Ninth Annual Report on the Implementation of the Scotland Act 2016

Laid before the Scottish Parliament

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Scottish Government
Riaghaltas na h-Alba

Contents

1. Introduction

1. This is the ninth 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, from 2023 onwards, this report only informs 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 20th May 2024 and outlines any forecast administration and implementation costs incurred in 2024-25.

[1] Fiscal framework: agreement between the Scottish and UK Governments

8. 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.

9. The next report on the Scotland Act 2016 will be published in 2026.

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	2022-23	2023-24	2024-25
Implementation	0.1	0.3	1.0
Administration/Operation	-	-	-

10. Consistent with the approach taken for previous reports, the figures in Table 2.1 above relate only to Revenue Scotland. For this report, the 2024-25 figure relates solely to costs incurred in work to prepare for the future introduction of a devolved replacement for the UK Aggregates Levy.

Scottish Aggregates Tax

11. The Scotland Act 2016 provided the Scottish Parliament with the devolved competence to legislate for the introduction of Scottish Aggregates Tax (SAT). SAT will replace UK Aggregates Levy (UKAL) in Scotland.

2024-25 Developments

12. The Aggregates Tax and Devolved Taxes Administration (Scotland) Act 2024[2] received Royal Assent on 12 November 2024. The Act sets out the key arrangements for SAT, including to provide for its administration by Revenue Scotland.

13. On 24 January 2025, a public consultation on the draft secondary legislation for SAT[3] was launched. The regulations specify the administration requirements associated with the tax, alongside other changes required for tax introduction. The intent of the secondary legislation is to deliver an operationally efficient SAT and ensure that the tax operates effectively in relation to the wider devolved taxes legislative regime. The Scottish Government will carefully consider all responses to the public consultation, prior to finalising decisions on legislation for introduction to the Scottish Parliament.

[2] Aggregates Tax and Devolved Taxes Administration (Scotland) Act 2024
[3] Scottish Aggregates Tax administration regulations: consultation

Future plans

14. The necessary secondary legislation will be considered by the Scottish Parliament. If approved, the Scottish Government intends that introduction of SAT will occur on 1 April 2026.

15. In order for SAT to be introduced, the provisions of the 2016 Act which disapply the existing UKAL[4] regime in Scotland will also require to be brought into force by regulations laid by HM Treasury in the UK Parliament. UK and Scottish Governments are working closely together to agree the block grant adjustment (BGA) arrangements for the tax, taking account of the provisions of the Fiscal Framework[5] agreement.

16. Revenue Scotland, Scotland's tax authority for devolved taxes, 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 underway.

17. The Scottish Government continue to engage closely with stakeholders, in line with the New Deal for Business[6] and Framework for Tax[7]. Discussions are also ongoing between the Scottish Government, Revenue Scotland, and His Majesty's Revenue and Customs (HMRC) to ensure that the administrative arrangements for SAT and UKAL work effectively together.

Air Departure Tax

2024-25 Developments

18. 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

19. We are actively working with the UK Government to implement Air Departure Tax in a way that protects Highlands and Islands connectivity while complying with the UK Government's subsidy control regime.

20. 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.

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[4] Aggregates Levy - GOV.UK
[5] Fiscal framework: agreement between the Scottish and UK Governments
[6] Business: New Deal for Business Group
[7] Framework for Tax

21. We will review the rates and bands of ADT once a solution to the Highland & Islands exemption has been identified, and prior to the implementation of the tax, to ensure they are aligned with our net zero ambitions.

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	2022-23	2023-24	2024-25
Implementation	-	0.4	0.6
Administration/Operation	0.6	0.6	0.6

2024-25 Developments

Additional implementation costs

22. HMRC completed the majority of the implementation work to deliver Scottish Income Tax by 2019-20. However, the announcement of the Scottish Advanced Rate at the Scottish Budget 2024-25 on 19 December 2023 attracted additional implementation costs.

