



Scottish Budget 2025/26

Introduction

On 4 December 2024, the Scottish Government published its proposed spending and tax plans for the financial year 2025/26. This is the start of the [budget process](#) that aims to have the Budget Bill passed by the end of February 2025. This briefing looks at the background and the proposals in the Budget.

Background

While the Scottish Government has significant tax-raising powers, the UK Autumn Statement has important implications for the Scottish Budget due to the [Barnett consequentials](#) of expenditure in England on devolved services.

The Chancellor [announced](#) that the Scottish Government will be provided with a £47.7 billion settlement in 2025/26 – the largest in real terms in the history of devolution. This includes a £3.4 billion top-up through the Barnett formula, with £2.8 billion for day-to-day spending and £610 million for capital investment. This is on top of an additional £1.5 billion this financial year. The UK Government will also invest around £890m directly into investment zones, Freeports and Growth Deals. There were no changes in personal taxation and the National Living Wage will increase by 6.7% from £11.44 to £12.21 an hour from April 2025. The National Minimum Wage for 18 to 20-year-olds will also see a record rise from £8.60 to £10 an hour. The Scottish Government welcomed the increase but [argues](#) it remains broadly in line with 2022/23.

The Autumn Statement also increased Employer National Insurance, which has a consequential impact on public spending. 6000,000 people are employed in the public sector, a higher proportion in Scotland than in the UK. The Scottish Government claims this adds £520m to £580m to the pay bill and should be

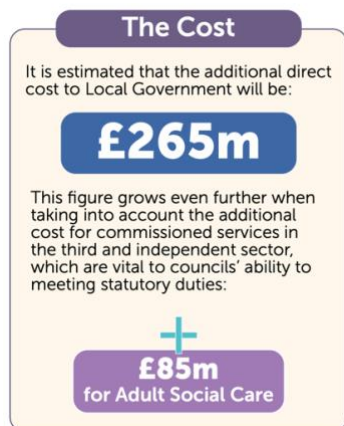
reimbursed by the UK Government. It is [reported](#) that the Treasury has indicated that between £295m and £330m extra will be provided. While we haven't seen the detailed figures, the difference is likely due to the impact on the broader public service delivery organisations, such as universities, social care providers, etc. Third-sector care organisations [estimate](#) the cost to be £75m, and [universities](#) have added £49m to their budget bid. The Barnett formula also does not reflect higher direct public service provision in Scotland.

Budget Pressures

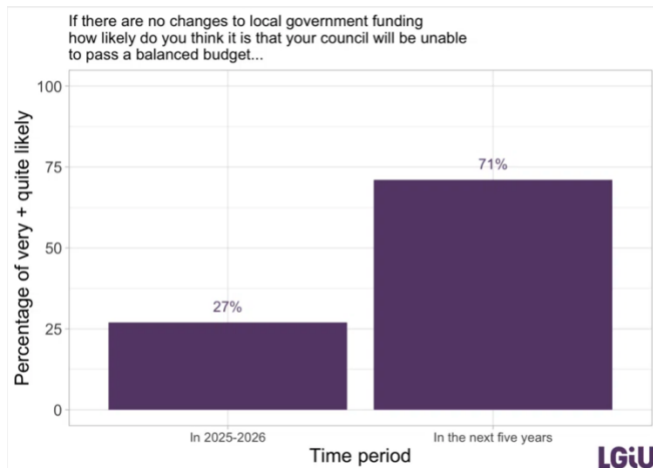
The UK Government's spending plans will not solve all the long-term funding challenges. Still, it does mark a turn in the [right direction](#) after years of austerity have left behind an ailing economy and weakened public services. The Fraser of Allander Institute has [pointed to](#) various pressures and concluded the Scottish Government has 'limited room for manoeuvre'. The [IFS](#) has made similar warnings.

At Holyrood, the Finance and Public Administration Committee's pre-budget 2025-26 [report](#) said, "Our committee is deeply concerned about the Scottish Government's lack of strategic approach to managing Scotland's public finances. There is little evidence of medium and long-term financial planning." The package of cuts announced this year to deal with public sector pay and social security payments could have been foreseen, and "Repeated delays to key financial strategies have led to a perception of the government being in a state of indecision." A view shared by Audit Scotland who [pointed out](#) that the use of £460m in one-off ScotWind revenues could not be repeated in future.

The evidence [submitted](#) by various organisations [highlights](#) the pressures on public services and the need to [tackle poverty](#). It also points to the need for a coherent policy on public service [reform](#) and preventative spending. The regressive Council Tax freeze came in for particular criticism, and COSLA complains that only 30% of local government funding is entirely subject to local flexibility.



An LGIU [analysis](#) shows council budgets are 'hanging by a thread'.



