Eighth Annual Report on the Implementation of the Scotland Act 2016

Laid before the Scottish Parliament

SG/2024/31

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Scottish Government
Riaghaltas na h-Alba

Contents

1. Introduction

1. This is the eighth report on the implementation of the Scotland Act 2016. It is intended to inform Parliament of the implementation work that has been carried out on fiscal powers in the Scotland Act 2016 as required by paragraph 93 of the Fiscal Framework[1].

2. The UK Government produces a separate report on the implementation work they have carried out, which is published on the same day.

3. Previous reports informed on implementation of both Scotland Act 2012 and 2016 fiscal powers, with a report on the former required by Section 33 of the 2012 Act. Section 33 called for a 'final report' on or as soon as practicable after 1st April 2020, or if later, the first anniversary of the day on which the 2012 Act provisions came into force.

4. All provisions of the Scotland Act 2012 have now come into force, save for consequential amendments in Schedule 2 relating to the Scottish rate of income tax. Therefore, the Implementation Report published in 2023 was the first to only inform on the 2016 Act.

5. The Scotland Act 2016 received Royal Assent in March 2016 and devolved a range of further powers to the Scottish Parliament. These included:
   - Further income tax powers, including the power to set rates and bands
   - Certain social security benefits
   - Provisions to introduce a new Scottish tax on the carriage of passengers by air from Scottish airports, and to disapply Air Passenger Duty in Scotland
   - Provisions to introduce a new Scottish tax on the commercial exploitation of aggregates, and to disapply the UK Aggregates Levy in Scotland
   - Fines, forfeitures and fixed penalties
   - Assignment of Value Added Tax

6. This report provides an update on these sections, as well as non-legislative elements in the Fiscal Framework including:
   - Block Grant Adjustments
   - Administration and implementation costs
   - Policy Spillover effects
   - Borrowing
   - Scotland Reserve

7. The report provides an update on all legislative, policy and implementation work that has been carried out since the previous report on 22nd May 2023 and outlines any forecast administration and implementation costs incurred in 2023-24.

[1] Fiscal framework: agreement between the Scottish and UK Governments - gov.scot (www.gov.scot)

8. The formatting of this year's report has been revised, with the aim of avoiding duplication with other reports. For example, information on tax bands in last year's report has not been included this year as the information is available in the Scottish Government's Medium-Term Financial Strategy[2].

9. Administration costs are the ongoing costs incurred in supporting the delivery of the Scottish Government's responsibilities under the Scotland Acts 2012 and 2016. Implementation costs are one-off costs associated with the initial investment to set up all the necessary systems and other elements required for the delivery of the powers under the Scotland Acts 2012 and 2016, whether through setting up a body or a service or implementing IT systems.

10. Since the last Implementation Report, the Scottish Government and HM Treasury (HMT) have carried out a review of the Fiscal Framework and reached a new Fiscal Framework Agreement[3]. Further information can be found in Chapter 9, Fiscal Framework Implementation.

11. The next report on the Scotland Act 2016 will be published in 2025.

[2] The Scottish Government's Medium-Term Financial Strategy - gov.scot (www.gov.scot)
[3] Fiscal framework: agreement between the Scottish and UK Governments - gov.scot (www.gov.scot)

2. Fully Devolved Taxes

The Scotland Act 2016 provided for the devolution of powers to introduce a tax charged on the carriage of passengers by air from airports in Scotland and on the commercial exploitation of aggregates in Scotland. Devolved taxes drawing on these powers have not yet been introduced.

Costs

Table 2.1: Implementation and Administrative Costs

£m	2021-22	2022-23	2023-24
Implementation	-	0.1	0.3
Administration/Operation	-	-	-

12. Consistent with the approach taken for previous reports, the figures in Table 2.1 above relate only to Revenue Scotland. For this report, the 23-24 figure relates solely to staff costs incurred in work to prepare for the future introduction of a devolved replacement for the UK Aggregates Levy.

Aggregates Tax

The Scotland Act 2016 provided the Scottish Parliament with the power to legislate for a tax to replace the Aggregates Levy in Scotland. Aggregates Levy is a tax paid on the commercial exploitation of primary aggregates, i.e. crushed rock, sand and gravel.

2023-24 Developments

13. The Scottish Government introduced the Aggregates Tax and Devolved Taxes Administration (Scotland) Bill[4] to the Scottish Parliament on 14 November 2023.

14. The Bill set out the key arrangements for a devolved tax on the commercial exploitation of aggregates in Scotland, including to provide for its administration by Revenue Scotland.

15. Further background information regarding the Bill was set out in the Financial[5] and Policy[6] Memorandums introduced to the Scottish Parliament along with the Bill. The Scottish Government also published an analysis of the public consultation responses[7] and a variety of impact assessments.

[4] Aggregates Tax and Devolved Taxes Administration (Scotland) Bill (parliament.scot)
[5] Financial Memorandum Accessible (parliament.scot)
[6] Policy Memorandum accessible (parliament.scot)
[7] Breaking New Ground? Developing a Scottish tax to replace the UK Aggregates Levy Consultation Analysis Report - gov.scot (www.gov.scot)

Future plans

16. The Aggregates Tax and Devolved Tax Administration (Scotland) Bill and necessary secondary legislation will be considered by the Scottish Parliament. If approved by Parliament, the Scottish Government intends that introduction of SAT will occur on 1 April 2026.

17. In order for SAT to be introduced on 1 April 2026, the provisions of the 2016 Act which disapply the existing UKAL regime in Scotland will also require to be brought into force by regulations laid by His Majesty's Treasury in the UK Parliament.