23. HMRC invoiced the Scottish Government for £1.0 million of costs relating to the implementation and administration of Scottish Income Tax in 2023-24. Of this amount, £0.6 million related to running costs, which is similar to costs incurred in 2022-23. The remaining £0.4 million related to the implementation of the Advanced rate of Scottish Income Tax.

24. For the financial year 2024-25, the Scottish Government has been forecast to incur costs of £0.6 million for the administration of Scottish Income Tax. HMRC also expects to re-charge the Scottish Government a similar amount of £0.6 million to finish implementing the Advanced rate.

Assurance from National Audit Office & Audit Scotland

25. The National Audit Office (NAO) published its report[8] on the administration of Scottish Income Tax 2022-23 on 17 January 2025. The report stated that "HMRC has adequate rules and procedures in place to ensure the proper assessment and collection of Scottish Income Tax and its complying with those rules". Audit Scotland reviewed the approach taken by the NAO, as

[8] Administration of Scottish Income Tax 2023-24

requested by the Scottish Parliament when Income Tax powers were devolved, and endorsed the NAO findings in their own report also published on 17 January 2025[9].

Scottish Taxpayer Identification

26. HMRC has estimated that there were 2.8 million Scottish taxpayers in 2022-23, which is a 4.4% increase from 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.

27. In 2024, HMRC undertook an additional 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. At the time of the NAO report publication, the results from this data clash have not yet been finalised, these will be reported in 2024-25.

Outturn Data

28. HMRC published the 'Scottish Income Tax Outturn Statistics: 2022 to 2023[10] in July 2024. This showed that Scottish Income Tax liabilities were £15.1 billion in 2022-23.

29. 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 2024. This was the fifth publication of outturn data that included receipts from the five band Scottish Income Tax System implemented in 2018-19.

Future plans

30. We will continue to work with HMRC to oversee the conclusion of the delivery of the 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.

[9] Administration of Scottish Income Tax

[10] Scottish Income Tax Outturn Statistics: 2022 to 2023 - 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, raised in Scotland 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	2022-23	2023-24	2024-25
Implementation	0.3	0.4	0.5
Administration/Operation	-	-	-

31. 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 (VATA). In 2024-25, total costs incurred by HMRC and the Scottish Government were £0.5 million.

2024-25 Developments

32. In 2023-24, it was jointly agreed by the Scottish and UK Governments that the next steps around VATA would be discussed at a future meeting of the Joint Exchequer Committee (JEC). The 2024 UK General Election and subsequent change in UK Government caused delays in progressing the matter during 2024-25.

33. Data on VAT Assignment, up to 2022, was published by HMRC on 14 November 2024[11].

Future plans

34. Consideration of when and how to implement VATA will take place at a future meeting of the JEC, at a time agreed between both governments. Scottish Government and HM Treasury officials will continue to work together to progress the matter.

Scottish VAT Assignment Forecasts

35. The Scottish Fiscal Commission (SFC) has responsibility for producing illustrative forecasts of the VAT that will be assigned to Scotland. Their latest forecast was published in December 2024[12].

[11] Scottish VAT Assignment – Official Statistics in Development 2022 - GOV.UK
[12] Scotland's Economic and Fiscal Forecasts – December 2024 | Scottish Fiscal Commission

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

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).

2024-25 Developments

Forecast BGAs

37. The latest forecast BGAs are set out in the Scottish Government's Fiscal Framework Data Annex[13].

38. For the Scottish Budget 2024-25, BGAs were based on forecasts published by the Office for Budget Responsibility (OBR) alongside the 2023 UK Autumn Statement that preceded the Scottish Budget.

39. These forecast BGAs were subsequently used to calculate in-year reconciliations, on the basis of the comparison between the BGAs which underpinned the Scottish Budget 2024-25 and the BGAs agreed at the UK Autumn Statement 2024. The in-year reconciliations compared BGAs on LBTT, SLfT and social security, resulting in a negative £54 million reconciliation.

