

Scottish Budget 2023/24 Accounts Commission Briefing

February 2023

 AUDIT SCOTLAND

2023 saw a change in leadership, high inflation, industrial action, and pressures on public spending

- The Scottish Budget announced 19 December followed on from the UK Autumn Statement 22 November
- The Scottish Government had committed to publishing multi-year budgets with the budget but did not do so, stating “it could be misleading to plan too far ahead across the board.”
- The budget process is ongoing – parliamentary committees are holding budget scrutiny sessions, and the stage 1 debate is planned for the afternoon of 8 February
- The bill is expected to pass in February and receive royal assent in March
- The UK Spring budget on 6 March will likely be the last before the General Election, and this could have implications for the Scottish budget during 2024/25
- This budget briefing:
 - sets the key messages included in the Budget pertaining to local government
 - links key announcements to SG priorities and the Commission's work

Financial bulletin shows pressure on councils

- The Financial Bulletin 2022/23 set out the financial pressures on councils in recent years, and councils still showed a budget gap for 2023/24. We note that reform of services will remain necessary to identify recurrent savings
- Funding from Scottish Government has increased as has ring-fenced funding in recent years. We note that the 2024/25 budget reduces ring-fenced funding
- Councils have placed an increased reliance on raising council tax to help deliver a balanced budget over the past two years. If councils agree to the proposed council tax freeze this will have important implications for the level of financial resources they have available in 2024/25.
- The bulletin recommendations for councils chime with budget developments, to:
 - Prioritise achieving recurring savings to enhance longer-term financial sustainability
 - Work with the Scottish Government to accelerate progress in the development of a fiscal framework for local government
 - Strengthen their monitoring and reporting of financial resilience

Pre-budget scrutiny and Scottish Government response

- The Local Government, Housing and Planning Committee (LGHPC) published its pre-budget scrutiny in late October. The Scottish Government responded to this alongside the budget.
- We have highlighted some key points for the pre-budget scrutiny below.

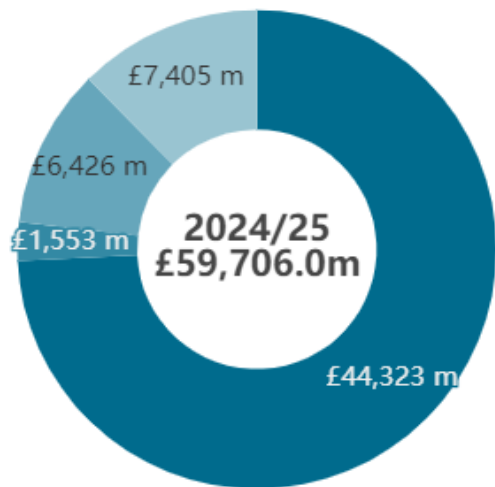
LGHPC recommendations	SG response
A fiscal framework for local government should be agreed as soon as possible to provide financial certainty for councils	The Scottish Government is committed to developing a fiscal framework, and has undertaken a first review of ringfenced funding for the 24/25 Budget
The Scottish Government should provide the flexibility and financial certainty for councils to effectively plan their workforces	The Scottish Government is committed to working with councils to ensure they can tackle workforce challenges, and has already undertaken some joint work in this area
The Scottish Government should formally respond to the Withers' Report on the skills gap in local authorities.	The Scottish Government has accepted many of the recommendations in the report, but some require further consideration before committing to them.

