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Scottish Budget 2025-26

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This briefing considers the Scottish Government's spending and tax plans for 2025-26. More detailed presentation of the budget figures can be found in our budget spreadsheets. Infographics and supporting analysis provided by Andrew Aiton, Kayleigh Finnigan, Fraser Murray and Maike Waldmann.

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Executive Summary

Minority government means this is likely not the end of this year's budget story

Scottish Budget 2025-26 [1] comes in a changed political environment resulting from the collapse of the SNP-Green power sharing arrangement earlier this year. It means that for the first time during this parliamentary session, the Scottish Government is operating as a minority administration.

As such, the publication of these spending and tax proposals is likely an opening hand played by the Scottish Government as it attempts to win the support of at least one opposition party in order to get the Budget passed. The SFC notes in its forecast that the Scottish Government has yet to allocate £1.3 billion in resource funding for this financial year (2024-25). Some of that will have been allocated internally, some may be underspent and put in the Scotland Reserve to smooth pressures in the future. The Institute for Fiscal Studies has said this would be a sensible move. But, it is likely that the Scottish Government has held back some resource for deals with other parties to get this 2025-26 Budget passed.

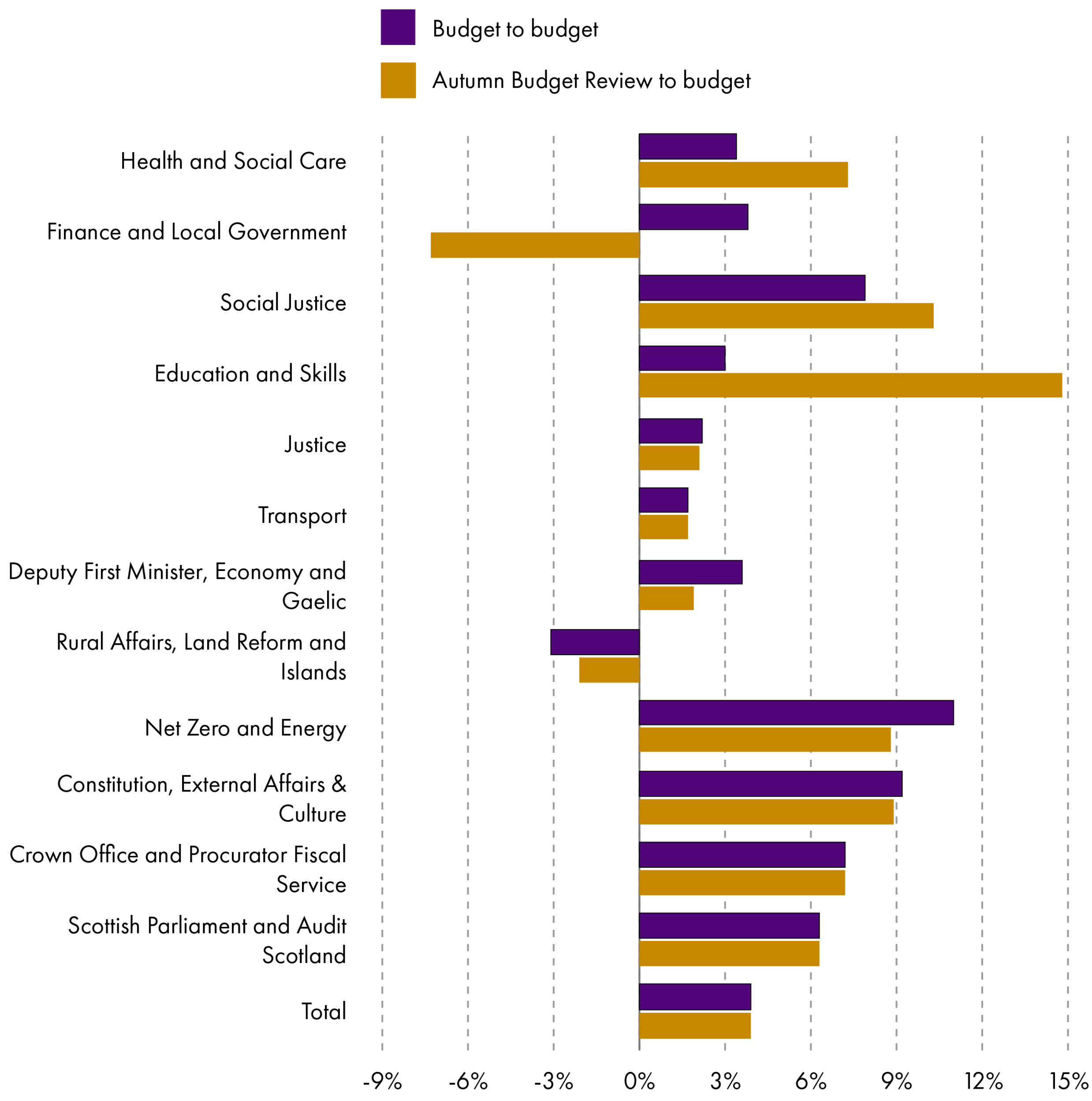
This is not the end of this year's budget story!

Scope to iron out confusing presentation

The first thing that struck us on looking at the budget numbers was the confusion caused by using the Autumn Budget Revision (ABR) numbers as the 2024-25 baseline (as had been requested by the Finance and Public Administration Committee), but not making adjustments to strip out routine in-year transfers. Although this might sound like a technical point, the use of baselines has a significant and material impact on the Budget narrative as shown in the visual below. This shows that the picture for certain portfolios (in particular the resource budgets for Education and Skills, Health and Local Government) changes dramatically depending on the baseline used. These issues should be addressed by the Scottish Government in time for their next budget.

Difference in portfolio resource percentage change depending on baseline, real terms

This chart highlights how the percentage change in the budget is influenced by the baseline used. Health and Social Care, Finance and Local Government and Education and Skills show particularly large differences depending on the approach.



Scottish Budget 2025-26

Another complication this year is that there was a large addition of in-year Barnett consequentials (totaling £1.5 billion) for 2024-25 from the recent UK Budget, nearly all of which have yet to be allocated (and won't be until the Spring Budget Revision in late January/early February 2025).

Depending on where these are allocated, this has the potential effect of making the percentage increases to certain budget lines for 2025-26 look larger than they will be. All in all, any focus on specific percentage changes to budget lines feels rather meaningless this year, and potentially misleading.

Nowhere are these presentational difficulties more apparent than in the **Local Government** budget, and the Financial Scrutiny Unit's (FSU) best forensic investigation skills have been required to get to the bottom of what's happening to that budget.

Next year's local government allocation will be over £15 billion for the first time ever, representing a 4.7% real terms increase when compared to the 2024-25 Budget. This may seem like a significant increase but COSLA has already set out its stall arguing that local government needs a total allocation of £15.4 billion next year.

Local government is by far the largest public sector employer in Scotland, and up to 70% of local authority budgets are spent on workforce costs. Meeting the pay demands of its 262,000 workers is one of the biggest financial challenges faced each year by councils. That will be compounded in 2025-26 by the employer National Insurance Contribution (NICs) increases announced by the UK government, and not yet accounted for in this Budget.

Perhaps optimistically, the Cabinet Secretary is of the view that "with record funding [for local government], there is no reason for big increases in council tax next year". But that's now a decision for councils themselves to make. A recent survey conducted by the Local Government Information Unit found that around a fifth of local authorities are considering increasing council tax by at least 10% next year. With the Scottish Government having secured freezes and caps for much of the last 17 years, increases of this magnitude could come as quite a shock to many households, especially as levels of satisfaction with council services are not particularly high.

Social Security choices are storing up challenges for the Scottish budget, something that will likely be compounded in future with demographic and fiscal sustainability challenges highlighted by the work from the SFC in this area. We can already see the impact social security spend is having on other parts of the Budget – social security is forecast to account for 13.5% of resource spending in 2025-26, compared with 9.7% in 2022-23.

Some elements of social security spending are devolved. This has given the Scottish Government more powers to shape Scotland's social security system, but also more budgetary risk. This is because any expenditure above the social security block grant adjustment (BGA) must be funded from within the Scottish Budget. The BGA broadly reflects the hypothetical amount that would have been spent on equivalent social security payments had they not been devolved.

This budgetary risk is materialising. Scottish Government decisions on social security have cumulatively added significant cost pressures to its budget. Broadly speaking, this is because the Scottish Government:

- Has introduced benefits that are not available in the rest of the UK (rUK), such as the Scottish Child Payment, which is forecast to cost £471 million in 2025-26.

- Is spending more on benefits that attract a BGA than is added to the budget via the corresponding BGA. In other words, where devolved benefits have an rUK equivalent, the Scottish Government is spending more than would have been spent if these benefits had not been devolved. It must meet this additional cost from within the Scottish Budget. The most notable example is the Adult Disability Payment, where a policy of maximising take-up has resulted in a higher number of recipients, which is forecast to add £314 million to the social security bill above BGA funding.

The Scottish Government has also chosen to get involved in areas that aren't directly devolved responsibilities. By indicating a desire to “mitigate” the UK government’s two child cap on Universal Credit payments from 2026-27, the Scottish Government is planning to spend its budget on a reserved benefit (as it did with the “bedroom tax”) which will leave less funding available for other parts of the devolved budget. [Note that as this will not be introduced until 2026-27, there is no funding in the 2025-26 Budget other than for preparatory work.]

The **Health and social care** portfolio is again a budgetary priority as it has been throughout the devolution years, increasing by £2 billion in cash terms. Most of this will benefit the NHS Board budgets, but there is also a planned increase of £184 million to the health capital budget. Much of the increase for health and social care will reflect the commitment to pass on health-related Barnett consequentials received as a result of the UK October Budget. Increased planned UK government spending on health and social care resulted in an additional £1.7 billion for Scotland in 2025-26.

However, as noted above, health and social care is one of the budget areas impacted by the change in presentation of the budget figures for this year. The 2024-25 baseline is likely to increase following the 2024-25 Spring Budget Revision, which will allocate remaining Barnett consequentials for the year. Meanwhile, the 2025-26 health and social care budget line is likely to decrease when regular transfers (including to local government for social care) take place. These transfers are already reflected in the 2024-25 baseline. So, the baseline is likely to increase and the 2025-26 budget line decrease, which will have the effect of making any increase considerably smaller than the budget figures would imply. In this context, reference to specific increases feels a little meaningless.

Is public service reform sufficient?

There has been much UK-wide discussion in recent times, and especially since the UK Budget, about whether big increases in public spending should be taking place without guarantees over reform of service. Specifically, many have expressed concerns that this additional resource will simply be swallowed up in an unreformed public sector with little impact on outcomes.

This discussion around public service reform is alive and well in Scotland. The need for public service reform has been highlighted by many stakeholders for many years, but progress is still hard to see. Audit Scotland has noted that “there is no evidence of large-scale change on the ground” and the Parliament’s Finance and Public Administration Committee has expressed some frustration around the lack of any clear action. The Budget document states that:

> “ We must also be efficient and effective in how we deliver public services. We have set out a 10-year programme of [public sector reform] PSR to Parliament, with a strong focus on the data, levers and workforce that will drive efficiency. To enable this work, we will deliver an Invest to Save fund in 2025-26, backed by up to £30 million of funding recognising the need to catalyse efficiency, effectiveness and productivity projects as part of the PSR programme.”

It is hard to see how £30 million will really shift the dial when the Budget also notes that health and social care reform is a key element of the approach and showing “signs of strain” with “significant challenges” to navigate.

Capital

The capital budget has increased from £6.4 billion in 2024-25 to £7.3 billion in 2025-26, which is a 12% increase in real terms. Much of this change is driven by policy decisions in the UK Budget in October, with the settlement from the UK government increasing from £5.7 billion to £6.4 billion. In addition, the Scottish Government has utilised £330 million from ScotWind revenues, and the maximum amount of borrowing under the fiscal framework (£472 million, as the limit has increased in line with the GDP deflator since last year). This would increase the stock of capital borrowing to 87% of the cumulative limit of £3.1 billion, an increase of 8 percentage points from 2024-25, and suggests that the Scottish Government will need to reduce the amount of borrowing in future years.

The SFC has forecast that total capital resources available to the Scottish Government will dip slightly in 2026-27 and largely remain flat throughout the forecast period – however, this picture could well change after the UK government completes its spending review in 2025.

In 2024-25, 42% of capital spending (£2.7 billion) was categorised as positive for Scotland's climate targets. In 2025-26, the proportion of spend categorised as positive has increased slightly to 44%, and as it is a larger capital budget, this amounts to just under £3 billion of spending.

The Cabinet Secretary also announced a budget of £768 million for investment in affordable housing, an increase (in real terms) of 26% from the current year. Pressure had been mounting on the Scottish Government to increase resources for the budget given the declaration of the national housing emergency in June and the cut in the 2024-25 budget. However, the budget is still lower (by 3% in real terms) compared to 2023-24.

SFC forecasts point to fiscal risks

In addition to risks around increasing social security spending, the SFC highlight other fiscal risks in their report.

The SFC also points to risks from the public sector pay policy assumptions contained in the Budget. Although the Scottish Government has published a pay policy (assuming a 3% uplift in 2025-26) alongside its budget for the first time in four years, it did not provide the SFC with information on workforce. This leads to the SFC highlighting further fiscal risks around public sector pay coming from pay pressures or the size and composition of the workforce being different than budgeted for. The need to adjust budgets in-year to allow for higher-than-planned public sector paybills has resulted in emergency budget statements in recent years.

The SFC point out that there is no provision in the budget for the public sector employer NICs increase announced in the recent UK Budget, and for which there is now a legal obligation. While the Scottish and UK governments are still at odds over the amount the Scottish budget will be compensated by, it is nevertheless a risk to the fiscal position for which no provision has been made in this Budget.

Income tax

The Budget proposes to increase the thresholds for the basic and intermediate thresholds by 3.5% in 2025-26, and freeze the higher, advanced and top thresholds.

Compared to the rest of the UK, the Scottish Government's income tax proposals mean that all taxpayers earning below £30,300 will pay less income tax in Scotland than they would if they lived elsewhere in the UK. However, the differences are small for this group of taxpayers – only £28 per year for most in this group. For those earning above this amount, the gap between what they pay in Scotland and what they would pay elsewhere in the UK widens rapidly as earnings increase. Those earning £50,000 will pay around £1,500 more in Scotland than they would elsewhere in the UK, while someone earning £150,000 will pay almost £6,000 more over the year.

The SFC forecast strong growth in income tax revenues, driven by higher than previously expected nominal earnings growth. However, the equivalent OBR forecast for the UK as a whole has increased even further. This means that the 2025-26 income tax net position, which was forecast to be £1,749 million this time last year, is now forecast to be £838 million. This is the difference between Scottish income tax revenues and the income tax Block Grant Adjustment (BGA). The income tax BGA is an estimate of what would have been raised had income tax policy and per capita earnings growth mirrored that of the UK since income tax was partially devolved.

This means that overall, the Scottish Budget is better off by £838 million because of the partial devolution of income tax. However, the SFC also point out that Scottish income taxpayers pay £1,676 million more in income tax than in the rest of the UK. So, in return for paying £1,676 million more in income tax, the Scottish Budget is only benefitting by £838 million. They describe this as an “economic performance gap”.

The SFC now projects a negative reconciliation of £701 million will be applied to (i.e. deducted from) the 2027-28 Scottish Budget. The Scottish Government does have limited borrowing powers to smooth out the effects of reconciliations – but £701 million exceeds the annual borrowing limit for forecast error.

The Scottish Government also published its tax strategy alongside the Budget. Beyond some commitments not to make any significant changes to income tax before the end of the Parliament, the Tax Strategy provides little in the way of detail in relation to tax plans, with much reference to “exploring”, “considering” and “engaging” on a range of taxes, including council tax and non-domestic rates. There is a commitment to reporting on progress in early 2026.

Non-Domestic Rates

The continuation of the 100% rates relief for hospitality properties on Islands and in designated remote areas and 40% relief for mainland hospitality and grassroots music venues were the key non-domestic rates announcements. The cost of these measures is estimated at a relatively modest £27 million as these sectors represent a small proportion of properties in Scotland, and many will already be eligible for relief through the Small Business Bonus Scheme. Criticism has been levied at the Scottish Government for not replicating the UK government’s relief for retail premises, however doing so would come at a significant cost – estimated at £220 million by the Fraser of Allander Institute, and £350 million by the Scottish Government. Both estimates are considerably higher than the £145 million that the Scottish Government received in Barnett consequentials from the UK government policy.

Equalities and Human Rights

The evidence of the Scottish Government’s stated commitment towards a human rights budgeting approach is limited, with considerable barriers to transparency and a lack of public consultation. Whilst the Equality and Fairer Scotland Budget Statement has undergone a sleek makeover and is now less repetitive and a better illustration of a mainstreamed approach, it appears that existing approaches are being heralded as ‘new’.

The long-awaited findings of the OECD-supported Gender Budgeting Pilot have been published alongside the Budget, but this highlights the challenges of a siloed approach to budget-setting and concludes that there is a lack of strategic over-arching gender goals. The additional detail in the Distributional Analysis is useful in understanding policy impacts by income quintile, however there is still little detail on the impact of spending decisions on non-poverty related inequality.

Context for Scottish Budget 2025-26

Scottish Budget 2025-26 [1] was published on 4 December 2024 and presents the Scottish Government's proposed spending and tax plans for next year. The publication signals the start of a period of parliamentary scrutiny culminating in MSPs voting on these proposals in early 2025. Unlike previous Budgets in this parliamentary session, the Scottish Government now operates as a minority, so will require support from at least one other party to get its Budget passed.

The Budget incorporates devolved tax forecasts undertaken by the Scottish Fiscal Commission (SFC) . [2] 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 forecasts are considered in greater detail later in this briefing.

The SFC forecasts that economic growth will be boosted (relative to its previous forecast) in the short term by increases in government spending which will see GDP growth of 1.2% this year (+0.4 percentage points on the previous forecast), followed by 1.6% next year (+0.3 percentage points on previous forecast). Growth of 1.5% is forecast in 2026-27.

Table 1: SFC Scottish GDP forecasts

GDP growth	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Economy % growth	1.2	1.6	1.5	1.4	1.4	1.4

Scottish Fiscal Commission

The inflationary effects we have seen in recent years have begun to wane in the forecasts. The SFC is forecasting earnings growth to be higher in Scotland in 2025-26 (3.7%) than the OBR is forecasting for the UK (3.0%), due to Scotland's relatively tighter labour market. However, after a period of high inflation, nominal earnings growth is falling back to more normal levels, and is expected to settle around its long term average of 3% from 2026-27.

The baseline numbers and comparability

This year, the presentation of the budget differs from previous years. This has some important implications – it may seem technical, but it is important in relation to interpretation of budget changes.

Previously, the baseline year for comparison has been presented as agreed at the last budget. So, comparisons were between the figures agreed at the last budget and the figures proposed in the current budget (referred to as a "Budget to Budget comparison"). The problem with this approach is that, if budgets change during the year (as they often do), you are comparing with a baseline figure that is not reflecting the actual budget, which can lead to misleading conclusions. For example, if a budget increases significantly during the year, then comparing a proposed budget with the original budget figure from the previous year would give a higher change than if you compared with the adjusted budget figure.

This year, the 2024-25 baseline figure is presented "after Autumn Budget Revision (ABR)" adjustments. This means it reflects some in-year changes to budget lines that we know have taken place. But there are still more that we know are yet to come.