Data update: Fiscal Framework Outturn Report 2024 and Scottish Government's Medium Term Financial Strategy

40. The Scottish Government published its annual Fiscal Framework Outturn Report (FFOR) on 26th September 2024[14]. The report outlines tax and expenditure outturn data and the implications of this data on the following Scottish Budget.

41. In previous years the Scottish Fiscal Commission (SFC) have published tax revenue and social security expenditure forecasts alongside the Scottish Government's Medium-Term Financial Strategy publication (MTFS), which have also been used to inform the FFOR. Due to the postponement of the 2024 MTFS, the SFC forecasts published alongside the Scottish Budget 2024-25 were followed by forecasts alongside the 2025-26 Scottish Budget on 04 December 2024.

[13] Fiscal framework data annex
[14] Fiscal framework outturn report: 2024

42. Table 16 of the FFOR showed the total provisional reconciliations to be applied to the Scottish Budget 2025-26 amounted to positive £490.1 million. This is the net impact of the revenue and BGA reconciliations for Income Tax for 2022-23, and for the provisional BGA reconciliations for fully devolved taxes and social security benefits expenditure for 2023-24.

43. At the Autumn Budget 2024, the reconciliation was updated for available outturn data, resulting in a reconciliation of positive £499.9 million to be applied to the Scottish Budget 2025-26 being agreed with HM Treasury. Following the Department for Work and Pensions (DWP) publication of UK Government welfare expenditure outturn in November 2024, the reconciliation was updated further, reducing it by £7.2 million to £492.7 million. However, under the terms of the Fiscal Framework, the Scottish Government has the option to defer the impact of outturn which is not published at least two months in advance of the publication of the Scottish Budget by one budget year.

44. Due to this change to the outturn BGAs being less than two weeks from publication of the Scottish Budget 2025-26, the Scottish Government chose to defer the £7.2 million negative impact of the updated outturn to the Scottish Budget 2026-27. Therefore, a reconciliation of positive £499.9 million was applied to the 2025-26 Scottish Budget.

Impact of population back-revisions and outturn changes on Scottish Budget 2024-25

45. Calculations of BGAs rely on updated mid-year population estimates from the Office of National Statistics (ONS) for the rest of the UK (rUK) and the National Records of Scotland (NRS) for Scotland. However, all BGAs from the 2023-24 and 2024-25 Scottish Budgets were calculated using the ONS mid-year 2020 population estimates. This was primarily due to timing differences between the Scottish and rUK censuses and their subsequent inclusion into the ONS and NRS mid-year estimates.

46. Until the Scottish census results were factored into Scottish population estimates, it was not possible to calculate the relative growth rates between Scotland and the rUK on a consistent basis. Consequently, it was agreed with HM Treasury 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.

47. Up to date population estimates for Scotland and rUK are now available, with the ONS and NRS having published their back-revised population estimates for 2011 to 2021 (in November 2023 and July 2024, respectively). From July 2024, BGAs have been calculated using up-to-date, comparable Scotland and rUK growth rates.

48. While the Scottish Government and HM Treasury have agreed that a reconciliation will take place for the interim period in which mid-2020 population estimates were used, an agreement has yet to be made on whether historical BGAs should be reconciled to account for the population back-revision. The Scottish Government and HM Treasury will reach agreement on this in the round with a series of other outturn changes that have occurred. They are as follows:

- A correction to historical HMRC Income Tax outturn in Scotland and rUK from 2017-18 to 2020-21. Further information on this correction can be found in the joint statement with HM Treasury on the 2022-23 income tax reconciliation[15].
- Changes to DWP outturn data for England and Wales, used for social security BGA calculations
- The use of provisional DWP outturn in Scottish Budget 2024-25 BGA calculations, with outturn published after the budget.

Income Tax Reconciliation

49. Outturn data for Income Tax for 2022-23 was published by HMRC on 3rd October 2024[16] and a reconciliation of positive £451 million was applied to the Scottish Budget 2025-26. This was part of the overall reconciliation for tax and social security outlined in paragraph 42. This was the sixth Income Tax reconciliation since the implementation of the Fiscal Framework. Further information on the reconciliation can be found in the Fiscal Framework Outturn Report[17].

