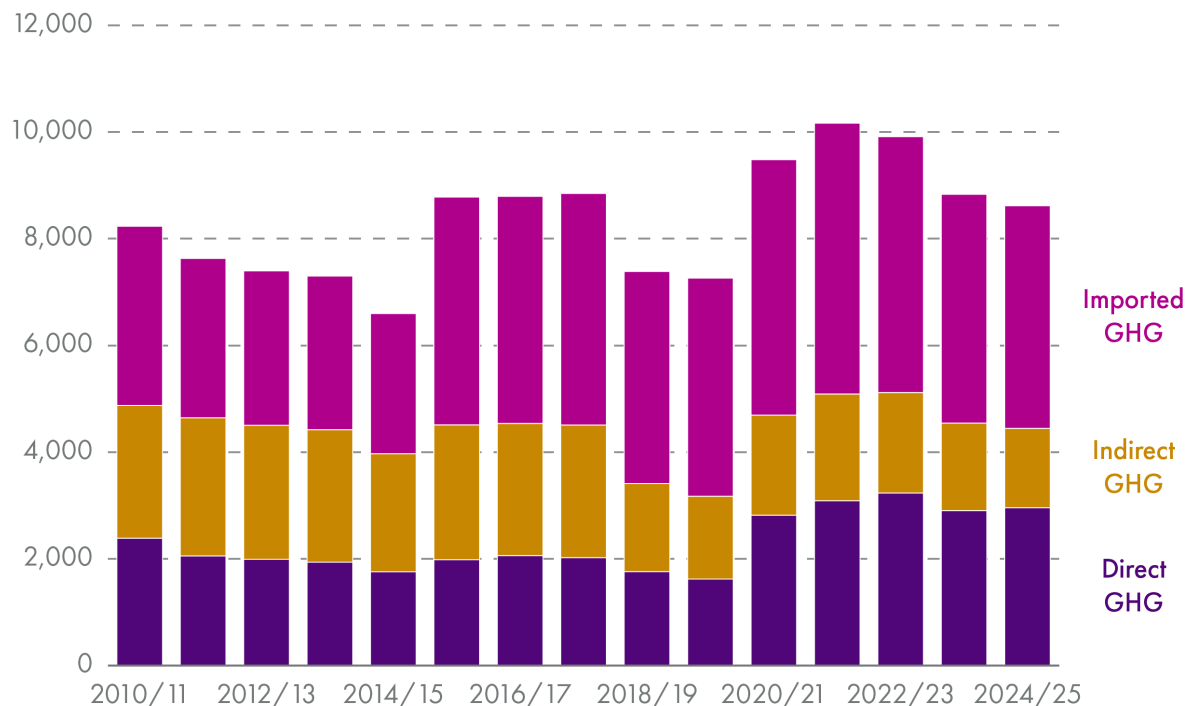
The Climate Change Act 2009 requires the Scottish Government to provide assessments of the impacts on greenhouse gas emissions of activities funded by its budget. The [Climate Change \(Emissions Reduction Targets\) Act 2019](#) also requires a carbon assessment of the Infrastructure Investment Plan. Since 2009, thirteen high-level carbon assessments of the budget have been published using an [Environmentally-extended Input-Output \(EIO\)](#) model to estimate emissions. This model is normally used to understand the flow of money through the economy. However, the environmentally-extended version averages greenhouse gas (GHG) effects for 98 industry sectors and converts the financial inputs from the budget into expected GHG outputs. This model shows the direct, indirect and imported emissions associated with the Scottish Budget.

This model has been revised for 2024-25 to include the latest analytical tables covering Scotland and the UK (which cover the year 2019). The Scottish Government has also incorporated the latest emissions data from the ONS environmental accounts, and the latest forecast GDP deflator from HM Treasury.

The Scottish Government [acknowledges the limitations of this methodology in the publication](#); it cannot be used for example to assess the impact of any given policy on the environment, and it does not measure the potential longer-term impacts of policy on emissions in Scotland – there is no assessment of 'second round' emissions or indeed emissions reductions. It does, however, provide an indication of the direct, indirect and imported emissions which can be associated with spending decisions in the Scottish budget.

Total emissions associated with the Scottish Budget for 2024-25 will be 8.6 million tonnes carbon dioxide equivalent (MtCO₂e). The original assessment of the 2023-24 Budget states that total emissions associated were 8.8 MtCO₂e, however applying the updated Environmental Input-Output model detailed above revises this to 8.4 MtCO₂e. Therefore the 2024-25 Budget has a slightly greater volume of emissions associated with it. Figure 20 below sets out the detail on the source of the emissions associated with Scottish Budgets since 2010-11. Note – this uses the carbon assessment as published with each Budget, so it does not reflect the updates to modelling detailed above.