Changes to budgets in-year can reflect a number of factors, but the most important reasons are:

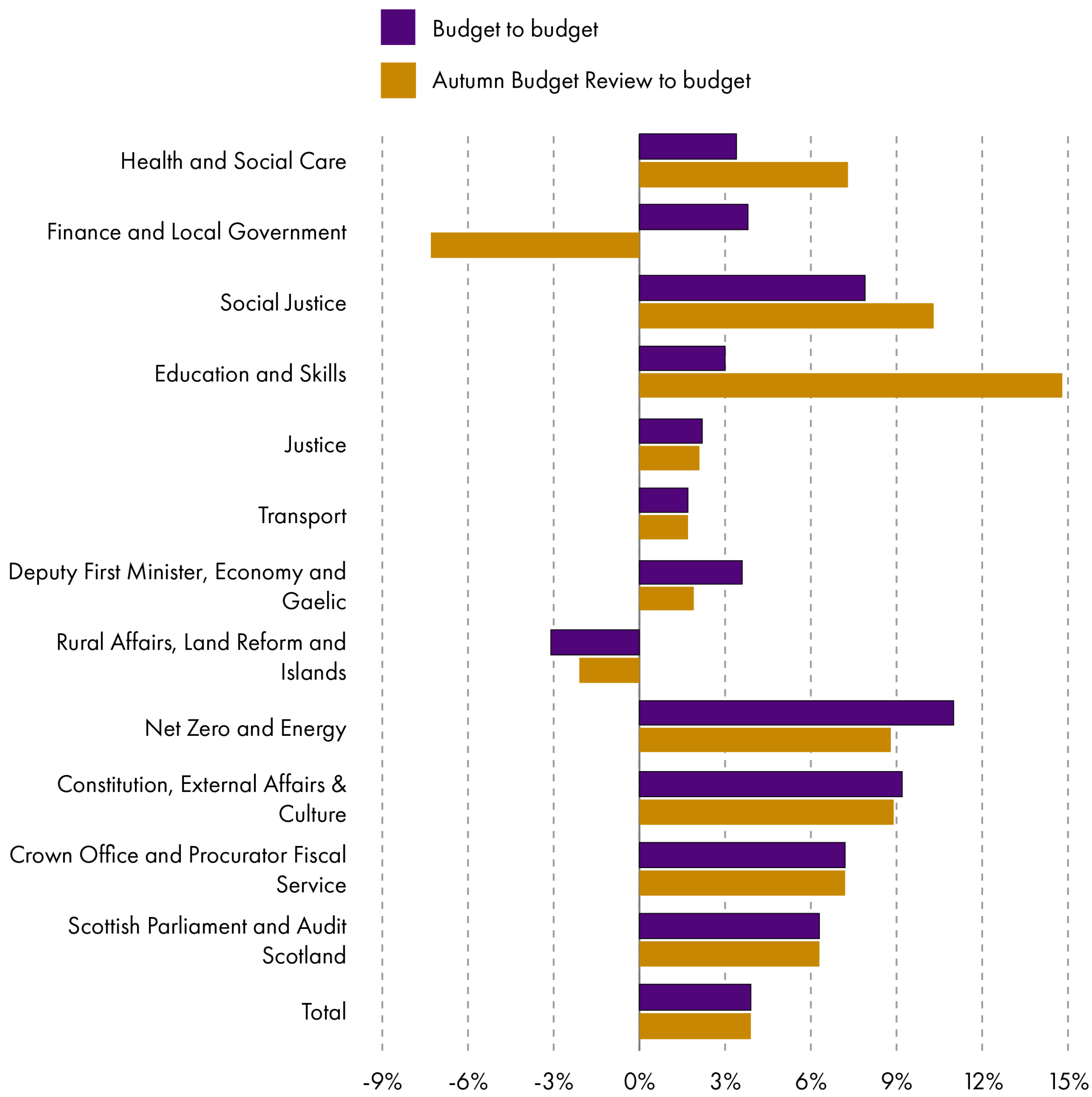
- **In-year transfers between portfolio areas** (which take place each year at Autumn and Spring Budget revisions). The 2024-25 Autumn Budget revision [3] has taken place and changes are reflected in the baseline, but the 2024-25 Spring Budget revision is yet to come, so will not be reflected in the baseline Budget figures. There are some significant transfers between portfolios that take place routinely in-year e.g. from health to local government, so the choice of baseline makes a big difference for these two portfolio areas in particular.

- **Allocation of Barnett consequentials in year**. After UK fiscal events, the Scottish Government often receives Barnett consequentials. For example, after the UK Budget in October, the Scottish Government received an additional £1.5 billion for 2024-25 and £3.4 billion for 2025-26. While the £3.4 billion will have been factored into the budget allocations for 2025-26, £1.3 billion of the Barnetts for 2024-25 have not yet been allocated and will not be allocated until the Spring Budget Revision (likely to be in January 2025).

The impact of this change in presentation is significant and is discussed further in the Portfolio allocations section. Some of the biggest portfolio areas in terms of spend - Health and Social Care, Local Government and Education and Skills - are particularly affected by this change and so budget movements should be interpreted with caution. Figure 1 highlights the impact of the different baseline approach.

Figure 1: Difference in percentage change in resource budgets depending on baseline (% change, real terms)

This chart highlights how the percentage change in the budget is influenced by the baseline used. Health and Social Care, Finance and Local Government and Education and Skills show particularly large differences depending on the approach.



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Taking, for example, the Health and Social Care portfolio, the ABR-Budget presentation shows a 7.3% increase, while the Budget-Budget presentation shows a 3.4% increase. Ultimately, the percentage change could be smaller than this once 2024-25 Barnetts are allocated.

The Scottish Parliament's Finance and Public Administration Committee (FPAC) had been pushing for changes to the budget presentation so that that baseline gave a more representative picture of the actual budget position. While there is some merit in the new approach, it also presents some major challenges in terms of analysis and budget scrutiny. In relation to the two specific issues highlighted above:

- **In-year transfers between portfolios** – there are significant transfers between portfolio areas that take place each year and have a significant impact on certain budget lines. To prevent the distortionary effect of these, the Scottish Government could consider baselining these so that the monies are allocated to the intended area from the outset. For example, funding for social care is intended to be transferred to local government and this is known at the time of budget setting, this should be allocated to the local government budget line from the outset, rather than via an in-year adjustment.

- **Barnett allocations** – the scale of Barnett consequentials resulting from the UK October budget was large, and the timing meant that these could not be allocated at the ABR. But adding an additional £1.3 billion to the 2024-25 baseline makes a significant difference to the percentage changes in both the overall budget position and those of individual budget lines. There is nothing that the Scottish Government can do about the timing of Barnett consequentials, but it is worth noting that the SFC commented that the absence of any reflection of the impact of future adjustments to the 2024-25 baseline “is a material limitation to information available to the Scottish Parliament for its scrutiny of the Budget and in the spending analysis we can do.”

The challenges in providing meaningful comparisons this year highlights the importance of the choice of baseline. There is no perfect solution and any chosen baseline will have pros and cons. The Scottish Government could improve transparency by allocating known transfers to the recipient budget area from the outset. But challenges around the timing of Barnett consequentials will persist. Ultimately, it is just important to be aware of what is and isn’t included in any baseline and how this might impact on the changes calculated from a particular baseline position.

Budget allocations

Total Managed Expenditure (TME) comprises Resource, non-cash Resource, Capital and Annually Managed Expenditure (AME). TME in 2025-26 is £63,482.9 million. Figure 2 shows how this is allocated.

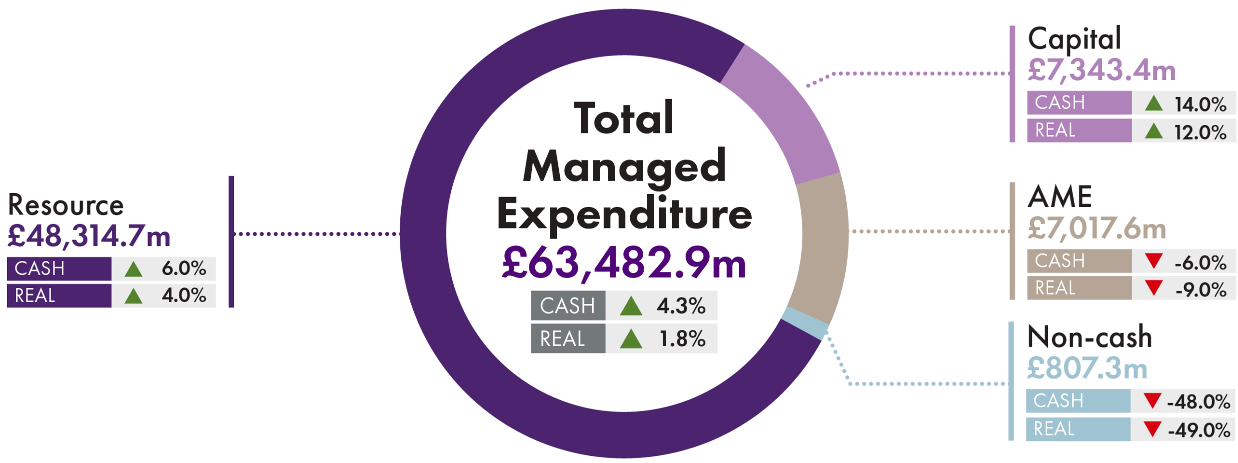
Resource (which covers day-to-day expenditure) and capital (covering spending on buildings and physical assets) are the elements of the budget over which the Scottish Government has discretion. As we can see from the chart below, the budget document shows (based on the ABR baseline for 2024-25) that resource is due to increase by 4% in real terms in 2025-26 and capital is set to increase by 12% in real terms. However, as is noted elsewhere in this briefing, the 2024-25 numbers do not include £1,344 million in resource Barnett consequentials that are available to use in 2024-25 but have not yet been allocated to portfolios. When these are added to the 2024-25 baseline, the 2025-26 resource budget grows by 0.8% 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 the significantly lower forecast costs of managing the Teachers and NHS Pension schemes. 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.

The non-cash reduction is largely explained by the "negative RAB charge" forecast on the Cost of Providing Student Loans. The RAB charge reflects current economists' estimations on future loan write-offs and interest subsidies. There's an approximate £750 million swing from the £344 million budget currently forecast in 2024-25 to the £396 million credit balance forecast in 2025-26.

Figure 2: Allocation of TME



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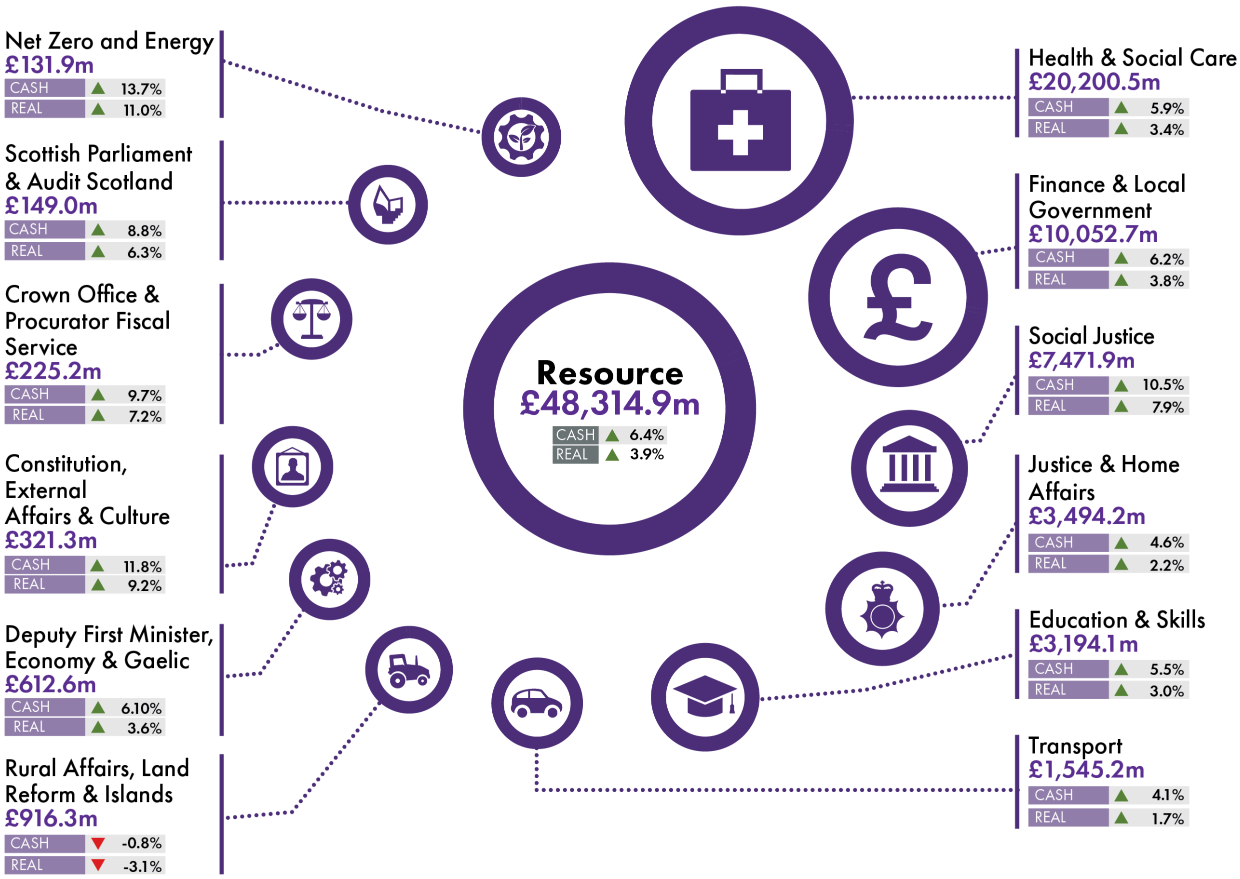
Portfolio allocations

As mentioned in the Context section, the use of the ABR baseline means the portfolio comparisons are not like-for-like and we have decided to not include our usual resource plus capital portfolio allocation infographic.

However, analysis is possible on the resource side due to the inclusion of table A.07 in the Scottish Government Budget. Figure 3 below shows resource allocations to portfolios for 2025-26 and how they differ from the ABR when the internal transfers from, for example health to local government, are excluded from the 2024-25 baseline.

Figure 3: Resource Budget portfolio changes in 2025-26 without ABR 2024-25 internal transfers



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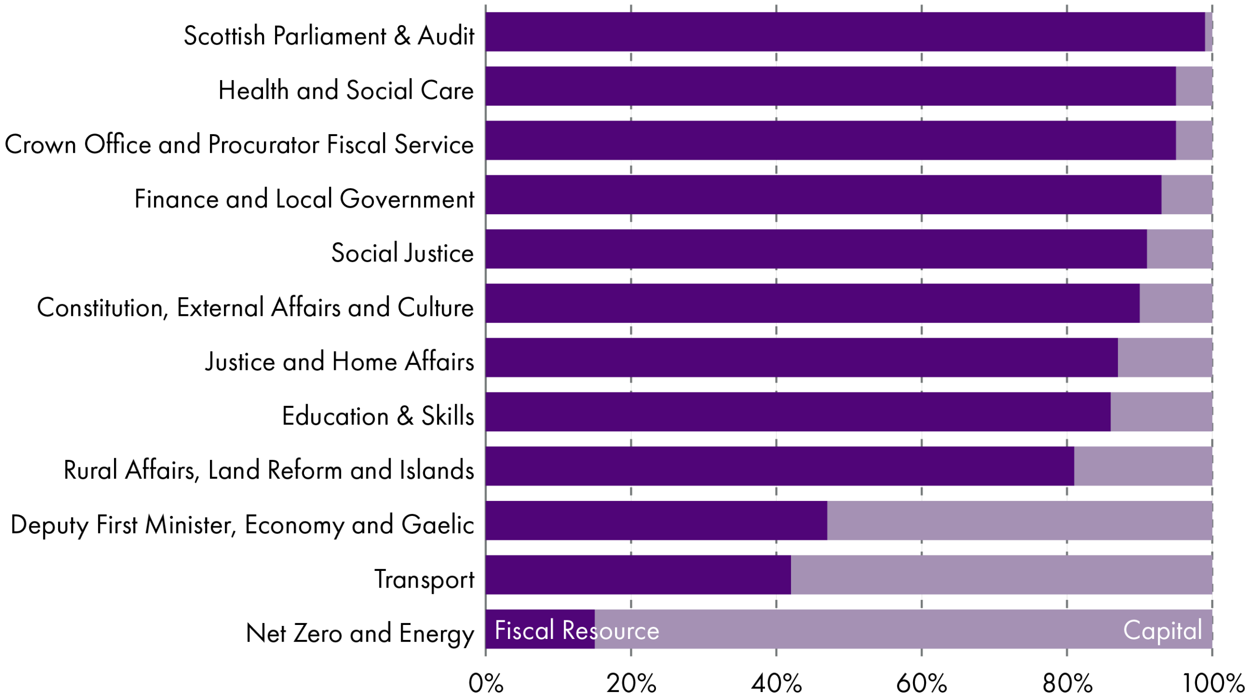
This figure shows that, on this basis, all resource portfolios will increase in both cash and real terms next year with the exception of the Rural Affairs, Land Reform and Islands portfolio.

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



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The Net Zero and Energy and Transport portfolios have highest proportion of their budget comprising capital spending. This will include projects to progress towards net zero, rail and roads investment and capital investment by Scottish Water. The Deputy First Minister, Economy and Gaelic portfolio also includes significant capital spending on areas like digital connectivity, cities and investment by the Scottish National Investment Bank (SNIB).

Local government

When it comes to the local government allocation, there is an apparent mismatch between reported increases and what some of the tables in the Budget document appear to show. The local government settlement has indeed increased, but you have to look long and hard to find the figures showing this in the Budget document! The overall local government allocation – resource plus capital - is over £15 billion for the first time ever. And this represents a 4.7% real terms increase when compared to the 2024-25 Budget.

The confusion in the Budget document comes from the use of Autumn Budget Revision (ABR) figures rather than Budget figures for 2024-25. We won't have ABR figures for 2025-26 until next October, by which point over £1 billion is likely to have been transferred to local government from other portfolio budget lines. So, Tables 4.01 and 4.13 in the Budget document do not compare like-with-like. By comparing Budget document 2024-25 and Budget document 2025-26, this section explores some of the key changes for local government in the Scottish Government's budget on a like-for-like basis.

Allocations to individual local authorities have not been published yet. These will appear in a Local Government Finance Circular on Thursday the 12th. This is later than usual because the Scottish Government/COSLA Settlement and Distribution Group is waiting for the teacher-pupil census results which are expected on the 10th. Once the Finance Circular is published SPICe will publish analysis showing how resource and capital allocations are changing for each of Scotland's 32 local authorities.

Resource allocation

Comparing Budget document 2024-25 and Budget document 2025-26, as SPICe has done in the past, we see both cash and real terms increases in the overall revenue/resource allocation (see Tables 2 and 3).

Table 2: Local Government revenue settlements 2024-25 and 2025-26 (Cash terms) (£m)

Local Government	2024-25 Budget document	2025-26 Budget document	Cash change (£m)	Cash change %
General Revenue Grant	8,403.90	9,458.40	1,054.5	+12.5%
Non-Domestic Rates	3,068.00	3,114.00	46.0	+1.5%
Specific (ring-fenced) Resource Grants	238.8	247.4	8.6	+3.6%
Revenue within other portfolios	1,534.4	1,438.3	-96.1	-6.3%
Total revenue in Finance Circular	**13,245.10**	**14,258.10**	**1,013.0**	**+7.6%**

Table 3: Local Government revenue settlements 2024-25 and 2025-26 (real terms in 2024-25 prices) (£m)

Local Government	2024-25 Budget document	2025-26 Budget document	Real change (£m)	Real change %
General Revenue Grant	8,403.90	9,237.98	834.1	+9.9%
Non-Domestic Rates	3,068.00	3,041.43	-26.6	-0.9%
Specific (ring-fenced) Resource Grants	238.8	241.63	2.8	+1.2%
Revenue within other portfolios	1,534.4	1,404.78	-129.6	-8.4%
Total revenue in Finance Circular	**13,245.10**	**13,925.83**	**680.7**	**+5.1%**

The 2024-25 figures in the table above do not include the £144 million provided to local authorities for the 2024-25 council tax freeze. When this is factored in, we see a cash terms increase of £869 million over the year, or a 4% increase in real terms.

COSLA state that much of this increase relates to funding commitments announced in 2024-25 (or earlier) with costs being carried forward into 2025-26. Table 4 shows how these commitments are being met in the 2025-26 allocation.

Table 4: Local Government revenue funding commitments announced in 2024-25 (or earlier)

Revenue Change	Cost in 2025-26 (£m)
Discretionary Housing Payment increase	6.5
Early Learning and Care Pay	25.7
Free Nursing Care	10.0
Real Living Wage	125.0
Additional Support for Learning	28.0
School workforce	41.0
Teachers Pay	43.0
Teachers Pension	86.2
Local Government Pay	77.5
24-25 GRG Baselined	62.7
Mental Health Baselined	15.0
Minor in-year transfers Reductions	-0.8
Child Social Care staff	33.0
Council tax freeze	3.3
Inter Islands (Ferries) Specific Grant	8.6
Free school meals increase	15.0
General Revenue Grant Uplift	*289.3*
Total Revenue increase	**869.0**

COSLA

After accounting for these costs, the remainder of the increase represents the General Revenue Grant uplift of £289.3 million. This, according to the Scottish Government, is “to deliver real terms protection” to councils, with COSLA noting that “the Budget reality is that there is £289.3m of additional uncommitted local government core revenue funding”.

Reducing ring-fencing is a stated aim of the Verity House Agreement , and Table 2 (above) shows that specific resource grants account for only 1.7% of the total revenue allocation in 2025-26. Compared to three or four years ago, when the proportion ring-fenced was around 7%, this demonstrates considerable progress towards this joint commitment.

Capital allocation

There is a significant increase in capital allocations when comparing budget to budget, with a real terms increase of £121 million, or 19%, between 2024-25 and 2025-26. This comes after a big reduction in the capital allocation the previous year.

Table 5: Local Government capital settlements 2024-25 and 2025-26 (Cash terms) (£m)

Local Government (Capital)	2024-25 Budget document	2025-26 Budget document	Cash change (£m)	Cash change %
General Capital Grant	476.90	556.00	79.1	+16.6%
Specific (ring-fenced) capital grants	121.10	196.10	75.0	+61.9%
Total "core" Capital	598.0	752.1	154.1	+25.8%
Capital Funding within other Portfolios	40.00	25.00	-15.0	-37.5%
Total capital in Finance Circular	**638.0**	**777.1**	**139.1**	**+21.8%**

Table 6: Local Government capital settlements 2024-25 and 2025-26 (real terms in 2024-25 prices) (£m)

Local Government (Capital)	2024-25 Budget document	2025-26 Budget document	Real change (£m)	Real change %
General Capital Grant	476.90	543.04	66.1	+13.9%
Specific (ring-fenced) capital grants	121.10	191.53	70.4	+58.2%
Total "core" Capital	598.0	734.57	136.6	+22.8%
Capital Funding within other Portfolios	40.00	24.42	-15.6	-39.0%
Total capital in Finance Circular	**638.0**	**758.99**	**121.0**	**+19.0%**

As with the revenue budget increase, COSLA has provided additional information showing that much of the £139 million increase in capital has already been committed, with the “uncommitted” part of this increase amounting to £48.1 million.

