SCOTTISH GOVERNMENT
RATING AGENCY PRESENTATION

17 & 19 September 2025

In the service of Scotland

Scottish Government
Riaghaltas na h-Alba
gov.scot

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TODAY'S PRESENTERS

Alyson Stafford

DG Scottish Exchequer

Serving as DG Scottish Exchequer since Jul 2017. Previously, joined the Scottish Government in 2005, and served as Director-General Finance and Director of Finance

Gregor Irwin

DG Economy

Serving as DG Economy since Mar 2023. Previously, served as Chief Economist and a Director at the Foreign and Commonwealth Office, having also worked at the Bank of England, HM Treasury

Jackie McAllister

Chief Financial Officer

Serving as CFO since Nov 2020. Previously, served as Deputy Director of Finance and Control in the Foreign, Commonwealth & Development Office, and held senior finance roles in the UK Civil Service & local government

Gary Gillespie

Chief Economist

Gary was appointed Director and Scottish Government Chief Economic Adviser in 2011. He joined the civil service in 2000 from the Fraser of Allander Institute

Jennie Barugh

Director of Exchequer Strategy

Serving as Director of Exchequer Strategy since April 2024. Previously, joined Scottish Government in late 2018 as Director for Performance and Strategic Outcomes

1. EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

Securing a credit rating is a critical prerequisite for the Scottish Government's ("SG") plan to issue bonds in the public market:

- This will help SG to promote fiscal transparency, improve access to capital markets, and bolster its financial reputation among investors and stakeholders
- Obtaining a public credit rating will further enable SG to effectively showcase its independent credit fundamentals, such as economic capacity, budgetary discipline, debt management, and institutional stability, within the context of the UK's overarching sovereign framework
- A Credit Rating itself begins to deliver on the Investor Panel Recommendation

The SG bond issuance programme has three strategic aims:

1. To ensure the SG can access diverse and cost-effective sources of capital funding and enhance Scotland's fiscal sustainability
2. To raise Scotland's profile to financial investors
3. To further develop Scotland's institutions and fiscal disciplines

The Investor Panel Recommendation (2023)

"Scotland's profile could be significantly raised in the international capital markets by using existing devolved powers to issue debt. This will provide a motivation for regular engagement by investors and an opportunity to market Scotland's investment story. It would also allow the development of relationships with providers of debt, a track record and credit rating."

The Fiscal Framework Review (2023)

- The 2023 Fiscal Framework agreement between the UK and Scottish Governments lifted the nominal cap on Scottish Government Capital Borrowing ensuring that limits would increase with inflation.
- This created the opportunity for the Scottish Government to diversify sources of borrowing and structure debt in a more cost-effective manner

PROPOSED TIMELINE

September 2025

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

October 2025

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

November 2025

S	M	T	W	T	F	S
30						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29

Date	Event
17/19-Sep-2025	Rating Agency Meetings
24-Oct-2025	Communication of indicative rating outcome

Rating Agency Meetings

Rating Milestones

Targeted bond issuance 2026

KEY CREDIT HIGHLIGHTS

Strong Institutional Framework and Structural Support

Scotland benefits from a robust institutional framework, with the Consolidated Fund ensuring predictable funding streams whilst also providing strong structural support to debt holders

01

Supportive Economic Fundamentals

A large and diversified economy with relatively high GDP per capita, which underpins its revenue base and fiscal capacity. The scale and diversity of the economy supports resilience against cyclical fluctuations, while a broad revenue base reduces concentration risk

02

Strong Financial Management and Governance

Financial policies and transparent reporting, demonstrate effective governance and prudent long-term planning

03

Stable and Predictable Revenue Base

Revenues are anchored by the UK Government block grant mechanism, complemented by devolved taxation powers, underpinning budgetary stability

04

Low Debt Burden and Ease of Access to Funding

Scotland has a low debt burden of 13.9% debt to total operating revenue, coupled with privileged access to the National Loan Fund and ability to borrow and issue bonds in the capital markets

05

Robust Budgeting Process

A well-established budgeting process, coupled with prudent expenditure controls, ensures fiscal discipline and supports resilience against external shocks

06

2. INTRODUCTION

SCOTLAND AT A GLANCE

- Scotland is located in the northern part of the United Kingdom, bordered by England to the south. The country spans 78,000 square kilometres and has a **population of c.5.5 million people** as of 2023
- Scotland accounts for over 30% of UK landmass and 60% of the UK seabed
- Key areas of economic activity are Energy (Oil & Gas and Renewable Energy), Financial and Business Services, Manufacturing (Whisky and other Food & Drink), Tourism, Creative Industries
- Scotland places a strong emphasis on education and skills development, helping to build a resilient and well-equipped workforce. With 19 universities and 26 colleges, it has more institutions per capita than any other country
- Scotland is a devolved nation within the United Kingdom, with its own parliament, which has the authority to legislate on issues (devolved matters) including education, health, and few tax matters. While the UK Parliament has the mandate to legislate on defence, energy, monetary policy, foreign affairs, immigration, telecommunications, amongst others
- The Scottish Parliament was set up in 1999, following the 1997 referendum on devolution & passing of Scotland Act, 1998. The Parliament comprises of 129 members representing 73 constituencies & 8 regions of Scotland
- Scotland Act 2016 granted more powers to the Scottish parliament, including on certain income taxes & to set borrowing limits