18. Revenue Scotland will be responsible for the collection and management of SAT when introduced. A programme of activity to deliver the systems, processes and other requirements for SAT is currently underway.

Air Departure Tax

2023-24 Developments

19. The introduction of Air Departure Tax (ADT) in Scotland remains deferred to allow the issues raised in relation to the exemption for flights departing from the Highlands and Islands to be resolved. The UK Government will maintain application of Air Passenger Duty in Scotland in the interim.

Future plans

20. We continue to explore all options to implement Air Departure Tax (ADT) in a way that protects Highlands & Islands connectivity and complies with the UK Government's subsidy control regime.

21. The Scottish Government recognises the critical role air connectivity plays in the lives of residents and communities in the Highlands and Islands, and in the promotion of sustainable economic growth across the region.

22. Once a solution to the Highland & Islands exemption has been identified, we will review the rates and bands of ADT prior to the implementation of the tax, to ensure they are aligned with our world-leading climate ambitions. The UK-wide Air Passenger Duty will continue to apply in Scotland until ADT is implemented.

3. Scottish Income Tax

Since 6 April 2017, the Scottish Parliament has had the power to set the Income Tax rates and bands applicable to Scottish taxpayers on their non-savings and non-dividend income, but powers over the personal allowance and savings and dividend income are reserved to the UK. The rates and bands are set each year by a parliamentary motion known as a Scottish Rate Resolution.

Costs

Table 3.1: Administrative Costs

£m	2021-22	2022-23	2023-24
Implementation	-	-	-
Administration/Operation	0.6	0.6	0.6

2023-24 Developments

Move to business-as-usual administration costs

23. His Majesty's Revenue and Customs (HMRC) completed the majority of the implementation work to deliver Scottish Income Tax by 2019-20, and therefore there are no implementation costs for the last three years reflecting the move to a business as usual delivering of Scottish Income Tax.

24. HMRC estimate the total costs charged to the Scottish Government for implementing the Scottish Income Tax powers from the Scotland Act 2012 and Scotland Act 2016 to be £24.3 million during the period 2012-13 to 2019-20.

25. For the financial year 2023-24, the Scottish Government has been forecast to incur costs of £0.6 million for the administration of Scottish Income Tax. Separate to funding the business as usual administration of Scottish Income Tax, the Scottish Government will also incur costs to implement the new Advanced rate band in 2024-25. These will be reported in future versions of this report.

Assurance from National Audit Office and Audit Scotland

26. The National Audit Office (NAO) published its report[8] on the administration of Scottish Income Tax 2022-23 on 19 January 2024. The report stated that "HMRC has adequate rules and procedures in place to ensure the proper assessment and collection of Scottish income tax and it is complying with those rules". Audit Scotland reviewed the approach taken by the NAO, as requested by the Scottish Parliament when Income Tax powers were

[8] Administration of Scottish income tax 2022-23 - NAO report

devolved, and endorsed the NAO findings in their own report[9] also published on 19 January 2024.

Scottish Taxpayer Identification

27. HMRC estimate that there were around 2.67 million Scottish taxpayers in 2021-22. Scottish Government and HMRC agree on the importance of the correct identification of Scottish taxpayers to enable the successful implementation of Scottish Income Tax powers. HMRC undertake regular address assurance activity on its customer data to ensure that its identification of the Scottish taxpayer population is as accurate as possible.

28. In 2023, HMRC undertook an exercise to match their Scottish taxpayer records to a third party data source (known as a 'data clash'). The aim of this exercise is to test whether HMRC's identification of Scottish taxpayers is corroborated by other data sources. HMRC's analysis of the results show that their identification of Scottish taxpayers is correct in 99 per cent of cases[10].

Outturn Data

29. HMRC published the 'Scottish Income Tax Outturn Statistics: 2021 to 2022[11] in July 2023. This showed that receipts from Scottish Income Tax were £13.7 billion in 2021-22.

30. These figures were formally signed off after the NAO had completed their annual audit of HMRC Annual Report and Accounts, and Trust Statement in July 2023. This was the fourth publication of outturn data that included receipts from the five band Scottish Income Tax System implemented in 2018-19.

Future plans

31. We will continue to work with HMRC to oversee the effective delivery of the new Advanced rate band and its incorporation into business as usual. We will also undertake further engagement with tax professionals and other stakeholders to identify areas of continuous improvement in the administration of Scottish Income Tax.

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[9] Administration of Scottish income tax 2022/23 | Audit Scotland (audit-scotland.gov.uk)
[10] Administration of Scottish income tax 2022-23 (nao.org.uk)
[11] Scottish Income Tax Outturn Statistics: 2021 to 2022 - GOV.UK (www.gov.uk)

4. VAT Assignment

The Scotland Act 2016 provided for the first 10 pence of the Standard Rate of Value Added Tax (VAT), and the first 2.5 pence of the Reduced Rate, to be assigned to the Scottish Government. VAT rates will continue to be set at a UK-wide level.

Costs

Table 4.1: Implementation and Administrative Costs

£m	2021-22	2022-23	2023-24
Implementation	0.4	0.3	0.4
Administration/Operation	-	-	-

32. As part of the Fiscal Framework agreement, the Scottish and UK Governments agreed to share equally all costs incurred as a result of the implementation and administration of VAT assignment. In 2023-24, total costs incurred by HMRC and the Scottish Government were £0.3 million.

2023-24 Developments

33. The Scottish and UK Governments had previously agreed to address the implementation of VAT assignment as part of the 2023 Fiscal Framework review (FFR). During review negotiations, both Governments agreed that more extensive discussions on VAT assignment were required and, to avoid any delays in the agreement on the revised Fiscal Framework, it was agreed that the next steps around VAT assignment would be discussed at a later date.