COSLA has also focussed on [housing](#) investment. Business organisations often call for equivalent business rates relief as in England, without recognising the need to reform the Small Business Bonus Scheme. The [third sector](#) wants multi-year funding.

Budget proposals

The Scottish Government's plans to spend the increased UK allocation, using its own tax powers and responding to the pressures above, are set out in their [budget proposals](#).

The headlines for individuals include a welcome intent to scrap the two-child cap (although not funded and unclear how it will be implemented), a universal winter fuel payment, and increasing income tax basic and intermediate tax thresholds by 3.5%. There will be an expansion of means-tested free school meals (P6 & P7) and £3m for a Bright Start Breakfasts pilot. Funding for the Real Living wage to be paid in private and third-sector early learning provision.

Table 2.01: Scottish Income Tax Policy Proposals 2025-26

Band	Income Range	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**	Above £125,140	48%

*Assumes individuals are in receipt of the Standard UK Personal Allowance.

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

For businesses, the Basic Property Rate will be frozen with additional support for small hospitality and grassroots music premises. The increased capital spending allocations (now over £7bn) provide funding for infrastructure projects, including £1.1bn for rail and £550m for road schemes. There will be £4.9bn invested in tackling the climate emergency.

After cutting the housing budget, the plan is to invest £768 million in the Affordable Housing Supply Programme in 2025-26, which should deliver at least 8,000 homes. However, the budget is still lower (by 3%) compared to 2023-24.

For public services, the total proposed Budget rises to £63.48bn. For comparative purposes, this chart shows Total Managed Expenditure by department in actual and real terms. After a request by the Finance Committee this comparison includes most in-year changes. However, it does make comparisons more complicated. For example, health to local government social care transfers make the increase in Health artificially high and the change in Local Government artificially low. The Budget also only goes down to Level 3, so the detail for many services is not there. If you exclude Social Security payments, then the real terms [change](#) in funding for public services is -0.3%. IFS [calculate](#) a modest £54m for public services.

Table B.02: Total Managed Expenditure

	2023-24 Outturn	2024-25 ABR Budget	2025-26 Budget	Real terms @ 2024-25 prices		
				2023-24 Budget	2024-25 Budget	2025-26 Budget
	£m	£m	£m	£m	£m	£m
Health and Social Care	19,004	19,711	21,731	19,455	19,711	21,224
Finance and Local Government	17,228	17,889	16,893	17,637	17,889	16,499
Social Justice	6,567	7,239	8,244	6,722	7,239	8,052
Justice	3,638	3,834	4,197	3,724	3,834	4,100
Transport	3,324	3,841	4,009	3,403	3,841	3,916
Education and Skills	4,128	4,445	4,234	4,226	4,445	4,135
Deputy First Minister, Economy and Gaelic	1,914	1,429	1,334	1,960	1,429	1,303
Rural Affairs, Land Reform and Islands	1,066	1,104	1,148	1,092	1,104	1,121
Net Zero and Energy	615	678	900	629	678	879
Constitution, External Affairs & Culture	324	333	376	332	333	367
Crown Office and Procurator Fiscal Service	201	225	249	206	225	243
Scottish Parliament and Audit Scotland	148	157	168	151	157	164
Total	58,156	60,886	63,483	59,537	60,886	62,004

The big gainers, in addition to housing, are the NHS and social security budgets. There is little indication that [social care](#) is to receive the priority it deserves, tackling delayed discharges from hospitals. However, it will also depend on any in-year transfers of funds that have been identified to tackle waiting lists.

Local revenues and mid-year adjustments complicate comparisons with local government finance. The Government claims this totals an increase in the budget settlement of £874.7m.

Table 4.12: Total Local Government Settlement

	2023-24	2024-25	2025-26
	£m	£m	£m
Local Government Budget Settlement (Table 4.13)*	13,664.7	14,001.7	13,571.9
ABR/SBR Adjustment	(1,985.1)	(1,549.0)	
Baseline Restatement	432.0	244.5	
Total	12,111.6	12,697.2	13,571.9

We suspect COSLA may be less convinced when they analyse the Budget, and this table, in particular, shows a reduction in the General Revenue Grant, partially mitigated by business rates (NDR). The position should be clearer when the local government allocations are published. It certainly falls far short of the COSLA needs analysis and the gap will need to be filled by the unreformed council tax which will not be frozen or capped this year. Ring-fencing also remains.