Pension Age Winter Heating Payment

50. The social security benefit Pension Age Winter Heating Payment (PAWHP) was 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 (2023-24).

51. Under Section A.46 of the Fiscal Framework[18], the Scottish Government has the option to defer in-year reconciliations when the impact is due to a UK Government policy change introduced after the Scottish Government's Budget. The means-testing of the equivalent Winter Fuel Payment resulted in an in-year reduction to the 2024-25 BGA of £146 million. Therefore, the Scottish Government had the option to defer the impact of the reduction until the final

[15] Income tax outturn reconciliation 2022-23: joint statement with HM Treasury
[16] Income Tax outturn reconciliation 2022-2023: joint statement with HM Treasury
[17] Fiscal framework outturn report: 2024 - gov.scot
[18] Fiscal framework: agreement between the Scottish and UK Governments - gov.scot

reconciliation applied to the Scottish Budget 2026-27. The Scottish Government elected to not defer.

Future plans

52. The Scottish Government will work with HM Treasury to find a principle-based resolution to the outstanding issues relating to outturn to avoid agreeing issues on a case-by-case basis.

53. The UK and Scottish Governments are working closely together to agree BGA arrangements for when the Scottish Aggregates Tax is devolved, taking account of the provisions of the Fiscal Framework agreement[19]

[19] Fiscal framework: agreement between the Scottish and UK Governments - gov.scot

6. Borrowing and Scotland Reserve

Capital Borrowing

54. 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 2023 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). The uprated limits are:
    a. 2024/25: £457.547 million (annual)
    b. 2024/25: £3.050,316 billion (cumulative)
    c. 2025/26: £471.678 million (annual)
    d. 2025/26: £3.144,519 billion (cumulative)

2024-25 drawdown

55. The Scottish Government borrowed £139 million in 2024-25 to support Infrastructure and Investment expenditure.

56. The was drawn down from the National Loans Fund on 27 March 2025. This will be repaid over 10 years at an interest rate of 4.47%.

2025-26 borrowing plans

57. The Scottish Budget 2025-26 outlined plans to borrow £472 million to support Capital expenditure.

58. The Scottish Government published a memorandum[20] alongside the 2025-26 Scottish Budget detailing its revised borrowing policies in the context of the Fiscal Framework review. For capital borrowing the Scottish Government has adopted the following guidelines:

    - Use £300 million of capital borrowing per annum as the default assumption; and
    - This will be amended as necessary to meet budget specific or in-year requirements; and
    - Ensure, by way of a fiscal test, that at least £1.5 billion of capital borrowing headroom remains available for the subsequent parliamentary term.

59. Final decisions on the specific borrowing arrangements for 2025-26 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.

[20] Scottish Budget 2025 to 2026: Scottish Government borrowing - gov.scot

Capital debt stock

60. The Scottish Government has accumulated £2.2 billion in capital debt as at the end of 2024-25, 74% of its overall limit. Details of the capital borrowing and repayment schedule can be found in Table 6.1.

