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## Scottish Fiscal Commission reports

On Tuesday 28 August, the Scottish Fiscal Commission (SFC) published a [Fiscal Update](#), a [Forecast Evaluation Report](#) and a [Statement of data needs](#).

This paper summarises some of the key points in each.

### Fiscal Update

The report notes that the Scottish Government faces a challenge in balancing its 2024-25 budget, as shown by the emergency controls put in place to restrict in-year spending for this financial year. An already tight financial position has worsened due to growing pressures on public sector pay, as evidenced by the threatened strike action by council bin collection staff.

The SFC note that decisions by the Scottish Government have played a role in these mounting pressures – previous public sector pay deals in Scotland were higher than in the rest of the UK (the SFC note in figure 2.1 of the Fiscal Update that average public sector pay in Scotland in 2023 was £39,100 compared with £36,700 for the UK as a whole). The policy choice to freeze council tax in 2024-25 and the ongoing effect of its social security reforms have also contributed to the growing pressure on the Scottish Budget.

There is also uncertainty as to the size of the UK block grant for this year following the Chancellor's July 2024 statement, which confirmed the UK Government will accept, in full, the Independent pay review bodies recommendations for 2024-25. These covered NHS England staff, teachers, armed forces, police, prison officers and civil servants. While the vast majority of these pay deals do not apply in Scotland, there are still implications for the Scottish Government's funding. Most pay awards are in the range of 5 to 6 per cent in 2024-25, considerably higher than the 2 per cent assumption included in the 2021 UK Spending Review. While announcements have not been made on UK public sector pay in 2025-26, the higher pay awards in 2024-25 will result in higher levels of pay in 2025-26 than were previously expected. The Scottish Government will likely face pressure to at least match the UK Government's pay awards.

Clarity on the block grant position for Scotland's budget will not be provided until the UK Budget on 30 October – setting out the latest fiscal position for 2024-25 and plans for

next year. With a new UK government, there is potential for some significant changes to the tax and spending plans set out by the previous UK Government. These are likely to result in changes to Scottish Government funding. The Office for Budget Responsibility (OBR) will produce updated forecasts of UK Government tax revenues and spending alongside the UK Budget. These will affect the Block Grant Adjustments (BGAs) for devolved taxes and social security.

The report notes the UK Government's decision to means test Winter fuel payments and that the Scottish Government has confirmed this policy will be replicated in Scotland. The SFC explain that:

“This is expected to reduce spending by a similar amount to the reduction in BGA funding. As the UK Government WFP policy change was announced after the 2024-25 Scottish Budget was set, the Scottish Government can opt to either adjust funding for the Winter Fuel Payment BGA in-year or defer the adjustment until the BGA can be calculated with outturn spending data and a reconciliation applied. Deferring the adjustment would mean that 2024-25 spending would fall while social security BGA funding would remain the same potentially releasing funding for alternative spending in 2024-25.”

2022-23 was a positive year for Scottish income tax revenues which feeds through to a provisional positive reconciliation of £447 million to be applied to the 2025-26 Scottish Budget.

On social security, the SFC note that outturn social security spending in 2023-24 was £5.3 billion against a latest estimated Block Grant Adjustment (BGA) funding of £4.4 billion. Spending on social security of around £1 billion more than is received from the social security BGA means other areas of the Scottish Budget will feel the squeeze. The SFC state:

“Our assessment is that the gap between spending on devolved social security and the associated BGA funding is the result of policy choices made by the Scottish Government. These choices include the introduction of new payments such as Scottish Child Payment not available elsewhere in the UK, and the operational and delivery changes made when Child Disability Payment (CDP) and Adult Disability Payment (ADP) were introduced. We forecast the gap will grow in future years as the operational and delivery changes for disability payments continue to take effect. In December 2023 we forecast total spending on devolved social security in 2024-25 to be around £1.1 billion higher than the funding the Scottish Government receives through the social security BGA, with that gap growing to around £1.5 billion in 2028-29.”

The SFC report concludes that the Scottish Government will have to make difficult decisions to balance the budget and to ensure decisions taken now are sustainable in the future.