34. Data on VAT assignment, up to 2021, was published by HMRC on 28 September 2023[12]

Future plans

35. Consideration of when and how to implement VAT Assignment will be moved to a future meeting of the HMT/SG Joint Exchequer Committee (JEC).

Scottish VAT Assignment Forecasts

36. The Scottish Fiscal Commission (SFC) produces illustrative forecasts of the VAT that will be assigned to Scotland. Their latest forecast of VAT revenue assigned to Scotland was published in December 2023[13].

37. This forecast has no impact on the Scottish Government's budget as this is a transitional period, where VAT assignment will be forecast and calculated, but not applied to the budget.

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12 Scottish VAT assignment 2021 - experimental statistics - GOV.UK (www.gov.uk)

13 Scotland's Economic and Fiscal Forecasts – December 2023 – Scottish Fiscal Commission

5. Block Grant Adjustments, Reconciliations and Indexation

As part of the 2016 Fiscal Framework Agreement, it was agreed that the Scottish Government's Block Grant would be adjusted to represent the impact of the transfer of greater fiscal powers to the Scottish Government. Deductions to the Budget reflect that the Scottish Government now retains revenues from some devolved taxes, with the devolved social security benefits that the Scottish Government is responsible for reflected through additions to the Budget. These adjustments are called Block Grant Adjustments (BGAs).

2023-24 Developments

Indexation Mechanism

38. Under the original Fiscal Framework agreement agreed in 2016, two indexation mechanisms were used to calculate BGAs – the Index per Capita (IPC) mechanism and the Comparable Model (CM). As part of the 2023 Fiscal Framework Review, it was agreed that IPC would be the permanent methodology for calculating BGAs.

Forecast BGAs

39. The latest forecast BGAs are set out in the Scottish Government's Fiscal Framework Data Annex[14].

40. For the 2023-24 Scottish Budget, BGAs were based on forecasts published by the Office for Budget Responsibility (OBR) alongside the 2022 UK Autumn Statement that preceded the Scottish Budget.

41. These forecast BGAs were subsequently used to calculate in-year reconciliations, on the basis of the comparison between the BGAs which underpinned the 2023-24 Scottish Budget and the BGAs agreed at the 2023 UK Autumn Statement. The in-year reconciliations compared BGAs on LBTT, SLfT and social security, resulting in a positive £46 million reconciliation.

Data update: Fiscal Framework Outturn Report 2023 and Scottish Government's Medium Term Financial Strategy

42. The Scottish Government published its annual Fiscal Framework Outturn Report on 29th September 2023[15]. The report outlines tax and expenditure outturn data and the implications of this data on the following Scottish Budget.

[14] Fiscal framework data annex
[15] Fiscal framework outturn report: 2023 - gov.scot (www.gov.scot)

43. Table 17 of the Outturn Report showed the total provisional reconciliations for the 2024-25 for the Scottish Budget amounted to negative £331.8 million. This is the net impact of the revenue and BGA reconciliations for Income Tax for 2021-22, and for the BGA reconciliations for fully devolved taxes, Fines, Forfeitures and Fixed Penalties, and Social Security Benefits Expenditure for 2022-23. These provisional reconciliations were updated following the publication of final outturn, and the final reconciliations totalled negative £338.0 million, as detailed in the Scottish Budget 2024-25.

44. The Scottish Government's Medium-Term Financial Strategy (MTFS)[16] was published in May 2023. Annex C (Fiscal Framework) outlines the forecasts for tax revenues and BGAs, social security benefits expenditure and BGAs, and forecast reconciliations for tax, social security and non-tax revenue at the time of publication. These forecasts were then updated alongside the Scottish Budget 2024-25.

Impact of ONS population delay on Scottish Budget 2023-24

45. Calculations of BGAs rely on updated mid-year population estimates from the Office of National Statistics (ONS). However, all BGAs from the 2023-24 Scottish Budget onwards have been calculated using the ONS mid-year 2020 population estimates. This is primarily due to timing differences between the Scottish and rUK censuses and their subsequent inclusion into the ONS mid-year estimates. Until the Scottish census results are revised into the Scottish population estimates, which the National Records for Scotland (NRS) are undertaking this year, then the relative growth rates between Scotland and the rUK are not able to be calculated on a consistent basis. Consequently, it was agreed with HMT that in the interim the mid-year population estimates for 2020 would be used, with the relative growth rate in that year projected ahead uniformly until the issue was resolved.

46. All BGAs applied from the 2023-24 Scottish Budget onwards will be revisited once population estimates are available with consistent census revised population estimates.

Income Tax Reconciliation

47. Outturn data for Income Tax for 2021-22 was published by HMRC on 6 July 2023[17] and a reconciliation of negative £389.9 million was applied to the Scottish Budget 2024-25. This was the fifth income tax reconciliation since the implementation of the Fiscal Framework. Further information on the reconciliation can be found in the Fiscal Framework Outturn Report[18].

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[16] The Scottish Government's Medium-Term Financial Strategy - gov.scot (www.gov.scot)
[17] Income tax outturn reconciliation 2021-2022: joint statement with HM Treasury - gov.scot (www.gov.scot)
[18] Fiscal framework outturn report: 2023 - gov.scot (www.gov.scot)

Future plans

48. Pension Age Winter Heating Payment: The Social Security benefit Pension Age Winter Heating Payment (PAWHP) will be launched in winter 2024, for which there is a corresponding BGA for the UK equivalent benefit Winter Fuel Payment (WFP). The baseline BGA forecast corresponds to UKG's WFP expenditure in Scotland in the year prior to its devolution to Scotland (2023-24) and is currently forecast at £175 million.