Table 7: Local Government capital funding commitments

Capital Change	Cost in 2025-26 (£m)
Local government pay*	31.0
Climate	40.0
SPT Specific Grant	12.4
VDLF Specific Grant	2.6
Free school meals capital (24-25)	-40.0
Inter Islands (Ferries)	20.0
25-26 Playparks	25.0
GCG Uplift	*48.1*
Total Capital increase	**139.1**

COSLA

*Although a resource budget item, this is included because the Scottish Government allowed local authorities to switch some capital to resource to help support the 2024-25 pay deal. In a letter to council leaders at the time, the Scottish Government recognized that this “would need to be replaced as additional capital funding in 2025-26”.

In its pre-budget letter to the Scottish Government, the Local Government, Housing and Planning Committee noted “the continuing pressures on capital budget allocations” and the need for local authorities to invest in infrastructure “to facilitate the effective delivery of services in the most efficient way possible”. In her response , the Cabinet Secretary highlighted the real terms increase in capital in the Budget whilst also stressing “the importance of considering more innovative measures to fund capital projects”. We do not have details of these measures, but it is worth remembering that local government debt already sits at around £22 billion (see Local Government Finance: facts and figures 2024).

Local government workforce costs

Local government is by far the largest public sector employer in Scotland, and up to 70% of local authority budgets are spent on workforce costs. Meeting the pay demands of its 262,000 workers is one of the biggest financial challenges faced each year by councils. Over the summer, the local government trade unions negotiated above inflation pay deals for their members, at an additional cost of over £300 million for Scotland’s local authorities (see COSLA briefing). This was supported by the Scottish Government, including additional revenue funding of £34.5 million. It is very possible that a similar scenario could arise next year.

There is nothing in the Budget document about how increases to employer National Insurance contributions (NICs) could impact local government, but we know from COSLA that this could cost councils around £265 million (with the Fraser of Allander Institute estimating this to be nearer £244 million). With an apparent disagreement between the UK government and Scottish Government over the cost to Scotland’s public sector of NIC increases, this has the potential to be another flashpoint in the relationship between Scotland’s three tiers of government.

Council tax

Much media attention since the Budget statement has focused on council tax and the fact that no freeze or cap was announced by the Cabinet Secretary. This shouldn't come as a surprise considering the reaction that met the shock announcement made by former First Minister, Humza Yousaf, at last year's SNP conference. Since then, council leaders, and many others, have consistently argued for councils being able to make decisions locally about council tax.

Perhaps optimistically, the Cabinet Secretary is of the view that "with record funding, there is no reason for big increases in council tax next year". But that's now a decision for councils themselves to make. A recent survey conducted by the Local Government Information Unit found that around a fifth of local authorities are considering increasing council tax by at least 10% next year. Increases of this magnitude could come as quite a shock to many households, especially at a time when levels of satisfaction with council services appear to be declining (see recent Scottish Household Survey results and last year's Local Government Benchmarking Framework annual report).

Tax

Income tax

The Scottish Government set out its proposals for income tax from April 2025 as part of the Scottish Budget 2025-26. 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 3.5%
- Freezing the higher, advanced and top rate thresholds
- Maintaining existing tax rates for each band.

Overall, these are modest changes. The Tax Strategy that accompanied the Budget (see Tax Strategy section) signals that there will be very little further change to income tax policy within this session of Parliament. The Scottish Government has ruled out introducing new bands or rate increases, and will continue to uprate the starter and basic rate bands by at least inflation.

The net result of these proposals is the Scottish income tax schedule shown in Table 8.

Table 8: Proposed Scottish tax bands and thresholds, 2025-26

Band	Taxable income	Rate
Starter rate	£12,571* - £15,397	19%
Basic rate	£15,398 - £27,491	20%
Intermediate rate	£27,492 - £43,662	21%
Higher rate	£43,663 - £75,000	42%
Advanced rate**	£75,001 - £125,140	45%
Top rate**	Over £125,140	48%

* Assumes individuals are in receipt of the standard UK personal allowance (£12,570 in 2025-26). The personal allowance is reserved and set by the UK government.

** Those earning more than £100,000 will see their personal allowance reduced by £1 for every £2 earned over £100,000. This policy is reserved to the UK government.

Note that Scottish income tax only applies to non-savings non-dividend (NSND) income.

Impact on individuals

The proposed 2025-26 income tax schedule sees a marginally lower tax liability for all income levels compared with 2024-25. This difference is no more than £15 per year.

When compared with income tax policy in the rest of the UK (rUK), Scottish taxpayers earning less than £30,300 will pay up to £28 less income tax per year than they would in the rest of the UK. The SFC project that the median taxpayer will have NSND income of £29,750, meaning that just over half (51%) of all Scottish income taxpayers will pay less than they would in rUK.

Taxable income above £30,300 attracts a higher tax liability than in rUK and the gap widens rapidly for those earning above the higher rate threshold of £43,663. For example, 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.

Table 9: Differences between Scottish and rUK income tax liabilities, 2025-26

Annual taxable income	Scottish Government proposals income tax payable 2025-26	Difference compared with 2024-25	Difference compared with rUK
£15,000	£462	-£1	-£24
£20,000	£1,458	-£5	-£28
£25,000	£2,458	-£5	-£28
£30,000	£3,483	-£15	-£3
£35,000	£4,533	-£15	£47
£40,000	£5,583	-£15	£97
£45,000	£6,914	-£15	£428
£50,000	£9,014	-£15	£1,528
£55,000	£11,114	-£15	£1,682
£60,000	£13,214	-£15	£1,782
£65,000	£15,314	-£15	£1,882
£70,000	£17,414	-£15	£1,982
£75,000	£19,514	-£15	£2,082
£80,000	£21,764	-£15	£2,332
£85,000	£24,014	-£15	£2,582
£90,000	£26,264	-£15	£2,832
£95,000	£28,514	-£15	£3,082
£100,000	£30,764	-£15	£3,332
£150,000	£59,666	-£15	£5,963

Note that Scottish income tax only applies to non-savings non-dividend (NSND) income.

Income tax revenues

The SFC forecast strong growth in income tax revenues in 2025-26. Forecasted income tax revenues for 2025-26 are £1,378 million (7.2%) higher than in 2024-25 and £604 million (3.0%) higher than the SFC's December 2023 forecast. This is driven by higher than previously expected nominal earnings growth.

Table 10: Scottish NSND income tax revenue forecast, £ million

NSND income tax revenue forecast	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Income tax	17,315	19,099	20,477	21,782	22,980	23,913	24,930

December 2024 Economic and Fiscal Forecasts, Scottish Fiscal Commission

The impact of individual policy choices in this Budget adds relatively little revenue (£52 million in 2025-26). Compared with a counterfactual where all income tax bands (not thresholds) are increased in line with CPI inflation, the cumulative impact of the Scottish

Government's proposed changes to income tax thresholds is set out in Table 11. These are forecasted by the SFC.

Table 11: Impact of Scottish Government tax policy decisions on income tax revenues, 2025-26, £ million

Impact of Scottish Government tax policy decisions on income tax revenues	2025-26	2026-27	2027-28	2028-29	2029-30
Basic rate threshold increase of 3.5%	- 13	- 14	- 14	-15	-15
Intermediate rate threshold increase of 3.5%	-11	-12	-12	-13	-13
Higher rate threshold freeze	71	197	209	219	229
Advanced rate threshold freeze	4	11	11	12	12
Top rate threshold freeze	1	3	3	3	3
Total	**52**	**185**	**197**	**206**	**215**

December 2024 Economic and Fiscal Forecasts, Scottish Fiscal Commission

Income tax net position

The logic behind the partial devolution of income tax is that the Scottish Budget should benefit from any revenue raised above what would have been raised had income tax devolution not occurred.

This means that the amount of revenue added or deducted from the Scottish Budget via the partial devolution of income tax depends on two factors: the growth in the size of the tax base (i.e. total earnings) relative to rUK and the policy choices of the Scottish Government relative to the UK government.

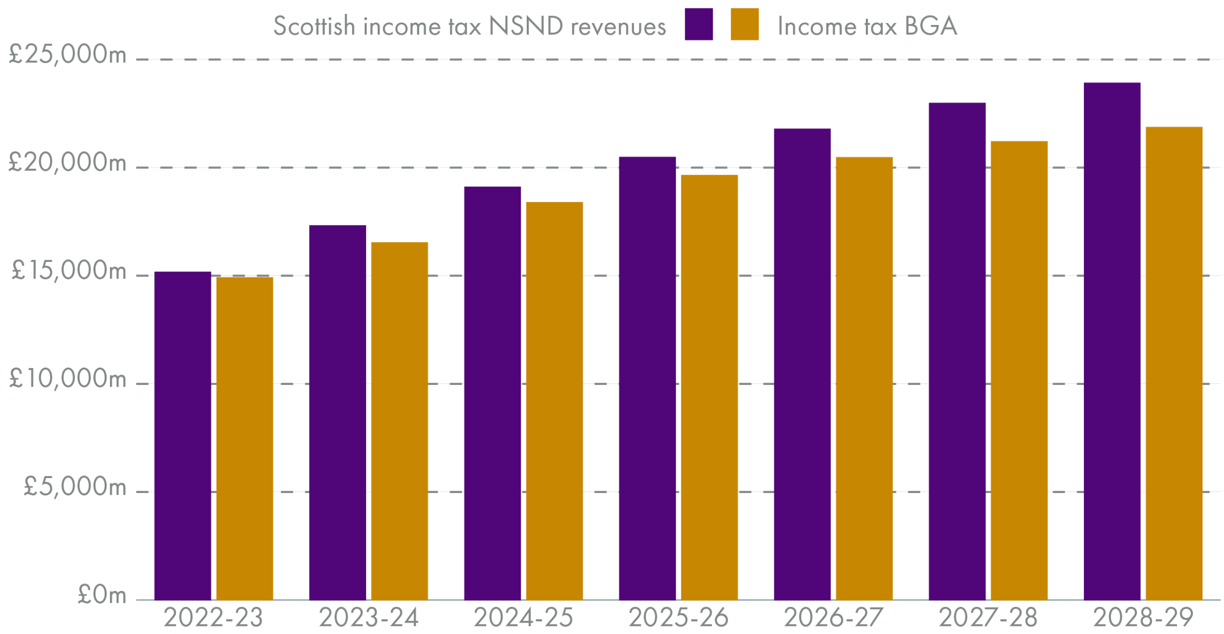
If earnings grow faster in Scotland than in rUK, devolved tax revenues will be higher than if income tax had not been partially devolved. Likewise, if the Scottish Government increases income tax rates compared with rUK policy, then any additional revenue raised flows to the Scottish Budget.

The amount added or deducted from the Scottish Budget through the partial devolution of income tax is known as the 'income tax net position'. This is the difference between Scottish NSND income tax revenues and the income tax Block Grant Adjustment (BGA). The income tax BGA reflects what Scotland would have raised in income tax had it retained the same tax policy as rUK and if Scotland's per capita tax revenues had grown at the same rate as the rest of the UK.

In 2025-26, the SFC forecast that the income tax net position will be £838 million. This means that the Scottish Budget benefits by £838 million through the partial devolution of income tax.

However, in December 2023, the SFC forecast that the income tax net position for 2025-26 would be £1,749 million – far higher than it is now forecasting. This is because, although the SFC forecast strong growth in income tax revenues for Scotland, the equivalent OBR forecast for the UK as a whole has increased even further, which increases the amount deducted from the block grant in respect of income tax (the BGA).

Figure 5: Income tax net position



Scottish Fiscal Commission, December 2024

Since income tax was first partially devolved, the Scottish Government has adopted a different income tax policy to the UK government. This has primarily had the effect of increasing tax rates on earnings above £43,663 relative to rUK. However, over the same time period, earnings have grown more slowly in Scotland than in rUK (although the SFC project that there has been some catchup more recently).

The net result is that in 2025-26 Scottish income taxpayers are forecast to pay £1,676 million more in income tax than in rUK but the Scottish Budget only benefits by £838 million. The SFC describe this as an "economic performance gap".

It is also worth cautioning that the income tax net position is highly sensitive to small changes in OBR and SFC forecasts, as shown by the large fall in the net position forecasts in this year's forecast relative to last year.

Income tax reconciliation

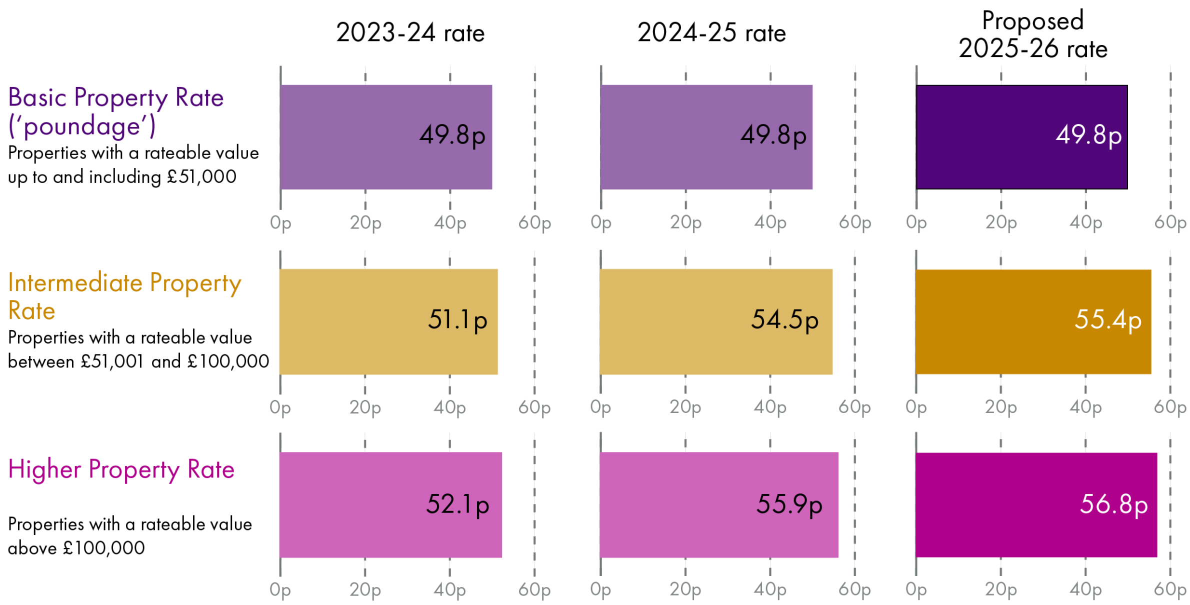
All of this also matters for future budgets. The income tax net position is based on *forecasted* tax revenues in Scotland and rUK. A reconciliation is then applied to future budgets once actual tax revenues are known. When the 2024-25 Budget was set, the income tax net position was forecast to be £1,412 million for that year. Since then, the OBR's projections of 2024-25 income tax revenues for the UK have increased by more than the SFC's equivalent for Scotland, which suggests the eventual income tax net position for 2024-25 will be smaller than was forecasted when the Budget was set. If borne out, the SFC now projects a negative reconciliation of £701 million will be applied to (ie. deducted from) the 2027-28 Scottish Budget. The Scottish Government does have limited borrowing powers to smooth out the effects of reconciliations - but £701 million exceeds the SFC's forecasted borrowing limits.

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. In the 2024-25 Budget, the Scottish Government maintained the poundage rates from 2023-24 at 49.8 pence for the basic property rate and increased the intermediate and higher property rates in line with inflation. This approach has again been taken for 2025-26.

Figure 6: Non-domestic rates and thresholds, 2023-24 to 2025-26



Scottish Budget 2025-26

New NDR relief

In 2022, the UK government introduced a 75% Retail, Hospitality and Leisure (RHL) relief for businesses occupying eligible retail, hospitality, and leisure properties in England, with a cap of £110,000 per business. This was continued through into 2024-25.

In 2024-25, the Scottish Government did not meet calls to replicate this approach, emphasising that the "Small Business Bonus Scheme is 'the most generous in the UK'". It did, however, introduce 100% rates relief to hospitality businesses on Scottish Islands and in certain remote areas. Given the small number of properties affected, this cost of this relief to the Scottish Government has been a relatively small £3.98 million in 2024-25 according to the 2024 rates relief statistics .

For 2025-26, the new UK government announced an alternative approach to that of its predecessor. The Chancellor announced within the Autumn Budget 2024 a 40% relief for RHL properties (with the £110,000 cap remaining) and a freeze on the small business multiplier, totalling £1.9 billion of support. This was billed as a transitional approach, with the intention being to permanently lower the business rates multipliers for RHL properties from 2026 onwards.

The Scottish Budget 2025-26 sees the 100% relief for hospitalities on islands maintained. In addition, the Cabinet Secretary announced that a new 40% relief will be available for “the 92% of hospitality premises liable for the Basic Property Rate, capped at £110,000 per business”.

The Fraser of Allander Institute has highlighted that, primarily through the Small Business Bonus Scheme, 48% of RHL properties in Scotland already receive 100% rates relief. The Non-domestic rates relief statistics 2024 show that 37% of public houses and restaurants, and 61% of hotels, already receive some form of relief, with 21% and 43% respectively receiving 100% relief, so it should be noted that a significant proportion of properties eligible for the new relief will already be in receipt of support.

The wholly new announcement is that this relief will also cover Grassroots Music Venues with a capacity of up to 1,500, echoing the UK government approach announced in the Autumn Budget. Details on the number of properties benefitting are unclear, but a look at SFC costings methodology and the valuation roll suggests this may be a headline grabbing statement that only affects a small number of businesses.

Taken all together, the Scottish Fiscal Commission estimate that the new 40% relief will cost the Scottish Government £22 million in 2025-26, in addition to the £5 million cost of extending the Islands relief for a further year.

The news that relief will not be extended to retail businesses has not been well received by stakeholders, with a spokesperson the Federation of Small Businesses calling it “a bitter pill to swallow” and arguing that “the pressures they are facing are exactly the same as those in England and Wales, where relief has continued to be available since July 2022 – the last time such relief was offered in Scotland.”. Given that shops make up roughly a fifth of properties on the Valuation Roll, compared to hotels, restaurants and pubs comprising 3.6% of properties, it’s a large demographic that are not being offered any relief. However, replicating the UK government approach would come at a significant cost, an estimated £220 million according to the Fraser of Allander Institute .

During the Budget debate, when asked why relief had not been extended to retail, the Cabinet Secretary set out a considerably higher estimate:

> “ When it comes to retail premises, I have set out an affordable proposition for hospitality businesses that will mean that about 11,000 hospitality businesses benefit. I say to Craig Hoy that going further would not be sustainable. His proposition would cost more than £350 million, and we would not get that money from the UK Government. We got only £145 million this year in consequentials, and there will be no consequentials next year, because the UK Government is moving to a different business tax rate system that cannot be replicated here.”

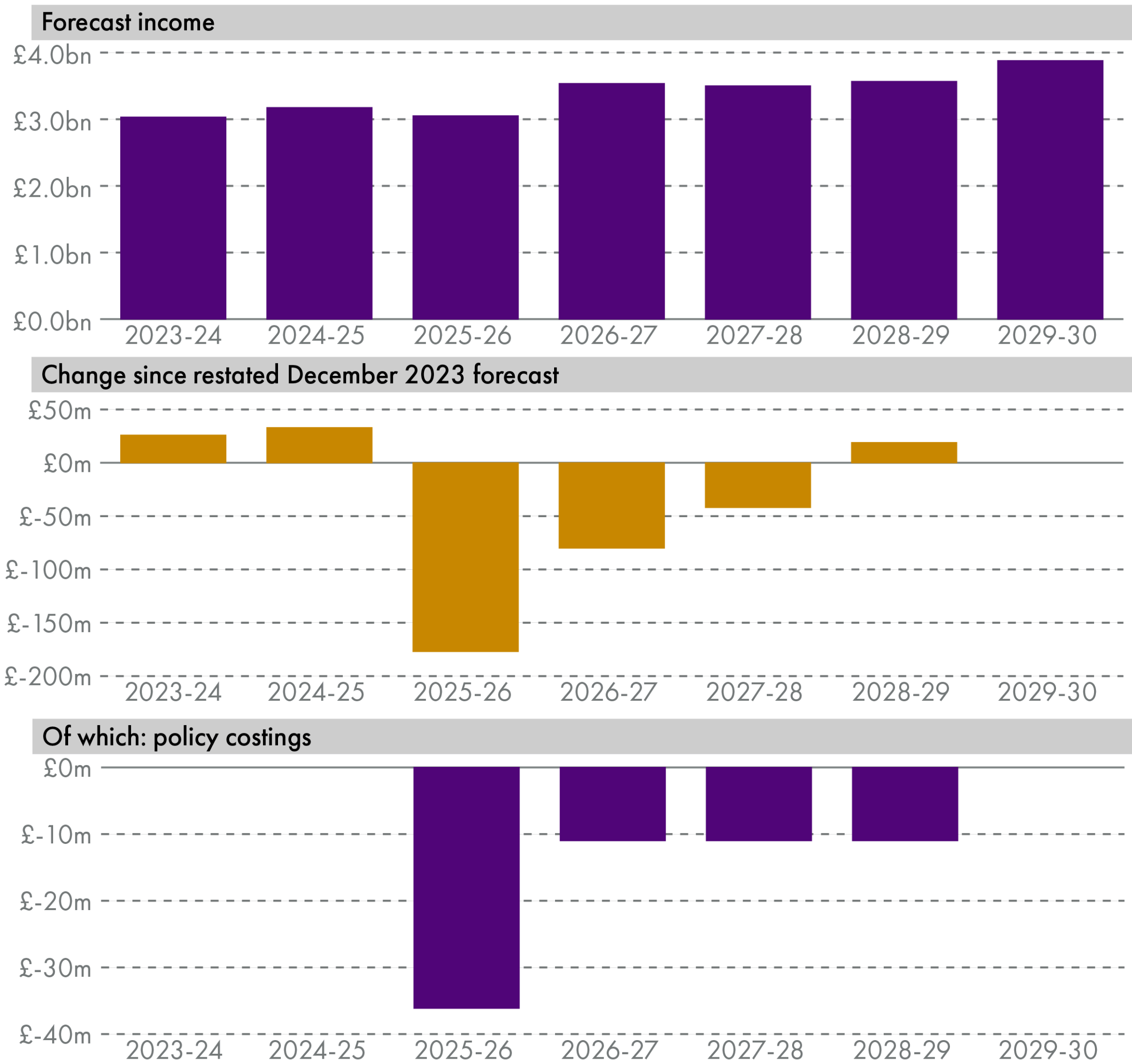
The Scottish Government had been considering the reintroduction of the Public Health Supplement for large retailers, a tax on large retailers selling alcohol and tobacco formerly in place between April 2012 and March 2015. In the Budget document , the Scottish Government explains that:

> “ ...following exploratory discussions with stakeholders and taking into consideration cumulative burdens, including UK Government increases in employer national insurance contributions, we have no plans to introduce this at this time.”