“As we set out in December 2023, in our role as the independent fiscal institution for Scotland we encourage the Scottish Government to plan its Budget over the short, medium, and long term. We note this can be challenging because of the inherent uncertainties in the Scottish Government’s funding sources, but this makes it even more important to plan funding and spending recognising the potential variations in future levels of funding to ensure decisions made now are sustainable in the future.”

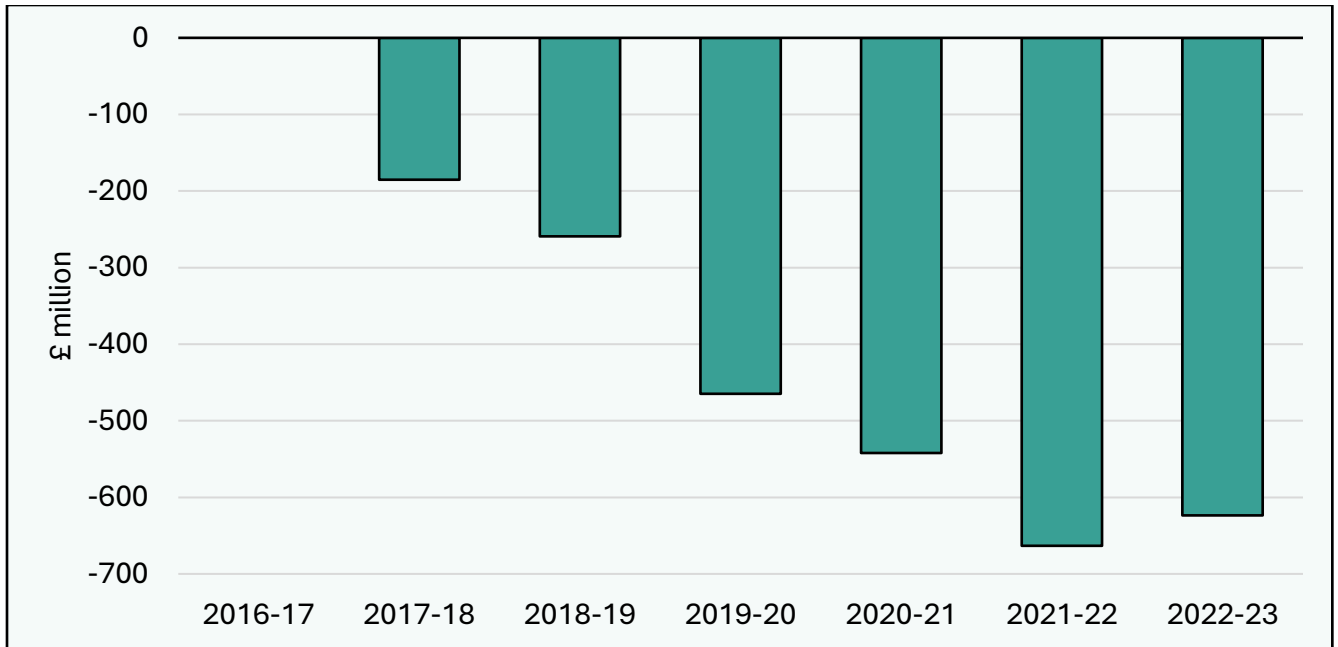
The implication of this is a clear steer from the SFC that the Scottish Government needs to be planning for the short, medium and long term regardless of how uncertain the outlook. The trend in recent years of single year Scottish budgets is not satisfactory. It has resulted in significant in-year movements (presented in the Budget Revisions) that increase uncertainty across the public sector. Major in-year changes raise questions for the Scottish Parliament about accountability if the Budget the Parliament is scrutinising, debating and passing for the next financial year is then subject to significant changes in-year. This year’s in-year changes will be the third year in a row in which significant changes have occurred.

## **Income tax performance**

One particularly interesting element of the SFC report is the discussion of the income tax performance gap which is visualised in figure 4.4 (reproduced below).