5,490,100*
Population

* As of 30 Jun 2023

£223.4bn
Annual GDP*

* For fiscal 2024 including offshore oil & gas extraction

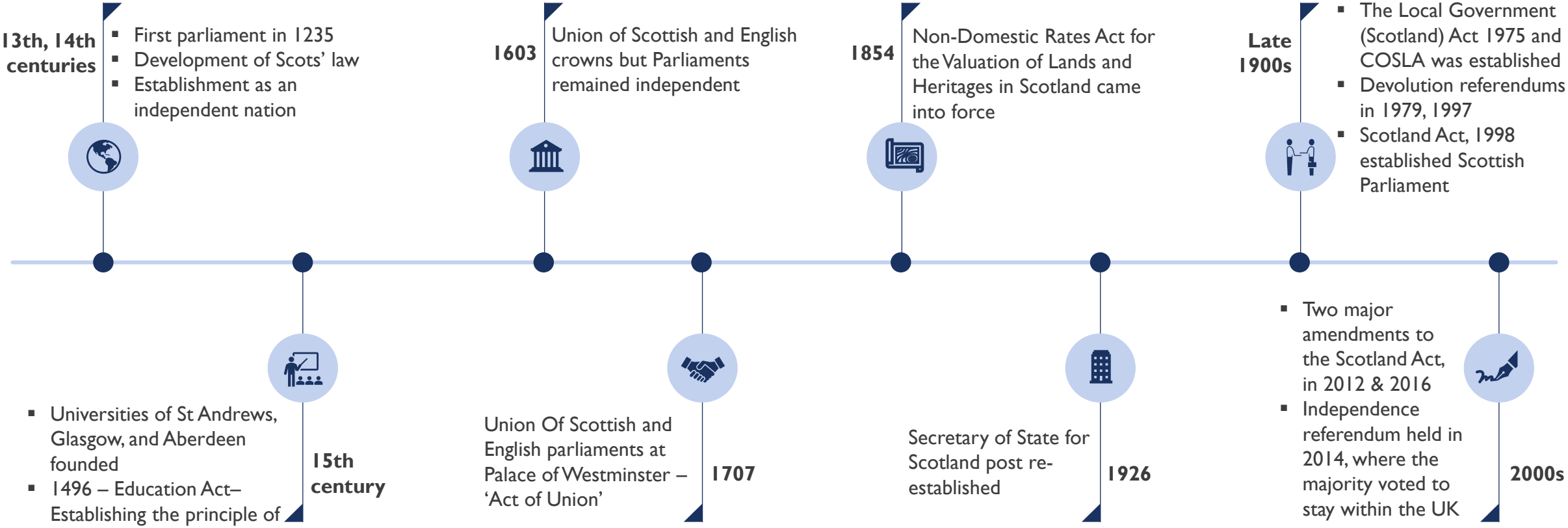
£40,339
Per capita GDP*

* For fiscal 2024

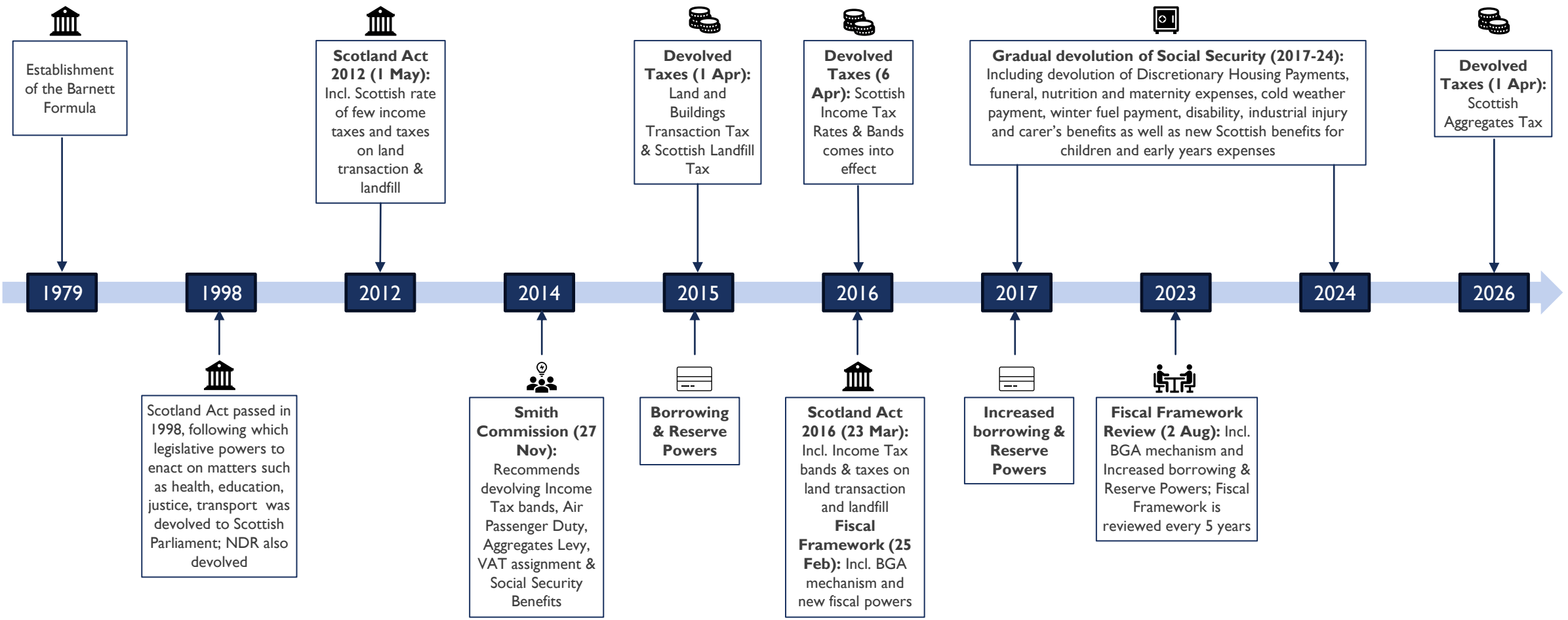
79.7%
Population < 65yrs*

* Mid-2023

SCOTLAND'S CONSTITUTIONAL HISTORY



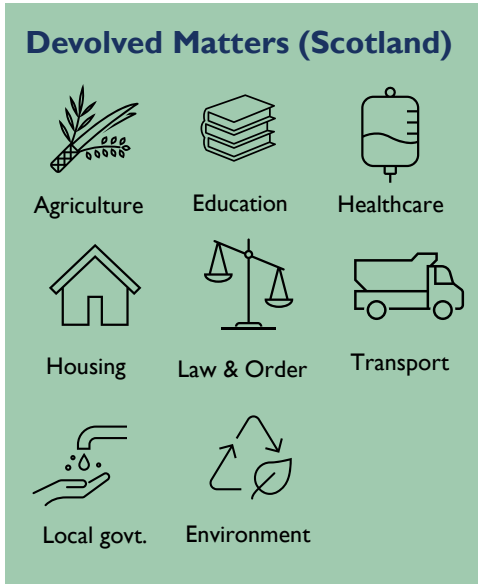
FISCAL DEVOLUTION HISTORY

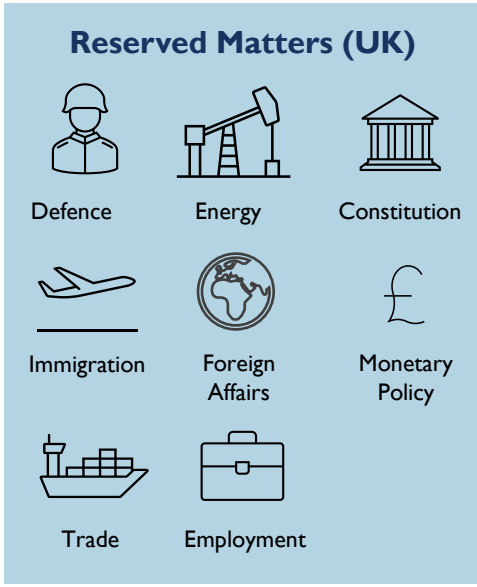


SCOTLAND'S RELATIONSHIP WITH THE UK

Relationship with the UK

- Devolution referendums were held in 1979 and 1997 following calls for greater powers and a larger share of UK-wide tax revenues. The Barnett formula, which determines the Block Grant, was introduced in 1978
- The Scotland Act 1998 established the Scottish Parliament and devolved government, granting legislative powers over most public service areas (Devolved Matters)
- The UK Parliament retains authority over Reserved Matters, such as constitutional issues, while respecting the Sewel Convention by seeking the Scottish Parliament's consent before legislating on Devolved Matters
- 'Secretary of State for Scotland' acts as the custodian of Scottish devolution settlement and represents Scottish interests in the UK government
- Scottish budget is mainly funded by an annual Block Grant from the UK government, supplemented by devolved taxes and sovereign borrowing. The Block Grant is annual funding from the UK government, representing Scotland's share of revenue collected through UK-wide taxes





£26bn
Devolved tax revenue in 2024-25

£48bn*
Block Grant in 2024-25

£61bn
Scottish Budget 2024-25

*Gross before adjustments

3. INSTITUTIONAL FRAMEWORK AND GOVERNANCE

CONSTITUTIONAL AND LEGISLATIVE FOUNDATIONS

The Scotland Act 1998 establishes a comprehensive constitutional and legislative framework for exercising devolved powers, thereby ensuring legal certainty and the effective functioning of self-government. In parallel, the Public Finance and Accountability (Scotland) Act 2000 establishes a robust statutory framework for the stewardship, auditing, rules for the Scottish Consolidated Fund and accountability of public finances, promoting fiscal transparency and institutional integrity

Constitutional and Legislative Foundations

Scotland Act 1998

- **Scottish Parliament:** Scotland's devolved legislature, responsible for law-making and decision-making on key areas incl. health, education, and justice
- **Scottish Ministers and Administration:** Responsible for a wide range of policy areas including health, education, justice, and transport, which have been transferred from the UK Parliament
- **Scottish Law Officers:** Oversees justice administration, provides legal advice to the government, and represents Scotland in legal affairs
- **Scottish Consolidated Fund :** is the central financial account through which the Scottish Government receives and disburses money for public services
- **The Auditor General for Scotland:** Audits the Scottish Government and public bodies to ensure transparency and accountability in public spending

Public Finance and Accountability (Scotland) Act 2000

- **Accountable Officers:** Ensure that public funds are used appropriately, efficiently, and in line with legal and financial standards within their organisation
- **Rules of Budgeting and Accounts:** Requires Scottish Ministers and other public bodies to prepare annual accounts and send them for auditing by the Auditor General for Scotland, or the Scottish Commission for Public Audit for Audit Scotland's accounts. The Act mandates that these accounts are prepared in accordance with directions from the Scottish Ministers
- **Audit Scotland:** Assists the Auditor General and the Accounts Commission in ensuring the efficient and effective use of public funds

SCOTLAND'S INSTITUTIONAL FRAMEWORK

Scottish Parliament (SP)

- The SP has 129 Members of the Scottish Parliament (MSPs), divided into 73 constituencies and 8 regions which are larger areas covering multiple consistencies
- The SP also includes 2 non-elected members/ Law Officers (the Lord Advocate and Solicitor General) who may participate in parliament but are not members and cannot vote
- Elections occur every 4–5 years; voters cast two vote: one for a constituency MSP and one for a regional MSP Constituency winners are decided by simple majority and are counted first
- Regional votes are then counted using a formula to allocate seats roughly in proportion to each party's vote share

Parliamentary committees play a crucial role:

- Hold the Scottish Government to account and inquiries
- Examine bills (proposed laws) and decide on amendments (changes)
- Introduce their own bills
- Consider petitions suggested by the public

129 MSPs | **73** Constituency MSPs | **56** Regional MSPs

Scottish Government (SG)

- The SG (previously the Scottish Executive) is the devolved government for Scotland, and is responsible for economy, education, health, justice, rural affairs, and other matters
- Powers reserved to the UK Government includes immigration, the constitution, foreign policy & defence
- After Scottish Parliamentary elections, a First Minister is nominated by the SP and appointed by His Majesty the King
- The First Minister then appoints the Scottish ministers to make up the Cabinet with the agreement of the Scottish Parliament and the approval of The King
- The First Minister leads the Scottish Government, with the support of the cabinet secretaries and ministers
- The SG is structured into a number of directorates, which are responsible for putting government policy into practice
- The Civil Service has 1 Permanent Secretary, 8 Director Generals and 40+ Directorates

1 First Minister | **11** Cabinet Secretaries | **11** Other Ministers

Local Governments (LG)

- LG comprises of 32 local authorities (or councils) which provide public services including education, social care, waste management, libraries and planning
- **Councils operate independently of central government** and are accountable to their electorates for the services they provide
- Each council is made up of councillors who are directly elected by the residents of the area they represent
- The council area is divided into a number of wards, and between two and five councillors are elected for each ward
- There are 1,226 councillors, elected every five years
- Within a council, a group of councillors selects 'Administration' which controls the running of the council
- The Council includes a Council Leader, Civic Head, Chief Executive and Officers
- Local governments can also borrow money from UK Public Works Loans Board and commercial banks

32 Local Authorities | **1,226** Elected Councillors

LG is governed in separate legislation and framework

SCOTTISH FISCAL LANDSCAPE – KEY SCOTTISH INSTITUTIONS

Revenue Scotland

- Established in 2015, Revenue Scotland collects and manages devolved taxes in Scotland
- Contributing to tax policy developments and leads on tax implementation
- Currently, administers two taxes: Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT)
- Planning to add two additional taxes: Scottish Aggregates Tax (SAT) and the Scottish Building Safety Levy (SBSL)

Audit Scotland

- Established in 2000, Audit Scotland assists the Auditor General and the Accounts Commission in ensuring the efficient and effective use of public funds
- Conducts financial and performance audits of public entities, along with the management of public services, policies and major projects
- Covers ~£59bn of public spending and 300 public sector accounts

Scottish Fiscal Commission

- Established in 2017, The Scottish Fiscal Commission is an independent institution that produces Scotland's official, independent economic and fiscal forecasts to accompany the Scottish Government's Budget cycle
- The institution publishes two reports each financial year forecasting Scottish GDP, income from devolved taxes and expenditure on devolved social security benefits