49. The baseline will be updated once outturn is available. The SFC provided a forecast of PAWHP expenditure in their December 2023 forecasts underpinning the 2024-25 Scottish Budget[19], which allowed us to calculate a forecast net position.

[19] Scotland's Economic and Fiscal Forecasts – December 2023 – Scottish Fiscal Commission

6. Borrowing and Scotland Reserve

Capital Borrowing

50. Since 1 April 2017, the Scottish Government has had the power to borrow up to £450 million each year, up to a maximum total of £3 billion, to support investment in capital infrastructure. Following the Fiscal Framework Review both limits will be maintained in 2023-24 prices (meaning these limits will be uprated annually using the OBR's GDP deflator forecast at the time of the Scottish Government draft Budget).

2023-24 drawdown

51. The Scottish Government borrowed £300 million in 2023-24 to support Infrastructure and Investment expenditure.

52. The borrowing was drawn down from the National Loans Fund on 27/03/24. This will be repaid over 10 years at an interest rate of 3.95%.

2024-25 borrowing plans

53. The 2024-25 Scottish Budget outlined plans to allow for £458 million of Capital funding to be made available from borrowing.

54. The Scottish Government's medium term financial strategy (MTFS) details the Scottish Government Capital Borrowing Policy. Policy to date has been built around ensuring sustainable Capital Borrowing within the fiscal framework limits. With these limits now growing with inflation the dynamics of a sustainable level of Capital Borrowing have changed and therefore the next MTFS will provide further detail on the future approach to Capital Borrowing policy.

55. Final decisions on the specific borrowing arrangements for 2024-25 will be taken over the course of the year, reflecting an on-going assessment of programme requirements and value for money assessment of the options available. Final borrowing decisions for 2024-25 will not therefore be taken before March 2025.

Capital debt stock

56. The Scottish Government has accumulated £2.23 billion in capital debt as at the end of 2023-24, 74% of its overall limit. Details of the capital borrowing and repayment schedule can be found in Tables 6.1 and 6.2.

Table 6.1: Capital Borrowing and Repayment Schedule: 2017-24 (£ million)

£million	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**
Debt stock at start of Year	607	1,036	1,258	1,617	1,744	1,814	2,026
New Borrowing in year (incurred)	450	250	405	200	150	300	300
New Borrowing in year (forecast)							
Principal Repayments	-	7	26	52	60	67	79
Interest Repayments	-	8	11	13	14	16	24
Resource Cost of Borrowing Incurred	**-**	**15**	**37**	**64**	**74**	**83**	**103**
Principal Repayments	-	-	-	-	-	-	-
Interest Repayments	-	-	-	-	-	-	-
Resource Cost of Forecast Borrowing	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Projected Total Resource Cost	**0**	**15**	**37**	**64**	**74**	**83**	**103**
Notional Borrowing Repayments	21	21	21	21	21	21	21
Debt Stock at end of Year	1,036	1,258	1,617	1,744	1,814	2,026	2,227
Dept Cap	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Percentage of Debt Cap	35%	42%	54%	58%	60%	68%	74%
Headroom	1,964	1,742	1,383	1,256	1,186	974	773

Table 6.2: Capital Borrowing and Repayment Schedule: 2024-31 (£ million)

£million	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Debt stock at start of Year	2,227	2,563	2,667	2,751	2,820	2,872	2,921
New Borrowing in year (incurred)							
New Borrowing in year (forecast)	458	250	250	250	250	250	250
Principal Repayments	100	115	117	120	122	112	101
Interest Repayments	34	34	32	29	27	24	21
Resource Cost of Borrowing Incurred	**135**	**149**	**149**	**149**	**149**	**136**	**122**
Principal Repayments	-	11	28	41	55	69	84
Interest Repayments	-	18	30	40	51	60	70
Resource Cost of Forecast Borrowing	**-**	**29**	**58**	**82**	**106**	**130**	**154**
Projected Total Resource Cost	**135**	**178**	**207**	**231**	**254**	**265**	**276**
Notional Borrowing Repayments	21	21	21	21	21	21	21
Debt Stock at end of Year	2,563	2,667	2,751	2,820	2,872	2,921	2,965
Dept Cap	3,050	3,102	3,152	3,209	3,269	3,335	3,402
Percentage of Debt Cap	84%	86%	87%	88%	88%	88%	87%
Headroom	487	435	400	389	397	414	436

- Projections based on borrowing incurred plus plans outlined at the 2024-25 Scottish Budget with interest rates as at **27/03/24**. A 50 basis point premium is applied to all interest rate assumptions
- Forecast Debt Cap limits are based on GDP deflator forecasts as at the 2024-25 Scottish Budget these will be revised annually.

Resource Borrowing

57. Following the Fiscal Framework Review, the Scottish Government can borrow up to £600 million for resource annually within a statutory overall limit for resource borrowing of £1.75 billion from 1 April 2024, with both limits in 2023-24 prices (meaning these limits will be uprated annually using the OBR's GDP deflator forecast at the time of the Scottish Government draft Budget).

58. Resource borrowing cannot be accessed to increase the discretionary funding. However, it can be used for the following reasons:
    I. for in-year cash management;
    II. for forecast error (in relation to devolved and assigned taxes and demand-led welfare expenditure arising from forecasts of Scottish receipts/expenditure and corresponding UK forecasts for the block grant adjustments).

59. Prior to the Review, under the terms of the 2016 fiscal framework agreement, the Scottish Government could cumulatively borrow up to £600 million for resource annually for the following reasons:
    I. for in-year cash management, with an annual limit of £500 million, or
    II. for forecast error with an annual limit of £300 million (in relation to devolved and assigned taxes and demand-led welfare expenditure arising from forecasts of Scottish receipts/expenditure and corresponding UK forecasts for the Block Grant Adjustments).