Figure 20: Greenhouse gas emissions associated with Scottish budgets, 2010-11 to 2024-25



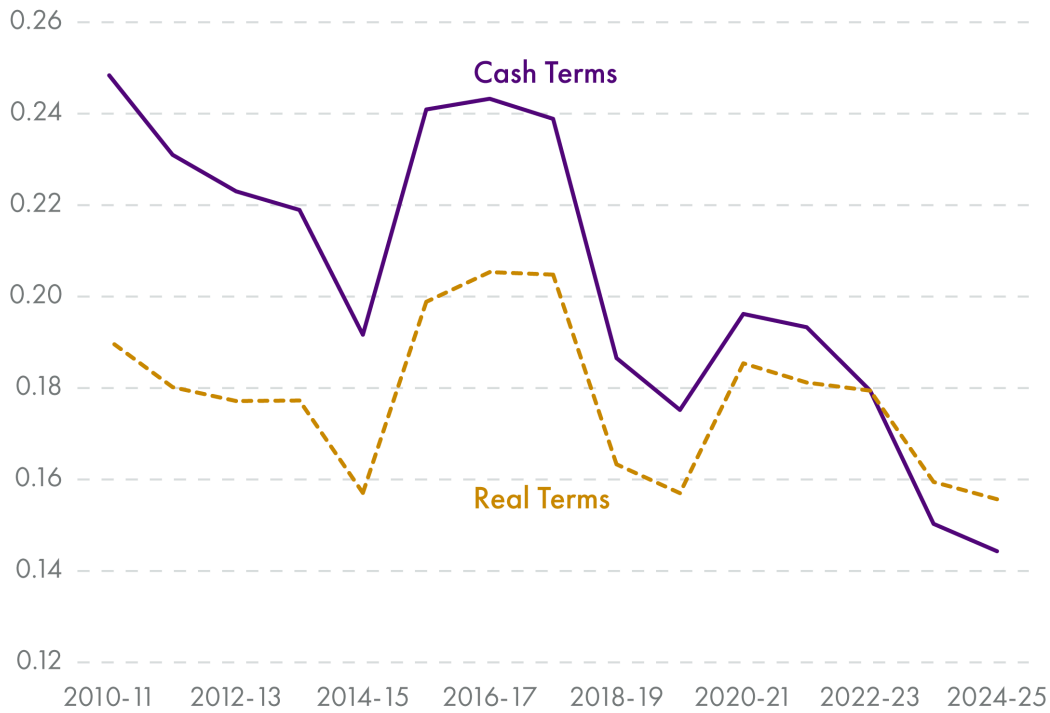
Scottish Government Carbon Assessments

In absolute terms GHG emissions remain higher now than in 2010-11. The assessment breaks down emissions by industrial source, and whether these are direct, indirect or imported emissions. 28 per cent of emissions are due to energy, water and waste services; manufacturing accounts for 20 per cent, while agriculture, forestry and fishing is 18 per cent – all similar proportions to 2023-24.

Looking at the split between domestic and imported emissions, a different picture emerges. Most agriculture, forestry and fishing emissions are from domestic sources, while the vast majority of manufacturing emissions are imported. As above, these proportions are similar to previous years.

While in absolute terms the emissions associated with Scottish Budget have increased, the size of the Budget has also increased over the 14 years since 2010-11. We can compare the emissions associated with Scottish Budgets with its size to calculate a carbon intensity – this is set out in Figure 21. This takes the total emissions associated with the budget and compares it to Total Managed Expenditure. Overall there has been a reduction in the carbon intensity as while total emissions have increased slightly since 2010, spending has increased at a greater rate. However, as inflation means that the amount of goods and services purchased for a given amount of public spending will decrease over time, we should expect that carbon intensity of spending will fall over time. The chart shows that when adjusting for inflation, there has still been a decline in the carbon intensity, but not to the same degree as when expressed in nominal terms.

Figure 21: Carbon intensity of Scottish Budgets, total emissions compared to Total Managed Expenditure, since 2010-11



Scottish Government Carbon Assessments

The Scottish Government publishes additional detail in Annex B which sets out emissions associated with spending at level 3.

As noted above, this assessment does not account for the impact of any 'second round' emissions or any impact of behavioural changes influenced by policy which may have an impact on future emissions associated with the Scottish Budget.