Non-domestic rates forecasts

In February 2024, the SFC specified a revised policy baseline for non-domestic rates, in which it assumed that the Basic Property Rate (BPR), Intermediate Property Rate (IPR) and Higher Property Rate (HPR) will increase in line with inflation each year. This led to publication of a restated forecast for December 2023 forecast, first published in the August 2024 fiscal update. This restated figure is the baseline shown here, rather than the figures used in last year's briefing.

Figure 7: Forecast income from non-domestic rates



Scottish Fiscal Commission, December 2024

Other devolved taxes

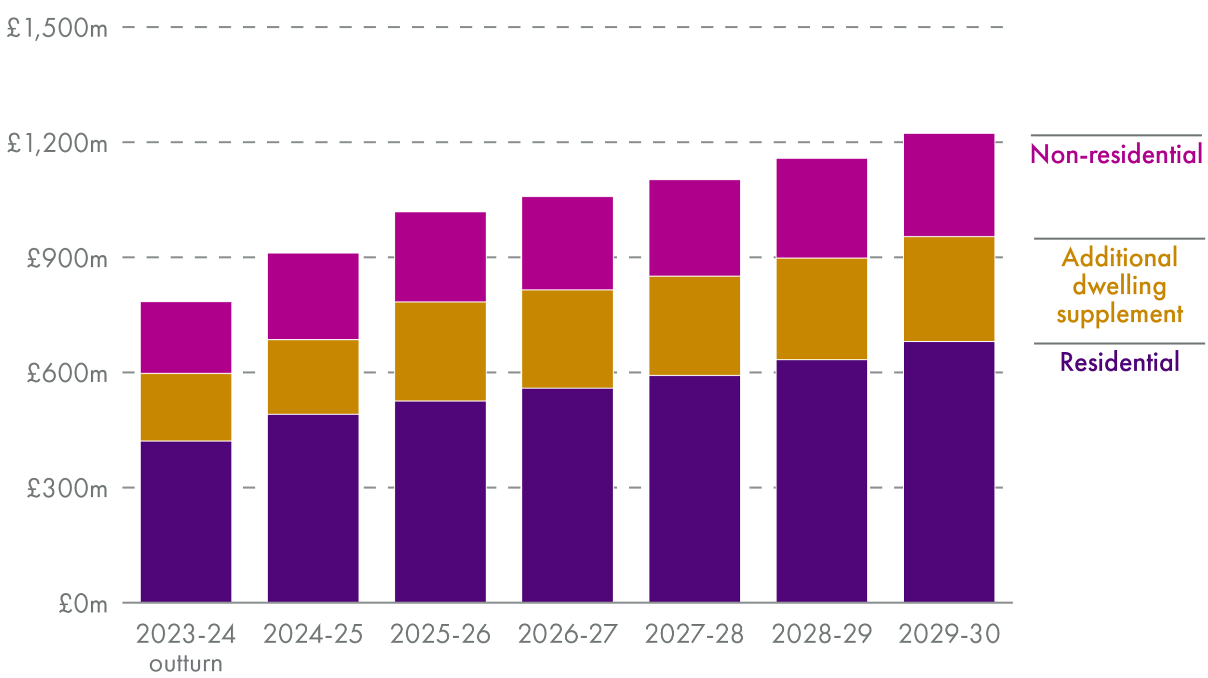
Land and Buildings Transaction Tax (LBTT)

Land and Building 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, stating that this approach "preserves our progressive system, delivering certainty and stability for taxpayers". The Additional Dwelling Supplement (ADS) was increased from 6% to 8%, taking effect from the day after the budget, for any transactions for which legal missives had not been signed. The SFC forecast that this increase will raise £32 million in additional revenue in 2025-26, after taking account of spillover effects on residential LBTT. The Scottish Government stated that the increased ADS rate supports its commitment to protect opportunities for first-time buyers in Scotland.

The Scottish Government has committed to undertaking a review of LBTT over the remainder of this Parliament, commencing in Spring 2025 to ensure the policy intentions of LBTT continue to be met.

The SFC forecast that LBTT will raise a total of £1,019 million in 2025-26, a significant increase from the forecasts in December 2023, before taking account of the impact of policy measures. This reflects a change in the outlook for the property market, which the SFC consider to be recovering, with growth in prices and numbers of transactions. The majority of LBTT revenues are expected to come from residential transactions over the forecast period, with total receipts increasing throughout the forecast period to 2029-30. The main driver of this is the expected fall in house prices up to 2025-26, before a gradual recovery.

Figure 8: Forecast income from Land and Buildings Transaction Tax



Scottish Fiscal Commission, December 2024

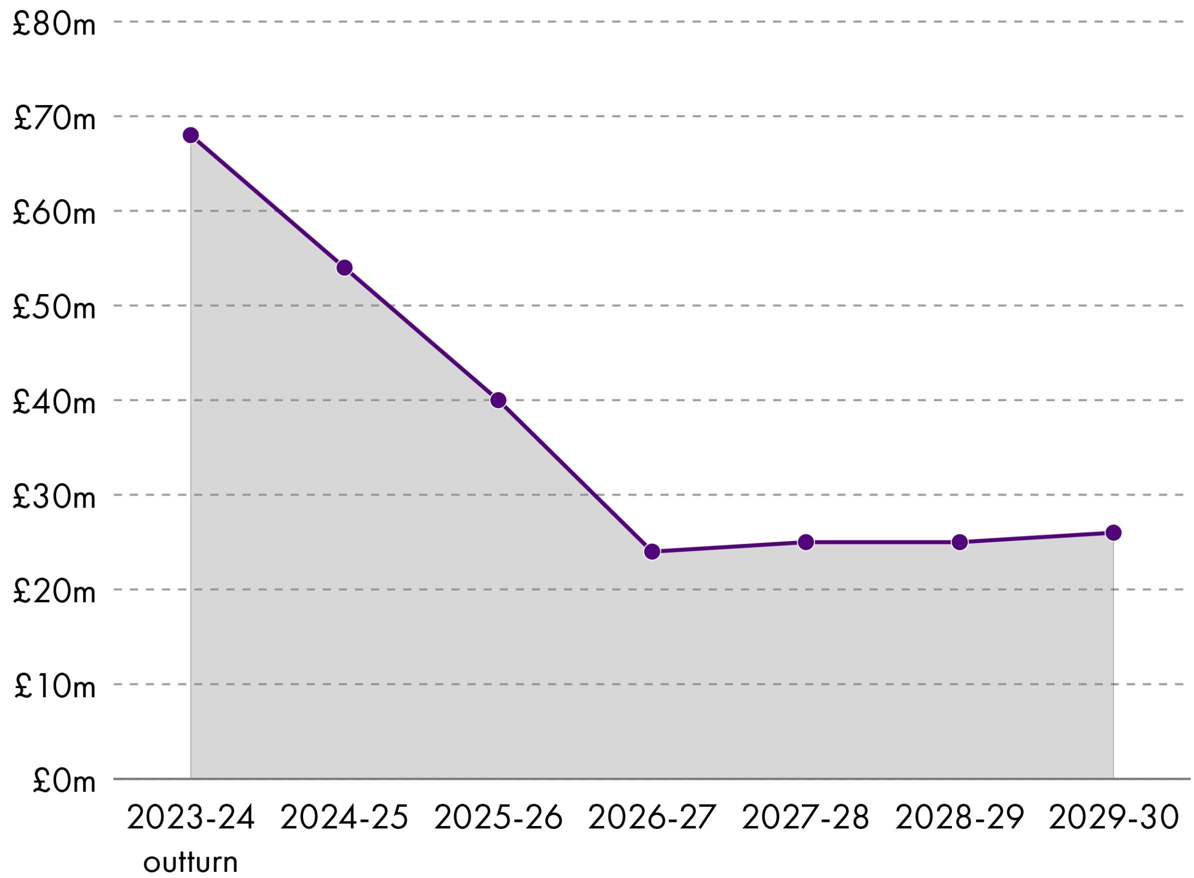
Scottish Landfill Tax (SLfT)

SLfT applies to the disposal of waste to landfill, charged by weight on the basis of two rates: a standard rate; and a lower rate for less polluting materials. The tax is intended to provide a financial incentive to support a more circular economy, reduce overall waste and the amount going to landfill and increase recycling.

The Scottish Government has increased the standard and lower rates of SLfT to £126.15 per tonne and £4.05 per tonne for 2025-26 respectively. As in previous years, these changes maintain parity with the UK rates. The SFC forecast that SLfT will raise £40 million in 2025-26. Following the introduction of a legislative ban on the landfilling of all biodegradable municipal waste on 31 December 2025, SLfT revenues are expected to reduce to an average of £25 million per year over the remainder of the forecast period. The policy goal of SLfT remains behavioural change – the expectation is that over time these revenues will reduce, albeit at a slower rate than the SFC had previously assumed.

The Scottish Government is commissioning independent research on the ongoing effectiveness of the lower rate of Scottish Landfill Tax in supporting the Scottish Government's circular economy and waste objectives.

Figure 9: Forecast income from Scottish Landfill Tax



Scottish Fiscal Commission, December 2024

Other devolved taxes and proposed 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 Budget document states that the Scottish

Government will review the rates and bands of ADT – including those which apply to private jet flights – prior to its implementation to ensure the tax is aligned with net zero ambitions. The UK-wide Air Passenger Duty will continue to apply in Scotland until ADT is implemented.

The Aggregates Tax and Devolved Taxes Administration (Scotland) Act 2024 received Royal Assent in November 2024, making provision for a **Scottish Aggregates Tax**. The intention is to introduce the tax on 1 April 2026, subject to the approval of the necessary Scottish and UK secondary legislation.

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

> " The 2023 Fiscal Framework Agreement with UK Government outlines that, further work is required by UK Government and Scottish Government to mitigate the risks of VAT Assignment implementation. Once agreed by both governments, assignment methodology and operating arrangements will require joint UK and Scottish Government Ministerial sign-off."

The Budget also outlines plans for three new taxes:

- The Scottish Government intends to introduce legislation in 2025-26 to establish 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 planned levy which will cover England.

- The Scottish Government is exploring a potential **Cruise Ship Levy**, including the practicality, deliverability, and impacts of such a levy, with a public consultation set to be launched in January 2025.

- The Scottish Government is committed to considering options for a **Carbon Land Tax**. The Budget document states that the Scottish Government will work with the Scottish Land Commission to consult with a range of stakeholders and to develop the evidence necessary to identify and assess options for future taxation in this area.

One tax that had previously been suggested is no longer proposed (the **Public Health Supplement** – see section on Non-Domestic Rates).

There is no mention in the Budget document of the **Infrastructure Levy**, which had previously been proposed for implementation by spring 2026. A consultation concluded in September 2024, but there is no firm commitment to its introduction in the Budget document. The infrastructure levy powers in the Planning (Scotland) Act 2019 are subject to a "sunset clause", meaning that they will lapse if regulations establishing the levy are not made by July 2026.

Tax Strategy

The Scottish Government published a Tax Strategy alongside the Budget, intended to set out the steps that will underpin the Scottish Government's approach to developing tax policy. In terms of firm commitments, these are limited and – given where we are in the political cycle, effectively only cover the next budget. In respect of income tax, the Scottish

Government is committing:

- to not introducing any new bands or rates
- to ensuring that more than half of Scottish taxpayers will pay less income tax than they would in the rest of the UK – currently this is achieved, but these individuals pay only £28 less per year at most than they would in the rest of the UK, so it is not a major difference
- to uprating the starter and basic rate bands by at least inflation
- to freezing the higher, advanced and top rate thresholds.

There are plans to introduce a Scottish Aggregates Tax by 1 April 2026, and to resolve the subsidy control issues that are standing in the way of implementing a Scottish Air Departure Tax. A Building Safety Levy is also planned.

Beyond the specific commitments, there is lots of talk of “exploring”, “considering” and “engaging” on a range of taxes, including council tax and non-domestic rates. There is a commitment to reporting on progress in early 2026.

The main Budget document refers to plans for a Cruise Ship Levy and Carbon Land Tax, but these are not referred to in the Tax Strategy document.

Social security

Some elements of social security spending are devolved. This has given the Scottish Government more powers to shape Scotland's social security system, but also more budgetary risk. Any expenditure by the Scottish Government above the social security block grant adjustment (BGA) must be funded from within the Scottish Budget. The BGA broadly reflects the hypothetical amount that would have been spent on equivalent social security payments had they not been devolved.

This budgetary risk is materialising. Scottish Government decisions on social security have cumulatively added significant cost pressures to its budget. Broadly speaking, this is because the Scottish Government:

- Has introduced benefits that are not available in the rest of the UK (rUK), such as the Scottish Child Payment and Carers Allowance Supplement.

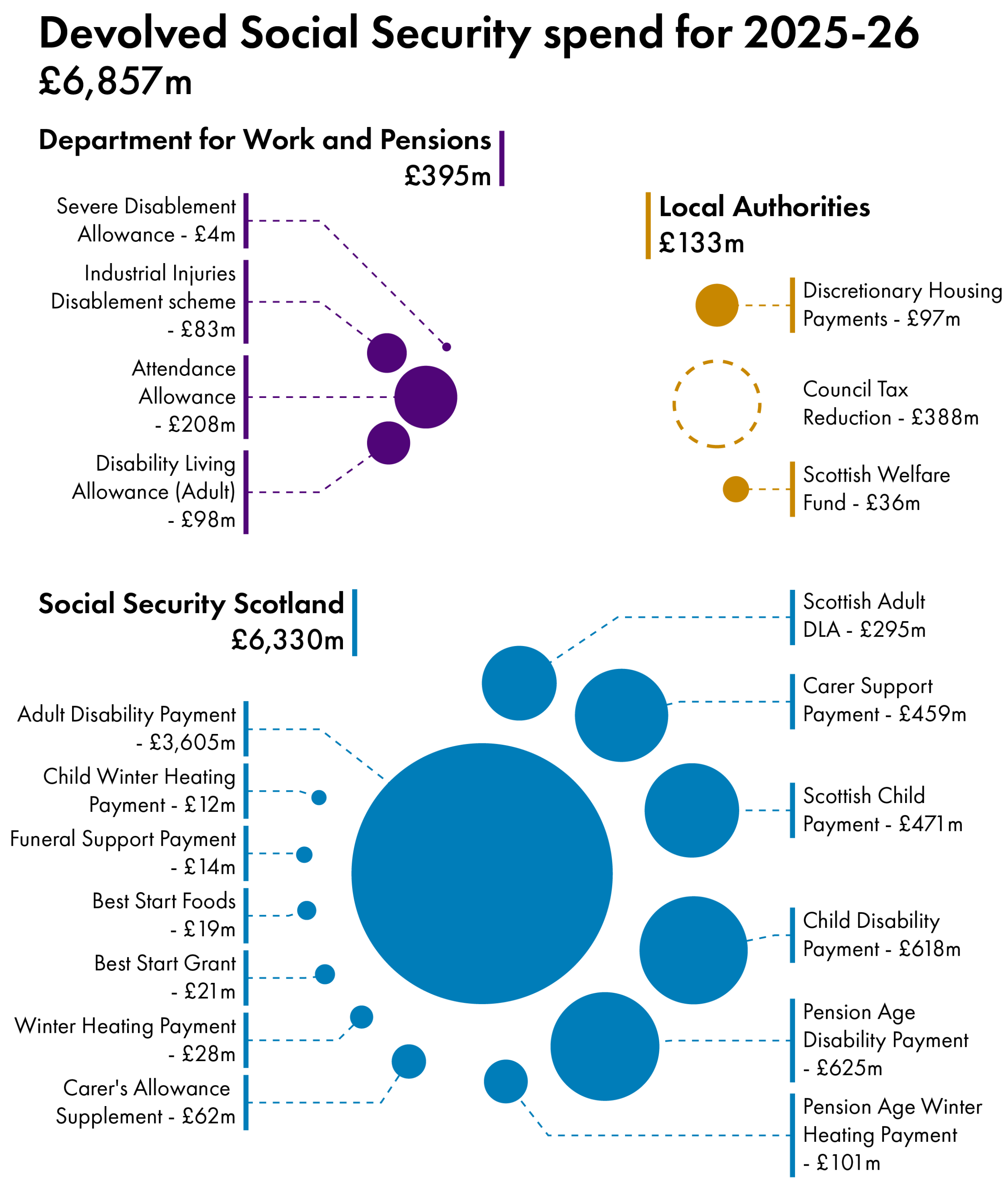
- Is spending more on benefits that attract a BGA than is added to the budget via the corresponding BGA. In other words, where devolved benefits have an rUK equivalent, the Scottish Government is spending more than would have been spent if these benefits had not been devolved. It must meet this additional cost from within the Scottish Budget.

In 2025-26, the Scottish Government has decided to increase benefit payments in line with September 2024's CPI inflation rate.

Detail of social security spending

In recent Scottish Budgets, the amount spent on social security has risen sharply - and is forecast to continue rising. Social security is forecast to account for 13.5% of resource spending in 2025-26, compared with 9.7% in 2022-23.

Figure 10: Devolved Social Security spend for 2025-26



Sources: Scottish Fiscal Commission Fiscal and Economic Forecasts December 2024, Council Tax Reduction Statistics 2023-24. Notes: Assumptions about case transfer are: Assumes a 75% spend on Pension Age Disability Payment and 25% on Attendance Allowance. Does not include employability support (£73m), young carer grant (£1.6m) or job start payment (£0.3m). Council tax reduction is income foregone in 2023-24. It is not 'social security' so not included in the totals, but shown here to indicate the scale of support provided.

Scottish Fiscal Commission, December 2024

Table 12: Social security spending forecast, £ million

Devolved benefit	2023-24 outturn	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Adult Disability Payment	2,632	3,177	3,605	3,983	4,340	4,675	5,030
Pension Age Disability Payment	659	768	834	889	933	962	992
Child Disability Payment	425	524	618	675	708	732	755
Scottish Adult Disability Living Allowance	445	424	394	365	339	312	287
Scottish Child Payment	429	459	471	488	501	507	515
Carer Support Payment	358	402	459	505	525	546	574
Carer's Allowance Supplement	48	54	62	67	70	73	76
Pension Age Winter Heating Payment	-	32	101	103	102	104	108
Child Winter Heating Payment	8	10	12	13	14	14	15
Winter Heating Payment	23	29	28	29	30	31	32
Other benefits	303	345	348	354	361	366	371
Total spending	**5,330**	**6,224**	**6,930**	**7,471**	**7,922**	**8,321**	**8,754**

Note that the total does not match Figure 10 because Figure 10 excludes £73 million of spending on employability support.

December 2024 Economic and Fiscal Forecasts, Scottish Fiscal Commission

Furthermore, social security spending is rising faster than the amount added to the Budget from the BGA. In 2025-26, spending commitments on social security are forecast to be £1,334 million higher than the BGA and are set to rise further. This must be funded from within the Scottish Budget. The trade off, of course, is that this money cannot be spent on other areas of the Budget.

Indeed, once social security is accounted for, the resource funding available to fund day-to-day expenditure in public services is forecast by the SFC to fall by 0.3% in real terms between 2024-25 and 2025-26.