Crown Estate Scotland

- Crown Estate Scotland (Interim Management) was established in 2017 as a public corporation to oversee the management of the Scottish Crown Estate assets
- Crown Estate Scotland became the manager of all the assets from April 2020
- Manages rural, coastal and marine assets, as well as other commercial property, and work independently from Scottish Ministers under their own Board

SIGNIFICANT DEVOLVEMENT OF POWERS PROVIDE FLEXIBILITY

Devolved and reserved powers

The Scottish Parliament has power and flexibility to make laws on a range of issues known as devolved matters. There are some issues that have a UK or international impact, which is the responsibility of the UK Parliament alone, and are known as reserved matters

Devolved Matters:

- Agriculture, forestry and fisheries
- Benefits (some aspects)
- Consumer advocacy and advice
- Economic development
- Education and training
- Elections to the Scottish Parliament and local government
- Energy (some aspects)
- Environment
- Equality legislation (some aspects)
- Fire services
- Freedom of information
- Health and social services
- Housing
- Justice and policing
- Local government
- Planning
- Sport and the arts
- Taxation (some aspects)
- Tourism
- Transport (some aspects)

Reserved matters

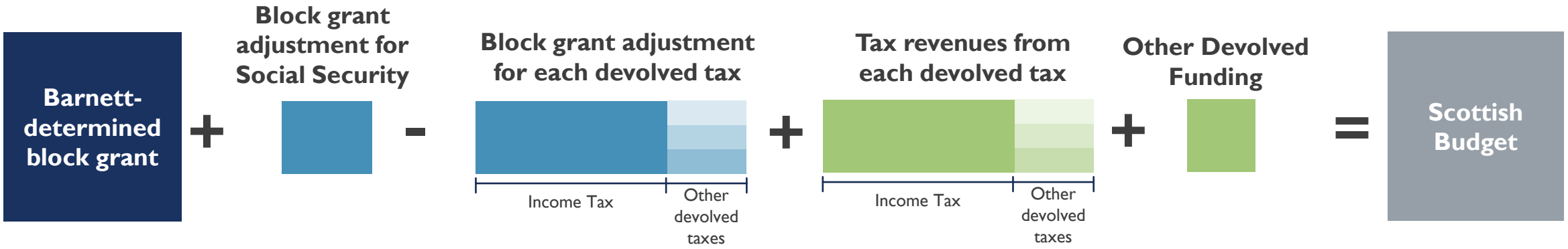
- Benefits (some aspects)
- Betting and gambling
- Broadcasting
- Constitution (some aspects)
- Consumer protection policy
- Currency
- Data protection
- Defence and national security
- Equality legislation (most aspects)
- Energy (most aspects)
- Elections to the UK Parliament
- Employment law and industrial relations
- Financial services
- Foreign affairs
- Immigration, asylum and visas
- Nationality and citizenship
- Postal services
- Taxation (some aspects)
- Telecommunications
- Trade and industry
- Transport (some aspects)

Recent reforms and bills

Aggregates Tax and Devolved Taxes Administration Act	▪ A government bill that became an Act on 12 November 2024 ▪ This Bill sets out the aggregates tax to be created for Scotland, and describes materials, such as sand, rock or gravel, compacted together to be used in construction and other industries
Building Safety Levy Bill	▪ A government bill that was introduced on 5 June 2025 and is at Stage 1 ▪ The Bill introduces a new tax to be charged on the construction or conversion of residential property developments, with some exceptions
Visitor Levy Act	▪ A government bill that became an Act on 5 July 2024 ▪ The Bill allows a visitor levy, a type of fee or tax, to be charged on overnight stays in some types of accommodation ▪ Each local authority can decide the charge and its level

ESTABLISHED FISCAL FRAMEWORK

The Fiscal Framework supports the financial relationship between the UK Government and the devolved Scottish Government. It delineates how Scotland is funded, the range of its taxation and spending powers, borrowing regulations, and the management of fiscal risk



Influenced by:

UK Benefit Policy

OBR forecasts

Influenced by:

UK Tax Policy

Growth in **UK Taxes**

OBR forecasts

Influenced by:

Scottish Tax Policy

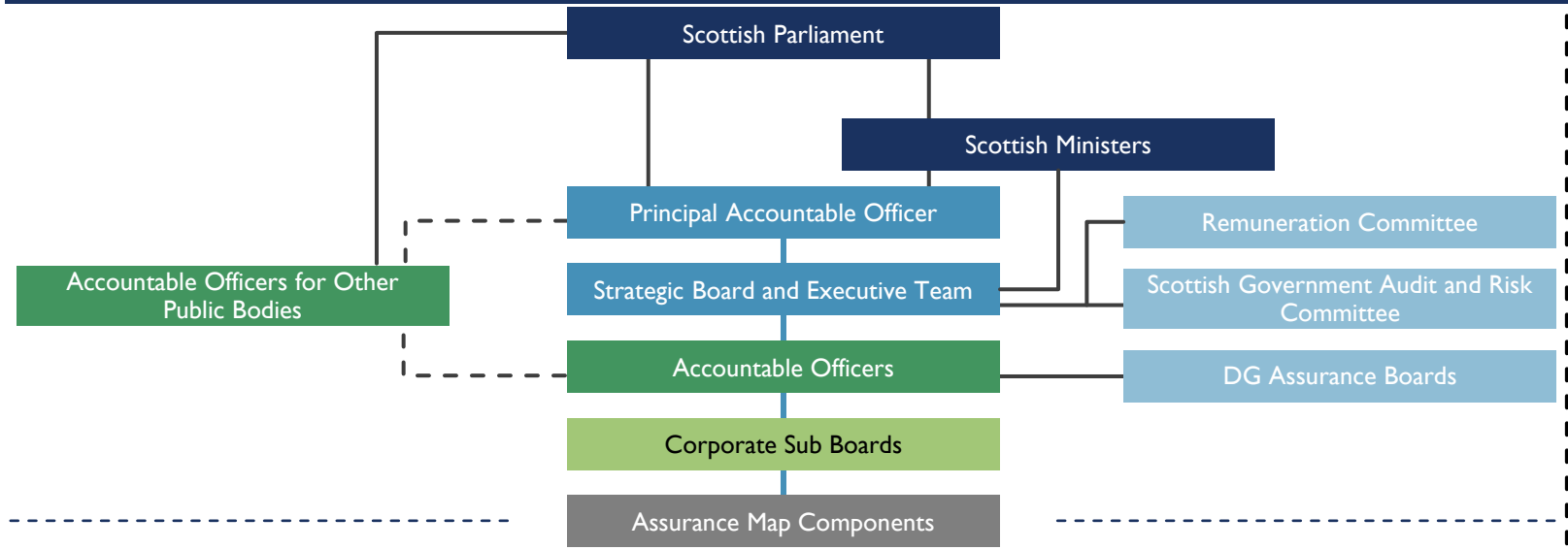
Growth in **Scottish Taxes**

SFC forecasts

Notable other sources of devolved funding include:

- Capital Borrowing
- Resource Borrowing
- Funding from the Scotland Reserve
- Crown Estate Scotland Income (particularly ScotWind)

SCOTTISH GOVERNMENT GOVERNANCE



1st line of defence	2nd line of defence		3rd line of defence	Other independent assurances
Implementation of policies and processes	Setting of Policies	Training and Guidance	Internal Audit	Audit Scotland
Risk Management	Professional Standards	Corporate oversight and challenge		Non-executive Directors
Financial Management and decision making	Oversight of processes	Maintenance of Performance and Risk frameworks		Gateway Reviews and PPM Assurance
SRO and Information Asset Owners				
Performance Management				

Accountable Officers (AO)
- Answer to Scottish Parliament for application of public funds
- Give evidence to the Public Audit Committee about the expenditure & performance of respective responsibility
- Ensure the propriety and regularity of the finances comply with relevant legislation and guidance
- In the UK, Accounting Officers are closely controlled by the Treasury for their power and responsibility, while in Scotland, a more devolved and collaborative model, under the permanent secretary is in place

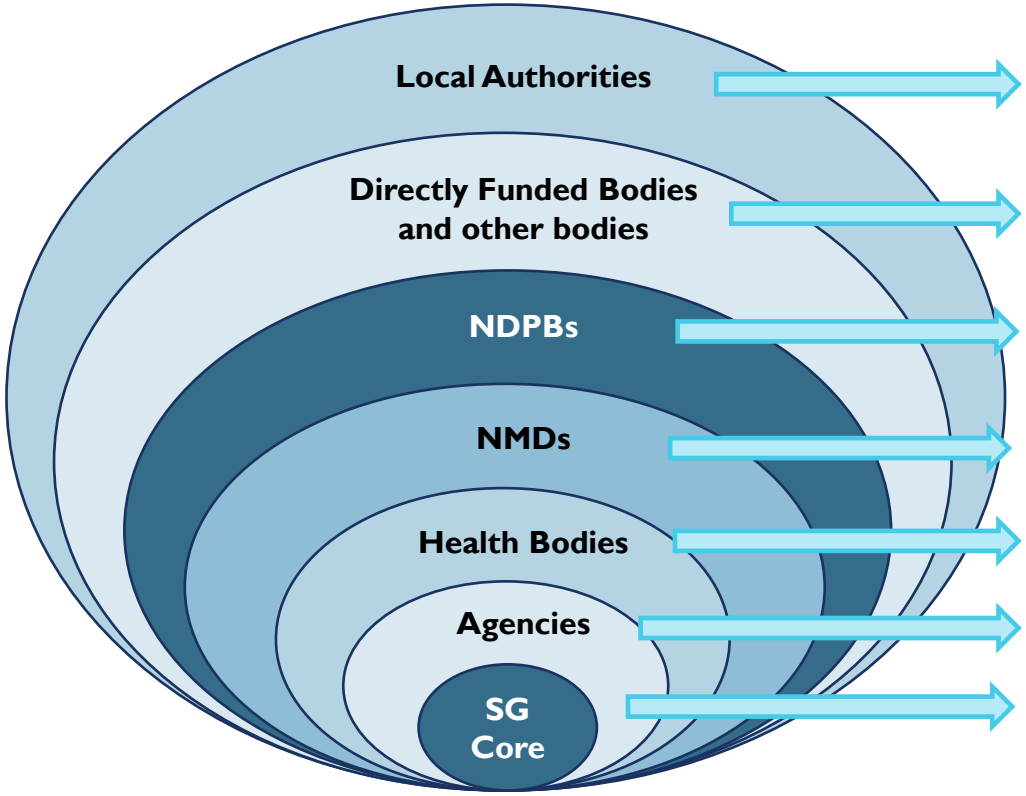
Non-executive Directors
- Provide effective challenge and support on performance with a focus on continuous improvement
- Foster a supportive, innovative workplace
- Assess the quality of risk management arrangements
- Proactively support the learning and sharing of risks and opportunities with peers across organisational boundaries