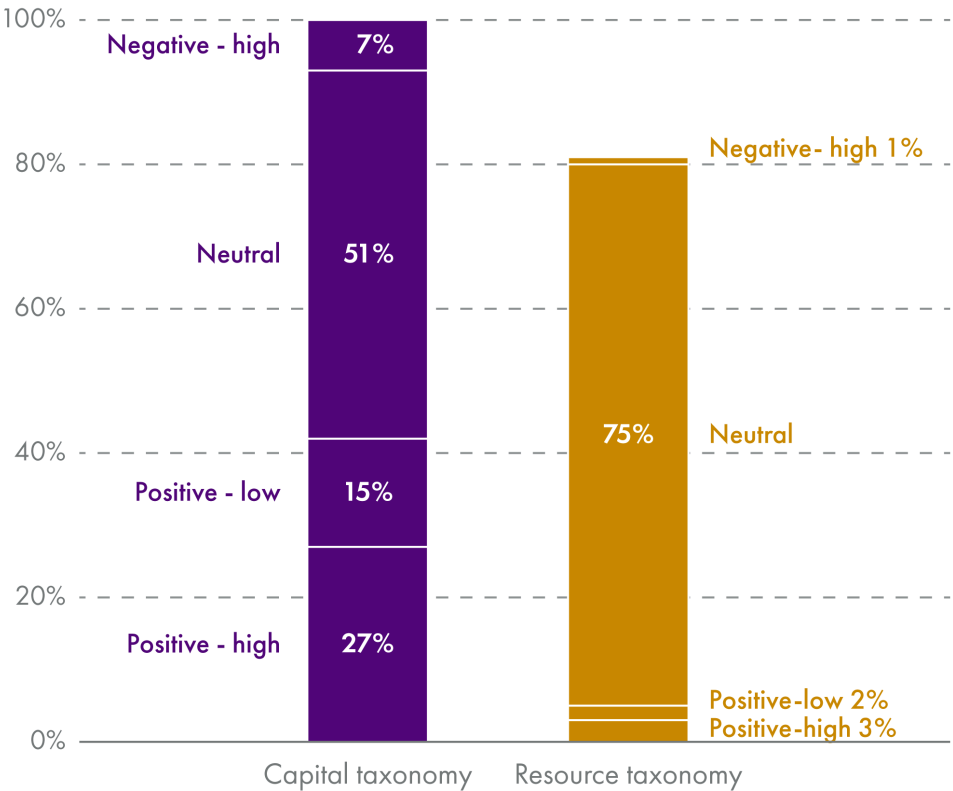
Taxonomy of capital and resource spending

Since 2018-19, the Scottish Government has included a taxonomy of capital spend in the budget, which sets out the proportion of the spend classified as low, neutral or high carbon. In 2024-25, the Scottish Government has made changes to expand this assessment to cover most resource spending in addition to capital. The previous taxonomy categorised capital spending as either low, neutral or high carbon. There is some additional detail in the new taxonomy – low and high carbon spend has been renamed positive and negative to indicate how it aligns to the Scottish Government's intended outcomes, and split to identify low and high impact spend within these categories.

“ Because the taxonomy is new and different in approach to previous years, analysis of 2024-25 does not include a comparison to previous years; instead it aims to set a provisional baseline from which to learn. Local authority spend continues to be excluded from the classification because of the complexity of breakdown”

Scottish Government, 2023¹, Annex J: Climate Change Assessment of the Budget

Figure 22: Capital and resource spending taxonomies, 2024-25



Scottish Government

Capital

The new taxonomy categorises 42% of spending as positive, 51% as neutral and 7% as negative. These are broadly similar proportions to the last capital taxonomy using the old presentation – in 2023-24, 39% of spending was categorised as low impact, 55% as neutral and 6% as high. Part of the movement from neutral to low is due to the reclassification of affordable housing spend lines, as from 1 December 2023 all applications must use zero-emission heating systems. Healthcare remains the largest contributor to neutral spending.

Resource

The resource taxonomy is presented on the same basis as capital, and covers around 81% of all resource spending as local government is excluded. Of this, the vast majority is classified as neutral (75% of total resource spending, and nearly 93% of resource spending in scope of this taxonomy). Resource spending categorised as positive includes agricultural greening payments, concessionary fares for rail, bus and ferries, and funding for the environmental agency SEPA. As with capital, NHS spending makes the largest contribution to the neutral spend, while the 1% negative impact resource spending includes agricultural support (through emissions associated with livestock) and costs related to road maintenance

The changes to the taxonomy do provide additional data for us to understand the impact of public spending on Scotland's climate, although a binary high/ low classification is of relatively limited use. Extending the taxonomy to cover the majority of resource spending

is also welcome, although in practice as 93% of resource spending covered by this taxonomy is categorised as neutral it provides a relatively limited insight into how spending might contribute to Scotland's climate targets.

The [Final Report from the Joint Budget Review Group](#) stated that, with respect to the taxonomy, the aims would be:

“ Development, initially for the 2024-25 budget cycle, of an expanded taxonomy approach that would, once fully established, provide a consistent, portfolio-by-portfolio, carbon assessment to identify and categorise all relevant spending lines (i.e. Resource as well as Capital) in terms of their emissions impacts. During the development of this expanded taxonomy Scottish Government officials will consult with Parliamentary counterparts to ensure the new approach is well tailored to support budget scrutiny purposes.”

Joint Review of Budget on matters related to Climate Change, [Final Report](#), November 2022

The publication of the new taxonomy is the first opportunity for Parliament to consider how this taxonomy approach supports budget scrutiny. The enhancements so far do not tackle the big challenges in understanding how this spending will contribute to meeting Scotland's climate targets. We do not know what outcomes will be achieved by this spending – do the current allocations of negative spending set Scotland on a path to meet the emission reduction targets, to what degree is 'positive' spending offset by 'negative', and how will spending decisions in 2024-25 contribute to emissions in future years?

National outcomes and the National Performance Framework

The National Performance Framework (NPF)

The [National Performance Framework](#) was originally introduced in 2007, and has gone through a number of reforms and revisions since then, the most recent of which was in 2018. The Equality and Fairer Budget Statement 2024-25⁹ that accompanies the Budget sets out that:

“ The eleven 'National Outcomes' set out a vision of what wellbeing means for the people of Scotland and enable everyone to work towards these shared goals. Our commitment to the three missions of equality, opportunity and community, as laid out in [the recent 'Policy Prospectus'](#), will contribute towards all the National Outcomes, taking us towards a country that prioritises wellbeing for all.”