Table 13: Effect of social security funding on the Scottish Budget, £ million

Social security spending and funding	2023-24 outturn	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Block Grant Adjustment	4,432	5,182	5,596	6,018	6,447	6,846	7,291
Spending on social security payments with a BGA	-4,629	-5,445	-6,125	-6,637	-7,063	-7,446	-7,858
Payments unique to Scotland	-569	-618	-644	-674	-697	-713	-732
Other social security spending	-132	-162	-161	-160	-161	-162	- 163
Total effect on the Scottish Budget	**-899**	**-1,042**	**-1,334**	**-1,453**	**-1,475**	**-1,476**	**-1,463**

Note: Other social security spending includes payments for which funding comes through the general Block Grant. The SFC were therefore unable to estimate funding for individual benefits.

December 2024 Economic and Fiscal Forecasts, Scottish Fiscal Commission

It is worth noting that despite much of the commentary around the Budget being focused on Scottish Government plans to mitigate the two child cap and introduce a more generous version of the Winter Fuel Payment, by far the biggest financial commitments made by the Scottish Government on social security are in relation to the Adult Disability

Payment (ADP) and Scottish Child Payment (SCP). Spending on ADP in 2025-26 is forecast to exceed its related BGA by £314 million (see next section). Spending on SCP is forecast to be £471 million, for which no BGA is received, as this payment is unique to Scotland.

For context, the SFC forecast that the expanded Pension Age Winter Heating Payment will require a commitment by the Scottish Government of £69 million in 2025-26, above the related BGA. The mitigation of the two child cap on Universal Credit payments will not be introduced until 2026 at the earliest, so there is no impact on the 2025-26 Budget, other than costs related to developing systems to allow for future payments.

Adult Disability Payment

As it constitutes over half the social security budget, it is worth setting out what is driving increases in the amount spent on ADP.

ADP was introduced in 2022 as the devolved replacement for Personal Independence Payments (PIP). This is a non-means tested payment provided to adults with a disability or long term health condition that affects their daily life. It is not linked to employment status.

When establishing the devolved benefit, the Scottish Government designed its administration differently to PIP. The Scottish Government has adopted a policy of seeking to maximise take-up of the benefit. Most notably, the application process has been streamlined and a ‘light touch’ periodic review process for renewal of claims has been introduced.

This has affected the number of people in receipt of ADP. The rate of successful new applications is higher than before ADP was devolved. Furthermore, the rate at which recipients come off ADP is lower. The net result is higher spending on ADP, which is forecast to exceed the BGA funding it attracts by £314 million in 2025-26.

Even without this different approach to administering ADP, another important factor to note is that there is a UK-wide trend of increasing demand for disability benefits. This is driving up spending on ADP, but also increases the associated BGA funding.

Pension Age Winter Heating Payment

This year, the UK government’s Winter Fuel Payment (WFP) was devolved to the Scottish Government. The devolved replacement benefit is the Pension Age Winter Heating Payment (PAWHP).

In July 2024, the UK government announced that the WFP in England and Wales would be restricted to households where at least one person over the state pension age receives certain qualifying benefits.

The Scottish Government has since announced that from 2025-26, PAWHP will follow a different payment policy. Where one person in a household is above the state pension age but below 80 and is in receipt of qualifying benefits (primarily Pension Credit), the household will receive a payment of £203.40. If the lead claimant receives qualifying benefits and is over 80, the household will receive £305.10. Where one person is above the state pension age but does not receive qualifying benefits, the household will receive £100.

The SFC forecasts that spending on PAWHP will be £32 million in 2024-25, which rises to £101 million in 2025-26 with the expanded eligibility criteria. This is £69 million above the forecasted 2025-26 BGA for the UK government's Winter Fuel Payment. This means that, due to the expanded eligibility in Scotland, the Scottish Government must fund the additional cost (£69 million) itself.

The SFC estimates that the caseload for PAWHP will increase from 137,000 in 2024-25 to 812,000 in 2025-26. In 2025-26, 83% of households are forecast to receive the minimum payment of £100. Note that these payments will not be made until Winter 2025, so this winter, pensioner households will only receive payments if they are in receipt of the qualifying benefits (Pension Credit in most cases).

Mitigating the two child cap

One of the top headlines from the Budget was the Scottish Government's announcement that it intends to mitigate the impact of the UK government's two child benefit cap. This cap prevents parents from claiming Universal Credit and Child Tax Credit for third and subsequent children born after 6 April 2017. The Scottish Government claims that this will lift 15,000 children out of poverty.

The two child cap is a reserved policy in relation to reserved benefits. The Scottish Government intends to "develop the systems necessary to effectively scrap the impact of the two child cap". It is not yet clear how this intention will be implemented and the Cabinet Secretary made it clear that the ability to mitigate will depend on access to relevant data from the UK Department for Work and Pensions.

The proposal is for mitigation of the two child cap to be operational in Scotland by 2026-27. This means that there is no impact on the 2025-26 Scottish Budget figures. Indeed, the SFC were not informed of the policy until after its final policy deadline, meaning that it has not included a costing of the policy in its fiscal forecasts.

However, the SFC has conducted an illustrative analysis that estimates the cost of mitigating the two child cap could be around £150 million in 2026-27, rising to £200 million in 2029-30. Since the Budget announcement, the SFC has confirmed that it will publish a report on the impact of mitigating the two child cap on the Scottish Budget on 7 January 2025. Parliament will be interested in scrutinising this report, given that mitigating the two child cap will incur further annual costs to the Scottish Budget that will not attract BGA funding.

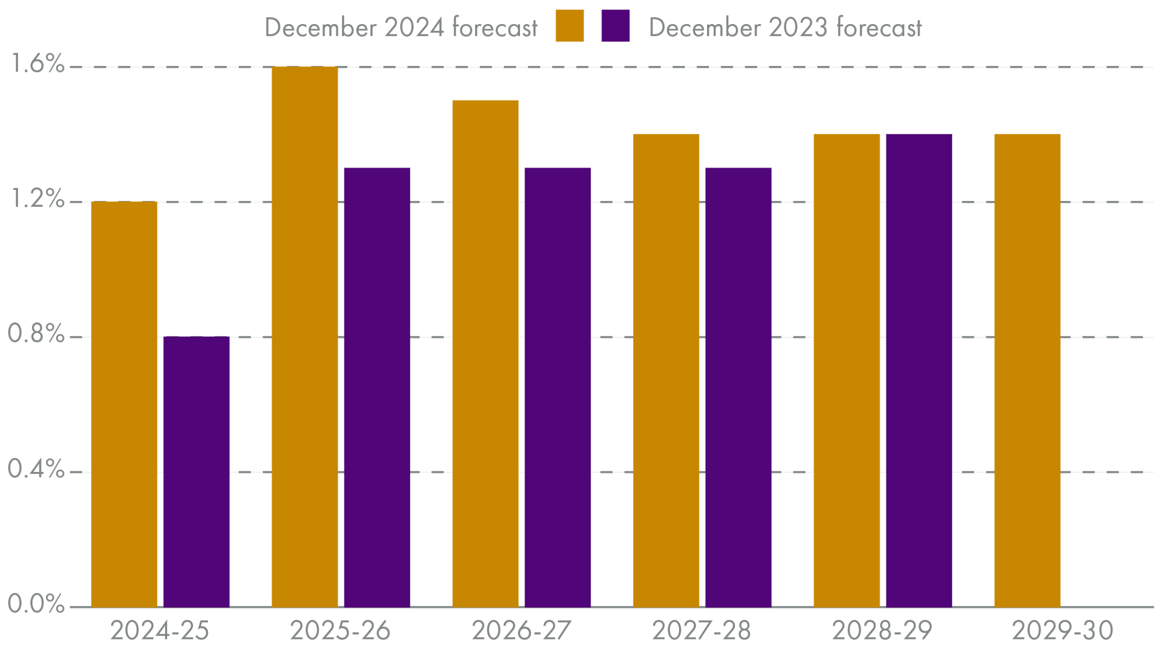
Scottish Fiscal Commission forecasts

The SFC's forecasts tell us about the current state of, and future outlook for, Scotland's economy. It also informs some key elements of the Budget itself, such as forecasted tax revenues and social security spend. This section sets out what the SFC are forecasting on GDP, inflation, employment, earnings and living standards. More detail can be found in the SFC's December 2024 Economic and Fiscal Forecasts .

GDP and living standards

The SFC's latest forecasts for the Scottish economy show an improved outlook compared to December 2023's forecasts. GDP is higher in the short term, with growth projected to be 1.2% in 2024-25, 1.6% in 2025-26, and 1.5% in 2026-27, up from 0.8%, 1.3%, and 1.3% respectively in last year's forecasts.

Figure 11: Gross Domestic Product (GDP) growth, Scotland, 2024-25 to 2029-30



December 2024 Economic and Fiscal Forecasts, Scottish Fiscal Commission

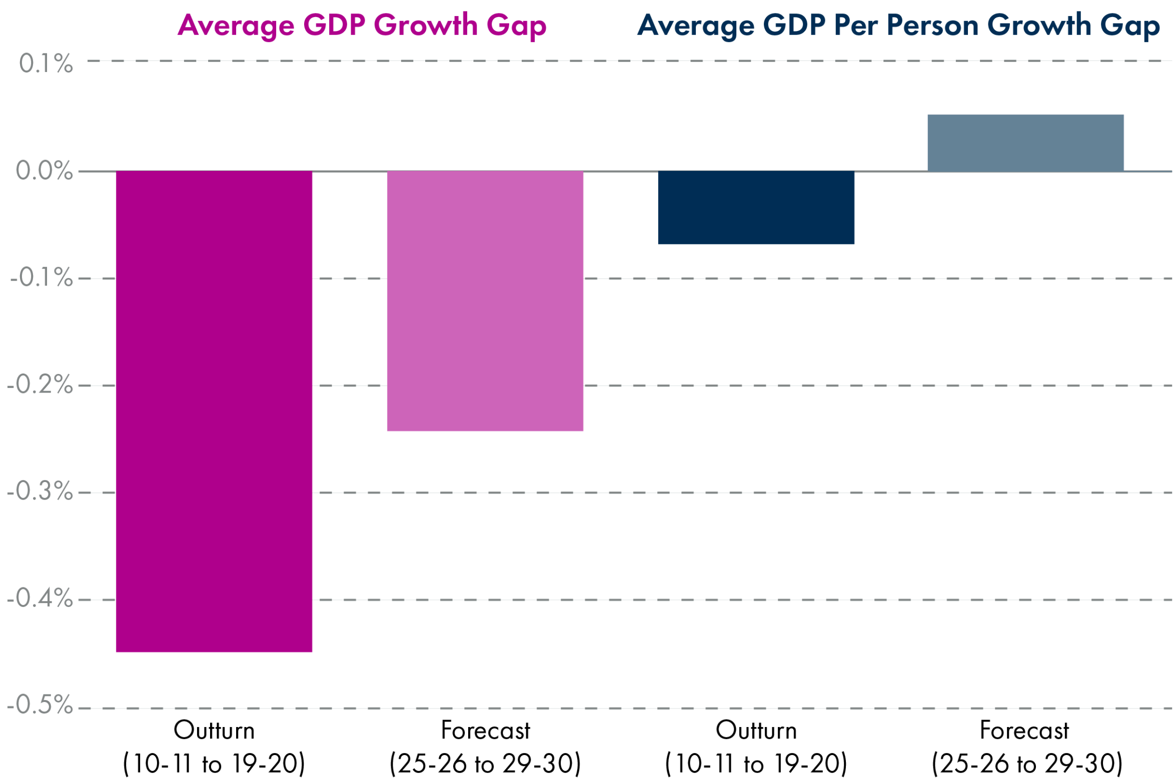
This is in large part due to additional spending announced in the UK October 2024 Budget [4] , which is expected to stimulate a demand-side boost to GDP (the trade off is higher prices and interest rates across the UK). However, the effect on GDP is temporary. Annual GDP growth is forecast to return to trend levels of 1.4% by 2027-28.

It is worth noting that this trend growth is 0.2 percentage points higher than in December 2023's forecasts. This is primarily because the SFC is now assuming net international migration of 30,000 in 2023-24, which falls to 16,000 by 2027-28, versus an assumption of 13,000 net migration per year in last year's forecasts. More working age adults in an economy can produce more goods and services, hence the forecasted boost to GDP.

Changes in population also account for a significant amount of the difference in GDP growth between Scotland and the wider UK. Between 2010-11 and 2019-20, GDP growth in Scotland was an average of 0.4 percentage points below the UK.

However, this is largely due to higher population growth south of the border. The growth gap in GDP *per capita* over the same time period was 0.06 percentage points and is forecast to be reversed in the second half of this decade. This means that Scotland is forecast to have slightly higher GDP per capita growth than the UK between 2025-26 and 2029-30. Ultimately, GDP per capita is more closely related to living standards than GDP.

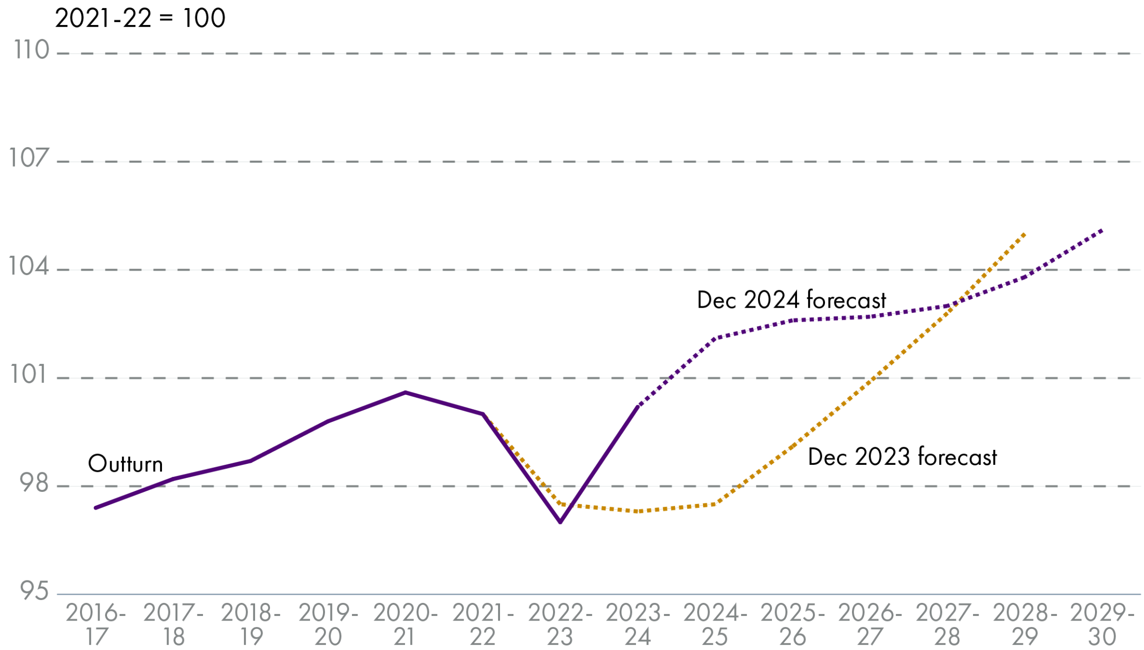
Figure 12: Scotland-UK average annual GDP growth gap, outturn and forecast, percentage points



December 2024 Economic and Fiscal Forecasts, Scottish Fiscal Commission

On living standards, there is some good news after some sharp falls following 2022-23's energy price shock. Living standards, which the SFC measure as real disposable income per person, are now forecast to have returned to their 2021-22 levels in 2023-24 – three years earlier than had been forecast at last year's Scottish Budget. The key driver of this improved picture for living standards is a combination of higher than expected earnings growth and lower than expected inflation.

Figure 13: Real disposable income per person, Scotland, 2021-22 equals 100



December 2024 Economic and Fiscal Forecasts, Scottish Fiscal Commission

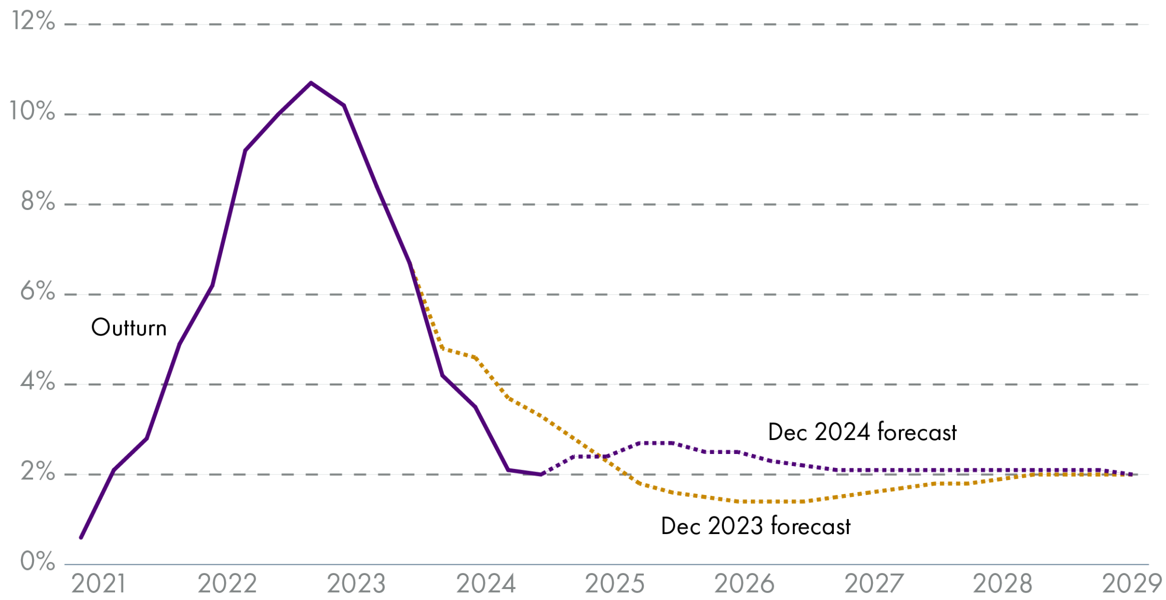
Inflation

High inflation has been a key factor in recent years' budgets. Rising prices have put pressure on budgets for households and government departments alike, but have also been accompanied by high nominal earnings growth and a higher tax take, due to fiscal drag.

Consumer Price Index (CPI) inflation is now at more 'normal' levels and is forecast to stay at, or close to, the Bank of England's 2% target throughout the SFC's forecast period. This should make financial planning easier, particularly in areas such as public sector pay.

Although CPI inflation fell faster than previously forecast, it is expected to increase slightly in 2025-26 to 2.6%. This is driven by more persistent domestic inflation (which excludes, for example, the effects of imported energy prices) and the effects of some of the employer National Insurance Contributions rise being passed on to consumer prices.

Figure 14: CPI inflation, year-on-year growth



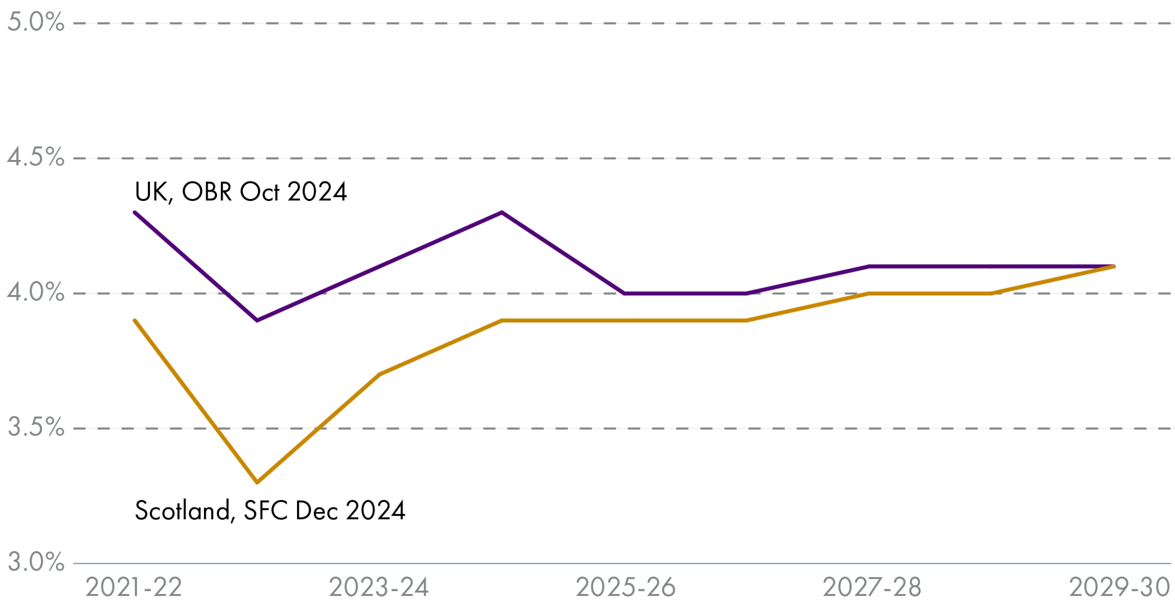
December 2024 Economic and Fiscal Forecasts, Scottish Fiscal Commission

Labour market and earnings

The SFC's latest labour market projections are similar to December 2023's.

Unemployment is forecast to rise from a near historic low of 3.7% in 2023-24 to 4.1% by 2029-30, which is assumed to be its long run trend level. The latest data from the Business Insights and Conditions Survey (BICS) suggests more job vacancies and therefore a tighter labour market in Scotland compared with the UK. The result is slightly lower unemployment (3.9% vs 4.0%) and faster nominal earnings growth (3.7% vs 3.0%) forecasted in Scotland in 2025-26 compared with the UK.