The Scottish Budget 2024/25

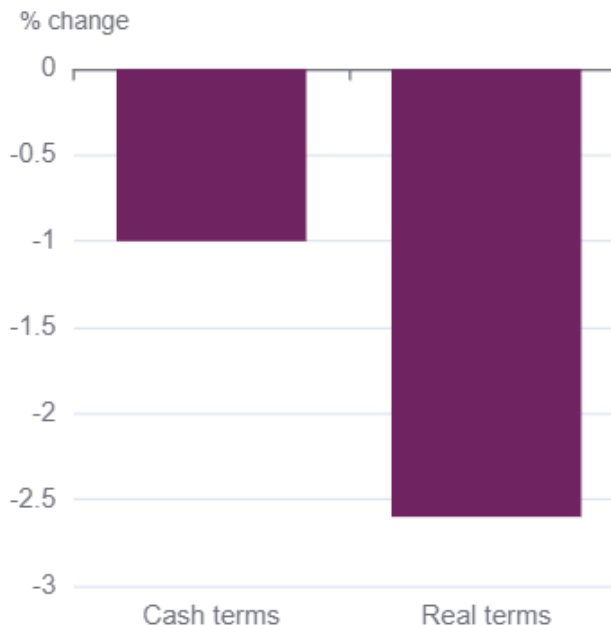
The Scottish Budget in 2024/25

The overall budget decreased by 1 per cent in cash terms and by 2.6 per cent in real terms

Funding by type in 2024/25



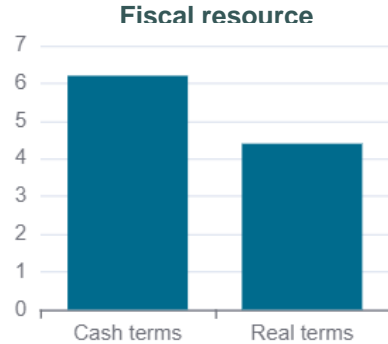
Change in total budget since last year



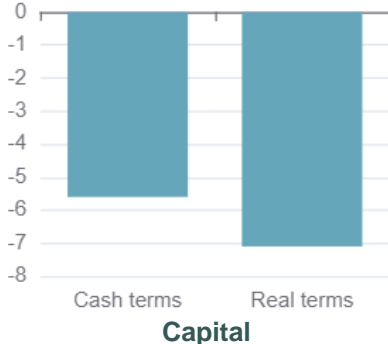
This change is calculated by comparing the budget announced in December 2022 for 2023/24 to the budget announced in December 2023 for 2024/25. This does not account for any changes to spending during the year.

Elements of the Scottish Budget in 2024/25

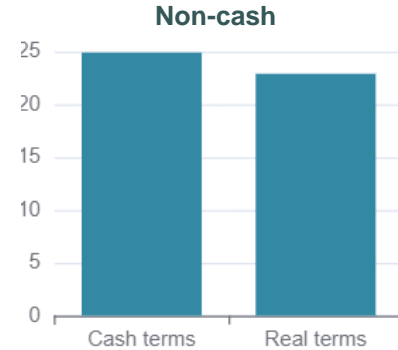
*The budget includes some elements that do not impact the Scottish Government's spending power
Fiscal resource (day-to-day spending) has increased, while capital has fallen*



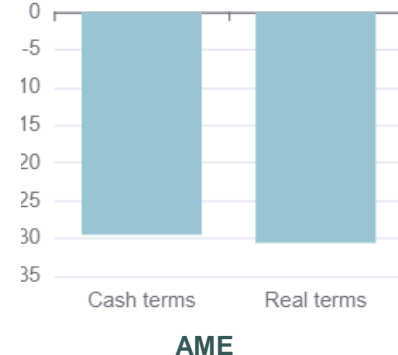
Fiscal resource is used for spending on the operating costs for public services. By far the largest area of the budget, this grew by 4.4% in real terms in 2024/25 compared to last year



Capital includes both 'capital', used to invest in capital projects, such as new hospitals or schools, and financial transactions, used to make loans. Financial transactions have fallen by over half since 2023/24



Non-cash covers costs such as depreciation – this does not affect Scottish Government spending power.



AME includes demand-led spending in areas such as NHS and Teachers' pensions; it is ring-fenced funding from the UK Government. This does not affect the Scottish Government's spending power. AME fell by 31%.