Table 4.13: Local Government Spending Plans (Level 3)

	2023-24 Outturn	2024-25 ABR Budget	2025-26 Budget
Level 3	£m	£m	£m
General Revenue Grant	9,469.3	10,034.8	9,458.4
Non-Domestic Rates	3,047.0	3,068.0	3,114.0
General Capital Grant	736.9	538.4	556.0
Specific Resource Grants	261.8	263.3	247.4
Specific Capital Grants	149.7	97.2	196.1
Local Government Advice and Policy	3.0	3.3	3.8
Total Local Government	13,667.7	14,005.0	13,575.7
<i>of which</i>			
Fiscal Resource	9,734.1	10,301.4	9,709.6
Non-cash	-	-	-
Capital	886.6	635.6	752.1
FTs	-	-	-
UK Funded AME	3,047.0	3,068.0	3,114.0

The Budget for the Scottish Funding Council, which supports college and university spending, will also be looked at closely by the sector. This chart does not give much comfort that the demands we and others have highlighted in recent reports have been recognised. Colleges Scotland [said](#) a 1.8% uplift for colleges fell far short of the 3.2% inflation rate. The sector has faced a 17% funding cut since 2021/22. Universities [say](#) this Budget represents a 0.7% real terms cut. School funding falls within local government, although there was [mention](#) of a fund for ASN teacher training.

Table 6.07: Scottish Funding Council Spending Plans (Level 3)

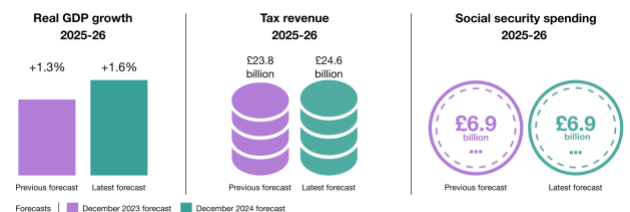
	2023-24 Outturn	2024-25 ABR Budget	2025-26 Budget
Level 3	£m	£m	£m
Scottish Funding Council Administration	13.7	7.6	8.7
College Operational Expenditure	848.4	833.9	846.2
College Operational Income	(185.9)	(190.0)	(190.0)
Net College Resource	662.4	643.9	656.2
College Not for Profit (NPD) Expenditure	30.8	29.3	31.6
College Depreciation Costs	30.9	31.8	35.6
HE Resource	852.7	810.5	773.6
College Capital Expenditure	62.8	84.9	64.8
College Capital Receipts	-	-	-
Net College Capital	62.8	84.9	64.8
HE Capital	365.6	356.9	368.3
HE FTs	30.4	-	-
HE FTs Income	(15.4)	(8.9)	(12.2)
Total Scottish Funding Council	2,034.1	1,955.9	1,926.6
<i>of which</i>			
Fiscal Resource	1,545.1	1,491.1	1,468.8
Non-cash	31.4	32.0	36.1
Capital	428.4	441.7	433.9
FTs	15.0	(8.9)	(12.2)
UK Funded AME	14.2	-	-

Funding for the heat in buildings programme will be welcomed by environmental groups, but cuts to the active travel budget and no action on private jet tax are disappointing. The Scottish Government has responded to calls for improved funding for culture.

The government pay policy is proposing a 9% increase over three years. This is higher than forecasted inflation, but this is a long forecast period, subject to economic volatility. The pay bill is also dependent on staffing numbers and no workforce planning figures were provided to the SFC. The cost of NI increases (see above) is yet to be resolved. £30m has been allocated to an Invest to Save fund in 2025-26 for public service reform. At best this might pay for a few pilot schemes.

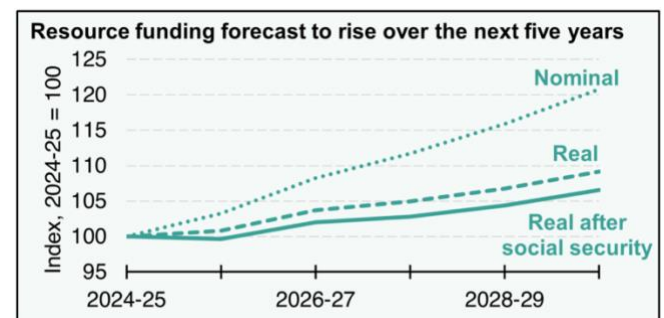
Scottish Fiscal Commission

The Scottish Fiscal Commission (SFC) [report](#) includes a forecast for the economy and tax revenue. GDP is boosted in the short run by government spending and tax revenue by higher earnings, although less than projected last December.



The Scottish Budget is better off by £838 million because of the partial devolution of income tax. However, Scottish income taxpayers pay £1,676 million more in income tax than in the rest of the UK. The SFC describe this as an “economic performance gap”. However, these are very sensitive forecasts that have not always proved to be accurate.

Resource funding (day-to-day spending) is forecast to rise over the next five years.



Social security will take up a growing share of the Budget (13.5%, up from 9.7% in 2022/23) to reflect priorities such as tackling child poverty. £644m this coming year over and above UK benefits, keeping around 100,000 extra children out of relative poverty. Mitigating the two-child limit could cost around £150 million in 2026/27, rising to over £200 million in 2029-30.