Figure 15: Unemployment rate, Scotland and UK 2021-22 to 2029-30



December 2024 Economic and Fiscal Forecasts, Scottish Fiscal Commission

This stronger relative earnings growth benefits the Scottish Budget, as it boosts the tax base for income tax – a key revenue generator for the Scottish Government. However, the SFC point out a downside risk to future budgets if earnings growth turns out to be more similar north and south of the border than currently forecast. This matters because the size of future budgets is sensitive to small changes in SFC and OBR forecasts. More information on this can be found in the income tax net position section.

The SFC also highlight concerns over the reliability of the ONS Labour Force Survey, which is used to compile official labour market statistics. This is discussed in the SFC's 2024 Statement of Data Needs . In short, response rates to the survey have fallen since the Covid-19 pandemic and reported unemployment is higher than other data sources (such as PAYE data from HMRC) suggest. The SFC therefore use a broader range of data sources to inform their forecasts.

Capital and infrastructure

The 2025-26 Budget has a total of £7,343 million in capital and financial transactions resources available, which is an increase of £942 million compared to the 2024-25 Budget (14.7% higher in cash terms, or 12% in real terms).

The majority of the capital budget comes from HM Treasury. The core Barnett settlement increased by £1,323 million to £6,256 million (85% of total capital budget). Part of this increase is due to ring fenced funding for Network Rail, which was separately identified in previous years, now being part of the core settlement. The remainder of the increase is the result of policy decisions taken in the October UK Budget. There is also £122 million in capital funding anticipated to come from the UK government in support of City Deals.

The UK Government have provided Financial Transactions (FT) funding of £167 million, an increase from the £124 million that was available in 2024-25.

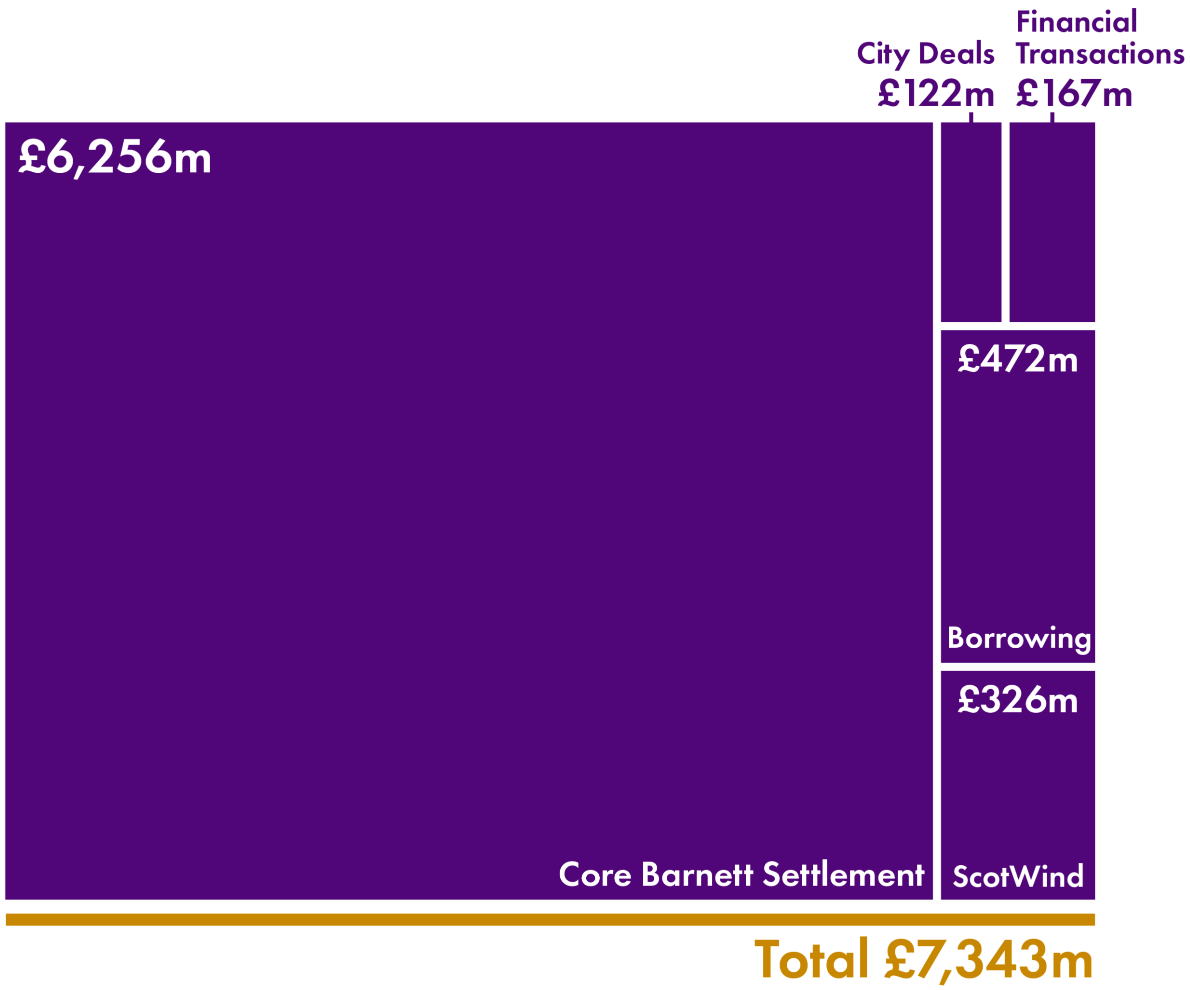
The Scottish Government has once again stated it intends to make full use of its capital borrowing powers, which adds a further £472 million to available funding. This is an increase of £14 million compared to 2024-25, as the revised Fiscal Framework agreed with the UK government increases the annual and cumulative borrowing limits in line with inflation (this uses the GDP deflator, which is 2.4% for 2025-26).

In addition to the capital borrowing, the Scottish Government plan to utilise £326 million of ScotWind proceeds. This was money passed to the Scottish Government by Crown Estate Scotland, relating to the recent ScotWind auctions. The Crown Estate auctioned 'options' to prospective developers, who in exchange for the fee have ten years to develop their proposals for offshore wind farms. In total, the Scottish Government has received £756 million in revenues. During the Emergency Budget Review in September 2024 the Cabinet Secretary for Finance and Local Government had indicated that ScotWind revenues would be deployed to support revenue spending in year , but the improved financial position in the Scottish Budget means that this is no longer required. In her statement to Parliament, the Cabinet Secretary stated that:

> " Members will be pleased to hear that ScotWind has not been used up in this financial year. Instead, I am able to deploy over £300 million of ScotWind revenues in 2025-26 for exactly the kind of long-term investment it should be spent on. This £300 million will deliver substantial investment in jobs, and in measures to meet the climate challenge; Presiding Officer, all of it an investment in the long-term success of our nation."

Figure 16 below sets out the sources of the Scottish capital budget for 2025-26.

Figure 16: Total capital budget, 2025-26, £ million



Scottish Budget 2025-26

Table 14 below sets out the capital and financial transaction budgets by portfolio.

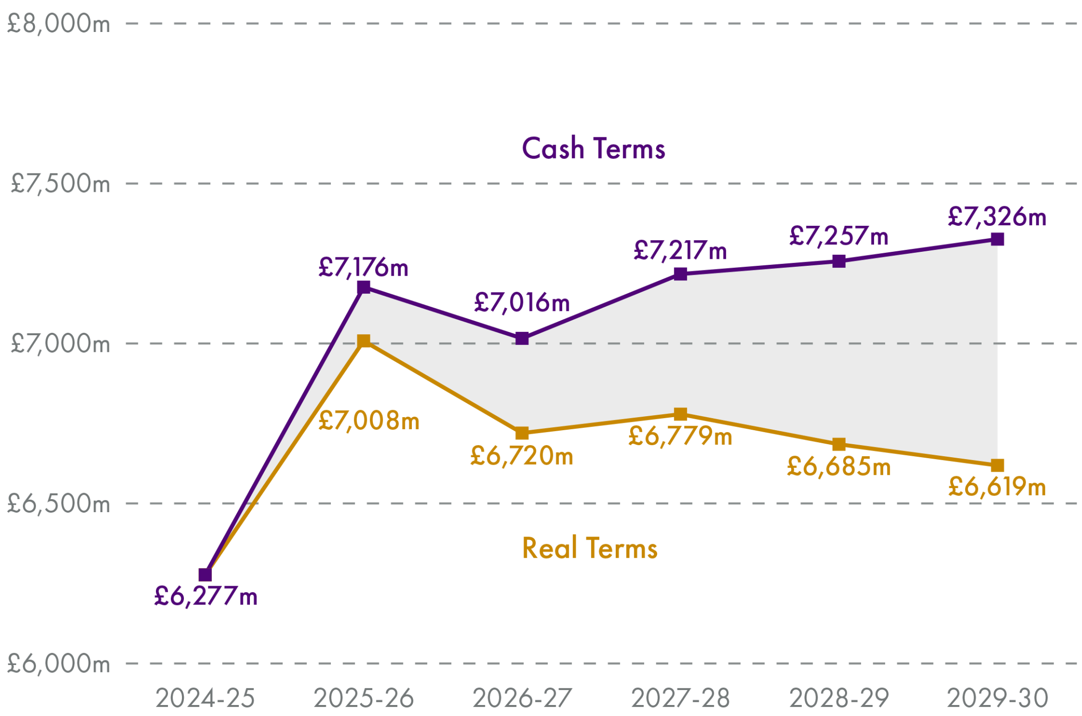
Table 14: Portfolio capital budgets, 2025-26, £ million

Portfolio	£ million
Transport	2,118
Health and Social Care	1,005
Finance and Local Government	796
Net Zero and Energy	758
Social Justice	702
Deputy First Minister, Economy and Gaelic	696
Justice	511
Education and Skills	500
Rural Affairs, Land Reform and Islands	209
Constitution, External Affairs & Culture	35
Crown Office and Procurator Fiscal Service	12
Scottish Parliament and Audit Scotland	1
Total	**7,343**

Capital forecast

The Budget includes a five-year forecast for capital funding. This shows a drop in total funding available in 2026-27, with relatively muted growth in the final three years of the forecast.

Figure 17: Capital funding forecast (excluding financial transactions), 2024-25 to 2029-30



Scottish Budget 2025-26

The Scottish Fiscal Commission note that:

> “ The outlook for the Scottish Government’s capital funding has a different profile to resource, as capital funding peaks in 2025-26 before falling in 2026-27 and then staying broadly flat. The reason for this is the Scottish Government plans to borrow less in 2026-27 than in 2025-26, and there is no planned use of ScotWind proceeds in 2026-27.”

In the absence of a spending review from the UK Government, the Scottish Government have made a number of assumptions to inform this forecast:

- The core Barnett settlement will rise an average of 2.5% per year in cash terms
- UK contribution for City deals will remain £122 million per year
- Scottish Government borrowing for capital will be less than the annual limit at £300 million per year
- There will be no further utilisation of ScotWind revenues or the Scotland Reserve for capital spending during the forecast period

Borrowing powers

The Scottish Government is able to borrow up to £472 million in 2025-26 for capital investment, up to a cumulative total of £3,144.5 million. The Budget sets out plans to borrow the maximum £472 million to support infrastructure expenditure in 2025-26 . As noted above, the capital borrowing limits are now being uprated in line with the GDP deflator, reflecting the revised Fiscal Framework agreed with the UK government .

A statement on Scottish Government borrowing was published alongside the main Budget document. This shows that the stock of capital borrowing will rise to £2,735 million by the end of 2025-26, reaching 87% of the cumulative cap. The forecast assumes that the annual borrowing will reduce to £300 million from 2026-27 onwards as the stock of debt approaches the cap – this would mean the stock of debt will total around 94% of the cap by 2029-30. This means there is limited headroom for the Scottish Government to increase borrowing in the next few budgets. The Scottish Government notes that £300 million represents a sustainable level of annual borrowing which should keep the stock of debt below the cap.

Additionally, an increasing stock of debt means that repayments of capital and interest will also increase. The 2025-26 Budget forecasts these will increase from £135 million to £169 million by the end of the year, rising to over £300 million per year by the end of the forecast period. Note that these figures do not include the cost of repayments related to any borrowing for resource purposes.

The Scottish Government states that their approach to future capital borrowing will be informed by three guidelines:

"

- Use £300 million of capital borrowing per annum as the default assumption; and"
- This will be amended as necessary to meet budget specific or in-year requirements; and"
- Ensure, by way of a fiscal test, that at least £1.5 billion of capital borrowing headroom remains available for the subsequent parliamentary term."

Financial Transactions

The 2025-26 Budget includes £167 million for financial transactions (FTs). 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.

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

Table 15: Financial transactions, 2025-26, £ million

Portfolio	£ million
Deputy First Minister, Economy and Gaelic	167
Finance and Local Government	25
Net Zero and Energy	-3
Transport	-10
Education and Skills	-12
Total	**167**

Where figures in the table above are negative, this reflects the fact that, in 2025-26, 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 most 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 2025-26, anticipated repayments for the Net Zero and Energy, Transport, and Education and Skills outstrip planned use of FTs. The main area where FTs will be used is in relation the Scottish National Investment Bank, where £167 million of FTs will be used to support its investment activities.

The budget contains limited information on FT allocations. While we can see where portfolios have a net positive or negative position, and the overall picture, we do not know what the total gross FT funds available are, the total size of repayments, or the outlook for future years repayments. Given net FT allocations to Scotland total some £2.4 billion since 2019-20, it would be helpful for the Scottish Government to publish information on the profile of future repayments.

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."

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 agreement (see section on Borrowing).

Alongside last year's 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.”

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.

The 2025-26 Budget provides an update on progress towards issuing a bond. The first stage of due diligence has been completed, and the Scottish Government notes that this analysis suggests that there may be market conditions where issuing a bond represents better value for money than traditional borrowing through the National Loans Fund (NLF). While borrowing through the NLF would be expected to attract a lower interest rate, the Scottish Government suggests that bonds might offer alternative maturity profiles for borrowing. Additionally, there could be indirect benefits of issuing bonds such as improving investor confidence in the Scottish Government as a borrower, which may make bonds an attractive option even if the NLF represents better value for money. A further update will be provided during the 2025-26 financial year. In terms of assumptions in the Budget, the Scottish Government notes that:

> “ This forecast assumes continued use of the existing National Loans Fund structures as the source of borrowing, this will continue to be the case until any changes to borrowing sources or structures are certain to occur.”

Review of infrastructure investment plans

The Scottish Government’s Medium Term Financial Strategy 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 (IIP) .

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.”

However, no further information on infrastructure investment plans was provided alongside the 2024-25 Budget. Since last year, the Scottish Government have published limited updates on Major Capital Projects (in January 2024 and October 2024), but have delayed an updated IIP until a new MTFS can be prepared, which in turn is reliant on the UK Government spending review. This is now expected in Spring 2025 at the earliest. In correspondence to the Finance and Public Administration Committee in September 2024 , the Cabinet Secretary for Finance and Local Government noted that:

> " As you are aware, the Scottish Government had committed to publish its reset Infrastructure pipeline alongside Budget 2025-26. The announcement by the Chancellor of the Exchequer of a one-year budget in October 2024 means however that, while we will have some certainty on the 2025-26 capital grant by the time of our Budget announcement, we will not have confirmation of the 2026-27 capital grant until after the UK Government's multi-year comprehensive spending review, which is not due to conclude until Spring 2025. As such anything said later this year about projects or programmes that continued into 2026-27 could be subject to change once the UK Spending Review is published. There has been considerable uncertainty in recent years, both for bodies looking to deliver infrastructure projects and for the construction sector looking to bid for public sector contracts. My intention in publishing a reset pipeline is to provide clarity on what will be delivered in the remaining years of this Infrastructure Investment Plan. I believe it is important that the information provided will be stable and based on the best available information on future budgets. I therefore plan to delay publication of our IIP pipeline reset until after the UK Spending Review."

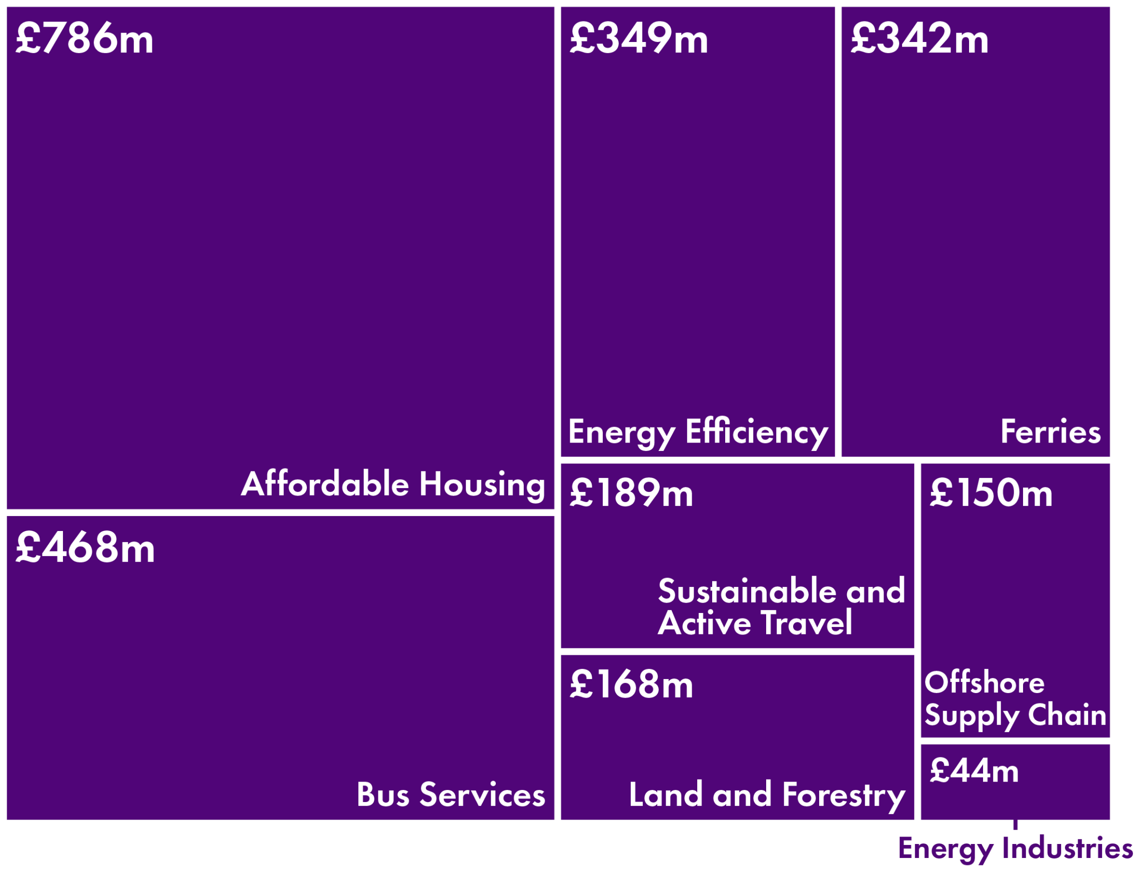
Climate change, taxonomy and carbon assessments of the budget

The 2025-26 Budget includes the third climate assessment narrative which, along with the taxonomy and the carbon assessment, provide an overview of the impact of spending decisions on the climate. For the 2025-26 Budget, the Scottish Government has introduced some changes to the taxonomy which are discussed in more detail below . Further changes are expected in future years; significantly the Scottish Government have been piloting a net zero test for policy (the third strand of the recommendations from the Joint Budget Review group). The Scottish Government states that their intention is to "mainstream this in 2025".

The narrative provides an overview of the Budget, highlighting policy and spending across portfolios and its expected impact on the transition to net zero. The Scottish Government highlights analysis by the Scottish Fiscal Commission which suggests that 28% of the additional costs of reaching net zero will require public funding; around £43 billion in total between 2020 and 2050.

The assessment outlines that £4.9 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 £4.9 billion are set out in Figure 18.

Figure 18: Key policy and budget allocations expected to contribute to meeting the Scottish Government climate goals in 2025-26



Scottish Budget 2025-26

The narrative highlights 8 areas where the Scottish Government believe funding can be deployed to be most effective in making progress towards net zero:

1. **Renewable energy**: The Scottish Government highlight the increase of funding for the Offshore supply chain, which rises to £150 million in 2025-26. £44 million is available for investment in hydrogen and carbon capture, Wave Energy Scotland, as well as supporting energy efficient industries in the transition. The Budget does not mention the £80 million that the Scottish Government have previously committed to the Scottish Cluster .

2. **Energy efficiency and heat**: Budget allocations suggest this is a key area of focus for the Scottish Government. £768 million for the affordable housing programme is classified as positive for the environment as new build homes now require zero emissions heating systems. £349 million is available for energy efficiency and clean heating covering support for improvements to housing stock, as well as advice services to reduce energy demand. The Scottish Government notes that the investment in the Heat in Buildings programme increases in line with meeting the commitment to provide £1.8 billion over the course of this parliament.

3. **International and strategic climate change**: £16 million for existing multi year commitments through the Just Transition Fund, and £57 million to support climate change policy development and implementation, fund the Just Transition Commission, and the Climate Justice Fund. The Just Transition Fund is a £500 million commitment,

but the Budget does not set out an expected pathway to reach this target.