Scottish Government, 2023⁹, National priorities

For [more information on the NPF and how it can be used for budget scrutiny, please see this SPICe Briefing](#).

In a continuation of the approach of the last three years, within the main Budget document each portfolio includes a table on "intended contribution to the national outcomes", split into "primary" and "secondary" outcomes. This is a useful overview, as far as it goes. However, given the high-level nature of both the outcomes and the portfolios, it is questionable how useful this will be for scrutiny.

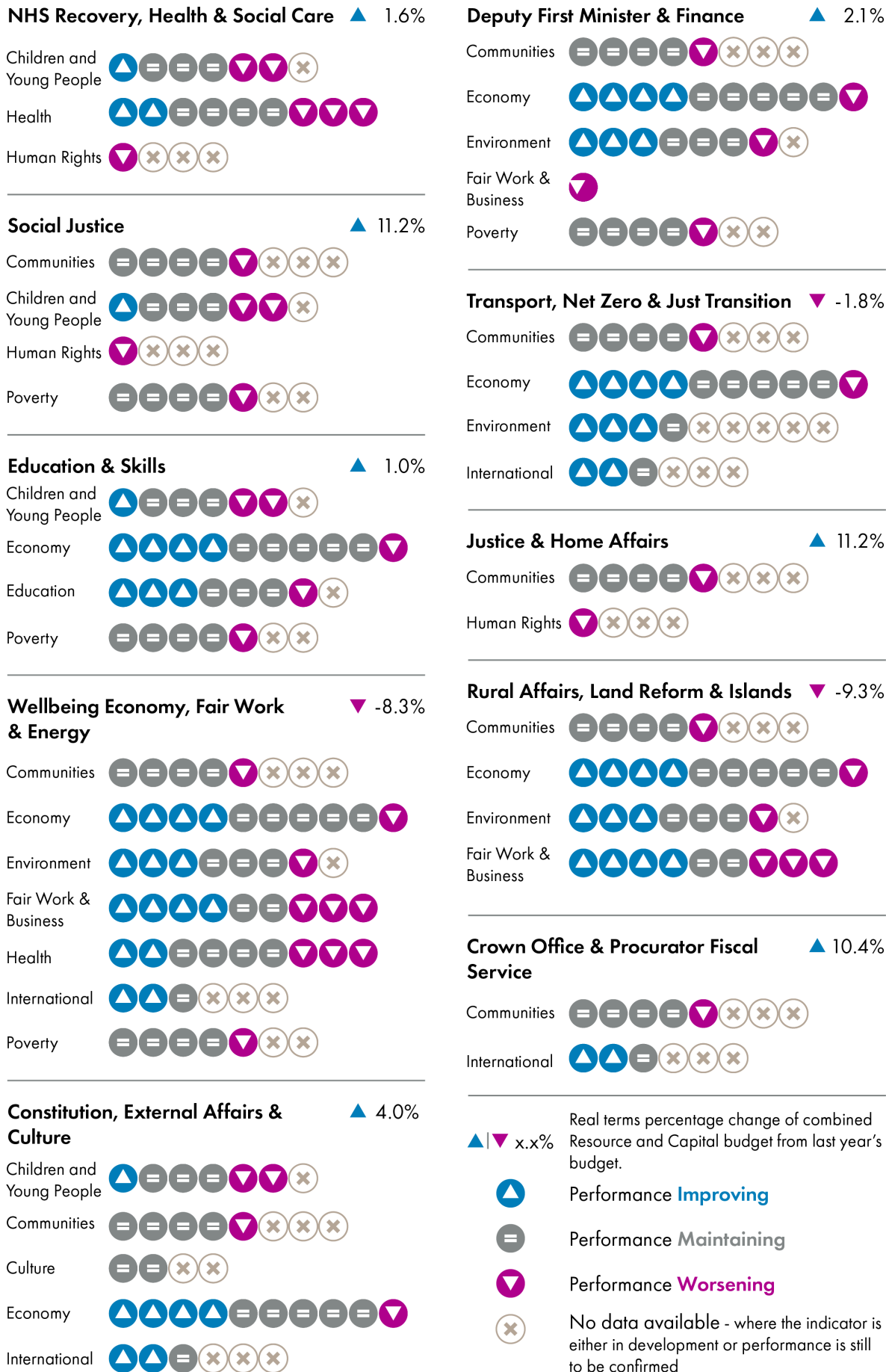
Last year SPICe created a new infographic to help committees start to interrogate this data more during their scrutiny, which we're replicated this year. This shows each portfolio, and the real terms change in resource and capital combined, in the 2024-25 Budget. It then also shows the "primary outcomes" assigned to each portfolio, together with an up-to-date performance assessment using the national indicators assigned to each outcome.