Source: [Audit Scotland Budget dashboard](#), Jan 24

Budget for local government

(figures in £ million)	Cash				Real (2023/24 prices)	
	2023/24	2024/25	£ change	% change	£ change	% change
General Revenue Grant (including baselined specific grants)	8,085	8,404	319	4%	180	2%
Non-Domestic Rates Income	3,047	3,068	21	1%	-30	-1%
<i>Total GRG & NDR</i>	11,132	11,472	340	3%	151	1%
Specific resource grants after baselining	230	239	9	4%	5	2%
Support for capital	608	477	-131	-22%	-139	-23%
Specific capital grants	139	121	-18	-13%	-20	-14%
Core Funding to Local Government	12,109	12,309	200	2%	-3	0%
Revenue funding in other portfolios to be transferred to LG	1,043	1,534	492	47%	466	45%
Capital funding in other portfolios to be transferred to LG	80	40	-40	-50%	-41	-51%
Total Local Government Settlement in the finance circular	13,231	13,883	652	5%	423	3%

Source: 2024/25 Scottish Budget, Tables A2.05 and A2.16; AS analysis

Scottish Government

- The budget statement sets out a 6% increase in overall funding to over £14bn
- This is in cash terms, based on the total settlement (£13.89bn) plus £144m for the council tax freeze.
- Scottish Government include £144m of funding held for agreement of Council Tax Freeze and £3.3m of administration costs in their spending plans.*
- If these figures are included, Core Funding increases by £344m compared to 2023/24, a 1% real terms increase.

COSLA

- COSLA's budget reality document suggests a £62.7m cash cut to core revenue funding
- This is calculated by taking the General Revenue Grant from 23/24 and adding on areas where additional funding is required
- Most of these are where funding has been baselined and is included in GRG for 2024/25 – but two areas (LG Pay, £266m, and Foster and Kinship Care, £16m) did not receive specific extra funding
- On this basis, GRG increased by £1,270m, short of the £1,332m expected by COSLA

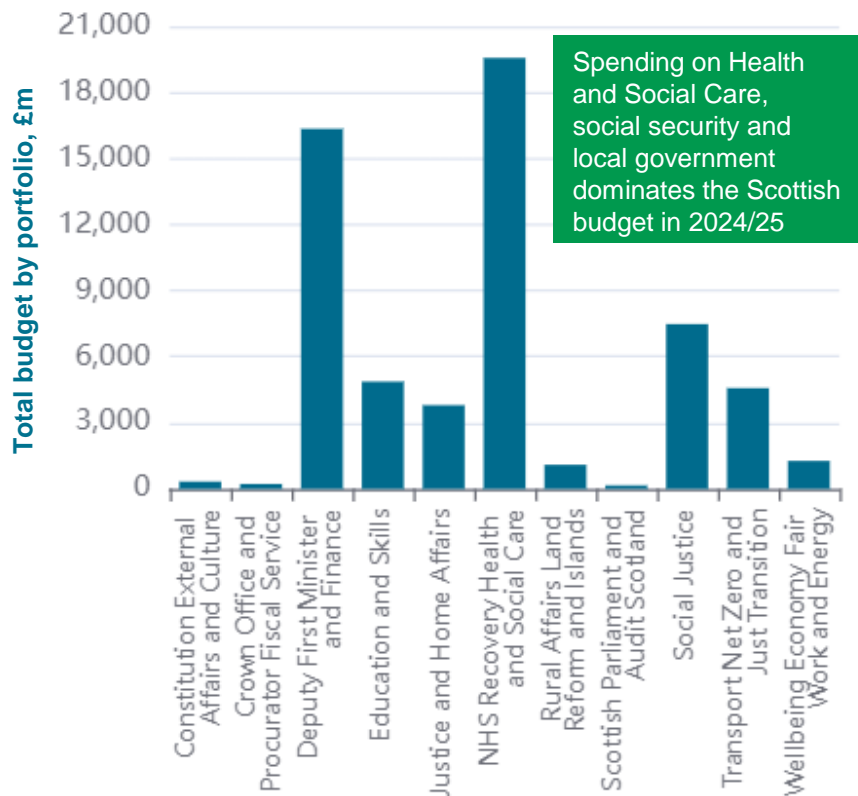
* We have excluded these in the table on slide 8, in line with Budget Table A2.16