4. **Transport**: £2.9 billion in Transport investment is considered positive for the environment, including support for public transport and £189 million for Active travel

5. **Nature, forestry and landscape restoration**: £168 million to increase woodland restoration, protect and restore peatland, and deliver Scotland's biodiversity strategy.

6. **Flood management:** £15 million capital funding for the Flood Resilience Strategy

7. **Agriculture, rural affairs and marine**: £36 million to support activities such as the Agri-environment and Climate Change scheme and the Agricultural Reform Programme, and £20 million in funding that had been deferred previously for a Transformation Fund. £94 million supports the Scottish Government's vision for a Blue Economy.

8. **Zero waste and circular economy**: £40 million to support the transition to a circular economy through promoting extended producer responsibility, reducing waste, promoting sustainable consumption and recycling.

The Scottish Government notes that the latest emissions data show that Scotland has reduced emissions by just over 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.

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, 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 though 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.

The methodology remains the same as the 2024-25 Budget, with the only updates to reflect the most recent greenhouse gas emissions estimates from ONS Environmental Accounts and forecast deflators from HM Treasury.

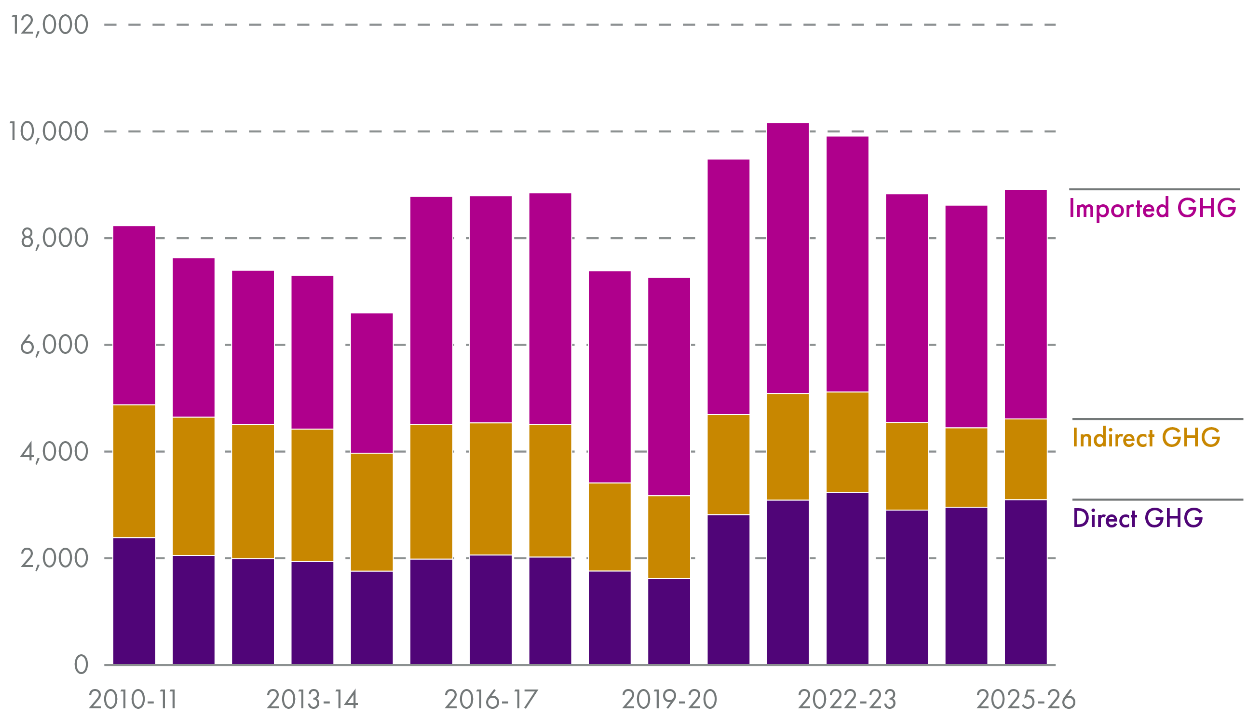
The Scottish Government states that this assessment captures:

> " ...the emissions associated with the Scottish Government's purchase of goods and services. It is a consumption-based measure that covers direct emissions (e.g. the production of gravel for roads constructed by the Government or generation of electricity used by Government) and also any imported emissions that are generated in producing the direct and indirect goods and services that the Government purchases."

Importantly, there are limitations. The assessment does not capture second round emissions. So, for example, the assessment would quantify the emissions associated with the building of a road including in the supply chain, but it would not count any emissions resulting from the use of the road.

Total emissions associated with the Scottish Budget for 2025-26 are 8.9 million tonnes carbon dioxide equivalent (MtCO2e). This represents a slight increase from 8.6 million MtCO2e in 2024-25. Figure 19 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 which have occurred in some years, nor the updated data which is incorporated routinely.

Figure 19: Greenhouse gas emissions associated with Scottish budgets, 2010-11 to 2025-26



Scottish Budget 2025-26

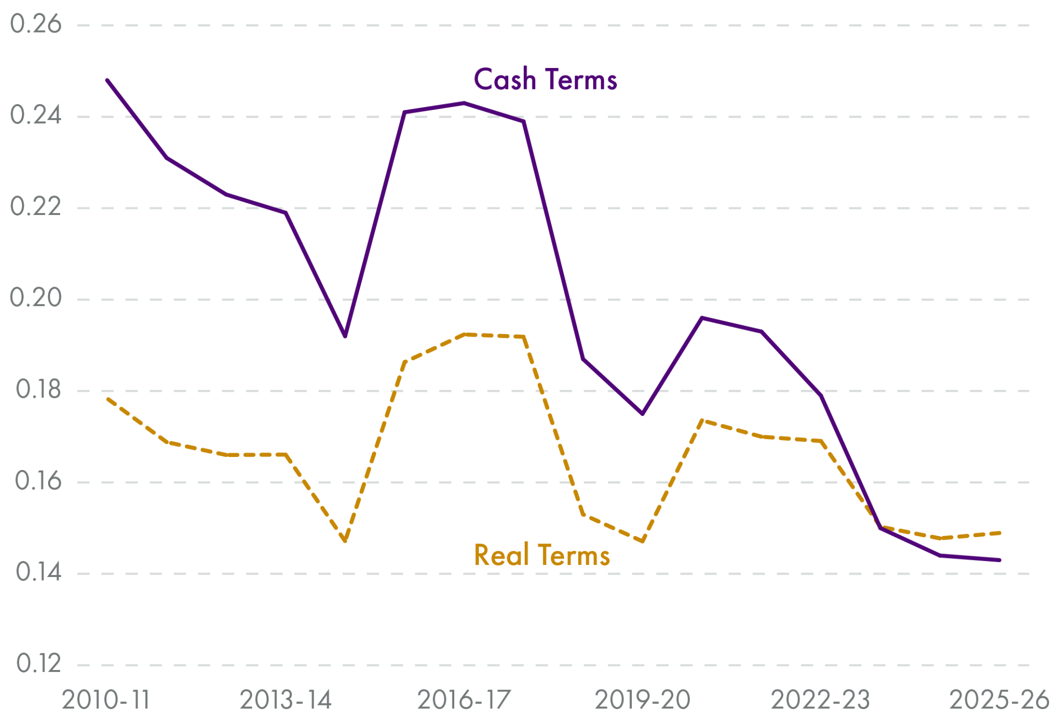
In absolute terms GHG emissions remain higher now than in 2010-11. The assessment breaks down emissions by industrial source, and whether these are direct, indirect or imported emissions. 27 per cent of emissions are due to energy, water and waste services; manufacturing accounts for 20 per cent, while agriculture, forestry and fishing is 17 per cent – all similar proportions to previous years.

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.

The Scottish Government suggest that the increase in emissions in 2025-26 is in line with the increased size of the budget, and that there is a slight reduction in emissions per pound spent. This is true in nominal terms – GHG emissions per thousands of tonnes of

CO_2 equivalent per pound has reduced from 0.144 to 0.143. 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. Figure 20 below sets out the carbon intensity in nominal and real terms, and while in nominal terms this intensity has reduced as noted above, in real terms it has increased slightly from 0.148 to 0.149. Nonetheless, this represents a reduction since the first assessment was carried out in 2010-11.

Figure 20: Carbon intensity of Scottish Budgets, total emissions compared to Total Managed Expenditure, since 2010-11



Scottish Budget 2025-26

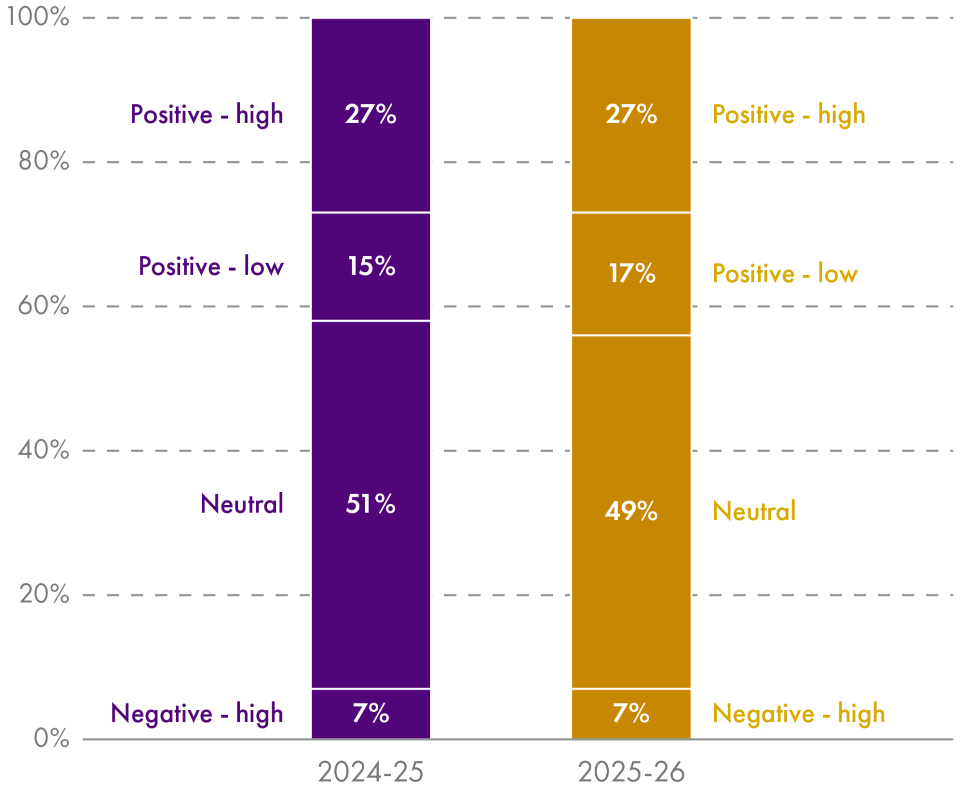
Taxonomy of capital and resource spending

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, and to provide greater granularity in terms of the impact on the climate. The 2025-26 assessment introduces further iterative improvements by assessing spend on both an adaptation and a mitigation basis.

Capital

The taxonomy categorises 44% of spending as positive, 49% as neutral and 7% as negative. These are broadly similar proportions to last year's taxonomy, with a slight shift from neutral to 'positive – low' spend. Healthcare remains the largest contributor to neutral spending. In total just under £3 billion of the capital budget is classified as positive – with transport spending dominating this category. As in previous years' assessment, this covers around 90% of capital spending – financial transactions and most local authority allocations are unassessed as the Scottish Government does not have sight of their eventual use.

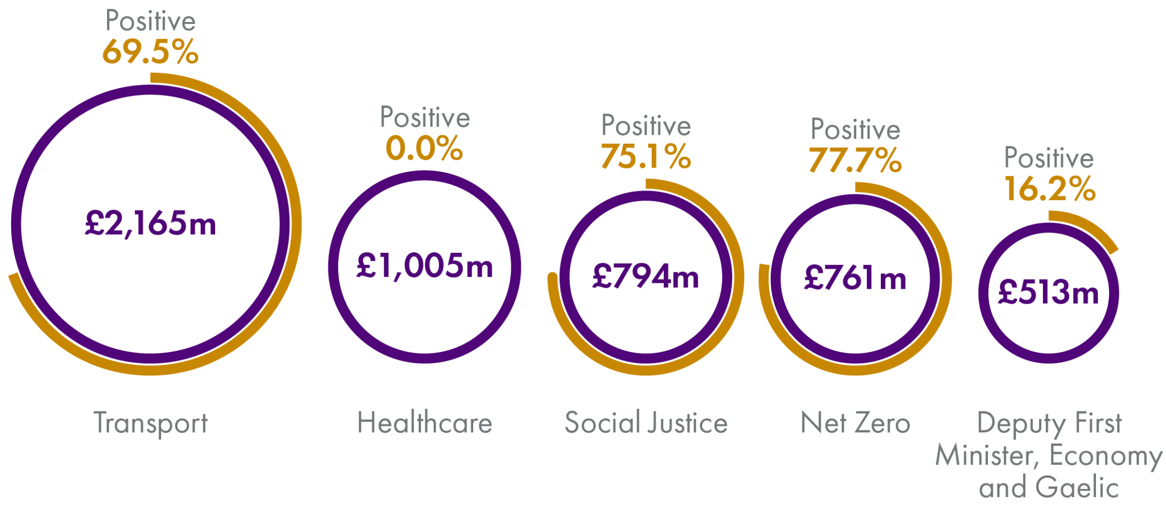
Figure 21: Capital spending taxonomy, 2025-26



Scottish Budget 2025-26

Using data in the taxonomy, we can look at the where the positive spending is concentrated by portfolio. Chart X below sets out the five portfolios with the largest capital budgets, and shows the proportion of this capital spending categorised as positive:

Figure 22: Five largest portfolio capital budgets, 2025-26



Scottish Budget 2025-26

- **Transport**: The largest positive level 4 budget line relates to the operation of Scotrail and the Caledonia sleeper (£898 million), followed by investment in the rail network (£482 million), delivery of concessionary travel schemes (£415 million), ferry services for Clyde and the Hebrides (£301 million), and Active Travel (£165 million).

- **Healthcare**: Funding for SportScotland (£36 million) and Active Healthy Lives (£13 million) is categorised as positive, with the remainder of this budget being neutral.

- **Social Justice**: Positive spend in this portfolio is driven by the Affordable Housing Programme (£676 million)

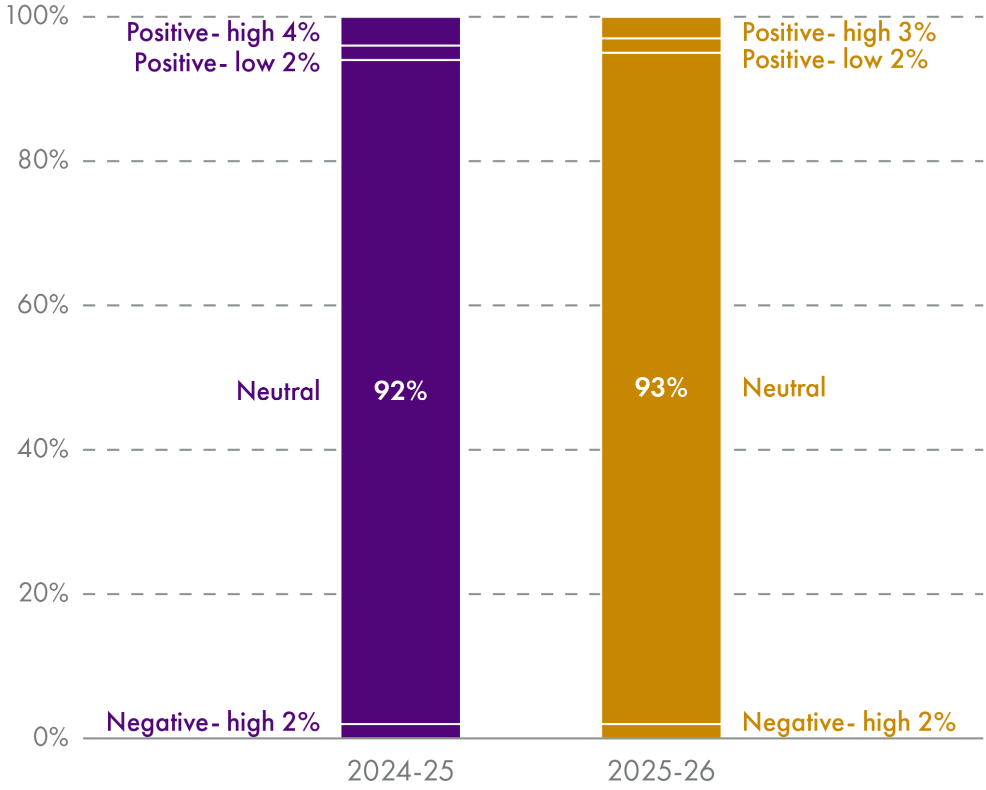
- **Net Zero**: Energy Efficiency and Decarbonisation (£302 million), investment in the Offshore Supply Chain (£163 million) and energy industries (£37 million) contribute to the positive spend in this portfolio.

- **Deputy First Minister, Economy and Gaelic**: The capital allocation to Scottish National Investment Bank (£33 million), but not the financial transactions, is assessed as positive. Within Regeneration programmes, £50 million of spend is also categorised as positive.

Resource

The resource taxonomy is presented on the same basis as capital, and covers around 82% of all resource spending as most local government spending is excluded. Of this, the vast majority is classified as neutral (76% 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. while the 2% negative impact resource spending includes agricultural support (through emissions associated with livestock) and costs related to road maintenance. As with capital, NHS spending makes the largest contribution to the neutral spend.

Figure 23: Resource spending taxonomy, 2025-26



Scottish Budget 2025-26

Adaptation and mitigation

The taxonomy now separately assesses budget lines in terms of their impact on adaptation (supporting the adjustment to a changing climate) and mitigation (activity that will reduce emissions).

While the Scottish Government notes that many of the budget lines have a similar assessment for both adaptation and mitigation, there are some differences. £3 billion of spend is assessed as being 'positive-high' on a mitigation basis, while only £600 million is assessed as 'positive-high' on an adaptation basis.

This is an important distinction, as it highlights that not all positive spend will be contributing to emissions reduction. Across capital and resource, £3.2 billion is assessed as being 'positive-high', but there is around £170 million of this 'positive – high' spend which is not expected to contribute to reducing emissions. As the Scottish Government prepares its next climate change plan, it will be important to understand how current policy is supporting emissions reduction, and this additional information furthers our understanding to an extent.

Public sector

Public sector pay policy

The Scottish Government published a Public Sector Pay Policy alongside the budget for the first time since the 2021-22 Budget. It revises the multi-year Pay Policy issued in May 2024, as well as recognising the revised fiscal context following the UK Budget and updated inflation forecasts. This is a welcome change on previous years given spending on workforce pay now accounts for over half of the Scottish resource Budget.

Unsurprisingly, given the statement made by the Cabinet Secretary for Finance and Local Government during a session with the Finance and Public Administration Committee earlier this year, it provides a multi-year envelope rather than a single year figure and focuses on wider reform through pay:

> “ Rather than just providing a figure I am looking more at a framework that can help, on a multiyear basis, to ensure, through pay, that we can address reform, efficiency and productivity, and that all those things can be part of the framework.... Therefore, in the budget, I will also set out our workforce plans and policy, because those are inextricably linked. There is absolutely a relationship between the sustainability of public finances and workforce numbers and pay—they are also inextricably linked.”

This Public Sector Pay Policy applies to Scottish public sector workforces including NHS Scotland, firefighters and police officers, teachers, and further education workers. The Policy applies to core Scottish Government (except senior civil servants, for whom pay is a reserved matter) and 71 public bodies including non-departmental public bodies, public corporations and agencies. It does not apply to local government employees.

As stated in the budget the intention is that the pay metrics within the policy are “fair, sustainable and realistic” and ensure “a level of pay restoration”. In order to make this sentiment a reality, the budget sets out the following multi-year pay policy framework:

- Multi‑year pay envelope of 9% over 2025‑26, 2026‑27 and 2027‑28
- Flexibility for employers to configure three‑year proposals within the 9% pay envelope
- Expectation that pay deals will be agreed covering three years, 2025-26, 2026-27 and 2027-28
- Any employer that does not agree a three-year pay deal will be restricted to a maximum 3% pay uplift for 2025-26

The Scottish Government compare the 9% pay envelope to a forecast inflation of 7% across the same 3-year period, with 3% allocated for 2025-26. Despite a pay policy alongside its budget for the first time in four years, it did not provide the SFC with information on workforce. The Scottish Fiscal Commission suggests that due to additional factors such as pay progression within bands, changes in grading structure, as well as vacancies and turnover there may be additional pay growth:

> " In addition to the 3 per cent basic pay award, we assume the other factors affecting average pay such as pay progression add, based on historical data, an additional 1.5 percentage points to average pay growth, summing to 4.5 per cent average pay growth in total in 2025-26."

This has the potential to be problematic if the Scottish Government has not made provision for increases in the paybill other than the 3% pay award.

Additionally, the SFC highlights the size of the workforce as an "important lever to manage the paybill". The 2025-26 Budget acknowledges the structural pressure placed on the budget due to the relatively high number of public sector workers and higher pay compared to the other devolved nations. The Scottish Government intends to publish a Fiscal Sustainability Delivery Plan next year including actions to support public bodies to workforce plan effectively.