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

£million	2017-18	2018-19	2019-20	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	607	1,036	1,258	1,617	1,744	1,814	2,026	2,227	2,245	2,576	2,716	2,835	2,937	3,033
New Borrowing in year (incurred)	450	250	405	200	150	300	300	139	-	-	-	-	-	-
New Borrowing in year (forecast)	-	-	-	-	-	-	-	-	472	300	300	300	300	300
Principal Repayments	-	7	26	52	60	67	79	100	120	129	132	135	125	115
Interest Repayments	-	8	11	13	14	16	24	34	39	37	34	31	28	25
Resource Cost of Borrowing Incurred	**-**	**15**	**37**	**64**	**74**	**83**	**103**	**135**	**160**	**166**	**166**	**166**	**153**	**140**
Principal Repayments	-	-	-	-	-	-	-	-	-	10	28	43	58	75
Interest Repayments	-	-	-	-	-	-	-	-	-	22	39	54	69	84
Resource Cost of Forecast Borrowing	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**32**	**67**	**97**	**128**	**158**
Projected Total Resource Cost	**0**	**15**	**37**	**64**	**74**	**83**	**103**	**135**	**160**	**199**	**233**	**263**	**281**	**298**
Notional Borrowing Repayments	21	21	21	21	21	21	21	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	2,245	2,576	2,716	2,835	2,937	3,033	3,123
Dept Cap	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,050	3,145	3,249	3,316	3,380	3,444	3,513
Percentage of Debt Cap	35%	42%	54%	58%	60%	68%	74%	74%	82%	84%	86%	87%	88%	89%
Headroom	1,964	1,742	1,383	1,256	1,186	974	773	805	569	533	480	443	411	389

- Projections are based on borrowing incurred plus plans outlined at the Scottish Budget 2025-26, with interest rates applied of **27 March 2025**. A 50 basis point premium is applied to all future interest rate assumptions
- Forecast Debt Cap limits are based on GDP deflator forecasts as at the Scottish Budget 2025-26, which will be revised annually.

Resource Borrowing

61. 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). The uprated limits are:
    a. 2024/25: £610.063 million (annual)
    b. 2024/25: £1.779,351 billion (cumulative)
    c. 2025/26: £628.904 million (annual)
    d. 2025/26: £1.834,303 billion (cumulative)

62. 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).

2024-25 drawdown

63. In 2024-25 the Scottish Government did not utilise the resource borrowing facility reflecting the improvement in the tax and social security positions between the start and the end of the financial year.

2025-26 borrowing plans

64. In the Scottish Budget 2025-26, Scottish Ministers outlined plans to not borrow for resource.

65. Borrowing decisions for 2025-26 will be finalised in March 2026 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 6.2: 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	353	219	103	692	607	475
New Borrowing in year (incurred)	207	319	47	104	-	-	-	-	-	-	-
New Borrowing in year (forecast)	-	-	-	-	-	-	-	654	-	-	-
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	-	-	-	-	-	-	-	-	58	121	127
Interest Repayments	-	-	-	-	-	-	-	-	30	29	23
Resource Cost of Forecast Borrowing	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**88**	**150**	**150**
Projected Total Resource Cost	**0**	**21**	**77**	**114**	**132**	**142**	**121**	**67**	**116**	**162**	**150**
Debt Stock at end of Year	207	505	480.3	476	353	219	103	692	607	475	348
Dept Cap	1,750	1,750	1,750	1,750	1,779	1,834	1,895	1,934	1,972	2,009	2,049
Percentage of Debt Cap	12%	29%	27%	27%	20%	12%	5%	36%	31%	24%	17%
Headroom	1,543	1,245	1,270	1,274	1,426	1,616	1,793	1,242	1,365	1,534	1,701

Scotland Reserve

66. 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 is indexed to inflation and the drawdown limits of £250 million for resource and £100 for capital were abolished from 2024-25. The uprated cap on the Scotland Reserve was £711.740 million for 2024-25 and

£733.721 million for 2025/26. There are no annual limits for payments into the Scotland Reserve.

2024-25 Reserve Position

67. The latest forecast Scotland Reserve position is detailed below. 2024-25 drawdown plans are unlikely to change materially however additions are subject to provisional and final outturn processes. Therefore, the final Scotland Reserve position for 2024-25 will not be confirmed until later in the calendar year.

Table 6.3: 2024-25 Forecast Reserve position (£ million)

	Resource	Capital	FTs	Total
2024-25 Opening balance	264.4	142.8	4.4	411.5
2024-25 Drawdowns	(264.4)	(142.8)	(4.4)	(411.5)
2024-25 Forecast Additions*	200.0	-	-	200.0
Forecast Balance	**200.0**	**-**	**-**	**200.0**

*2024-25 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 was 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 sixteen benefits, and will provide support worth over £6.7 billion to around 2 million people in 2025-26.