### **Figure 4.4: Economic performance gap**

There is a performance gap of £624 million in 2022-23 once account is made of the different policy choices in Scotland.



Description of Figure 4.4: Bar chart showing the economic performance gap between Scotland and the rest of the UK between 2016-17 and 2022-23.

Source: Scottish Fiscal Commission.

What this means is that if the income tax policy of Scotland is compared to that in the rest of the UK in 2022-23, you would expect that Scottish Government policy would raise £881 million for the Budget over and above the block grant (the net position). However, because of Scotland’s slower economic growth and other factors, the net position or gain for the budget is only £257 million, a difference (or ‘economic performance gap’) of £624 million (see figure 4.4 which summarises SFC estimates of the performance gap over time). In other words, in 2022-23 Scottish income taxpayers paid £881 million more in income tax relative to those in the rest of the UK, but the amounts raised by income tax for the Scottish budget only resulted in £257 million more.

The SFC go on to note that Real Time Information (RTI) data on Pay As You Earn (PAYE) income tax suggests there will be a positive income tax net position in 2023-24, following on from the year before. The RTI data for 2023-24 shows revenue growth of 14.4 per cent in Scotland, compared to 12.0 per cent in the rest of the UK. There are several differences between RTI and the eventual outturn data but this does suggest a further improvement in the income tax net position.

Both 2022-23 and 2023-24 have been positive years for the net tax position for the Scottish Budget, but the SFC state in their Fiscal Update that this needs to be seen in the context of relatively weak growth in the Scottish economy and income tax revenues since 2016-17.

## Forecast Evaluation Report

The Forecast Evaluation Report (FER) evaluates the SFC’s December 2022 forecasts for the economy, fully devolved taxes and social security expenditure in 2023-24; and the income tax forecasts for 2022-23 made in December 2021.

The SFC note that their forecasts for 2023-24 were produced during a period of high inflation following the Russian invasion of Ukraine, with interest rates rising to levels not seen since before the 2008 global financial crash. Given this volatility, the SFC are “satisfied with the performance of our forecasts for the economy, devolved taxes and social security in 2023-24.”

The income tax forecast for 2022-23 (produced in December 2021) was before the Russian invasion and the subsequent economic and inflationary impacts. The report concludes:

“Given the inflationary pressures and the earnings growth that followed, a large portion of this error could not have been foreseen, though there remain lessons to be learnt from this forecast error. These factors, alongside others, contributed to us underestimating income tax revenue in Scotland by 11 per cent in 2022-23.”

### Summary of headline evaluations

Topic	Forecast	Outturn	Error	Relative error
<b>Economy</b>	Per cent	Per cent	Percentage points	blank
GDP	-1.0	0.0	1.1	blank
<b>Taxes and social security</b>	£ million	£ million	£ million	Per cent
Income tax	13,671	15,169	1,498	11
Devolved taxes	3,928	3,886	-41	-1
Devolved social security	5,244	5,300	56	1

Source: Scottish Fiscal Commission, Scottish Government, HMRC, Revenue Scotland, Social Security Scotland.

### Statement of Data Needs

The Statement of Data Needs makes a number of recommendations which are reasonably self-explanatory and for ease, are reproduced below.