The Public Sector Pay Policy also puts forward additional measures related to low pay and senior appointments. Despite public bodies having the flexibility to determine their own pay proposals, they are encouraged to consider a progressive approach to pay and are required to pay the Real Living Wage of £12.60 per hour or above.

The 2025-26 Chief Executives pay uplift is set to be announced near the start of 2025-26. Additionally, the Public Sector Pay Policy states that a supporting technical guide will be published in early 2025.

The Budget contained no provision for meeting the public sector employers NIC increases announced by the Chancellor in her October budget. While the Scottish and UK governments are still at odds over the amount the Scottish budget will be compensated by, it is nevertheless a risk to the fiscal position. The Budget document states that:

> " The anticipated cost for public services and organisations delivering public services under agreements is well in excess of £700 million. We will continue to press HM Treasury to fully fund this cost. The Scottish Government will take decisions on the allocation of any consequentials when we receive formal confirmation from HM Treasury."

Public sector employer National Insurance Contributions

In the October UK Budget, the Chancellor announced plans to increase employer national insurance contributions (NICs) from 13.8% to 15% and reduce the threshold at which they become payable (from £9,100 to £5,000). Acknowledging that this would have significant cost implications for public sector employers, the Chancellor said that public sector employers would be compensated for the associated costs. The UK government also committed to providing compensation to the devolved administrations, but did not provide details of the amounts that would be provided.

The Scottish Government has since published its own estimate of the related costs, which it puts at between £550 million and £760 million (in 2025-26), depending on the scope of which employers are included. The UK government has yet to confirm the amount that will be provided, but media reports suggest a much lower figure, in the region of £300 million.

The SFC notes that:

> “ As the Scottish Government does not have clarity on NICs funding, it has presented the 2025-26 Budget with no assumed NICs funding from the UK Government and no associated spending plans. This means that once the UK Government confirms the funding, the 2025-26 Budget will be larger than has been presented. But this funding is unlikely to cover the full cost of the NICs rises which will need to be managed as part of wider pay and workforce plans. This should be noted as a risk to the Budget.”

Public service reform

The need for public service reform has been highlighted by many stakeholders for many years, but progress is still hard to see. Audit Scotland has noted that “there is no evidence of large-scale change on the ground” and the Parliament’s Finance and Public Administration Committee has expressed some frustration around the lack of any clear action. The Budget document states that:

> “ We must also be efficient and effective in how we deliver public services. We have set out a 10-year programme of [public sector reform] PSR to Parliament, with a strong focus on the data, levers and workforce that will drive efficiency. To enable this work, we will deliver an Invest to Save fund in 2025‑26, backed by up to £30 million of funding recognising the need to catalyse efficiency, effectiveness and productivity projects as part of the PSR programme.”

It is hard to see how £30 million will really shift the dial when the Budget also notes that health and social care reform is a key element of the approach and showing “signs of strain” with “significant challenges” to navigate.

This is an area SPICe and the wider Parliament will return to in the coming months. The Finance and Public Administration Committee expects to receive an interim update from the Scottish Government this month on its public service reform programme, date to be confirmed, following the most recent update provided in late September 2024 .

National Performance Framework

The National Performance Framework (NPF) is a strategic tool introduced by the Scottish Government in 2007 that aims to set out “a vision for the collective wellbeing of Scotland”. It is intended to align with the United Nations Sustainable Development Goals to ensure a balanced approach to economic, environmental, and social progress.

The NPF currently outlines eleven National Outcomes that articulate the kind of country the Scottish Government would like Scotland to be, with a focus on improving the lives of people in Scotland. These outcomes are measured by a set of 81 National Indicators , to “understand if we are moving in the right direction towards them” according to the Scottish Government.

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 four 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.

The following infographic is intended to help committees start to interrogate the national outcomes data during their scrutiny. This 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.
- Within each portfolio, each "primary outcome" assigned to that portfolio in the Budget is listed. For instance, using Health and Social Care portfolio as an example, that is “health”, "children and young people", "communities" 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 two indicators "improving", three "maintaining", one "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 Health and Social Care, Social Justice, Justice and Home Affairs and Crown Office and Procurator Fiscal Service portfolios.

Figure 24: Performance change in national outcomes, by portfolio

[National Performance Framework (NPF)]

Review of the National Outcomes

The Community Empowerment (Scotland) Act 2015 requires that the National Outcomes be reviewed every five years. In line with this, a Scottish Government review of the National Outcomes began in May 2022 with the public engagement phase running March to June 2023. The Consultation with Parliament in connection with the Review of National Outcomes was laid before the Scottish Parliament by the Scottish Ministers on 1 May 2024.

This statutory report proposed a series of changes to the NPF National Outcomes. These included three additional proposed outcomes, nine amended Outcomes, and proposed changes to the extended definitions of all outcomes. National Indicators will be revised to reflect the changes to the National Outcomes once changes have been agreed by Parliament.

Following the Scottish Government's published report, the Finance and Public Administration Committee led the consideration of the proposed National Outcomes. Additionally, other Committees considered evidence in their own remits. The Finance and Public Administration Committee has published its report on the inquiry and an additional nine Committees have published either letters or reports.

The Finance and Public Administration Committee report and other Committee reports and letters on the proposed National Outcomes will be debated in Parliament. Following this, the Scottish Government will respond to the Scottish Parliament inquiry report by 15 January 2025. They will also confirm further details and timescales at this time.

Several overarching themes were highlighted within the committee outputs. They are better interaction between the National Outcomes, improved implementation and monitoring and, most relevant to this briefing, increased alignment between the National Outcomes and the Budget as well as collaboration across portfolios.

Committees highlighted that the current NPF struggles to effectively integrate these elements, limiting its capacity to drive decision-making and resource allocation. In fact, the Constitution, Europe, External Affairs and Culture Committee stated :

> " There was evidence from this inquiry to suggest that the National Outcomes do not always inform policy and spending, and … asks the Scottish Government to provide examples of where the National Outcomes have informed policy and spending decisions."

Furthermore, the Health, Social Care and Sport Committee recommended that the Government provide detailed assessments of how spending decisions contribute to National Outcomes. It called for "an accompanying assessment of the potential impact of such decisions on the National Outcomes" whenever spending adjustments are made. Such measures would enhance transparency and allow policymakers to evaluate the rationale for decisions and whether resources are being used effectively.

As illustrated by the overlap of National Outcomes within budget portfolios, many of Scotland's societal challenges are interconnected.

To address these issues, the Committee further urged the government "to set out how it will deliver improved coordination of policy action across the proposed National Outcomes to enable the NPF to become a suitable framework for the multi-faceted, holistic solutions."

If the Scottish Government fails to do this, the Committee said it:

> " ...is concerned that, as currently formulated, the NPF and National Outcomes fail to provide the strategic direction, linked to actionable and well-resourced policies, necessary for achieving the Scottish Government's stated policy ambitions."

Linking National Outcomes and the Budget

As with previous years, several committees included national outcomes in their pre-budget scrutiny. This year, however, several committees also looked at the National Outcomes as part of the statutory review process. The Finance and Public Administration Committee pointed out in its report, "there needs to be a clearer link between spending decisions in the Scottish Budget and their impact on the delivery of National Outcomes."

During the 8 October 2024 Finance and Public Administration Committee Meeting the Cabinet Secretary for Economy and Gaelic stated that "the budget is the area where it is easiest to build on the National Performance Framework". We might therefore have expected the National Outcomes to feature more prominently in this year's Budget. However, as in previous years, intended primary and secondary national outcomes are only listed by portfolio.

An annex to the Equality and Fairer Scotland Statement for 2024-25 sets out how the National Performance Framework "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". This, however, is not reiterated in the 2025-26 Equality and Fairer Scotland Budget Statement.

Despite this, 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 of National Outcomes. The additional new 'case studies' annex provided last year seems to have been carried on as 'further detail on Key Budget Decision' and covers six policy specific budget decisions:

- Social Security Assistance
- Affordable Housing
- Concessionary Fares
- Employability
- Drugs and Alcohol Policy
- International Development

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. This is not yet in line with the recommendation put forward by the Finance and Public Administration Committee in their Report on the National Performance Framework: Review of National Outcomes:

> " The Scottish Government, Local Government, and others across Scotland, should evidence how their work specifically contributes toward delivering on the National Outcomes. This visibility will be important in ensuring that scrutiny can be more effectively and fairly delivered given the collaboration necessary to deliver the proposed National Outcomes"

Human rights budgeting

The Scottish Government has 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. Considering this, we have once again looked at the Budget through a human rights lens.

In advance of the Budget being published, 11 committees carried out pre-Budget scrutiny and published their findings. SPICe published an analysis detailing the key themes across committee scrutiny in advance of the Budget.

This year's analysis did not show a change in the main focus of themes from previous years. Committees are still suggesting that the Scottish Government prioritises longer term financial planning and multi-year settlements and feel that the Scottish Government needs to make its strategic focus and priorities clear, with more transparency around decision-making and the connections between spending decisions and policy.

What has changed is the tone of committees – the fact that these findings are not new is accompanied by a sense of frustration that past recommendations have not been acted upon and the Scottish Government is in, as the Finance and Public Administration Committee puts it, "a state of inertia".

This sentiment has been echoed in non-parliamentary scrutiny, including in Audit Scotland's recent report on NHS in Scotland 2024, which called on the Scottish Government to show greater leadership, and to, "In line with previous recommendations, publish clear and transparent annual progress reports on the work to reform services."

Reflection of Human Rights Principles in Budget 2025-26

Over the past two years, the Scottish Government included detail within the Equality and Fairer Scotland Budget Statement on how it has demonstrated its adherence to the three principles of human rights budgeting. This approach has been abandoned. This has not gone unnoticed, with SHRC Chair Professor Angela O'Hagan saying:

> " Overall, among the many commitments issued by the Cabinet Secretary, there was no mention of how the approach to decision-making applies the human rights principles in budgeting the government has committed to, or the recommendations of its own Equality and Human Rights Budget Advisory Group. Human rights budgeting is essential to create a long-term spending approach which supports marginalised groups, and ensures public services are directed where they are most needed, such as toward under-served areas with high poverty rates. It puts transparency, accountability and equity first, guiding public bodies to make informed decisions. It provides a map towards fairer taxation. And it embeds consultation with the people most affected, giving them a voice in decisions that affect their lives. According to the evidence we have, however, the Scottish Government is not yet budgeting through a human rights lens – a point we have made at Parliamentary Committees and in consultation responses many times."

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."

As was the case last year, accountability was the most prominent theme in committees' pre-Budget scrutiny, but this focus increased considerably this year. Committee pre-Budget scrutiny is where the Scottish Government has suggested in the past that it sees accountability reflected.

For the second year running, the Scottish Government published its responses to committees in a separate annex to the main Budget document. In this, the level of detail is mixed. There are some clear instances where the Scottish Government has agreed to increase or maintain funding – culture, criminal justice and economy are all examples. Some other commitments, such as that on funding for culture, are vaguer. There are several direct references to decisions being made 'in line with committee recommendations', which are useful.

In other cases, however, the Scottish Government has summarised what a committee report or letter contained and followed this with a nondescript statement of welcoming the recommendations and a commitment to continue to work with stakeholders on areas raised. Given that at times there is recognition that recommendations have been made before or agreement on the need for clarity, this lack of detail may be disappointing to committees.

Committees will receive more substantive responses from the Scottish Government within 5 days of the Budget being published, so it will be up for them to consider. To support committees' ongoing scrutiny, we will be repeating analysis we did last year on the impact of committees on the Budget in January.

Elsewhere in the Budget, the added detail included in the Distributional Analysis accompanying the Budget is useful for demonstrating the Scottish Government's consideration of the impact of its spending decisions.

Transparency

In a human rights budgeting approach, transparency means that "Parliament, civil society and the public should have accessible information about budget decisions". This has been a particular focus of committees in recent years, with the both the Finance and Public Administration Committee and Equality, Human Rights and Civil Justice Committee having carried out work under the banner.

The Scottish Government's commitment to fiscal openness and transparency is set out in its Open Government action plan 2021-2025 , but this is not referenced in any key Budget documents.

As we have noted in the section on the Equality and Fairer Scotland Budget Statement, within that document the links to strategic priorities have improved somewhat, and the document is less 'cluttered', however the transparency around certain figures is questionable. There is still a lack of detail or reflection on the impacts of past spending decisions.

Your Scotland, Your Finances was published alongside the Budget, as was the Distributional Analysis. Stakeholders have suggested to the Equality, Human Rights and Civil Justice Committee, however, that in order to truly support scrutiny some of this additional detail should be made public in advance of the Budget to inform pre-Budget scrutiny and support participation.

As we noted at the start of this briefing, there have been changes to the baseline numbers presented within the budget, which has led to some distortion in some portfolio Budget lines and has important implications for transparency. While it is acknowledged, that this change in presentation was taken in response to a request from the Finance and Public Administration Committee, the Scottish Government could perhaps have done more to explain the implications of the new baseline and take steps to address the scale of in-year transfers that can distort comparisons.

Finally, in a break from established practice, the Local Government Finance Circular with allocations to local authorities has not been published alongside the Budget. This was agreed with COSLA in advance, but only communicated more widely shortly in advance of the Budget.

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".

In recent years' committee scrutiny, SPICe analysis and Scottish Government statements have highlighted the role of participation at the scrutiny stage. This placing of responsibility with committees may be one reason why there was an increase in the use of engagement and participative methods in this year's committee pre-Budget scrutiny.

Alongside last year's Budget, detail was published on public attitudes to tax and gave details of stakeholder consultation. Detail on discussion with stakeholders was published this year in the Tax Strategy , however at no point throughout the Budget documentation is public engagement referenced. There is also no detail to suggest the use of lived experience or participative approaches in determining Budget priorities.

Equality and Fairer Scotland Statement

The Equality and Fairer Scotland Budget Statement (EFSBS) 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 EFSBS has undergone annual changes over recent years, and the Scottish Government and stakeholders have acknowledged that the presentation approach is an iterative process, however a lingering concern has been the continual addition of content, making the document and its annexes complicated and unwieldy.

The 2025-26 document is the most noticeable redesign to date, and the content has been rationalised. The size of the statement combined with its accompanying documents has halved (not including Easy Read documents, which have not yet been published for 2025-26).

The Scottish Government outlines the following changes to the statement:

- making improvements to internal processes, such as greater integration with the Programme for Government and budget processes to ensure that evidence actively shapes budget decisions when these are made, and the budget process itself to ensure that evidence actively shapes budget decisions when these are made;
- bringing Cabinet Secretaries together again in a pre-budget workshop, but earlier in the process to discuss the impacts of potential budget reductions on equality groups before these decisions are taken;
- developing and publishing new evidence on the distribution of government spending on childcare, health, schools and transport across different households. This Distributional Analysis is critical to understanding how Scottish Government policies are reducing inequality and targeting support at those who need it most;
- introducing analysis which discusses a select number of ‘key decisions’; and,
- publishing the results of the gender budgeting pilot carried out in collaboration with the Organisation for Economic Cooperation and Development (OECD).

Although the restructuring and redesign has been useful and has minimised repetition, the extent to which the key decisions and distributional analysis can be badged as innovations in the EFSBS is debatable.

Restructuring the statement

SPICe has explored the practical and presentational changes made to the statement and accompanying documents. The ‘analysis by protected characteristic’ has been moved into a separate annex, and an additional stage of analysis for each characteristic has been added, with themes which broadly mirror indicators within the National Outcomes, the Scottish Government’s Equality Outcomes, and wider frameworks used by the EHRC and others. These themes are:

- Living Standards, including poverty;

- Labour Market;
- Health;
- Education
- Crime and Justice

Under each theme, and for each characteristic, selected evidence and examples of budget measures are detailed. This is a snapshot, and does not link to spending decisions, but still represents a somewhat more meaningful narrative than previous approaches.

The ‘analysis by portfolio’ has been trimmed significantly, and rather than attempting to detail activity, this focuses on the role of each portfolio. This approach means that previous duplication of detail across the characteristic by portfolio is avoided. Detail has been positioned here on the connections to National Outcomes and human rights.

On the face of it, it may look like detail on the role of each portfolio in reducing inequalities relating to specific characteristics may be missing. However taking the package of documents, this document gives an understanding of the responsibilities of each portfolio, whilst complementing a more holistic and mainstreamed view of demonstrating the Scottish Government’s approach to reducing inequalities.

Key decisions: A new approach?

Last year, as we set out in our Budget briefing , a trial approach was taken in which case studies under different portfolios were used to give a more detailed insight into how equality and socioeconomic evidence had fed into budget decisions.

Despite this innovation, a key concern raised in last year’s analysis was the lack of Scottish Government analysis of the impact of how spending has changed, or detail connecting the detail in the EFSBS to the changes set out in Budget figures. There was a lingering lack of detail to support an understanding of how spending decisions had been made, and how equalities impacts had been considered as part of this process.

In the 2025-26 statement, the Scottish Government has included what it bills as a new annex which looks at key budget decisions in detail, which implies that this replaces the case study approach. On the face of it, this may tackle some past concerns.

In this annex, the Scottish Government acknowledges that carrying out a comprehensive analysis of all spending decisions is challenging, saying:

> “ Overall, there are hundreds of spending lines at Level 3 and Level 4. This makes it difficult to set out the changes in each line individually and to provide a succinct view of the cumulative impact of all decisions across both tax and spending.”

As a result, the analysis has focused on spending decisions of a ‘substantive financial scale’, and with a substantive equality and fairness impact, across a breadth of portfolios. The framework for the analysis uses the same six questions, originally developed with the Equality and Human Rights Budget Advisory Group, as the case studies last year .

Despite being heralded as a new approach, four of the six key decisions explored were used as case studies last year (social security assistance, concessionary fares, employability and drugs and alcohol policy). New this year are affordable housing, and international development. This is a reduction in the number of ‘case studies’ explored last year, which included Primary Care dental services, early learning and childcare, the Equality, Inclusion and Human Rights Directorate, and the Scottish National Investment Bank.

One clear change is the addition of detail on changes to budget lines being added under each decision, showing that the decisions explored represent £1.47 billion of changes (across the four which show a change). These figures, however, compare outturn figures from 2023-24 and 2024-25 to budget figures for 2025-26. This is not a comparison SPICe would typically make because of the uncertainty of comparing outturn figures to forecast ones. We would, as an alternative, always compare Budget to Budget. It is also unclear why the Scottish Government is presenting 2024-25 figures as outturn when we are still mid-year.

When exploring the alcohol and drugs policy example across both years, for instance, the EFSBS suggests a £0.5 million cash uplift in funding. Looking at Level 4 Budget documents for both years, i.e. spending plans as announced, there is a fall of £18.9 million between 2024-25 and 2025-26. The transparency of these figures to those outside of the public finance world is questionable.

In the same ‘key decision’, the text has been updated with research and policy developments but is still broadly the same. It is, therefore, unclear why the Scottish Government is billing the key decisions annex as ‘introduced’ analysis when it effectively represents a smaller equivalent of the work done last year, with minimal and questionable added spending information.

These case studies are useful, but still fall short of the asks of stakeholders, with SHRC Chair Professor Angela O’Hagan saying :

> “ ...we can see some improvements in recent years in transparency, available documentation and openness of information - but it is clear there is a long way to go to embed these approaches to decision-making across government departments.”

Distributional analysis

Chapter 2 of the EFSBS provides an overview of the Scottish Budget 2025-26, drawing on new analytical capabilities developed by the Office of the Chief Economic Adviser (OCEA). It covers £24 billion, or just under half of all resource spending in 2025-26, including health, schools, funded early learning and childcare (ELC), and transport. The Scottish Government explains that:

> “ The analysis and evidence collected shows that the Scottish Budget redistributes from high income households to those further down the income distribution, through both the Tax and Social Security system, and through the delivery of public services.”

This detail is the same as that set out in the Distributional Analysis of the Budget , which has been expanded from the tax-based focus of recent years, rather than a new analytical tool developed for the EFSBS. As in past years, however, this detail focuses on household income quintile, so although it sets out a useful analysis, it fails to capture consideration of impacts on those with protected characteristics.

Gender budgeting pilot

As flagged in the Equality and Fairer Scotland Budget Statement, the Scottish Government has published the awaited findings of its OECD supported Gender Budgeting Pilot .

Although the pilot identified a number of areas where a gender budgeting approach could add value, it also concludes that there are “two current impediments to rolling out this approach more widely in the near future:

- the lack of strategic over-arching gender goals and;
- the need to move away from the current portfolio based budget model towards a more performance-orientated approach. This would require a more comprehensive and longer term reform programme.”

Many of the findings echo concerns raised by committee stakeholders in recent years around the challenges of mainstreaming cross-cutting issues. This includes identifying that current budget processes do not readily enable gender budgeting in a straightforward manner, “partly because funding is allocated to portfolio envelopes rather than on the basis of portfolio objectives relating to overarching goals, or priorities”, challenges around categorising budget lines at different levels, and tensions around allocating portfolio responsibility for cross-cutting gender issues.

Abbreviations

The following abbreviations appear in this briefing. For further detail and a glossary of terms, refer to the SPICe Public Finance 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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Related Briefings and Blogs

See the Scottish Parliament's Financial Scrutiny Unit webpage for links to relevant briefings, blogs, spreadsheets, animations and budget tools