A little more information on how to interpret the infographic is set out here:

- Each portfolio is shown in the order they appear in the Budget document, reading top to bottom in two columns.
- In the top right of each portfolio, the percentage change in the real terms (adjusted for inflation) budget, and whether this change is upward or downward, is listed.
- Within each portfolio, each "primary outcome" assigned to that portfolio in the Budget is listed. For instance, using the NHS Recovery, Health and Social Care portfolio as an example, that is "children and young people", "health" and "human rights".
- Then for each of these primary outcomes, we've added icons showing how many indicators associated with that outcome are currently shown as "improving", "maintaining", "worsening" or if there is no data.
- So for example, the "children and young people" outcome has one indicator "improving", three "maintaining", two "worsening" and one with no data available.

- Many primary outcomes link to multiple portfolios, so the data in indicators is repeated in each. For example, the “human rights” outcome links to the NHS Recovery, Health and Social Care, Social Justice, and Justice and Home Affairs portfolios.

Figure 23: Performance change in national outcomes, by portfolio



Linking national outcomes and the budget

The Finance and Public Administration Committee has encouraged greater use of the national outcomes in committees' pre-budget scrutiny, saying in its guidance to subject committees:

“ The BPRG recommended that the NPF "is used more widely by Parliament and its committees in evaluating the impact of previous budgets" and in particular that subject committees should "revisit budget documents and assess the extent to which previous spending plans are delivering the national outcomes". An inquiry into the NPF by the FPA Committee [reported in October 2022](#) that "the NPF is not currently seen to drive financial decisions nor as a mechanism by which organisations are held to account for spending effectively".”

Finance and Public Administration Committee, [Budget process 2024-25: Guidance for Committees](#). May 2023

Yet again, committees expressed frustration at the lack of connection between spending and the national outcomes.

Demonstrating a better alignment between the Scottish Government's equality outcomes and the National Performance Framework was one of the recommendations that the Scottish Government committed to delivering as part of its response to the Equalities and Human Rights Budget Advisory Group.

In an [annex to the Equality and Fairer Scotland Statement](#) the Government sets out its process for the 2024-25 Budget. In this it says:

“ Tackling inequality in outcomes is central to the National Outcomes and values in Scotland's National Performance Framework and is a starting point for equality budgeting considerations. In order to understand equality budgeting, individual policy teams need to be able to identify which National Outcomes they are contributing to. However, teams also need to be much more detailed and specific in identifying what they are trying to achieve with their spend. Understanding inequality in these outcomes by protected characteristic, by socioeconomic disadvantage and by place can then be used to help shape the policy and the spend.”

Scottish Government, 2023⁹, Annex A

The content and presentation of the Budget, and of the bulk of the Equality and Fairer Scotland Statement has not changed this year in respect to national outcomes. There is an exception, however, in the [case studies presented alongside the Equalities Statement](#), within the section on Early Learning and Childcare:

“ As set out in our Strategic Early Learning and School Age Childcare Plan 2022-26, all of our current and future childcare offers are designed to support three outcomes. These draw on available evidence to describe how we expect our policies to make a difference for children, parents, carers and families:

- children's development improves and the poverty-related outcomes gap narrows;”
- family wellbeing improves; and”
- parents' and carers' opportunities to take up or sustain work, training and study increase.”

Our three outcomes have been mapped against the National Performance Framework to show where evidence suggests that childcare can make the biggest difference (those focused on education, health, growing up loved, safe and respected, tackling poverty and fair work).”

Scottish Government, 2023⁹, Annex C

For the most part, although it is possible to see which national outcomes link to specific portfolio areas, it is unclear how this connects to spending, or how the Scottish Government has used the data underlying national outcomes to inform spending decisions.

Review of the national outcomes

One reason for not increasing the use of the national outcomes in the Budget might be that they are [currently undergoing a review](#). This process is underway and is due to complete in 2024.

In the Programme for Government 2023-24 ¹⁰ the Scottish Government sets out:

“ This is our opportunity to ensure that the outcomes continue to reflect what matters most to communities across Scotland, and will be informed by the consultation and engagement that has taken place with individuals and organisations.”

Scottish Government, 2023¹⁰, Outcomes and equalities

The review is required by law to occur every 5 years. The last set of national outcomes were published in June 2018, which made June 2023 the notional deadline for this review. The Scottish Government launched its consultation on revised national outcomes in March 2023, stating that it expected to lay a revised set of outcomes before the Parliament by the end of 2023, and publish a final set of outcomes in early-2024. [The last blogpost](#) by the Scottish Government on the process was in April 2023, and the later stages of the review process have since been delayed. This is in part likely be due to the Scottish Government's consultation on a Wellbeing and Sustainable Development (Scotland) Bill, which the Scottish Government explains, [in correspondence to the Finance and Public Administration Committee](#), "is intended to further improve decision making and the implementation of the NPF to ensure that all policy and delivery decision making is focused on increasing the wellbeing of people living in Scotland, both now and in the future.". [The consultation for the bill](#) closes in mid-February 2024.

In the Budget document, the Scottish Government does not acknowledge the delay, but confirms the draft outcomes will be laid before Parliament in early-2024, and says it is:

“ ... committed to continually improving the way the NPF is used, across government and more widely. The Scottish Government has committed to developing an implementation plan to improve the implementation of the revised National Performance Framework.”