Capital funding in 2025-26 is forecast to grow by 12% in real terms. This is a major change in the outlook for capital funding, as the capital budget was expected to fall by 20% in real terms between 2023-24 and 2028-29.

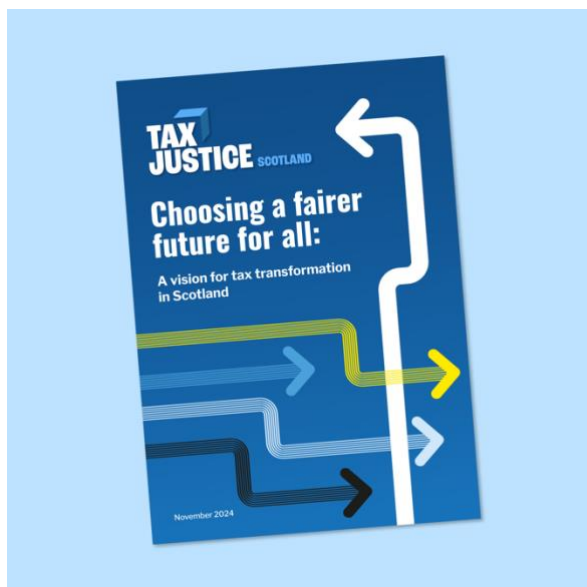
The SFC forecasts an increase in property prices, up 5.5%, which will increase revenue from the Land and Building Transactions Tax (LBTT).

The SFC forecasts that the labour market in Scotland is tighter than in the UK. This implies faster earnings growth in Scotland compared to the UK in 2025-26, helped by higher spending in Scotland.

Using Devolved Powers

The additional cash the UK Government provides will only be another sticking plaster unless there is a long-term approach to Scotland's finances. That includes public service reform, preventative spending and a credible financial strategy.

The Reid Foundation is a partner in the Tax Justice Campaign. This campaign has set out a series of key stepping stones towards a fairer tax system. These include launching an immediate, nationwide property revaluation as the first step toward abolishing the unjust Council Tax and developing proposals for new or reformed local taxes to incentivise businesses towards positive social and environmental behaviours.



Despite some poorly evidenced claims [by IFS](#), we need to get serious about [taxing wealth](#). There has been no negative trend in net migration to Scotland since the introduction of additional [income tax bands](#) and a higher top rate - a policy supported by most Scots.

The Budget outlines work on small new taxes, including a Building Safety Levy, a Cruise Ship Levy and a Carbon Land Tax. However, this hardly adds up to the significant reforms required.

Conclusion

The Scottish Government now requires the support or at least abstention of one other political party. The best option is probably the Scottish Liberal Democrats or Scottish Greens. Both have set out their [demands](#) along predictable lines, including council funding, NCS and climate action.

It also looks like the proverbial sofa has been stuffed to leave the Cabinet Secretary some scope for negotiation.



Comparing the amount the Scottish Government plans to spend on public services in 2025-26 with the plans for this year set out in its Autumn Budget Revision suggests a significant increase of 5.3% in cash terms, or 2.9% after accounting for inflation. However, this excludes £1.3 billion of funding that Budget documentation implies that the Scottish Government still has to allocate to services this year. Accounting for this would leave day-to-day spending on public services next year essentially flat in real terms between this year and next, falling by 0.3%.



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Overall, there is a welcome boost in spending in certain areas and child poverty and infrastructure has been prioritised. However, funding for public services remains very tight. Many will also feel that this looks like another sticking plaster budget and further long-term thinking is required.



Having consistently called for its removal, IPPR Scotland welcomes the Cabinet Secretary's intention to scrap the two-child cap and lift 15,000 children out of poverty. This will bring Scotland closer to meeting its long-term ambition of ending child poverty for good.

The speech also included other positive announcements, such as reversing last year's cut of £200 million from the social housing budget and ensuring ScotWind monies are retained for long-term capital investment. However, on both these issues, the Scottish Government has done no more than return to the situation prevailing before last year's budget.

While we look forward to reading the full detail contained in the budget papers, the Scottish budget does now look very tight over the remainder of this parliament and beyond. It would be disappointing if another emergency in-year review was required. The Cabinet Secretary also had little to say about the tax strategy published today which we look forward to analysing in detail over coming days.

IPPR Scotland continues to have concerns over how some spending decisions are being made in Scotland and will publish more on this matter over coming days.

Stephen Boyd
IPPR Scotland Director



Jimmy Reid Foundation

The Jimmy Reid Foundation is a think tank which brings together different voices from across Scotland to make the case for economic, environmental, political and social equity and justice in Scotland and further afield.

<https://reidfoundation.scot>

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