Costs

Table 7.1: Implementation and Administrative Costs

£m	**2022-23**	**2023-24**	**2024-25**
Social Security Scotland	269	268	297
Advice, Policy and Programme	176	158	154
Of which: Programme Implementation	106	76	49

68. The costs set out in Table 7.1 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.

69. A more detailed breakdown can be found in the updated Social Security Programme Business Case (PBC), published in February 2023. 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 over 700,000 clients from DWP to Social Security Scotland, as well as adding the Scottish Child

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

70. 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.

2024-25 Developments

71. Executive competence for Carer's Allowance transferred to the Scottish Government on 3 September 2018, and for Attendance Allowance, Disability Living Allowance, Personal Independence Payment, Industrial Injuries Scheme, and Severe Disablement Allowance on 1 April 2020. 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 2024-25, Social Security Scotland has budgeted £16.4 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.

72. The Scottish Government funds implementation costs incurred by the UK Government as a result of the devolution of welfare powers. For 2024-25 we budgeted £11.5 million for implementation recharges.

<u>The Social Security (Scotland) Act 2018</u>

73. 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 2024-25 regulations have been made covering the introduction of Pension Age Disability Payment, Pension Age Winter Heating Payment and Scottish Adult Disability Living Allowance. Amendments have also been made to Funeral Support Payment.

74. The Social Security (Amendment) (Scotland) Act gained Royal Assent on 23 January 2025. Some parts of the Act 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.

Social Security Scotland

75. 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.

76. In November 2024, Social Security Scotland published its annual Client Survey, covering the period from April 2023 to March 2024, which showed that people continue to have a very positive experience of Social Security Scotland. 81% of people responding to the survey said their overall experience was 'very good' or 'good'; and 89% of people who had been in touch with a member of staff at Social Security Scotland reported that they had been treated with kindness.

77. Social Security Scotland directly employed 3,909 Full Time Equivalent staff across its various sites as at 30 September 2024[21]. 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 is provided in Social Security Scotland's Annual Report and Accounts for 2023-24[22], which were published in November 2024, in accordance with statutory timescales.

78. With the pilot launch of Pension Age Disability Payment in October 2024, Social Security Scotland's service has now expanded to sixteen 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

79. A pilot of Pension Age Disability Payment was launched in October 2024. The payment opened up for new applications in further local authority areas in March 2025 and was made available nationally in April 2025. Pension Age Disability Payment provides help with the cost of additional care needs for people of state pension age. The phased rollout of Carer Support Payment, the replacement for Carer's Allowance, concluded with the national launch in November 2024. The payment provides 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 were unable to access Carer's Allowance.

[21] Social Security Scotland - Social Security Scotland – workforce information: September 2024
[22] Annual Report and Accounts 2024

Case Transfer

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

81. We have safely and securely transferred the awards of more than 398,000 people, amounting to over £2.2 billion in payments since October 2021. We have completed transferring the Disability Living Allowance for Children awards of every eligible child and young person in Scotland to Child Disability Payment. Over 47,000 awards were transferred in all. More than 300,000 people have now had their awards of Personal Independence Payment and Disability Living Allowance for adults safely and securely transferred to Adult Disability Payment, over 90% of the Personal Independence Payment awards we expect to transfer. Since transfer from Carer's Allowance to Carer Support Payment began in February 2024, over 45,000 carers have had their transfer completed. Transfer from Attendance Allowance to Pension Age Disability Payment and remaining Disability Living Allowance cases to Scottish Adult Disability Living Allowance began in February and March 2025 respectively.

82. We remain on track to meet our aim of completing case transfer for all relevant disability and carer benefits in 2025.