60. In practise, although the 2016 agreement stated we could borrow up to £600 million, in the ordinary course events, the limit was £300 million for forecast error. However, there was a provision in the 2016 agreement that increased the £300 million limit for forecast error to £600 million in the event of a Scotland-specific economic shock.

61. Under the terms of the revised fiscal framework agreement, the Scotland-specific economic shock provision will no longer apply from 1 April 2024 as the increased limit of £600 million for forecast error makes the provision defunct.

2023-24 drawdown

62. In 2023-24 the Scottish Government borrowed £104 million from the National Loans Fund at an interest rate of 4.23% over a 5-year repayment period. This was in respect of final reconciliations relating to 2020-21 Scottish Income Tax, 2021-22 fully devolved taxes and social security BGA reconciliations, and in-year variances on 2023-24 social security and devolved tax positions. This represented an increase of £63 million against the plans outlined at the 2023-24 Scottish Budget.

2024-25 borrowing plans

63. In the 2024-25 Scottish Budget Scottish Ministers plan to borrow £338 million to address adverse tax and social security reconciliations.

64. Borrowing decisions for 2024-25 will be finalised in March 2025 given the revised reconciliation profile and in the context of the overall resource budget monitoring position and the latest forecasts of future year funding availability.

Table 6.3: Resource Borrowing and Repayment Schedule (£ million)

£million	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Debt stock at start of Year	-	207	505	480	476	691	526	347	217	121	37
New Borrowing in year (incurred)	207	319	47	104							
New Borrowing in year (forecast)					338	-	-	-	-	-	-
Principal Repayments	-	21	72	108	123	135	116	64	27	11	-
Interest Repayments	-	0	4	6	9	7	5	3	1	0	-
Resource Cost of Borrowing Incurred	**-**	**21**	**77**	**114**	**132**	**142**	**121**	**67**	**28**	**12**	**-**
Principal Repayments	-	-	-	-	-	31	63	66	69	72	37
Interest Repayments	-	-	-	-	-	13	13	10	7	4	1
Resource Cost of Forecast Borrowing	**-**	**-**	**-**	**-**	**-**	**44**	**76**	**76**	**76**	**76**	**38**
Projected Total Resource Cost	**0**	**21**	**77**	**114**	**132**	**185**	**197**	**143**	**105**	**88**	**38**
Debt Stock at end of Year	207	505	480	476	691	526	347	217	121	37	(0)
Dept Cap	1,750	1,750	1,750	1,750	1,779	1,810	1,839	1,872	1,907	1,945	1,984
Percentage of Debt Cap	12%	29%	27%	27%	39%	29%	19%	12%	6%	2%	0%
Headroom	1,543	1,245	1,270	1,274	1,088	1,284	1,492	1,655	1,787	1,908	1,984

Scotland Reserve

65. The Scotland Reserve has applied since 1 April 2017. It replaced the Budget Exchange mechanism and enables the Scottish Government to manage volatility associated with its fiscal powers. The Scotland Reserve was capped in aggregate at £700 million but following, the 2023 Fiscal Framework Review, the £700 million cap will be indexed to inflation and the drawdown limits of £250 million for resource and £100 for capital will be abolished from 2024-25. There are no annual limits for payments into the Scotland Reserve.

2023-24 Reserve Position

66. The latest forecast Scotland Reserve position is detailed below. 2023-24 drawdown plans are unlikely to change materially however additions are subject to provisional and final outturn processes. The final Scotland Reserve position for 2023-24 will not therefore be confirmed until later in the calendar year.

Table 6.4: 2023-24 Forecast Reserve position (£ million)

	Resource	**Capital**	**FTs**	**Total**
2023-24 Opening balance	250.8	29.6	44.5	**324.8**
2023-24 Drawdowns	(250.8)	(29.6)	(44.5)	**(324.8)**
2023-24 Forecast Additions*	0	0	0	**0**
Forecast Balance	**0**	**0**	**0**	**0**

**2023-24 Additions will be determined by the outturn versus final HM Treasury budgets. The nil figures reflect that there were no planned additions to the reserve and any subsequent additions will simply reflect the final underspends versus the Budget Aggregates.*

7. Social Security

Part 3 of the Scotland Act 2016 contains 14 Sections relating to social security and employment support.

The Scottish Government is responsible for the implementation of these powers, ensuring the safe and secure transition of the benefits being devolved to Scotland and the design of new benefits as part of a Scottish social security system with dignity, fairness and respect at its heart. To achieve this, the Social Security Programme was established and a new agency, Social Security Scotland, created.

Social Security Scotland operates in accordance with the eight principles set out in the Social Security Charter and Social Security (Scotland) Act 2018. This sets the framework to ensure that social security in Scotland meets the needs of Scottish citizens.

Social Security Scotland is now successfully delivering fourteen benefits, and will provide support worth over £6 billion to over 1.2 million people in 2024-25.

Costs

Table 7.1: Implementation and Administrative Costs

£m	2021-22	2022-23	2023-24
Social Security Scotland	206	269	273
Advice, Policy and Programme	148	176	164
Of which: Programme Implementation	*104*	*106*	*76*

67. The costs set out in Table 7.1 have been updated following last year's report and are either audited outturn or budget. Social Security Scotland includes a range of administration and operational costs to support the delivery of payments and services. The work that the Scottish Government undertakes is funded from the Advice, Policy and Programme budget line within the Scottish Government's Social Justice Portfolio. The table shows the Resource and Capital costs of the work that the Scottish Government undertakes, including the Implementation Costs of the Social Security Programme. The figure excludes the allocated share of the Scottish Government's Corporate Running Costs and ring-fenced non-cash Depreciation.