- A New Deal with local government was a key pillar of the Scottish Government's reform agenda, as set out in its Medium-term financial strategy
- This was agreed in June and is known as the Verity House Agreement
- This set out that “[f]rom this point onwards, the default position will be no ring-fencing or direction of funding”
- Consequently, £951m of ring-fencing was baselined into the General Revenue Grant for 2024/25. This includes:
 - £521.9m of specific grants for Early Learning and Childcare
 - £429m in funding from other portfolios from 9 funding lines
 - The largest of these was for the Living Wage (£333.5m in 2023/24)
 - The smallest was £0.7m for the Blue Badge scheme
- The Scottish Government and COSLA continue to work on a fiscal framework for local government. An update from 14 December reports further work is needed to complete and agree upon a final draft.

Revenue funding from other portfolios £m cash terms	2023/24	2024/25
Health & Social Care	257	257
Teachers Pay	–	242
Living Wage	–	230
School Workforce	146	146
Care at Home	124	124
Health, Social Care & Mental		
Health	120	120
Discretionary Housing Payments	86	93
Carer's Act	61	61
Scottish Welfare Fund	41	41
Whole Family Wellbeing Fund	32	32

- 31 transfers will be made from other portfolios to local government in 2024/25
- This totals to £1.5bn– the table shows the largest
- Revenue funding from other portfolios has increased by £492m in cash terms since 2023/24
- 96% of this is for new pay costs – e.g. Teachers Pay deals agreed in-year in 2023 and new Living Wage commitments
- The majority of other funding lines stay flat in cash terms

Breakdown by portfolio



- Portfolios changed in 2023:
 - The Social Justice Housing and Local Government portfolio was split
 - Local government now is in the Deputy First Minister and Finance (DFM&F) portfolio
 - Social Justice is now its own portfolio – this covers issues including social security, third sector, housing, equalities
- The largest portfolios are NHS Recovery, Health and Social Care, and DFM&F
- Spending in DFM&F is split 76% local government, 21% pensions, and 3% other

- £144 million has been provided to councils by the Scottish Government to fund a freeze to Council Tax. The Scottish Government state this funding is equivalent to a 5% net increase in Council Tax nationally.
- COSLA has claimed that this is insufficient and have stated that £300 million would be needed to fully fund a 5% freeze.
- At a meeting of the Local Government, Housing and Planning Committee on 9 January, four local government directors of finance stated:
 - Considering cuts to other council budget areas, £144m covers an average 2.8% freeze
 - The interaction of reduced settlements and the floor mechanism will see some councils effectively receive no funding cover for the council tax freeze
- The floor ensures no council sees its funding fall by more than 1.04%. This means funding is redistributed – Fife's reduces by £10m; Glasgow's increases by £30m
- At time of writing, Argyll & Bute, Orkney and City of Edinburgh councils have suggested they may not accept the freeze.

LG taxes in the 2024/25 budget

- Changes announced to Non-domestic rates (NDR):
 - freezing the Basic Property Rate (poundage) at 49.8p
 - increasing the Intermediate Property Rate to 54.5p
increasing the Higher Property Rate to 55.9p
 - 100% Hospitality Relief for Scottish Islands
Properties capped at £110,000 per ratepayer
 - Enterprise Areas relief phased out over 2 years
- The DFM noted she could not match the UK 75% rates relief to retail, hospitality and leisure.
- Fraser of Allander report that Scottish Government may receive £230m in Barnett Consequentials as a result of the UK rates relief, and forecast it could have cost Scottish Government £360m to match the policy
- Scottish Government have committed to exploring the reintroduction of a NDR Public Health Supplement for large retailers