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. In September 2024 the Scottish Government brought forward regulations to introduce Pension Age Winter Heating Payment. The timing of the UK Government announcement to restrict eligibility of Winter Fuel Payment meant that it was not practicable for the Scottish Government to deliver Pension Age Winter Heating Payment in winter 2024-25. It was therefore delivered by the DWP on behalf of Scottish Ministers under an Agency Agreement for winter 2024-25, providing support to pensioners in receipt of a relevant qualifying benefit, such as Pension Credit.

86. Ahead of next winter, the Scottish Government has confirmed that it will bring forward regulations to introduce a universal Pension Age Winter Heating Payment in winter 2025-26 for all pensioner households in Scotland. From

winter 2025-26, pensioners in Scotland in receipt of a relevant qualifying benefit, such as Pension Credit, will rec £203.40 or £305.10 depending on their age. Additionally, we will introduce universal payments of £100 to every other pensioner household not in receipt of a relevant benefit, recognising that many pensioners who are not entitled to Pension Credit and other relevant benefits are also in need of support.

87. Disability payments are now available for people of all ages across Scotland through Child Disability Payment, Adult Disability Payment (ADP) and Pension Age Disability Payment. We are committed to undertaking an independent review of ADP 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.

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. The Scottish Government has convened a Steering Group of external experts to examine the overarching aims for EIA and identify priorities for reform.

89. In December 2024, the Scottish Government announced plans to mitigate the impacts of the two-child limit in 2026. The two-child limit prevents families receiving the Universal Credit child element for more than two children, with some exceptions. Mitigation will be a payment equal to the child element for each eligible third and subsequent child and could be worth over £3,500 per eligible child per year for families impacted by the two-child limit.

90. The mitigation will be administered by Social Security Scotland and work is underway, with cooperation from the UK Government, to develop the systems, data sharing and legislation necessary to deliver the payments.

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	2022-23	2023-24	2024-25
Implementation	0	0	0
Administration/Operation	25.8	23.4	59.1

2024-25 Developments

91. Referrals to Fair Start Scotland ended 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. In their December 2024 forecasts, the Scottish Fiscal Commission changed their approach for Employability Services, including spending on Fair Start Scotland and elements of No One Left Behind that fall within their remit[23]. They estimated that around 60 per cent of the Employability budget falls under their remit for 2024-25. This change does not result in additional spending by the Scottish Government but reflects an increase in forecasting scope consistent with the Scotland Act 2016 for 2024-25.

92. Scottish Ministers remain committed to supporting the delivery and continuous improvement of devolved employability services for those experiencing structural barriers to entering employment, which includes the cohorts set out in the Scotland Act 2016. Devolved employability support is now delivered solely through the No One Left Behind approach, which covers all five stages of the employability pathway[24], from referral and engagement, through to in work support and aftercare.

93. On 13 September 2024, we published our strategic plan for devolved employability services, which outlines our actions to deliver key priorities such as raising awareness of employability support, increasing parental income to tackle child poverty and supporting those with long-term health conditions over the three-year period to 2027[25]. Further, work is also underway on our Programme for Government commitment to implement Specialist Employability Support for disabled people and people with long term health conditions across all 32 local authorities by Summer 2025. This activity will enhance provision for disabled people already available through No One Left Behind,

[23] Scotland's Economic and Fiscal Forecasts (SEFF) - December 2024 (revised version 22 January 2025)
[24] https://www.employabilityinscotland.com/resources-for-partners/the-employability-pipeline
[25] 1. Plan on a page - No One Left Behind: employability strategic plan 2024 to 2027

with the aim of ensuring that more disabled people and those with long-term health conditions can access and sustain secure, fair work.

94. We have continued to regularly publish official statistics releases on Fair Start Scotland service performance, alongside independent evaluation reports. The latest statistics release on Fair Start Scotland[26], covering the period from launch (April 2018) to end September 2024, shows that there were 70,513 starts and 26,565 job starts. Similarly, the latest statistics release on No One Left Behind[27], covering the period April 2019 to September 2024, shows that 73,470 people started receiving support, with 22,782 (31%) people having entered employment and a further 10,519 (14%) entering further or higher education or training.

