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Scottish Government
Riaghaltas na h-Alba

Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
The Scottish Parliament
By email to: FPA.committee@parliament.scot

27 January 2025

Dear Kenneth,

2025-26 SCOTTISH BUDGET – FOLLOW UP TO 14 JANUARY 2025 SESSION

I welcomed the opportunity to meet with the Committee on 14 January to discuss the 2025-26 Scottish Budget. There were a number of matters where I committed to follow up in writing, and I also wish to offer the Committee a short update on Fiscal events planned for 2025.

1. 2025 Scottish Fiscal Events

The Committee will be aware that I have signalled my intention to Parliament to return to normal scheduling of the Medium-Term Financial Strategy (MTFS). I intend to publish the MTFS towards the end of May 2025 and I will update the Committee with further detail in due course. As I noted during my evidence session on 14 January, the Fiscal Sustainability Delivery Plan (FSDP) will also be published alongside the MTFS, bringing together a detailed overview of the range of actions the Government is taking forward.

I remain committed to delivering a reset of our Infrastructure Investment Plan pipeline following the UK Spending Review. I have asked my officials to develop plans to publish the pipeline reset in September and will confirm the date of publication in due course.

I will also of course engage with the Committee on the timing of the 2026-27 Scottish Budget, once the United Kingdom Government's Autumn Budget plans are known.

2. 2024-25 Autumn Budget Revision (ABR) figures - Kenneth Gibson MSP and Craig Hoy MSP

On the question of using the 2024-25 Autumn Budget Revision (ABR) numbers as the 2024-25 comparator for the 2025-26 Scottish Budget, this approach responds to the request from the Finance and Public Administration Committee and external stakeholders to have the latest in-year budget numbers used as the prior year comparator, rather than the opening budgets as passed by Parliament at the start of the year.

As the Committee is aware, the annual Autumn Budget Revision enables the in-year transfer of funding between portfolios where policy responsibility sits with one portfolio and Cabinet Secretary, and delivery responsibility lies elsewhere with a different portfolio. The Committee will recall that I provided a number of examples of this at the session.

Additional disclosures have been set out in the Scottish Budget to allow like-for-like comparisons with initial allocations. I have asked my officials to consider the Committee's comments in more detail and to identify if there is further additional information that could be offered as part of our approach to future budget publications.

3. Mitigation of United Kingdom policies – Kenneth Gibson MSP

As a government, we have spent around £1.2 billion mitigating the impacts of fourteen years of UK Government welfare decisions such as the bedroom tax and benefit cap. This includes almost £154 million in 2024-25 through activities such as our Discretionary Housing Payments and the Scottish Welfare Fund – which we have increased by a further £20 million this winter.

Subject to Parliamentary approval, in 2025-26 our investment to mitigate the impacts of UK Government policies will rise to over £210 million per year, an increase of over £56 million. This includes spending over £99 million on Discretionary Housing Payments to mitigate the bedroom tax and benefit cap; maintaining our £41 million commitment to the Scottish Welfare Fund; and spending around £70 million above the funding received from the UK Government for social security to mitigate the Winter Fuel Payment cut – ensuring all pensioner households will receive a minimum of £100 of support next winter.

4. Council Tax on Second homes and empty properties – Ross Greer MSP

We are supportive of councils having powers to levy higher Council Tax on second homes and empty properties. Our approach puts councils front-and-centre in making decisions about the Council Tax treatment of Second and Empty Homes in their area. The Scottish Government and COSLA are working together in partnership through the Joint Working Group on Council Tax Reform to determine what further changes could be made. The group is reflecting on the introduction of the 100% Council Tax premium, to advise any approach to increasing the premium above the 100% limit. Consequently, this work leaves insufficient time to progress primary legislation on a further premium this parliamentary session.

5. Small Business Bonus Scheme – Ross Greer MSP

We remain committed to undertaking work in the coming year to determine if shooting estates are claiming the Small Business Bonus Scheme, and if so, to consider whether it would be possible to exclude them from eligibility in future whilst ensuring that crofters do not see an adverse effect.

6. Tax Policy– Michael Marra MSP

For the remainder of this parliament, the Scottish Government is committed to uprating the Starter and Basic rate Income Tax bands by at least inflation each year. This in turn will increase the threshold at which taxpayers begin to pay the Basic and Intermediate rates.

In 2025-26, the Starter rate band will increase by 22.6% and the Basic rate band will increase by 6.6%. This will increase the thresholds for paying both the Basic and Intermediate rates of tax by 3.5%. This increase is significantly above inflation, which was 1.7% based on the Consumer Price Index from September 2024. In line with UK Government's decision to freeze to UK Higher rate thresholds until April 2028, we will also maintain the Higher, Advanced and Top rate thresholds at their current levels until the end of this parliament.

7. Approach to mitigating the two-child limit – Michael Marra MSP

Ministers have considered a range of possible approaches to mitigation, balancing cost, the pace at which payment arrangements can be put in place and, as the First Minister said in his speech on child poverty given at The Robertson Trust on 15 January, the need to get the systems up and running safely. Development work is rapidly proceeding.

Our working assumption is that we will bring forward regulations to the Scottish Parliament using the relevant powers in the Scotland Act 2016 to 'top-up' reserved benefits, but we remain keen to discuss with the Secretary of State the support the DWP could provide to make payments as quickly as possible. The Cabinet Secretary for Social Justice will keep the Parliament advised as this work progresses.

8. Higher Education investment – Michael Marra MSP

The 3.5 per cent uplift for Higher Education includes an increase of £12.9 million to the higher education allocation compared with 2024-25. Additional to that, as temporary places created during the COVID crisis come to an end, we have asked the Scottish Funding Council to direct those funds (around £14 million) into the sector. In total, this provides an uplift of around £27 million, or 3.5%.

On the Institute for Fiscal Studies' figures on higher education investment, I recognise the financial challenges facing the sector, including those arising as a result of UK government immigration policy and its effect on international student recruitment as well as the impact of changes to national insurance contributions. This 2025-26 Budget has both increased our revenue and capital investment to the sector, supporting students and our world class research base, whereas the UK Government are supporting the sector by increasing tuition fees and as a result, student debt.

9. Child Disability Payment – Liz Smith MSP

The Scottish Fiscal Commission (SFC) estimates that the Scottish Government will invest around £400 million over the funding being provided through the Social Security Block Grant Adjustments (BGAs) from the UK Government for disability benefits in 2025-26. The main reason for this additional investment is rising caseloads for disability payments – a trend common across the UK. There are a higher number of applications in Scotland, reflecting the Scottish Government's deliberate policy of seeking to maximise take-up. A proportion of the increase also reflects the impact of differing policy choices Ministers are making in Scotland compared with the rest of the UK.

The SFC's forecast for Child Disability Payment is based on outturn data from Social Security Scotland. The SFC also makes some assumptions about how the social security system in Scotland operates. The Scottish Government continues to work closely with the SFC to provide the data necessary to inform robust forecasts. However, as the SFC has noted, there is uncertainty associated with how many people will take-up a new benefit. The SFC review their assumptions at every forecast in light of the latest evidence.

I trust this additional information is helpful to the Committee.

Yours Sincerely,

SHONA ROBISON