Scottish Fiscal Commission forecast for NDR

£ million	2024/25
Baseline	3,176
Basic Property Rate	-199
Intermediate Property Rate	22
Higher Property Rate	149
Policy recostings	-2
Scottish Islands Hospitality Relief	-4
Enterprise area costing	0
NDR forecast with policy changes	3,143

Source: *SFC Economic and Fiscal Forecasts*, Dec 23

New taxes under consideration relevant to local government

- **Visitor Levy:** the Visitor Levy bill passed Stage 1 in Parliament in mid-January. This gives local authorities the power to introduce a visitor levy on the overnight accommodation cost, with the rate set by the local council. This is likely to be implemented in 2026.
- **Devolved Building Safety Levy:** used to fund the Cladding Remediation Programme, replicating the UK levy. Scottish Government propose to bring in the levy on a national basis collected by Revenue Scotland, whereas in England revenue will be collected by local authorities. UK Government has released a [consultation](#).
- **Cruise Ship Levy:** the Scottish Government are exploring if such a levy can be included in the Visitor Levy Bill. It is not clear what the rules of Cruise Ship Levy would be.
- **Land management:** commitment to consider a proposal for a Carbon Emissions Land Tax, a proposal by the [John Muir Trust](#). It is not clear how this would be administered.
- **Infrastructure Levy:** Scottish Government will continue to work over the coming year to explore an Infrastructure Levy (paid when planning is approved), to be implemented by spring 2026. The [Minister for Social Security and Local Government](#) has commented in the past that this would give local authorities an additional mechanism for seeking financial contributions towards the cost of infrastructure. Policy development is at an early stage.

Links between the 2024/25 budget and the Commission's work programme

What the budget means for the Commission's work programme, 2024/25 (1)

Product	Developments related to the 2024/25 budget
Digital exclusion (joint)	SG has committed to investing £10 million capital in targeted device and connectivity provision for our most disadvantaged households with children.
Integration Joint Board Report 2024 (AC)	SG has committed to increasing pay for adult social care workers to £12/ hour, costing over £200 million. The budget document does not make clear how much has been set aside for the National Care Service.
Best Value thematic report: Leadership (AC)	Director of Finance evidence at the Local Government, Housing and Planning Committee Budget Scrutiny Session identified that “Recruiting at senior and professional level is virtually impossible” in local government.
Drug and alcohol services (joint)	Funding for Drugs and Alcohol policy is flat in cash terms, compared to 2023/24
Additional support for learning (joint)	Funding for Additional Support for Learning is flat in cash terms (£15m)
Sustainable transport (joint)	Transport capital funding for local government outwith the core settlement has been cut, with funding no longer provided for the Future Transport Fund (£33m in 23/24); Support for Sustainable and Active Travel (£1m in 23/24); or Travel Strategy and Innovation (£12.9m in 23/24)

What the budget means for the Commission's work programme, 2024/25 (2)

Product	Developments related to the 2024/25 budget
Spotlight on homelessness services (AC)	Flat cash funding to LG for the Homelessness Prevention Fund (£30.5m). In addition, the Scottish Government commits to “invest £35 million in specific action to end homelessness and reduce the number of households living in temporary accommodation”. More widely, the budget for Affordable Housing has been cut by £200m – this has generated a strong reaction from stakeholders. SPICe cover these issues in their recent blog .
LG Workforce (AC)	Scottish Government commits to funding the £12 per hour real Living Wage for adult and children’s social care and early learning and childcare workers in the private, voluntary and independent sectors who deliver funded provision. GRG includes a £120.6 million Capital to Revenue switch in 2024/25 to help fund pay deals. SPICe note that this £120.6 million was in the capital budget line in 2022/23 and 2023/24, even though it was subsequently transferred to support the revenue budget. The flexibility to support this is set out in circulars 12/2022 and 6/2023 .
Adapting to Climate Change (joint)	Funding for the Just Transition Fund fell from £50m in 2023/24 to £12.2m for 2024/25. As set out above, capital funding for LG has fallen significantly in year. Financial transactions allocated to the Scottish National Investment Bank will fall from £238m in 2023/24 to £174m in 2024/25.