Future Plans

95. Reaching those who are economically inactive remains a priority and work is underway to increase reach and awareness of our services, including with Social Security Scotland, Justice, Childcare, Carers as well as supporting the review of the skills landscape in Scotland.

96. The Strategic Plan sets out a commitment to refresh the Shared Measurement Framework[28] to improve ease of use and ensure a clearer focus on the wider impact of our support. Further, we are committed to improving reporting on progress and the wider support provided to individuals on their journey towards positive outcomes, particularly for those further from the labour market. We are committed to continuous improvement, and to support this, we are developing a programme of evaluation which will run over several years to add to our evidence base of what is working, and where further improvements may be required across devolved employability services. This will build on previous evaluations of Fair Start Scotland[29], and on the implementation evaluation conducted for No One Left Behind in 2022[30].

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[26] Scotland's Devolved Employment Services: No One Left Behind Statistical Summary February 2025
[27] Scotland's Devolved Employment Services: No One Left Behind Statistical Summary February 2025
[28] Employability Shared Measurement Framework - Supporting Documents Published | Employability in Scotland
[29] Summary - Fair Start Scotland - evaluation report 5: participant phone survey - years 4 and 5 - November 2023 - gov.scot
[30] Executive Summary - No One Left Behind and the Young Person's Guarantee: implementation evaluation

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; implementing the changes agreed in the 2023 review of the Fiscal Framework and progress on policy spillovers.

2024-25 Developments

Implementing changes from the Fiscal Framework Review 2023

97. 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.

98. 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[31]. A summary of the changes agreed are in Chapter 9 of last year's report[32].

Uprating of borrowing and reserve limits

99. The Scottish Government's cumulative resource and capital borrowing limits, detailed in Chapter 6, are set out in sections 67(2) and 67A(1) of the Scotland Act 1998[33] (SA 1998), respectively. As these cumulative limits are uprated annually, an annual Scotland Act Order (SAO) must be laid, which replaces the stated limit in the SA 1998 with an agreed uprated figure.

100. The SAO to uprate the 2024-25 cumulative borrowing limits came into force on 25 May 2024.

101. Ministerial agreement was reached between the Cabinet Secretary for Finance and Local Government and the Cabinet Secretary to the Treasury on 11 February 2025 to lay a SAO to amend the cumulative borrowing limits stated in SA 1998 for to reflect the uprated limits for 2025-26.

Progress on policy spillovers

102. The Fiscal Framework includes an agreement there should be no detriment as a result of UK government or Scottish Government policy decisions post-devolution. Specifically, where either government makes a policy decision that affects the tax receipts or expenditure of the other, the decision-making

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31 Fiscal framework: agreement between the Scottish and UK Governments
32 Scotland Act 2016 implementation: eighth annual report
33 Scotland Act 1998 (legislation.gov.uk)

government will either reimburse the other if there is an additional cost, or receive a transfer from the other if there is a saving.

103. After carrying out analysis using the agreed social security spillovers methodology for direct spillovers (direct and mechanical effects of a policy change), Scottish Government and Department for Work and Pensions (DWP) analysts agreed the devolution of Scottish benefits produced no material spillover effects on expenditure for either Government in 2021-22 or 2022-23. This agreement only relates to potential spillovers from Scottish benefits passporting to UKG benefit premia.

104. Due to DWP resourcing constraints and previous agreements of no material effects, Scottish Government and DWP analysts have agreed to pause joint social security spillovers analysis of premia passporting as of 2023-24, without prejudice to future requirements for spillovers analysis.

Future plans

105. The Fiscal Framework states that reviews should take place on a five yearly basis but not more than once in any UK or Scottish electoral cycle. The Fiscal Framework will next be due for review in 2028 – although could in principle happen earlier if both sides agreed.

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Any enquiries regarding this publication should be sent to us at

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Edinburgh
EH1 3DG

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