## Summary of recommendations in latest Statement of Data need

Chapter	Recommendations
Funding and spending	<ol style="list-style-type: none"> <li data-bbox="402 380 1377 646">1 Scottish Government to publish and regularly update a machine-readable, open-source dataset with unrounded spending plans, down to Level 3 and COFOG, for as many financial years as is reasonably feasible. It should include plans at each stage of the budget's lifecycle for each level of the spending hierarchy and COFOG category as well as actual spent amounts (outturn) when available.</li> <li data-bbox="402 688 1377 800">2 Scottish Government to share spending data reconciled with total discretionary funding with sufficient time ahead of setting the Budget.</li> <li data-bbox="402 842 1417 953">3 Scottish Government to add unique codes to each Level 3 line when publishing the machine-readable, open-source dataset suggested in Recommendation 1.</li> <li data-bbox="402 995 1406 1106">4 Scottish Government to publish mapping of Level 3 lines when they get merged, split, or redefined. Associated amounts should be unrounded.</li> <li data-bbox="402 1148 1370 1297">5 Scottish Government to publish funding tables with unrounded amounts at Scottish Budgets, Medium-Term Financial Strategies, Budget Revisions, provisional and final outturn, in a consistent machine-readable and open-source format.</li> <li data-bbox="402 1339 1417 1488">6 Scottish Government to introduce and publish results of its planned net zero assessment and introduce a similar methodology relating to adaptation to assess the implications of spending decisions on climate change mitigation and adaptation.</li> <li data-bbox="402 1530 1409 1677">7 Scottish Government to include in the Climate Change Plan the effect of each policy on reducing emissions and their cost, split between public and private sectors where appropriate, in a way that is consistent and trackable over time.</li> <li data-bbox="402 1719 1386 1869">8 Scottish Government to set out in the Scottish National Adaptation Plan how each policy meets adaptation outcomes and their associated cost, split between public and private sectors where appropriate, in a way that is consistent and trackable over time.</li> </ol>

Chapter	Recommendations
Funding and spending	<p>9 Scottish Government to keep improving the Climate Change Assessment of the Scottish Budget and update it as the budget changes. Show if spend supports mitigation, adaptation, or both.</p> <p>10 HM Treasury and Scottish Government to ensure timely publication of Barnett funding data, either by updating the Block Grant Transparency at each UK fiscal event or directly releasing detail on Barnett consequentials.</p> <p>11 UK Government to provide the SFC with statutory access to the relevant information its departments and public bodies hold.</p>
Economy and tax	<p>12 Office for National Statistics to publish a timetable for LFS/TLFS and APS reweighting exercises and wider developments, with full and clear information about planned changes for all UK nations.</p> <p>13 Office for National Statistics, National Records of Scotland, and Scottish Government to work jointly to ensure availability of Scottish labour market estimates of high quality and consistent with UK estimates.</p> <p>14 HMRC to finalise publication of the regional breakdown of RTI data by private and public sectors (employees, mean pay, aggregate pay).</p> <p>15 Scottish Government to supply, where possible, consistent projections of basic pay awards, average pay bills, total pay bill, and workforce for the devolved public sector in sufficient time for the SFC to consider for its forecasts alongside the Scottish Budget and MTFS.</p> <p>16 Revenue Scotland to consider our data needs in relation to potential future policy changes to Scottish Aggregates Tax, and to continue to develop the SAT return with insight from the Scottish Government to anticipate likely future policy changes.</p>
Social security	<p>17 Social Security Scotland to publish detailed statistics on the outcome of award reviews of disability payments as part of their publications.</p>

- 18 Social Security Scotland to publish quarterly data on the number of people transferred from DLA for Adults and their payment award levels.
- 19 Social Security Scotland to publish detailed statistics on the characteristics of the people in receipt of different carer payments, as well as the cared for person’s qualifying payment.
- 20 Social Security Scotland to keep providing information on methodology changes, and their effect on published statistics.
- 21 Social Security Scotland to produce quarterly statistics like those from the Department for Work and Pensions for payments yet to be launched.

Previous recommendations where no progress has been made are as follows.

Summary of previous data recommendations where no progress has been made

Forecast affected	Improvement requested	Addressed to	Progress
<b>SDN 2022</b>			
Funding and spending	Consider whether the SFC should be given a statutory right to access information held by UK Government departments and public bodies as part of the fiscal framework review.	SG and UK Government	No progress
Land and Buildings Transaction Tax (LBTT)	Supply pre-2003 property price and transactions data.	Registers of Scotland	No progress
LBTT	Provide public sector shared access to records of properties.	SG	No progress
VAT	Publish headline figures for the Standard Rated Share model.	HMRC and Office for Budget	No progress



		Responsibility (OBR)	
Social security	Supplement Discretionary Housing Payment statistics with further data on mitigation of the 'Bedroom Tax'.	SG	No progress

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