Corporate Boards
- Provide leadership and management oversight in delivering the Programme for Government in line with the Scottish Government's Business Strategy
- Deliver effective use and stewardship of public money
- Seek assurances on the progress of organisational priorities
- Develop organisational capability, wellbeing and resilience

Individuals
- Support Accountable Officers in the delivery of their statutory responsibilities in the use of public funds
- Support the Scottish Government's goals through directorate engagement
- Act with integrity, honesty, objectivity and impartiality
- Adhere to relevant professional codes of conduct

SCOTTISH PUBLIC FINANCE MANUAL (SPFM)

- SPFM is issued by Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds
- The SPFM outlines the relevant statutory, parliamentary, and administrative requirements, emphasising the importance of economy, efficiency, and effectiveness, while promoting good practice and high standards of propriety.



Local Authorities	Subject to separate legislation and accounting practices: Local Government (Scotland) Act 1973; Local Government in Scotland Act 2003; and Code of Practice on Local Authority Accounting in the United Kingdom. Accountable to their respective councils
Directly Funded Bodies and other bodies	Bodies funded directly by the Parliament include Audit Scotland and the Parliament Corporate Body. There are minor bodies such as inspectorates/panels that can form part of portfolio budgets or account separately. Others, such as SPA effectively operate as am Executive NDPB
NDPBs	NDPBs, unlike executive agencies and NMOs, are not part of the Scottish Government or the Scottish Administration. They carry out functions on behalf of Government; and operate within a framework of governance and accountability set by Ministers
NMDs	Staffed by civil servants. The nature of the body or the services it provides is such that it should be headed by an office-holder in the Scottish Administration
Health Bodies	Part of the consolidated accounts, and comprises of 14 regional health boards, 8 special health boards and the mental Welfare Commission for Scotland
Agencies	Staffed by Civil Servants and part of the consolidated accounts. Service being delivered at 'arm's length' from Ministers while remaining part of the Scottish Government
SG Core	The core SG portfolios. COPFS is reported separately and do not fall to a DG as AO but the Crown Agent

Covered by the SPFM

SIGNIFICANT FUNDING ACCESS VIA THE SCOTTISH CONSOLIDATED FUND

The Scottish Consolidated Fund ("the SCF"), established under Section 64 of the Scotland Act 1998, is the central account for public funds and finances all devolved spending by the Scottish Government. The SCF is operated by the Scottish Government Financial Management Directorate with the **Auditor General approving all drawdowns**

Purpose of the Fund

- Scottish Consolidated Fund acts as the main financial reservoir for Scotland's devolved government operations, finances the activities of the Scottish Government, Parliament, and associated public bodies and ensures that no funds are spent without formal approval from the Scottish Parliament, and auditor general
- The Scotland Act establishes a framework for Scottish government, with the Scottish Consolidated Fund acting as the primary fund for managing public money
- The annual Budget Act establishes cash authorization limits, which cap the total amount that can be withdrawn from the Scottish Consolidated Fund during a financial year. These limits are essential for maintaining financial discipline, ensuring that all disbursements are both within the approved thresholds and directed toward authorized expenditures

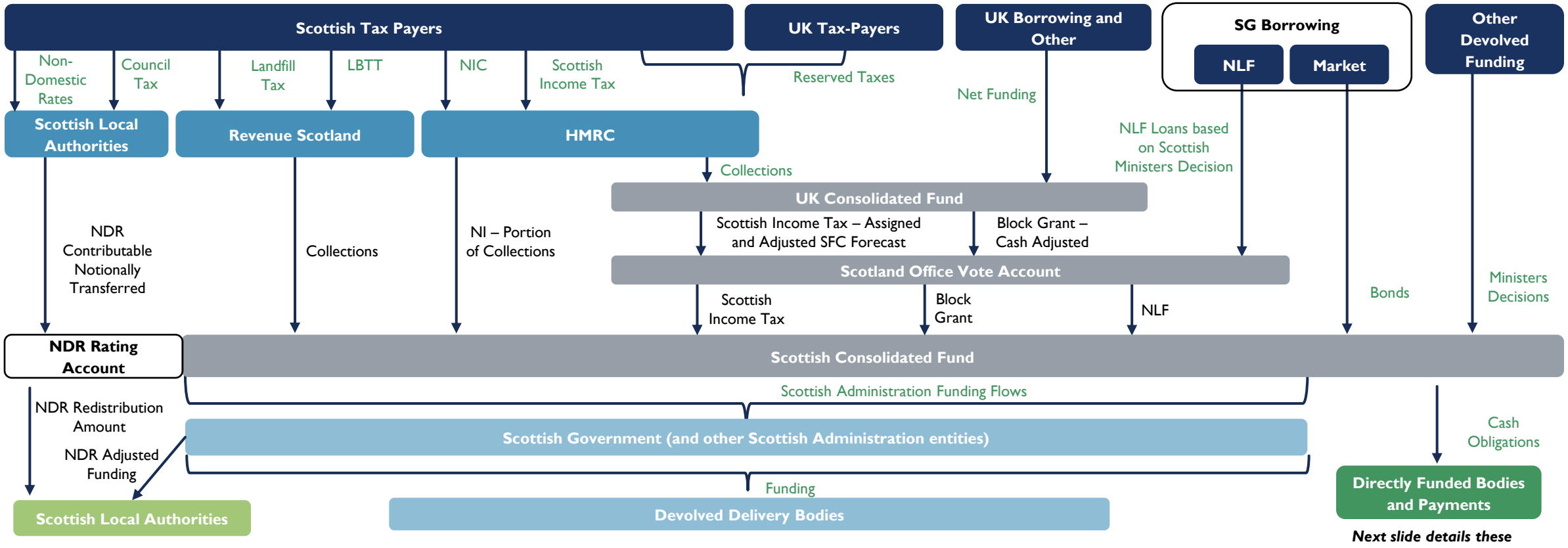
Sources of Funding

- **Block Grant from the UK Government:** Main funding source, determined via the Barnett Formula[1], supporting devolved areas such as health, education, and transport
- **Devolved Tax Revenues:** Includes Scottish Income Tax (collected by HMRC), fully devolved taxes like Land and Buildings Transaction Tax (LBTT), Scottish Landfill Tax (SLfT),
- **Non-Domestic Rates Income (NDRI)** collected by local authorities and assigned notionally to the SCF
- **Scottish Government Borrowing*:** Permitted under the Scotland Acts for cashflow (short-term), capital projects (up to £3bn total, £450m/year) and resource shortfalls (£1.75bn cumulative, up to £600m /year), subject to UK Treasury approval and repayable from the SCF
- **Other Income:** Revenues from penalties and forfeitures imposed by Scottish courts and public bodies, along with interest, loan repayments related to funds lent to various Scottish bodies, and miscellaneous receipts
- **Crown Estate Scotland (CES):** SG also receives revenues from CES, which was devolved in 2016 and owns and generates income from many natural assets

*[1] The Barnett formula calculates the annual change in the block grant. The formula doesn't determine the total size of the block grant just the yearly change * indexed in 2023-24 prices*

SCOTTISH GOVERNMENT FUNDS FLOW MECHANISM

The Scottish Consolidated Fund ("the SCF") receives funds from various sources including the UK Parliament for the purpose of "grant payable to the Fund", tax collected from Scottish people from various devolved taxes (such as income tax, land & building transactions tax, landfill tax, non-domestic rates and council tax), and funds from other sources. Only NSNDI income tax rates and bands are devolved, not all of income tax



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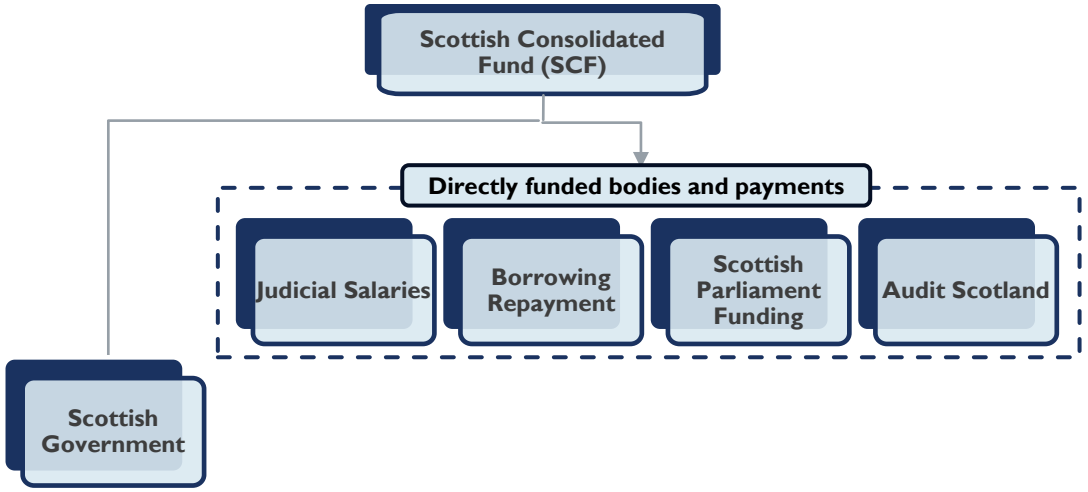
CREDIT ENHANCEMENT FEATURES IN THE SCOTLAND ACT