What the budget means for the Commission's recent outputs

Product	Developments related to the 2024/25 budget
Early learning and childcare: Progress on delivery of 1,140 hours expansion	Funding the £12 per hour real Living Wage for early learning and childcare workers. As set out above, £521.9 m of funding for ELC has been baselined for local government. A case study of the equalities and human rights impact of ELC funding was provided this year alongside the budget (see below)
City Region and Growth Deals - Progress report	City Deals funding is flat in cash terms at £100m in 2024/25.
Adult mental health services	NHS mental health spending is flat in cash terms at £290m in 2024/25, as is the £120m Health, Social Care & Mental Health transfer to Local Government and £15m of funding for Community Mental Health & Wellbeing. In 2022/23 and 2023/24 local government received £3.7m for Mental Health Recovery and Renewal, but no further funding was provided for this line in 2024/25

Key themes for local government from the 2024/25 budget

LG finance is likely to continue on the same trajectory as set out in last month's financial bulletin

- Overall, the local government budget increases in real terms compared to the budget for 2023/24, although different categories of spend show different trends
- Councils continue to identify pressures due to inflation – “This is a Budget which will mean job losses” (COSLA's Resources Spokesperson Councillor Katie Hagmann)
- Workforce remains a key pressure for local government, as will be covered in next year's BV thematic report
- Capital spending is increasingly under pressure, with implications for central and local government joint priorities
- “capital budgets are reducing... [a]s such, working towards a net zero future may have become even more challenging for Scotland's councils.” (SPICe). This will be significant for the upcoming Sustainable Transport output
- The lack of multi-year budgets or significant progress on the local government fiscal framework suggests that the issues raised in the financial bulletin are unlikely to change in the near-term.

Equality & Fairer Scotland Budget Statement (EFBS) (1)

- The EFBS looks at the impact of the Budget on people in Scotland. The approach has changed since last year, making it harder to map changes over time
- For each portfolio, the EFBS sets out what is known about existing inequalities, and how Programme for Government priorities contribute to tackling these inequalities, linking to relevant information
- Local government sits within the Deputy First Minister and Finance portfolio, and the EFBS does not comment on the detail on the equalities impact of local government spending.
- It does note that the work is continuing on the Verity House Agreement, and that “this work will support a wide range of activity that will directly and indirectly tackle inequalities.”
- It also notes that funding for local government takes account of issues such as demographics and disadvantage and allocates resources based on relative need.
- SPICe note that “Unlike the equivalent analysis accompanying the 2023/24 Budget, there is no analysis of the impact of how spending has changed”
- SPICe also note that the EFBS does not set out the impact on inequalities of the trade-offs that had to be made when the budget was set

Equality & Fairer Scotland Budget Statement (EFBS) (2)

- The EFSBS this year this includes 8 case studies across a range of budget lines, considering equalities and human rights questions
- We have summarised the case studies on alcohol and drugs policy and early learning.

Alcohol and Drugs Policy (£99.1m in 2024/25): Summary of case study

What outcome is the policy and associated budget decision aiming to achieve? The overall aim of the National Mission is to reduce drug deaths and improve the lives of those impacted by drugs. All funding is agreed to, and distributed with the intent of achieving the overall aim and 6 supporting outcomes.

What do you know about existing inequalities of outcome in relation to the budget area? The case study sets out the known evidence around drug deaths inequalities – particularly in relation to deprivation.

How will your budget decisions impact upon different people and places? The majority of drug and alcohol funding to local areas is distributed on a National Resource Allocation (NRAC) formula to prioritise areas of most need.