68. A more detailed breakdown can be found in the updated Social Security Programme Business Case (PBC), published in February 2023.[20] The costs detailed in the PBC reflect the necessary changes stemming from the pandemic including an additional year of delivery to support safe and secure benefit delivery and case transfer the awards of around 700,000 clients from DWP to Social Security Scotland, as well as adding the Scottish Child

[20] Social Security Programme Business Case: February 2023

Payment extension into the Programme and providing increased functionality for our most complex benefits.

69. The PBC provides a view on the whole-life costs and benefits of the Scottish Government's Social Security Programme, over a 30-year timeframe to 2050. It shows the Scottish Government's investment in creating a new public service for Scotland, co-designed by those with lived experience and built from scratch with dignity, fairness and respect at its heart, which will deliver for the people of Scotland for years to come.

2023-24 Developments

70. Executive competence for Carer's Allowance transferred to the Scottish Government on 1 September 2018, and for Attendance Allowance, Disability Living Allowance, Personal Independence Payment, Industrial Injuries Scheme, and Severe Disablement Allowance on 1 April 2020. The Department for Work and Pensions (DWP) continues to administer these benefits through Agency Agreements on behalf of Scottish Ministers, while Scottish benefits are launched and cases transferred from DWP. For 2023-24, Social Security Scotland has budgeted £25.7 million for Formal Agreements. The Formal Agreement costs that the Scottish Government accepts from the DWP are scrutinised to ensure validity, consistency and compliance with jointly agreed inclusions and exclusions. Formal Agreement costs will reduce over time as Social Security Scotland administers new Scottish benefits replacing the DWP benefits.

71. The Scottish Government funds implementation costs incurred by the UK Government as a result of the devolution of welfare powers. For 2023-24 we have budgeted £12.3 million for implementation recharges.

The Social Security (Scotland) Act 2018

72. The over-arching framework for use of the Scottish Government's Social Security powers is set out in the Social Security (Scotland) Act 2018. The rules relating to individual benefits are set out in regulations made under enabling powers in the 2018 Act. In 2023-24 regulations have been made covering the introduction of Carer Support Payment, extension of Best Start Foods and data sharing for the purposes of safeguarding. In addition, regulations were amended relating to disability assistance and the annual legislation was laid relating to the uprating of devolved benefits.

73. The Social Security (Amendment) (Scotland) Bill was introduced to the Scottish Parliament on 31 October 2023. Some parts of the Bill seek to amend or repeal sections of the 2018 Act, and others seek to create new provisions in that Act. In line with the Scottish social security principles the policy intention is to create efficiencies, remove barriers and empower people interacting with Social Security Scotland. Subject to progress through Parliament, the earliest commencement of the Bill is likely to be Spring 2025.

Social Security Scotland

74. Social Security Scotland was established to deliver on Scottish Ministers' obligations under the 2018 Act and the Agency delivers its services in accordance with the eight principles set out in the Act and a Social Security Charter. The Agency is founded on the values of treating people with dignity, fairness and respect.

75. In November 2023 Social Security Scotland published its annual Client Survey, covering the period from April 2022 to March 2023, which showed that people continue to have a very positive experience of Social Security Scotland. 88% of people responding to the survey said their overall experience was 'very good' or 'good'; and 93% of people who had been in touch with a member of staff at Social Security Scotland reported that they had been treated with kindness.

76. Social Security Scotland directly employed over 3,800 Full Time Equivalent staff across its various sites as at 31 December 2023. It delivered over £5 billion of benefit payments in 2023-24; £3.2 billion through Agency Agreements and around £2 billion directly. Further details of this spending will be provided in Social Security Scotland's Annual Report and Accounts for 2023-24, which will be published in November 2024, in accordance with statutory timescales.

77. With the launch of Carer Support Payment in November 2023, Social Security Scotland's service has now expanded to fourteen separate benefit payments, seven of which are entirely new forms of financial support available only in Scotland. Social Security Scotland will continue to build capacity and capability with a focus on efficiency in 2024-25 as it prepares for the launch of the remaining Scottish Government benefits.

Benefits Launched

78. During the reporting period we have introduced Carer Support Payment, our replacement for Carer's Allowance, with a pilot launch in November 2023. The Payment will be opened up for new applications in further local authority areas in 2024, and be available nationally by the autumn. Carer Support Payment will provide an improved service, designed with carers to meet their needs, in line with our principles of fairness, dignity and respect, and extends eligibility to many full-time students who are unable to access Carer's Allowance.

Case Transfer

79. A joint project between the DWP and the Scottish Government is transferring the disability and carer benefit awards of around 700,000 people in Scotland to Social Security Scotland and onto new Scottish forms of assistance.

80. We have safely and securely transferred the awards of more than 150,000 people already, amounting to over £620 million in payments since October 2021. We have now completed transferring all Disability Living Allowance for Children awards for children and young people in Scotland to Child Disability

Payment. After a small pilot in June, we began transferring Personal Independence Payment awards to Adult Disability Payment from 29 August 2022. We also began selecting Disability Living Allowance awards for transfer where the person would have otherwise been required to apply for Personal Independence Payment on this date.

81. Transfer from Carer's Allowance to Carer Support Payment began in February 2024 and transfer from Attendance Allowance to Pension Age Disability Payment and Disability Living Allowance to Scottish Adult Disability Living Allowance will begin in 2025. We remain on track to meet our aim of completing case transfer for all disability and carer benefits in 2025.

Scottish Government policy development and implementation

82. During the reporting period we have launched the Carer Support Payment pilot and continue to develop systems and capability to support delivery of the remainder of the devolved benefits outlined in the Social Security (Scotland) Act 2018.