Structural Credit Enhancement



- **Greater sources of funding compared with spending:**
  - ✓ **SCF** is a **cash account** and accounts are prepared on that basis; **Scottish government** accounts are prepared on an **accruals (IFRS) basis**
  - ✓ **Block Grant and Scottish Income Tax flows are predictable but can also be adjusted on demand to meet requirements**
  - ✓ **Fiscal Framework cushions** Scotland against tax forecast errors and asymmetric shocks – this is reflected in the flow of funds between HMRC and the SCF.
  - ✓ Other devolved funding is institutionalised via revenue Scotland and crown estate Scotland
- Additionally, under sections 66(1A) and 66(2) of the Scotland Act 1998, Scottish Ministers are empowered to borrow through the issuance of bonds without requiring further approval from the Scottish Parliament. The Act also stipulates that any repayments and interest arising from such borrowing must be charged directly to the Scottish Consolidated Fund

Credit Enhancement (provided by Scotland Act 1998)

Statutory First Charge for Debt Servicing	▪ According to the Scotland Act 1998, any debt service obligations related to the amount borrowed by the Scottish Ministers to meet capital expenditure, **must be paid from the SCF.** Other direct charges and payments are illustrated above. ▪ This provides seniority to the debt obligations
Financial autonomy	▪ The purpose of charging repayments, or the repayment of interest, on the SCF is to allow the payments to be made without the need for any annual authorisation by the Scottish Parliament. ▪ Provides greater financial autonomy to manage finances without needing constant budgetary approval from the Scottish Parliament

4. SCOTLAND'S ECONOMY AND ECONOMIC STRATEGY

In the service of Scotland

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OVERVIEW OF SCOTLAND'S ECONOMY

GDP: £209.6bn
Onshore GDP (2024)

3.8%
Unemployment (2024)

2.45m
Payrolled employees (2024)

Average earnings forecast to grow faster than the UK

Wellbeing Economy

Income inequality
Performance maintaining

Proportionally, more earning RLW than r/UK

93% young people in work, education or training

Full time Gender Pay Gap (2.2%) lower than UK (7%)

Scotland's Businesses

358,235 private Sector businesses

No. of registered businesses increased by 715 in latest year

355,805 SMEs, providing an estimated 1.2 million jobs

No. of abroad owned Businesses increasing

Trade

£80 billion Total Exports

1/3 Exports International

16% of International Exports go to US

International exports increased by 6% (ESS 2021)

EU exports worth £15 billion

Inward Investment

9,000+ jobs generated (2024)

91 planned projects supported (2024)

US is the leading origin for investment

Most attractive destination in UK outside London for 10 years running

Scotland ranks 6th among the top ten FDI destinations in Europe.

SCOTLAND'S MAIN ECONOMIC STRATEGIES

National Strategy for Economic Transformation (NSET)

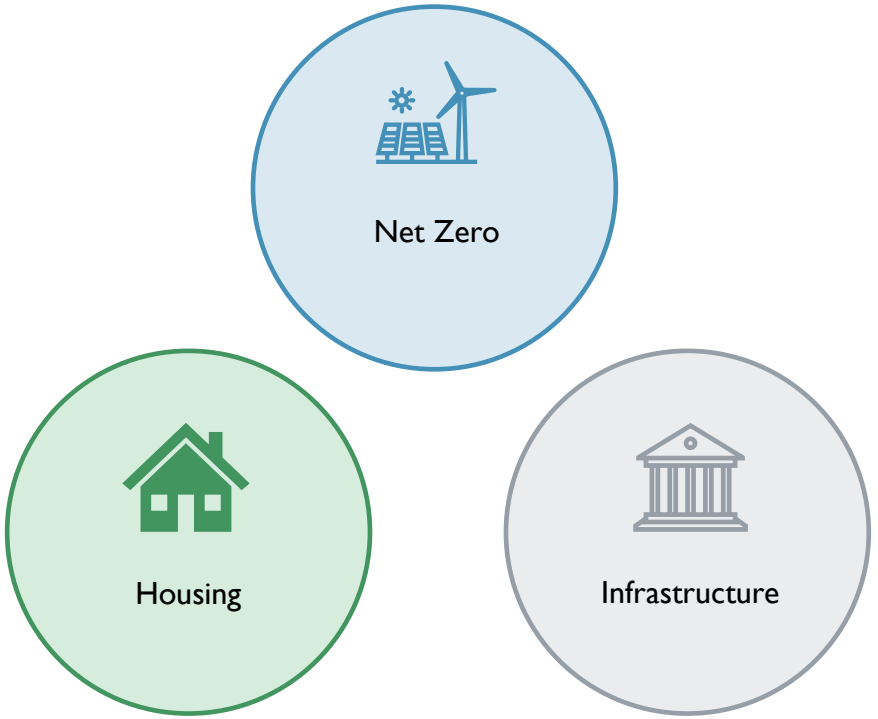
- Scotland's National Strategy for Economic Transformation sets out the priorities for Scotland's economy as well as the actions needed to maximise the opportunities of the next decade to achieve vision of a wellbeing economy
- The strategy is built around five key priorities:
  - Entrepreneurial People and Culture
    - Increase the total number of new businesses created in Scotland
    - Achieve a step change in the percentage of Scottish start-ups and existing mid-sized businesses that grow to scale
    - Develop entrepreneurial mindsets right across the economy
  - New Market Opportunities
    - Achieve greater share of domestic and international market opportunities
    - Development of Scottish Supply Chains for Net Zero Industrial Strategy
  - Productive Businesses and Regions
    - Improve Connectivity Infrastructure and Digital Adoption
    - Upskill Business and Public Sector Leaders
  - Skilled Workforce
    - Adapt the Education and Skills System to make it more Agile and Responsive to Economic Needs and Ambitions
    - Expand Scotland's Available Talent Pool at all Skills Levels
  - Fairer and More Equal Society
    - Tackle inequalities in income, opportunity, and access
    - Ensure inclusive growth that benefits for all communities

Green Industrial Strategy (GIS)

- Ensures that Scotland realises the maximum possible economic benefit from the opportunities created by the global transition to net zero
- The strategy focuses on five opportunity areas for Scotland
  - Maximising Scotland's wind economy: Harnessing of wind energy potential, including onshore, offshore, and floating, to lead in clean power, supply chain growth, and circularity of turbine materials
  - Developing a self-sustaining carbon capture, utilisation and storage sector: Leveraging Scotland's CO_2 storage potential, subsea engineering expertise, and skilled workforce to enable low-carbon products and capture a share of Europe's carbon storage market
  - Supporting green economy professional and financial services, with global reach: Strengthening Scotland's high-value service sectors while supporting innovation and future growth through government initiatives
  - Growing hydrogen sector: Using Scotland's renewable energy edge to lead in producing and exporting sustainable hydrogen, products, and expertise for domestic and global decarbonisation
  - Establishing Scotland as a competitive centre for the clean Energy Intensive Industries of the future: Promoting electrification of energy-intensive industries and positioning Scotland as a prime location for clean industrial growth powered by renewable electricity

INCREASING INVESTMENT PROGRAMME

A co-ordinated cross government programme to implement the independent expert investor panel recommendations to attract private investment at scale in three priority areas



Aligning government and its public sector delivery partners in support

In addition, the 2025-26 PfG commits the programme to:

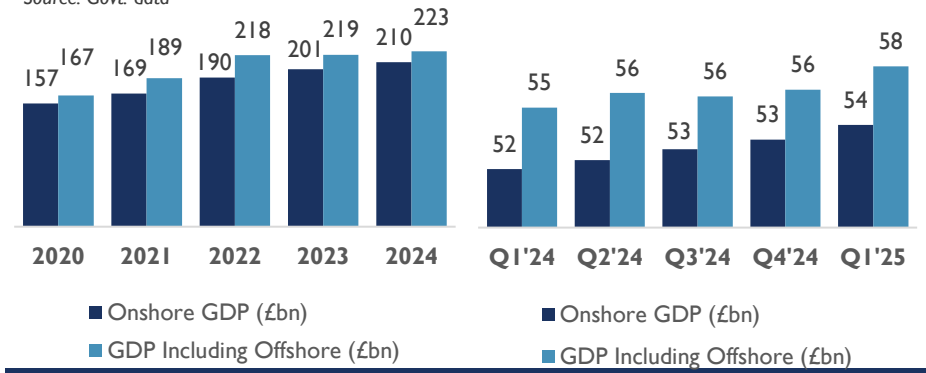
- Launching 'InvestScotland', a new portal that will showcase investment opportunities from a national pipeline of projects and information for investors providing a single point of entry to government
- Accelerating a targeted programme of proactive engagement with key capital investors
- Seeking more co-investment from public and private pension funds into Scottish projects and businesses, by working with Scottish Local Government Pension Schemes
- Supporting the implementation of recommendations of the Housing Investment Taskforce and unlocking new investment opportunities across all tenures

TRACK RECORD OF STRONG ECONOMIC GROWTH

- Scotland has a diverse economy, including sectors such as Energy (Oil & Gas and Renewable Energy), Financial and Business Services, Manufacturing (Whisky and other Food & Drink). This variety provides a robust foundation for growth, with no single sector contributing more than 12% to the total onshore GDP in 2024
- Onshore GDP grew by 4.4% to £210bn in 2024. Surpassing the historical average of 4% recorded from 2016 to 2024. Total GDP grew including offshore oil & gas extraction grew by 1.8% to £223bn in 2024
- On a per capita basis, GDP rose by 3.5% to £37,834, reflecting stronger economic productivity and improved living standards, continuing the trend of annual GDP per capita growth
- GDP including share of extra region grew by 1.8% to £223bn in 2024, while on a per capita basis, GDP including share of extra region grew by 3.8%
- Scotland's nominal GDP is forecasted to grow by 3.9% in 2025, slowing to 3.5% by 2030