How will your budget decisions contribute to the realisation of human rights? The increase of funding into drug policy represented a 67 per cent increase in funding from 2014-15 to 2022-23 in real cash value terms.

Could the budget be used differently to better address inequalities of outcome and advance human rights? Scottish Government are supporting the development of a Charter of Rights for people affected by drugs and alcohol. This will set out how existing rights, and rights in the forthcoming Human Rights Bill apply for people affected by substances.

How will the impact of the budget decisions be evaluated? A set of metrics is under development which will be used to monitor progress towards the National Mission Outcomes. The National Mission is being independently evaluated by Public Health Scotland (PHS), ensuring that the evidence around impact is considered in a balanced and objective way.

Early Learning and Childcare (£996m in 2024/25): Summary of case study

What outcome is the policy and associated budget decision aiming to achieve? 3 outcomes have been set, and mapped against the National Performance Framework to show where evidence suggests childcare has the most impact.

What do you know about existing inequalities of outcome in relation to the budget area? The current ELC Census collects data on whether a child is recorded as disabled, whether they have an Additional Support Need (ASN) and whether the child's home language is not English. A new ELC Census is being developed. Wider sources of data are quoted.

How will your budget decisions impact upon different people and places? There is strong evidence that children from disadvantaged backgrounds benefit most from high quality ELC programmes.

How will your budget decisions contribute to the realisation of human rights? ELC provision must be delivered in a way that ensures equality of access for, and accounts for the varying needs of, all children. The Scottish Government's practice guidance 'Realising the Ambition: Being Me' has a focus on valuing and upholding the rights of children.

Could the budget be used differently to better address inequalities of outcome and advance human rights?

Scottish Government have plans in place to fully evaluate the outcomes achieved by the '1140' expansion by 2025. Given this, and the fact that ELC funding supports statutory provision, Scottish Government suggests there is likely to be limited scope to use the ELC budget differently.

How will the impact of the budget decisions be evaluated? The Scottish Study of Early Learning and Childcare (SSELC) is the main vehicle for collecting evaluation evidence. The SSELC is a cross-sectional and longitudinal study, designed to evaluate the impact of the ELC expansion on child and parent outcomes. Baseline data was collected during 2018 and 2019 from children and parents accessing 600 hours of funded ELC and the same data will be collected during 2023 and 2024 from a sample of children and parents accessing 1,140 hours.

Appendix: Changes in portfolios

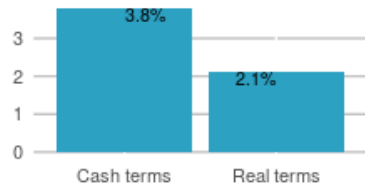
The slides below show the changes in the budget for 2024/25 compared to 2023/24 for the 9 main Scottish Government portfolios. These slides do not include the small portfolios relating to the Crown Office and Procurator Fiscal Service, the Scottish Parliament and Audit Scotland.

This analysis only covers resource and capital (including financial transactions), and does not include AME or non-cash. The balance of capital and resource funding varies across portfolios.

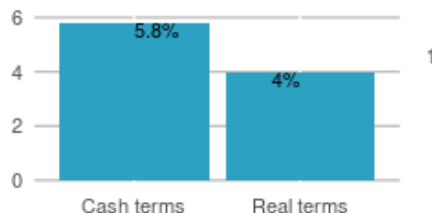
Portfolio changes and key announcements (1)

% change

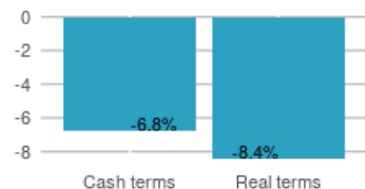
Deputy First Minister
and Finance



Constitution External
Affairs and Culture



Wellbeing Economy Fair
Work and Energy



Key announcements

Deputy First Minister and Finance (now includes local government)

- £144 million to freeze council tax in 2024/25
- £1.5 million for councils to cancel school meal debt
- £230 million for Living Wage in Health and Social Care and ELC