83. The Scottish Government uprated all Scottish social security payments by 6.7% in April 2024. This uprating includes payments where there is a statutory requirement, as well as those where uprating is discretionary, in recognition of the continuing challenges faced by many due to the increased cost of living.

84. Further work on benefit delivery is also underway and we continue work with DWP to deliver the remaining devolved benefits.

Future plans

85. We will continue the roll out of Carer Support Payment, our replacement for Carer's Allowance, making this available for new applications in further local authorities in 2024, to be available nationally by the autumn. Our consultation on the benefit ran from February until May 2022, and we published our response on 27 March 2023, setting out our plans for Carer Support Payment from launch and future improvements. Carer Support Payment will provide an improved service, designed with carers to meet their needs, in line with our principles of fairness, dignity and respect, and extend eligibility to many full-time students currently unable to access Carer's Allowance.

86. Adult Disability Payment is now available across all of Scotland. We are committed to undertaking an independent review of Adult Disability Payment commencing this year. A Chair has now been appointed to lead this review. A consultation about the eligibility criteria for the mobility component of ADP was undertaken and its findings published last year, and the ADP Review will consider these in its work.

87. Pension Age Disability Payment will replace Attendance Allowance, a benefit for people aged over state retirement age, with a pilot beginning from Autumn

2024. Attendance Allowance is awarded to help with extra costs if a disabled person needs someone to look after them. It is the Scottish Government's intention to provide this form of assistance for the same purpose – to mitigate costs associated with care needed as a result of being disabled.

88. Employment Injury Assistance (EIA), which replaces the UK Government's Industrial Injuries Scheme, will be one of the most complex disability benefits to deliver. In the next few months we intend to consult on the subject of EIA and the replacement of the current UK Government Industrial Injuries Disablement Benefits. The consultation will consider a range of issues relating to the delivery and administration of EIA.

8. Employability

The Scotland Act 2016 gave Scottish Ministers the powers to deliver employability support that helps disabled people or those at risk of long-term employment to seek, obtain, and retain employment, where the assistance is for at least a year.

Costs

Table 8.1: Implementation and Administrative Costs

£m	2021-22	2022-23	2023-24
Implementation	0	0	0
Administration/Operation	30.0	25.8	23.3

2023-24 Developments

89. Fair Start Scotland, launched in April 2018, continued to provide tailored, person-centred support to people who need help to find and stay in work, and achieve their full potential. Unlike some UK Government initiatives, participation in Fair Start Scotland continues to remain voluntary.

90. In early 2023 Scottish Ministers made the decision to extend receiving Fair Start Scotland referrals for a final 12 months. Referrals will now be accepted to the service until 31 March 2024. Those receiving Fair Start Scotland support on that date will continue to do so into 2026 until their time on service completes.

91. This decision to extend Fair Start Scotland has supported stability within the system and continues to provide employability support to people at risk of long-term unemployment for at least 12-18 months.

92. The Scottish Government has continued to regularly publish national statistics releases on Fair Start Scotland service performance, alongside independent evaluation reports. The latest statistics release[21], covering the period from launch to end September 2023 shows that there were 63,763 starts and 22,659 job starts.

93. In November 2023, the Scottish Government published Fair Start Scotland Evaluation Reports[22] [23] which provided an insight into participants experiences of the support they received while on the service in years four and five.

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[21] https://www.gov.scot/publications/scotlands-devolved-employment-services-statistical-summary-february-2024/

[22] Fair Start Scotland - evaluation report 5: qualitative interviews with service participants - years 4 and 5 - November 2023 - gov.scot (www.gov.scot)

[23] Fair Start Scotland - evaluation report 5: participant phone survey - years 4 and 5 - November 2023 - gov.scot (www.gov.scot)

94. The Evaluation Reports highlighted the service continued to deliver positive results for participants, with high levels of satisfaction with their experience feeling they were treated with dignity and respect and offered support to improve their general quality of life and well-being.

95. FSS also helped build participants' motivation to find work with the majority of those who were not working reporting their motivation to find work had increased.

96. Areas taken forward from the Evaluation Reports as part of Fair Start Scotland's continuous improvement activity included improving the consistency of delivery of the personalised approach to support; exploring additional support tailored to those with childcare difficulties; the continued use of varied communications strategies to ensure all potential participants were made aware of the service and identifying methods to maximise training and work experience opportunities offered to participants.

97. As part of the Supported Employment review recommendations[24], in Spring 2023 changes were implemented to Fair Start Scotland contracts removing the requirement for participants to work 16 hours or more. This improvement supported people with some of the most difficult barriers to join a mainstream employability service for the first time and take up work.

98. Fair Start Scotland continuous improvement activity has continued to focus on enhancing engagement with under-represented and under-supported groups and developing better support for individuals with more complex needs.

Future Plans

Fair Start Scotland

99. Referrals to Fair Start Scotland will end on 31 March 2024. Those participants who remain on the service at that point will continue to receive the full employability support it delivers, including up to 18 months pre-employment support and 12 months in work support.

No One Left Behind

100. Scottish Ministers are committed to supporting the continued development and delivery of devolved employability services. On the 10 August 2023, Cabinet Secretary Neil Gray approved the further implementation of No One Left Behind from April 2024. No One Left Behind promotes a strengthened partnership approach where Scottish and Local Government work together in partnership with third and private sectors and with service users to design, deliver and improve the Scottish approach to employability, ensuring that support is more flexible and responsive to individual and local labour market needs.