Scottish Government, 2023¹, Annex E

The Auditor General, in the [2022/23 audit of the Scottish Government Consolidated Accounts](#), said that the review is an important opportunity to "better align national performance reporting with the key outcomes the Scottish Government is now focusing on and the main policy commitments it has put in place to support delivery". He went on to say

“ The Scottish Government's approach to public performance reporting needs to improve. I am concerned by the number of indicators not being reported five years after the first National Outcomes were agreed and it remains difficult to monitor the impact of policy and spending decisions on performance.”

Auditor General, [The 2022/23 audit of the Scottish Government Consolidated Accounts](#), November 2023

Once the revised outcomes have been laid in Parliament, a process of committee scrutiny will begin, led by the Finance and Public Administration Committee.

Human rights - transparency, accountability and participation in the Scottish Budget

Background and key themes from committee scrutiny

Last year, for the first time, and inspired by the Equality, Human Rights and Civil Justice Committee's focus on human rights budgeting, SPICe began to explore scrutiny approaches using the three principles of human rights budgeting – accountability, transparency, and participation. This included [analysing the Budget document using these three themes](#).

The Scottish Government stated, in its [response to the recommendations of the Equality and Human Rights Budget Advisory Group](#), that it is committed towards working towards a human rights budget. In light of this, we have repeated our analysis.

As was the case last year, the Scottish Government [included detail within the Equality and Fairer Scotland Statement](#) on how it has demonstrated its adherence to the three principles of human rights budgeting.

Committee pre-budget scrutiny

As part of our post-budget analysis last year, SPICe looked at [the key themes in Committees' pre-budget scrutiny letters and reports](#) to understand where there might be overlapping issues and messages. This year, [we carried out this analysis in advance of the Budget](#), to support committees in their post-Budget scrutiny.

As our blog sets out, the three main conclusions from committee scrutiny were:

- There is a need for longer-term financial planning and multi-year funding, both in the Scottish Government's spending plans overall, and in several portfolios, including a need to balance short-term pressures and preventative spend (culture, criminal justice, skills development, third sector, capital investment, health and social care, local government and housing).
- The Scottish Government needs to make its strategic focus and priorities clear in several areas, and link this clearly to spending decisions (culture, skills development, education, human rights, taxation and fiscal framework, third sector funding, local government, public service reform, prevention, commissioners, transport, care in the community, science and innovation, islands, cost of living, child poverty, and housing rights).
- The Scottish Government needs to better demonstrate the link between policy and spending decisions and National Outcomes and do so in a holistic and cross-portfolio way. This includes evidencing decisions, explaining reasoning, and re-prioritising of spend where needed.

We will explore the Scottish Government's responses to committees' common asks in more detail in a separate blog.

Responses to committee pre-budget scrutiny

In [its letter to the Scottish Government](#), the Equalities, Human Rights and Civil Justice Committee noted the importance of the Scottish Government clearly setting out where committees' pre-budget scrutiny had influenced spending decisions.

As per the [Budget Process Review Group recommendations](#) in 2017, individual ministers are required to respond to committee pre-budget letters within five sitting days of the Budget being published. The Group set out, as part of its proposed revised budget process, that:

“ The Budget Document should include a summary of how the submissions from committees have influenced the formulation of the proposals alongside a Budget Bill.”

Budget Process Review Group, [Final report](#), 30 June 2017

[The Scottish Government implemented this recommendation](#) when publishing the 2019-20 budget in 2018, and since then a section responding to committees' scrutiny has appeared in the main budget document.

The Scottish Government's website currently explains that the process with regards to committee scrutiny is:

“ We respond to their suggestions in the Budget Bill supporting document, then debate any proposed amendments in Parliament prior to stage 1.”

Scottish Government, [Setting the Scottish budget](#)

Notably, this year the Scottish Government has chosen not to publish this detail within the main Budget document. Instead, this [detail was published separately alongside the Budget document](#), and is not on the page directly linked from the annex – it takes a further three clicks to access the response. This approach might be considered to fall short of [the Written Agreement between the Scottish Government and the Finance and Public Administration Committee](#).

No statement has been made by the Government detailing its decision to make this change, but it would appear that this is a step back in terms of both accountability and transparency, and in the accessibility of budget documentation.

Reflection of human rights principles in Budget 2024-25

Accountability

In a human rights budgeting approach, accountability means that "Budgets should be subject to oversight and scrutiny that ensures accountability for budget decisions and the impact these have on human rights."

Accountability was the most prominent theme within committees' pre-budget scrutiny for 2024-25. In the Equality and Fairer Scotland Statement 2024-25⁹ the Scottish Government says it has demonstrated this by referencing the committee pre-budget scrutiny process. As noted in the last section, this is less prominent in the main Budget document than in previous years.

The Scottish Government only included [a summary of responses](#) to 11 of the 12 committees that carried out pre-budget scrutiny for 2024-25, omitting the Citizen and Public Petitions Committee [which carried out budget scrutiny for the first time](#). There is only one clear reference to a decision made following committee scrutiny, on a commitment to the Finance and Public Administration Committee to produce biannual progress updates on the Public Service Reform programme.