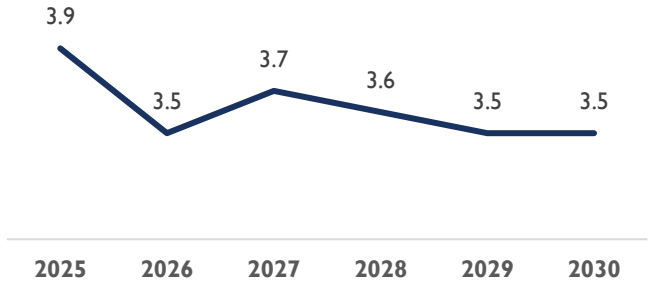
GDP Annual (£'bn)

Source: Govt. data



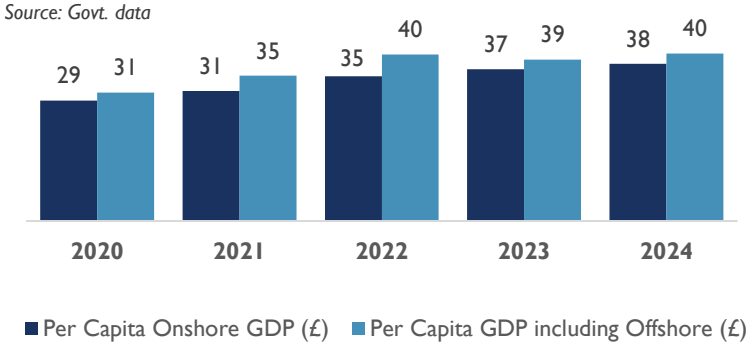
Nominal GDP growth (%) - Forecast

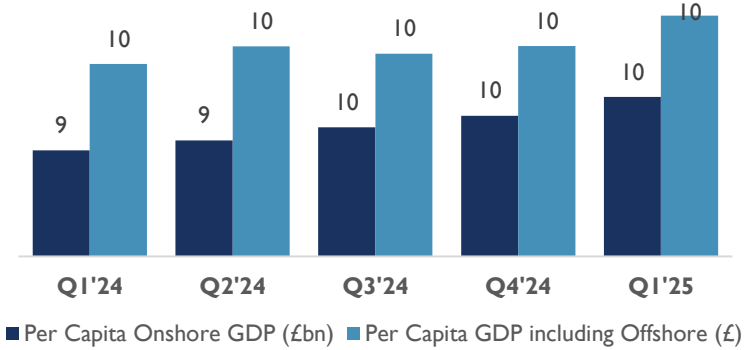
Source: Scotland's Economic and Fiscal Forecasts - May 2025 - Chapter 3 - Economy - Supplementary figures



GDP per Capita (£'000s)

Source: Govt. data





ROBUST AND RESILIENT LABOUR MARKET

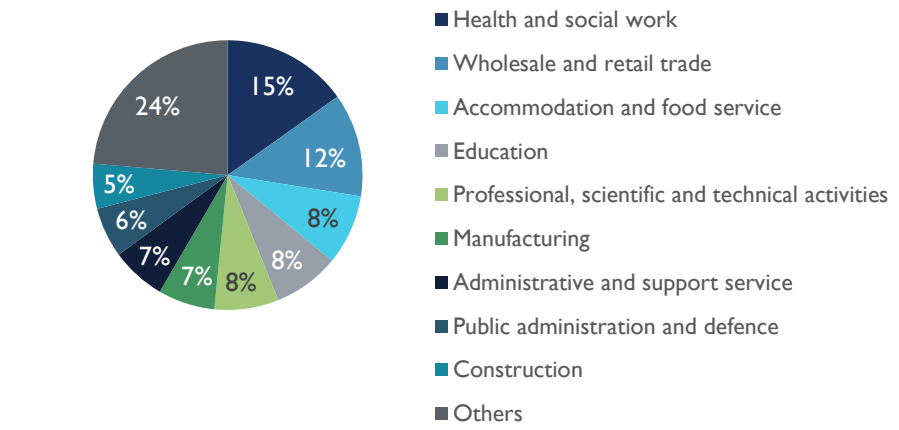
Employment

- Employment rate in Scotland was 75.1% (the proportion of people aged 16 to 64 in work) as of Jun-25, compare with the UK's employment rate at 75.3%
- Healthcare and Social work sector was the leading employer in Scotland with 15.3% share, followed by Trade activities. Within the 'Others' category, Transportation & Storage, IT services, Financial Services, Recreation accounted for ~3% share each
- The sector break-up is largely similar to that of the UK, where the top 3 contributors are Healthcare & Social work (13.9%), followed by Trade (12.7%), Professional, Scientific & Technical activities (9.4%)
- Approximately 2.1m people were employed by the Private sector in Scotland as of Mar-25, which was 77.7% of total employment of 2.7m people. The percentage of people employed in private sector has remained steady around this level in recent history
- Within the Public sector, the majority of employment was in Devolved Public sector (550k out of total 599k employed in Public sector, ~92%), with the rest in Reserved Public services

Unemployment

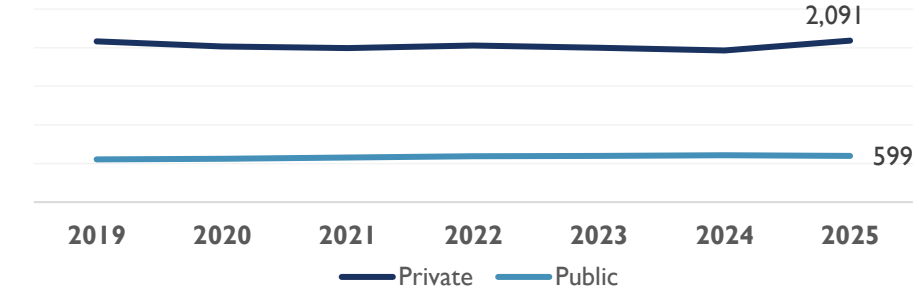
- Rate of unemployment was 3.8% in Scotland (June 2025), lower than that of UK at 4.7%
- The claimant count unemployment rate in July 2025 was 3.4%, compared with 4.4% for the UK as a whole

Employment by Industry



Source: Nomis

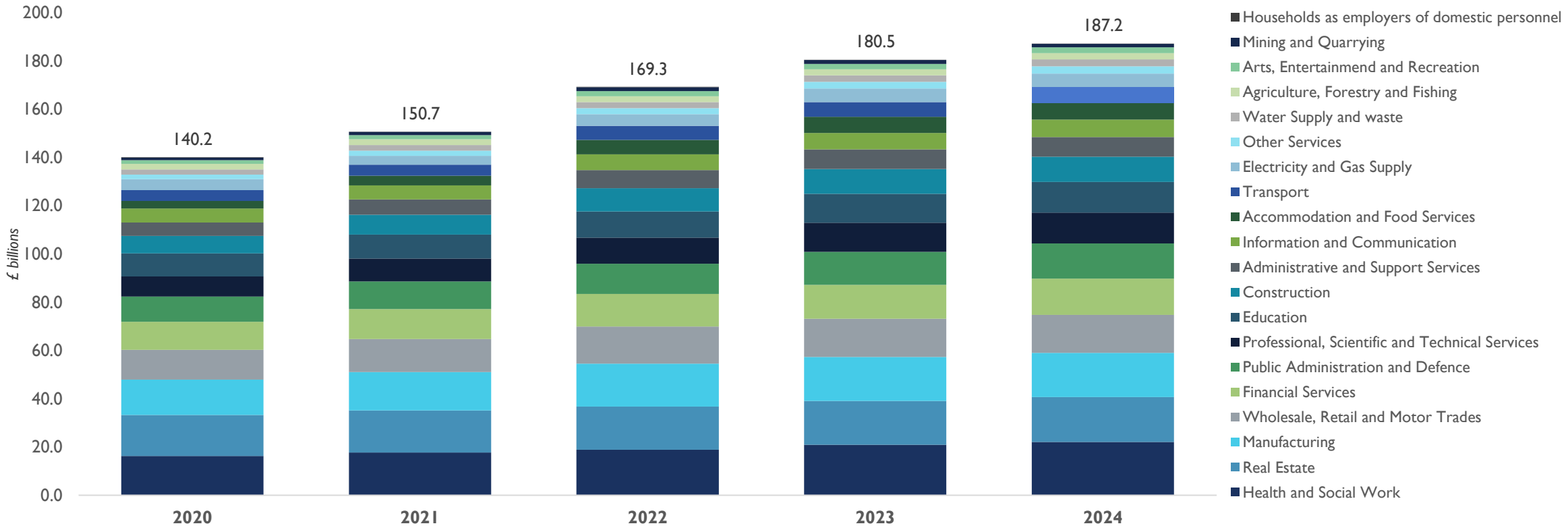
Private and Public sector headcount (000s)[1]



Source: Government data

1: Data as of first quarter of each year
Source: Government data

GROSS VALUE ADDED BY SECTOR



- Gross value added by sector has increased by 33.5% (or 16.3% in real terms) from 2020 to 2024, highlighting Scotland's strong domestic output and diversity across a wide range of sectors
- The Health and Social Care Sector continues to contribute largest proportion to the Scottish economy accounting for 12% of the total GVA in 2024, followed by Real Estate and Manufacturing contributing 10% each