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[24] Supported employment: review report and Scottish Government response - gov.scot (www.gov.scot)

101. The Scottish Government in partnership with Local Government held a total of six National Discussion Events between August and November 2023. These events provided approximately 300 stakeholders the opportunity to support the further implementation of No One Left Behind and have their feedback and ideas inform the Scottish Government's Employability Strategic Plan, 2024-27, set to be published in March 2024.

9. Fiscal Framework Implementation

The Fiscal Framework is an agreement made by the Scottish and UK Governments that determines how the Scottish Government is funded, as well as underpinning the powers set out in the Scotland Act 2016. This chapter covers further areas of Fiscal Framework implementation relevant to this report; the 2023 review of the Fiscal Framework, the independent report accompanying the review and progress on policy spillovers.

2023-24 Developments

Fiscal Framework Review 2023

102. The 2016 Fiscal Framework agreement stated that a review of the Fiscal Framework should be undertaken by the Scottish and UK Governments after the Scottish Parliament elections in 2021, informed by an independent report.

103. Following a review of the arrangements in the 2016 Fiscal Framework, the Scottish and UK governments came to an agreement on a revised Fiscal Framework Agreement, which was published on 2 August 2023[25]. The summary of the changes agreed are detailed in table 9.1:

[25] Fiscal framework: agreement between the Scottish and UK Governments - gov.scot (www.gov.scot)

Table 9.1: Agreed changes to the Fiscal Framework

	2016/17-2023/24	2024/25 onwards
BGA Mechanism	Run both IPC and Comparable methods, but only use the IPC method in practice.	Simplify: apply IPC on a permanent basis.
Resource borrowing	Up to £300m p.a. to cover forecast error, £1.75bn cumulative.	Up to £600m p.a. to cover forecast error, £1.75bn cumulative, both indexed to inflation.
Capital borrowing	Up to £450m, p.a.; £3bn cumulative cap.	Up to £450m p.a., £3bn cumulative cap, both indexed to inflation.
Reserve drawdown limits	£250m resource; £100m capital.	Abolished.
Overall reserve limit	£700m.	£700m indexed to inflation.
VAT Assignment	The two Governments have agreed that VAT assignment will be implemented in 2019-20	How and when to implement VAT Assignment will be discussed at a future Joint Exchequer Committee.
Crown Estate	Deduction to the block grant of £6.6m p.a.	Deduction to the block grant profiled at £10m / £10m / £15m/ £20m / £40m from 2024-25 to 2028-29. Fixed in nominal terms at £40m beyond 2028-29.
Fines, Forfeitures and Fixed Penalties	Indexed Block Grant Adjustment to fines and penalties revenue.	Flat annual deduction of £25m to the block grant.
Coastal Communities Fund	Baseline addition made to block grant equivalent to UKG spending on CCF in year prior to transfer.	Absorbed into Barnett (no impact on SG budget).
Scotland Specific Economic Shock	Up to £600m resource borrowing capacity when triggered.	Abolished.

104. It was agreed that the existing Indexed Per Capita method for calculating BGAs for devolved taxes and social security benefits would be adopted on a permanent basis. This means that Scotland will continue to be protected from slower population growth.

105. The Scottish Government can now borrow up to £600 million annually for in-year cash management and forecast error. As a result, the provision of a Scotland-specific Economic Shock (which would trigger an increase to the resource borrowing capacity to £600 million) has been abolished. The reserve drawdown limits of £250 million for resource and £100 million for capital have also been abolished.

106. It was agreed in the review that annual and cumulative borrowing and reserve limits will be set in 2023-24 prices, meaning the limits will be uprated annually using the OBR's GDP deflator forecast at the time of the Scottish Government draft Budget. This indexation for inflation will stop limits from being eroded over time.

107. All the agreed changes to the Fiscal Framework took effect from 2024-25. The 2016 Fiscal Framework therefore still applied for 2023-24.

Independent Report on BGAs which informed the Fiscal Framework Review

108. The Scottish and UK Governments jointly commissioned an independent report on 27th June 2022 to inform the review of the Fiscal Framework. The report, written by Professor David Bell, David Eiser and David Phillips was published alongside the Fiscal Framework Agreement on 2 August 2023[26].

109. This report evaluates the current and alternative methods for calculating BGAs and the extent to which different methods for calculating BGAs are consistent with the Smith Commission's principles.

Progress on policy spillovers

110. The Fiscal Framework includes a provision for policy spillovers. This is when one government makes a policy decision that has an impact on the tax receipts or expenditure of the other. When this happens, the government that made that decision should reimburse the other in cases of additional costs, or receive a transfer in the case of a saving. Both governments must jointly agree on any decision or transfer relating to a spillover.

111. After carrying out analysis using the jointly agreed Social Security spillovers methodology, Scottish Government and DWP analysts agreed in November 2022 that the devolution of Scottish benefits produced no material spillover effects for either Government in 2021-22.

112. This analysis continues for financial year 2022-23 and again uses the Social Security spillovers methodology to investigate if any passporting interactions between devolved and reserved benefits has led to any costs or savings for

[26] Executive summary - Fiscal Framework Review: Independent Report - gov.scot (www.gov.scot)

either Government. No agreements have yet been reached for 2022-23 or 2023-24.

Future plans

113. The Fiscal Framework states that reviews should take place on a 5 yearly basis but not more than once in any UK or Scottish electoral cycle. It will be open to either government to propose changes to the fiscal framework as part of future reviews. The Joint Exchequer Committee will jointly agree conclusions, recommendations and revisions of the review.

114. In the meantime, work is being carried out to implement the changes agreed in the 2023 Agreement. This includes the governments agreeing and passing a Scotland Act Order to increase the cumulative capital and resource borrowing limits detailed in the Scotland Act 1998.

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