Kenneth Gibson MSP
Convener
Finance and Public Administration Committee

The Scottish Parliament
Edinburgh
EH99 1SP

4 December 2024

Dear Convener,

Today the Scottish Fiscal Commission published Scotland's Economic and Fiscal Forecasts – December 2024, giving our latest forecasts for the economy, tax revenues and social security to inform the Scottish Budget.

In our report we show that, following the UK Autumn Budget, the Block Grant for capital spending is set to grow by 10.1 per cent between 2024-25 and 2025-26. The Block Grant for day-to-day spending has increased by £1.4 billion in 2024-25 as a result of the UK Budget, with a further increase of £1.5 billion in 2025-26. However, the overall increase in next year's Scottish Budget is modest due to the worsening net tax position combined with rising pay bill pressures and increased social security spending.

The income tax net position for 2025-26 used to set the Scottish Budget has reduced the funding by £575 million between 2024-25 and 2025-26. This is because the OBR's forecasts for income tax revenues in the UK have improved by more than our forecasts for Scotland.

We forecast Social Security spending will take up a growing share of the budget with spending in 2025-26 forecast to be £1,334 million higher than the corresponding funding provided by the UK Government. As such, after accounting for social security commitments, day-to-day spending on other areas is falling in real terms by 0.3 per cent between 2024-25 and 2025-26.

The Scottish Government will receive some compensation from the UK Government for the changes to employer NICs in respect of public sector employees. As Scotland's larger share of spending on public sector wages means the full cost of employer NIC rises will not be covered, there will be increased pressure from staff costs within individual portfolios.

In my letter to you on 10 October 2024, I outlined the key deadlines in the forecast timetable. The Scottish Government provided us with final policies for the majority of taxes and social security payments by the deadline of 19 November, but we were given two additional policies after the deadline. Our Protocol with the Government provides for extensions to deadlines if mutually agreed and both policies were received within an agreed extension of the deadline of 27 November. We have costed these policies and included them in our report. Our ability to accommodate these additional policies was helped in part by the Government providing us with other material in good time.

On November 28 the Government provided us with a third additional policy relating to the mitigation of the Universal Credit two-child limit. This was very late in the Budget process as it was a week and a day after the deadline for final policy measures. At that point it was too late for us to produce a full costing accounting for behavioural responses. Our forecast and spending tables do not include the cost of this policy.

We would have preferred to include a formal costing in our publication, but this was not possible given the late notification of this policy. However, we judge this policy to be a fiscal risk. We therefore provide indicative costs which are consistent with estimates published by the Institute of Fiscal Studies. The policy could increase social security spending by around £150 million in 2026-27 rising to over £200 million in 2029-30 and would further increase the share of day-to-day spending allocated to social security. It is our intention to publish a report discussing the effect on the Scottish budget in due course.

The Government gave us information on their public sector pay policy in time to include in our economy and tax forecasts. The Government did not include information on the size of the workforce in their Budget.

I look forward to giving evidence on our forecasts on 10 December 2024 and I am happy to discuss any aspect of our forecasts.

Yours sincerely

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