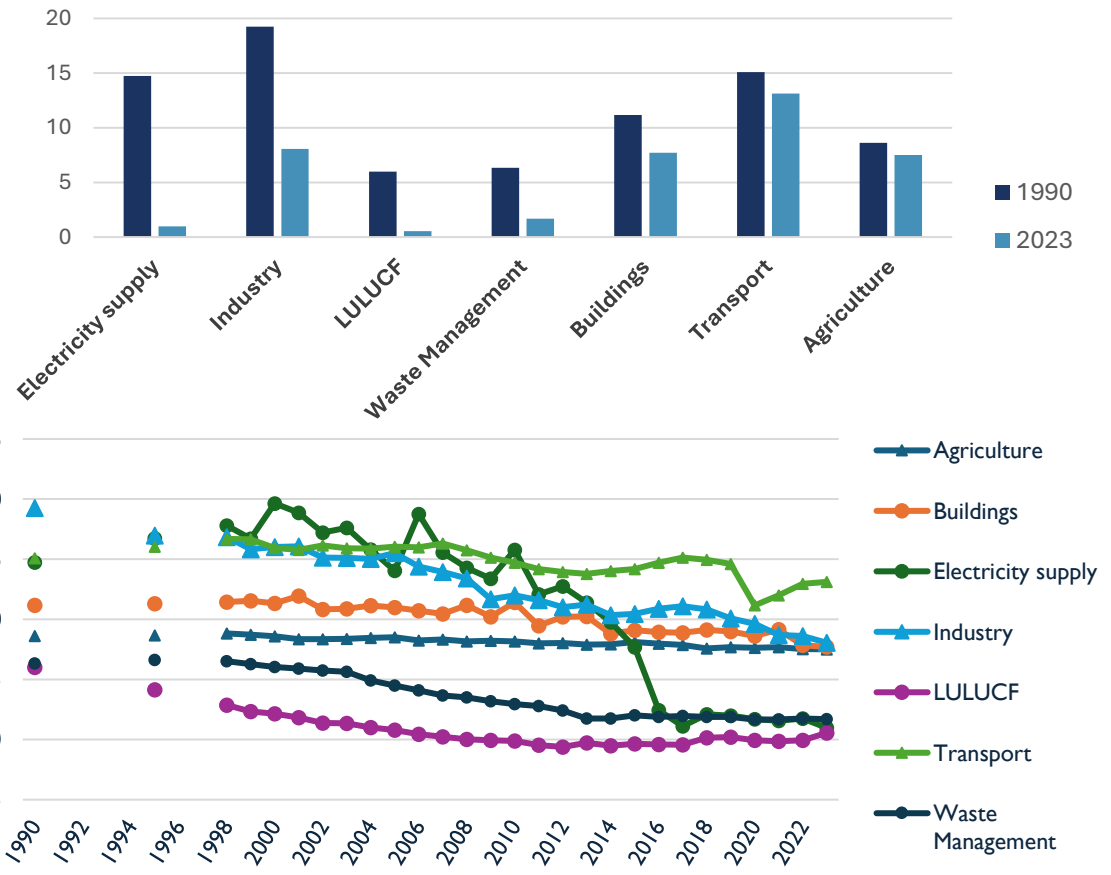
CLIMATE RECORD AND CLIMATE PLANS

- Scotland has targeted to become 'Net Zero' by 2045, 5 years ahead of the UK, through actions and fundings on transport, clean energy, homes, nature and adaption and community support
- Scotland's net emissions have dropped 51.3% since 1990, with all sectors except international aviation and shipping showing declines
- Scotland is moving towards a "carbon budget" mechanism under the Climate Change (Scotland) Act 2009 to set legally binding, five-year limits on greenhouse gas emissions, guiding its path to net zero
- SG updated the 2018 Climate Change Plan in December 2020, setting out a pathway to reduce Scotland's emissions over the period to 2032. Work is underway on Scotland's next climate change plan for 2026–2040

Key achievements

- A 84% increase in woodland creation compared to 2022/23, reaching a total of 15,040 hectares in 2023/24, including 7,700 hectares of native woodland
- Updated the Agricultural Reform Route Map in summer 2024, setting out changes to farm payments from 2025 and the shift to a new support framework from 2026
- Published a draft Transport Just Transition Plan for consultation, in February 2025
- On track to deliver on a range of key indicators across key areas of electricity, transport, buildings, waste, agriculture and Land Use, Land-Use Change and Forestry (LULUCF)

Greenhouse Gas Emissions by Sector 1990-2023, MT CO2e



5. ANNUAL BUDGET AND PROCESS

ROBUST SCOTTISH BUDGET SETTING PROCESS

Timeline of Scottish Budget

Pre FY (related to the next FY)	Nov	UK Budget/Fiscal Event
	Dec	Scottish Budget laid before Parliament*
	Feb	Scottish Budget Act passed by Parliament
	Mar	Scottish Budget received Royal Assent; UK Budget/Fiscal Event
Financial Year Concerned	May	The UK Government Main Estimate Agreed
	Jul	The UK Government Main Estimate Royal Assent
	Sep	Scottish Autumn Budget Revision
	Nov	The UK Government Next years Fiscal Event. Final Block Grant Adjustments locked for current financial year
	Jan	Scottish Spring Budget Revision
	Feb	The UK Government Supplementary Estimate Finalised
	Mar	SG Finalises Discretionary Funding decisions; The UK Government Supplementary Estimate Royal Assent
Post Financial Year	May	Scotland Act Implementation Report
	Jun	Scottish Government Provisional Outturn
	Sep	Scottish Government Fiscal Framework Outturn Report
	Oct	SG Accounts and Final Outturn Publications

Scottish Government annual Budget Process

Applicable UK Government effect to annual process

The Scottish Budget relies on the UK Budget, which determines the block grant, and SG's source of funding is money received from the UK Government and from taxes raised in Scotland

Responsibility of Budget Committees:

- Examining the SG's past expenditure and its future financial plans
- Submitting reports to the SG prior to the budget's publication to assist in their budget considerations
- Analysing the Budget Bill and inquiring with ministers regarding its details
- Proposing their own recommendations if they disagree with the SG's spending plans (*See slide 57 for more detail*)

Progress of the in-year position

- Following royal assent, the SG must maintain a balanced budget by underspending within the indexed £700 million Scotland Reserve cap for 2023–24
- Monthly budget monitoring helps maintain balance by updating forecasts to reflect spending changes, new commitments, savings, and emerging risks
- Savings targets if required, for portfolios are tracked against milestones to keep the SG on course for a balanced budget
- Budget monitoring has guided spending controls and key measures in recent years to support a balanced budget
- Annual budget revision exercise updates the Budget Bill to reflect spending forecasts, new commitments, funding changes, and adjustments to borrowing or tax revenues.
- The Spring Budget Revision, which is ordinarily laid in late January, is the final opportunity to formally amend budgets and its against the budgets within the SBR that the annual accounts are prepared
- At year-end, the SG uses budget monitoring to guide funding decisions, mainly through borrowing and ScotWind revenues, with added flexibility from HM Treasury for late UK funding changes
- In June, the SG publishes its provisional outturn, showing budget performance and estimated Scotland Reserve carry-forwards
- The final outturn exercise refines these numbers and is undertaken following the annual audit of the core SG and its wider entities

* Timing of the Scottish budget is subject to change and could be in Jan 2026 for the current budget cycle given the timing of the UK Budget

SCOTTISH BUDGET FUNDING SOURCES

Scottish Government Total Funding (£million)

	2023-24	2024-25	2025-26
Fiscal Resource	42,790	45,400	48,315
Non-Domestic Rates	3,047	3,068	3,114
Capital	6,406	6,310	7,176
Financial Transactions	394	124	167
Total Discretionary Fiscal Budget	**52,637**	**54,902**	**58,772**
2023-24 Underspend	(652)	-	-
Repayment to HM Treasury	(16)	-	-
IFRS 16 under allocation	-	(5)	-
Funding Allocation	51,969	54,897	58,772
Non-Cash Resource Budget	1,430	1,559	807
UK Funded Annually Managed Expenditure (UKAME)	4,757	4,431	3,904
Total non-Discretionary Budget	**6,187**	**5,990**	**4,711**
Total Scottish Budget	**58,156**	**60,887**	**63,483**

- Budget is divided into discretionary & non-discretionary funding
- Discretionary budget is divided into four sub-categories each having its own control limits, imposed by HM Treasury
  - Fiscal Resource: day-to-day costs of public services
  - Capital: Support public infrastructure in Scotland
  - Non-Domestic Rates (NDR): Fully devolved and outside scope of the block grant and Fiscal Framework
- Non-discretionary budget: Reflects items where item is restricted and has no impact on cash deployment

Fiscal Resource Funding (£million)

	2023-24	2024-25	2025-26
Core Barnett Settlement	36,540	37,487	41,141
Ringfenced Funding	715	715	-
Total UK Settlement (A)	37,255	38,202	41,141
Social Security Block Grant Adjustment (B)	4,405	5,046	5,596
Block Grant Adjustment for Taxes and Non-Tax Income	(16,129)	(18,066)	(20,386)
Scottish Income Tax	15,810	18,844	20,477
Land and Buildings Transaction Tax	784	730	1,019
Scottish Landfill Tax	69	58	40
Non-Tax Income	34	25	25
Net Budget Adjustment for Taxes and Non-Tax Income (C)	567	1,592	1,175
Other Income and Funding Adjustments (D)	563	561	402
Total Scottish Government Fiscal Resource Funding (A+B+C+D)	**42,790**	**45,400**	**48,315**
Non Domestic Rates – Distributable Amount	3,047	3,068	3,114
Total Scottish and Local Government Fiscal Resource Funding	**45,837**	**48,468**	**51,429**