Within the Equality and Fairer Scotland Statement 2024-25, stronger links have been made between the Programme for Government¹⁰ and policy areas, which builds on the previous approach of linking to national outcomes and human rights. There is also [the addition of case studies](#) which show how policy decisions in eight areas impact across all protected characteristics, and the Government explains the use of a process of bringing Ministers together to workshop cross-portfolio issues.

This is a positive change in light of committees' calls for more effective mainstreaming and cross-portfolio approaches, though committees may be keen to see this level of effort replicated with other cross-cutting issues, and to see spending more directly linked to the Programme for Government and National Outcomes.

Transparency

In a human rights budgeting approach, transparency means that "Parliament, civil society and the public should have accessible information about budget decisions".

The Government states that improvements to the analysis within the Equality and Fairer Scotland Statement 2024-25 and the [Your Scotland, Your Finances](#) document support this, as well as its participation in [the Open Government Partnership](#).

As noted, more detail has been included in the Equality and Fairer Scotland Statement 2024-25⁹ on the links between policy and Programme for Government commitments, with the underlying data clearly linked. A change in the questions used within each portfolio, however, means that detail on "How have changes to spending, compared to last year, affected these issues?" is lost (See [Equalities and fairer Scotland statement section](#)). [As was the case last year](#), it is not possible to tabulate or quantify the identified equalities spend across portfolios as set out in the statement.

Your Scotland, Your Finances was published alongside the Budget, which is an improvement on last year, though there are no design changes which may mean stakeholders still have concerns about accessibility. The Scottish Government has promised to publish an Easy Read version, though this was not available at the time of publishing this briefing.

There are also no changes to the presentation of data in the Budget document, however on the face of it there appears to be more accompanying documents, including further analysis on the impact of tax policy changes ('ready reckoners') and more detail on the

workings of the renegotiated fiscal framework between the UK and Scottish Governments⁶. However, many of the additional documents are annexes and analysis that previously would have appeared as part of the main budget document. As was previously the case, many documents, including the Level 4 budget breakdown, still require careful navigation of the website to find.

Participation

In a human rights budgeting approach, participation means that "Civil society and the public should have opportunities for meaningful engagement in the budget process".

This year, two committees focussed their pre-budget scrutiny on participation. [The Citizen Participation and Public Petitions Committee](#) explored the 'Public Info and Engagement' budget line, which has increase from £2.1 million in 2023-24 to £5.5 million in 2024-25. [The Level 4 tables](#) set out that this is primarily marketing and communications spend, with no explanation for the increase. As noted, a response to the Committee was not provided in the annexed summary.

The Equalities, Human Rights and Civil Justice Committee used a deliberative approach in scrutiny and [made several recommendations](#) on the Scottish Government's use of participation. There appears to be no reflection of increased use of participation or engagement in the budget process, beyond [a repeat of the stakeholder engagement work done around attitudes to tax](#) done last year. [As we've noted previously](#), the Scottish Government has implied previously that the appropriate point for stakeholders and citizens to engage in the budget is during committee scrutiny, but the detail on both accountability and transparency does not suggest that the Scottish Government is willing to make changes to facilitate and encourage this.

The Scottish Government does however highlight its own strategic focus on participation, albeit without links to the budget process, or any indicative spend. As well as referencing its [response to the Institutionalising Participatory and Deliberative Democracy](#) working group, the Scottish Government explains that work to begin the embedding of public participation processes across government, with a focus on equalities and human rights has begun. It also explains:

“ Work is also underway to develop procurement frameworks that will raise standards and consistency across our engagement with children and young people and with adults, focusing on those identified as being seldom heard, furthest from their rights or vulnerable. We are finalising guidance for the payment of expenses and compensation for time for people taking part in participatory processes – this will minimise financial barriers to involvement and is of particular importance for inclusively involving marginalised groups.”

Scottish Government, 2023⁹, Annex A

Equality and Fairer Scotland Statement

The Equality and Fairer Scotland Statement⁹ (EFSS) is intended to aid scrutiny of Budget decisions through the perspective of tackling inequalities. It provides analysis of Budget decisions and their impact on equalities issues. The bulk of the analysis is presented in an annex (see below). This sets out, by portfolio and by characteristic (e.g. disability, age, socioeconomic disadvantage), what is known about inequalities and what impact spending has on tackling inequalities. The main EFSS document presents a far briefer summary of this and lists National Performance Framework outcomes and key human rights related to each portfolio.

This year, the process for compiling the document has also been updated. Most notably, portfolios have been engaged earlier in their budget setting cycle to consider the equalities impact of their budget decisions. The other significant change is that the document also includes six case studies of selected budget lines and, for each of them, answers six questions that were set out in the guidance developed by the Scottish Government in collaboration with the Equality and Human Rights Budget Advisory Group:

1. What outcome is the policy and associated budget decision aiming to achieve?
2. What do you know about existing inequalities of outcome in relation to the budget area?
3. How will your budget decisions impact upon different people and places?
4. How will your budget decisions contribute to the realisation of human rights?
5. Could the budget be used differently to better address existing inequalities of outcome and advance human rights?
6. How will the impact of the budget decisions be evaluated?

This case study approach is a trial for 2024-25 and is designed to give a more detailed insight into how equality and socioeconomic evidence has fed into budget decisions.