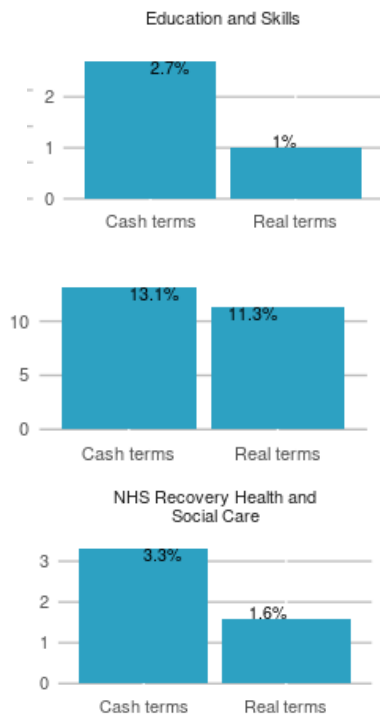
Constitution, External Affairs and Culture

- Increase of £15.8 million for culture, part of a commitment to invest additional £100 million in the sector by 28/29

Wellbeing Economy, Fair Work and Energy

- Additional £47 million of capital for R100 project
- Continued support for Ferguson Marine, but lower than in 23/24
- Reductions to Scottish National Investment Bank funding

% change



Key announcements

Education and Skills

- £200 million to address the poverty-related attainment gap
- £43 million of capital to support the expansion of free school meals
- Additional £21 million to support £12/ hour pay for ELC staff

Justice and Home Affairs

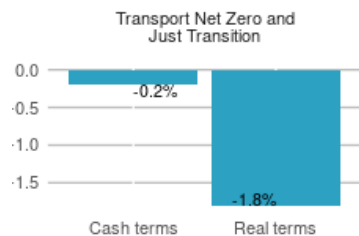
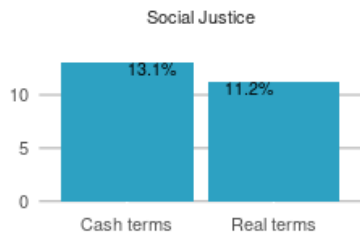
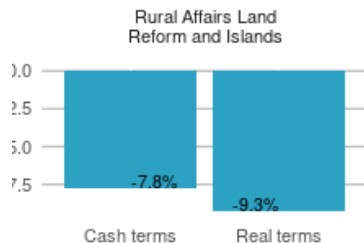
- An additional £70 million of capital for HMP Highland and Glasgow
- 6.4% (cash, £90m) increase to the policing budget
- Additional £30 million for Scottish Fire and Rescue Service

NHS Recovery, Health and Social Care

- £14 billion for NHS Boards
- £1 billion for budget line National Care Service / Adult Social Care
- Additional funding for social care staff pay to at least £12/hour

Portfolio changes and key announcements (3)

% change



Key announcements

Rural Affairs, Land Reform and Islands

- All areas except Rural Services and Forestry and Land have seen reductions to their budgets in cash terms
- Additional £4 million for Forestry and Land Scotland

Social Justice

- Additional £1 billion for social security payments
- All devolved benefits uprated by 6.7% (CPI rate of inflation)
- 42% increase in funding for cladding remediation

Transport, Net Zero and Just Transition

- Funding for energy efficiency upgrades held flat in cash terms
- Additional £10m of capital for A9 dualling and A83 improvements
- Climate Change budget line funding reduced by 49% (cash terms)

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- This pack draws on data released in advance of the budget by the Office for Budget Responsibility (OBR), UK Government (UKG) and Fraser of Allander (FAI)
 - It includes analysis of the Scottish budget as announced 19 December, and the Scottish Fiscal Commission (SFC) forecasts published alongside the budget
 - It also reflects commentary by Scottish Parliament Information Centre (SPICe) published after the budget
 - We have used Audit Scotland's [new SG budget analysis dashboard](#) developed by our data analytics team.