Analysis of the impact of spending on tackling inequalities

[Annex B of the Equality and fairer Scotland statement](#) presents the analysis of how spending within portfolios tackles inequalities by different characteristics. At 157 pages long, this is difficult to summarise. As an example, the Wellbeing Economy, Fair Work and Energy portfolio identifies the link between socioeconomic disadvantage and barriers to accessing the labour market, with evidence to explain this. There is then an explanation of how spending on employability services helps to address this:

“ The Budget provides £90 million for Employability and Workforce Skills (including 'Fair Start Scotland'). Through the actions we are taking we will deliver a labour market that is inclusive and offers equality of opportunity for all to access and to progress in work. Delivering person-centred employability support through 'No One Left Behind' and 'Fair Start Scotland' will prioritise those facing complex barriers to accessing the labour market. This includes enhancing employability services' support for parents and bringing together a range of services to help priority families increase their income from employment, helping to tackle child poverty. Since April 2020, funding has been made available specifically for parental support, with changes made to eligibility of our services to enable parents in low-income employment to benefit. 'Local Employability Partnerships' identify the services that will meet the needs of local people, supporting them to access employment or training, impacting positively on their lives, their family and wider neighbourhood and community. We will continue to work with partners to increase the scale and effectiveness of our support for parents and to better promote and communicate available employability support.”

Scottish Government, 2023⁹, Annex B

Unlike the equivalent analysis accompanying the 2023-24 Budget, there is no analysis of the impact of how spending has *changed*. The line item for Employability and Workforce Skills, including Fair Start Scotland shows a reduction in spending from £126 million in the 2023-24 Budget to £99 million in the 2024-25 Budget. On the face of it, this looks like a reduction in funding. However, in the budget tables, it is explained that some "broader activity mentioned previously is not accounted for against this line in budget. This now solely supports devolved employability activity". This suggests that some funding that previously fell under this line in the budget has been presented elsewhere.

However, no further detail is given, so it is not clear how funding for core employability services is changing. Crucially, no analysis is presented of what impact this will have on those with socioeconomic disadvantage and their ability to access the labour market. For example, if employability funding is being decreased, is there an expectation that fewer people will be supported? If funding is in fact being increased, what will this additional funding support and what impact is this expected to have on inequalities?

This illustrates a broader shortcoming of the Equality and Fairer Scotland Budget Statement from a scrutiny perspective (perhaps inherent in any such document) – it is possible to illustrate the positive impact on tackling inequalities of resources that are being spent; it is far more difficult to assess the impact on inequalities of the trade-offs that are inevitable in budget setting. For example, which spending programmes are *most effective* at tackling inequalities? Why has spending that tackles inequalities been prioritised in some areas and not others? This would be useful information to understand why budget decisions have been made and their impact on inequalities. Whether it is possible to capture this in one document is another question.

Distributional analysis

Accompanying the Budget documents is a [distributional analysis](#) of tax and social security decisions, which is referenced in the Equality and Fairer Scotland Statement. The analysis is presented in two parts – the first analyses the overall impact of the tax and social security system, the second analyses the impact of decisions taken in this Budget.

There is analysis presented by income decile and age, but not by any other characteristic

in the Equality and Fairer Scotland Statement. The document shows that the tax and social security system combined are progressive and have become more progressive since the devolution of such powers. It notes that, on average, households in the lower half of the income distribution are £400 better off a year than they would be in rUK.

Abbreviations

The following abbreviations appear in this briefing. For further detail and a glossary of terms, SPICe recommends using [the Scottish Fiscal Commission's glossary](#).

ADT - Airport Departure Tax

AME - Anually Managed Expenditure

ASHP - Affordable Housing Supply Programme

BGA - block grant adjustment (Also, BGAs, for block grant adjustments)

BPRG - Budget Process Review Group

CEAC - constitution, external affairs and culture (portfolio)

COSLA - Convention of Scottish Local Authorities

CPI - consumer price index

DFM - Deputy First Minister

EFSS - Equality and Fairer Scotland Statement

EIO - Environmentally-extended Input-Output

FT - Financial Transactions

GDP - gross domestic product

GHG - greenhouse gas

GRG - General Revenue Grant

LBT - Land and Buildings Transaction Tax

MtCO₂e - million tonnes carbon dioxide equivalent

MTFS - medium-term financial strategy

NCS - National Care Service

NDR - non-domestic rates

NDRI - non-domestic rates income

NHS - National Health Service

NICs - National Insurance contributions

NPD - non-profit distributing

NPF - National Performance Framework

NSND - non-savings non-dividend

OBR - UK Office for Budget Responsibility

PPP - public-private partnership

RAB - regulatory asset base

RHL - retail, hospitality and leisure (relief)

RSR - Resource Spending Review

rUK - the rest of the United Kingdom, i.e., England, Wales and Northern Ireland combined.

SEPA - Scottish Environment Protection Agency

SFC - Scottish Fiscal Commission

SLfT - Scottish Landfill Tax

SNIB - Scottish National Investment Bank

SNP - Scottish National Party

TME - Total Managed Expenditure

VHA - Verity House Agreement

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