- Ring-fenced funding for 2023-24 and 2024-25 relates to the replacement EU funding for Agriculture and Fisheries. From 2025-26, the UK Government has removed the ringfence, with funding now part of the core settlement
- Grant Adjustment: Adjusted upwards to reflect the devolution of social security powers
- Net Budget adjustment for Taxes and Non Tax Income: Total funding available to the Scottish Government depends on decisions Scottish Ministers take on tax policy
- NDR income: Determined by Scottish Government policies

Capital Funding Envelope (£million)

	2023-24	2024-25	2025-26
Core Barnett Settlement	5,337	4,933	6,256
Ringfenced Funding	632	670	-
Borrowing (per Capital Borrowing Policy)	300	458	472
Scotland Reserve	32	130	-
ScotWind	-	-	326
City Deals	82	100	122
Other	23	20	-
Total Capital Funding	**6,406**	**6,310**	**7,176**

Financial Transactions Funding Envelope (£mil)

	2023-24	2024-25	2025-26
Core Barnett Settlement	162	123	167
Scotland Reserve	45	1	-
Corrections to historic settlement be reflected	188	-	-
Total Financial Transactions Funding	**394**	**124**	**167**

- Core Barnett Funding: Decided as per the UK Autumn Budget
- Ringfenced Funding: Separate and specific agreement to transfer Capital funding to support Network Rail outside the usual Barnett arrangements
- Capital Borrowing: For Capex, the Scottish Government can borrow up to £450 million annually, and £3 billion cumulatively, in 2023-24 prices. From 2024-25, these limits increase in line with inflation, taking the annual and cumulative borrowing limit in 2025-26 to £472 million and £3,144.5 million, respectively

EXTENSIVE TAXATION POWERS

- There are three types of taxes: **UK Taxes** (responsibility of the UK government and are not devolved), **Devolved Taxes** (responsibility of Scottish government) and **Local Taxes** (responsibility of local councils and the Scottish government)
- Taxes controlled by the UK government include **National Insurance, Corporation Tax, Fuel Duties and VAT**. Through this, **Block Grant** is provided to the Scottish government, which forms a significant portion of SG funding; Currently, ~45% of the revenue is from reserved taxes, while ~55% of revenues is from devolved taxes

Devolved Taxes

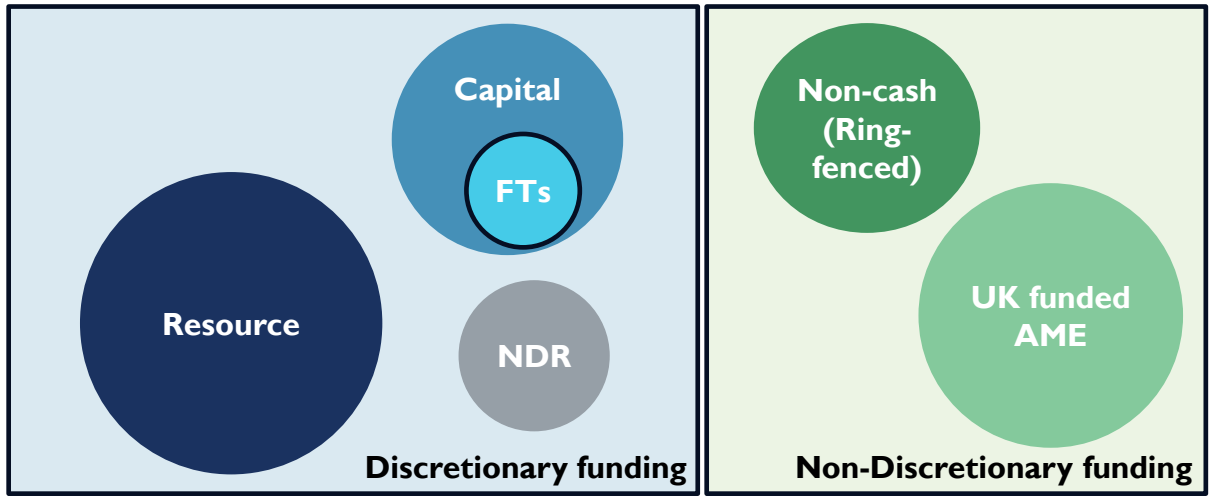
Tax	Description	Devolved	Administration
Income Tax	• Applicable from April 2017, these are taxes on all non-savings non-dividend (NSND) income, which is income from employment and pensions, and excludes savings and dividends income • The Scottish Parliament can vary tax rates, change the thresholds between tax bands and change the total number of bands, while, the UK Government has power to control personal allowance, which is the amount of income after which income tax is paid	Partially	His Majesty's Revenue and Customs (HMRC)
Land & Building Transactions Tax	• Introduced from April 2015, these are taxes on buying residential and non-residential land or buildings in Scotland above a certain value • There is also the Additional Dwelling Supplement for additional residential properties such as buy-to-let properties or second homes	Fully	Revenue Scotland
Scottish Landfill Tax	• Introduced from April 2015, these are taxes paid on the disposal of waste to landfill sites • Scottish Parliament sets tax rates and decides the classification of higher or lower rated waste	Fully	Revenue Scotland and Scottish Environment Protection Agency
Non-Domestic Rates	• Non-Domestic Rates (NDR), also known as business rates, are a tax levied on the occupier of non-domestic properties • The Scottish Parliament sets the rates of tax and the amount is collected by local authorities and transferred to the Scottish Government	Fully	Local authorities
Council Tax	• A local tax on domestic properties which helps to pay for services like rubbish collection, roads, and street lighting • All households pay council tax unless exempt	Fully	Local authorities

Devolved Taxes (not yet applicable)

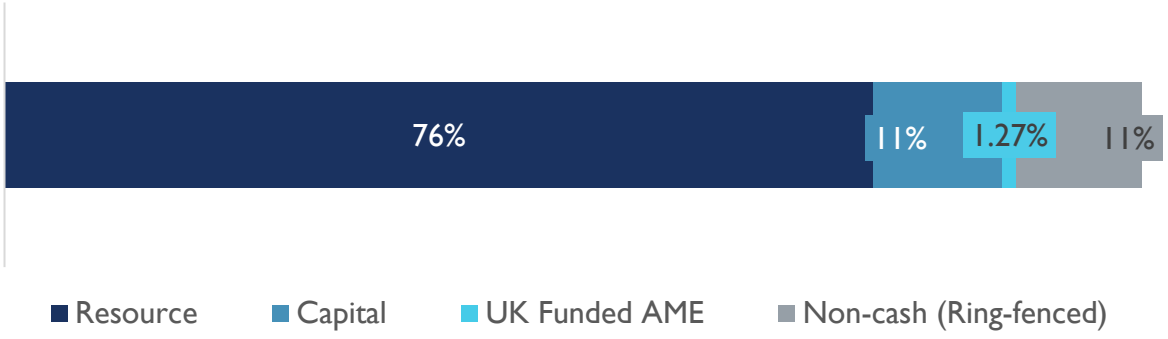
Tax	Description
Air Departure Tax	• Air travel tax for flights departing from Scottish airports, which will replace the UK government's Air Passenger Duty (APD)
Aggregates Levy	• Tax on the use of rock, sand & gravel for commercial purposes like building roads & houses. This tax is planned to go live on 1 April 2026, and will replace UK's Aggregates Levy tax
Building Safety Levy	• Plans of introducing a Scottish Building Safety Levy on 1 April 2027, which will provide funding for Scotland's Cladding Remediation Programme, to tackle unsafe cladding on buildings

GOVERNMENT SPENDING AUTONOMY

- The Scottish Government decides how to spend most of the funding received. This is called the **"Discretionary funding"**. While its exact share changes each year, on average it is around 90 per cent of the Scottish Budget
- Discretionary funding is divided into four categories based on how each can be spent
  - **Resource funding** is to pay for day-to-day running costs, such as grants to local government, transfers to households in the form of devolved social security payments, or staff pay. Most of the Scottish Budget is resource funding.
  - **Capital funding** can only be spent on long-term investments, such as hospitals, roads and research and development
  - **Non-Domestic Rates (NDR)** are fully devolved and outside scope of the block grant and Fiscal Framework arrangements controlled by HM Treasury
  - **Financial transactions funding (FTs)** is a subset of capital funding which can only be used to create financial assets, such as lending money to or making equity investments in private sector entities
- **Non-discretionary funding:** Earmarked for specific purposes, lies outside Scottish Government decisions, and is therefore excluded from publications. It has two components:
  - **UK-funded Annually Managed Expenditure (AME)** is demand-led spending which, while devolved, is fully paid by the UK Government. Areas include pension payments for teachers and NHS staff, as well as student loans.
  - **Non-cash** is a subset of resource funding only available to use for accounting adjustments, such as depreciation of assets



Overview of Portfolio Spending Plans (Budget 2025-26)



BALANCED BUDGET CONSISTENTLY DELIVERED

Budget 2025-2026

- Each year, the Scottish Government publishes its budget outlining spending plans for the upcoming financial year, which runs from April 1 to March 31. The new Scottish Budget was presented to Parliament on December 4, 2024, and the bill was introduced on December 18, 2024
- The Scottish Budget for 2025 to 2026 has been set at £63.4 billion, and is funded through a combination of the Scottish block grant, taxes raised in Scotland and limited borrowing
- The budget is used to fund all of the Scottish Government's portfolios
- **The Scottish government has consistently delivered a balanced budget for the past 14 years, demonstrating its commitment to affordability and sustainability**
  - The government's prudent management of the public finances led to the allocation of over £300 million from ScotWind revenues toward investments across Scotland
- As per the Office for Budget Responsibility (OBR), the resource spending in 2025-26 has grown by an average of 1.3% in real terms
  - The Block grant has grown by ~7% in real terms in 2025-26
- Further, as per the UK Government's Autumn Budget, by 2028-29 UK capital funding is set to increase in real terms by 12.6% in comparison to 2024-25.
  - This represents a significant change in the UK Government's capital investment plans but remains insufficient to meet the Scotland's infrastructure investment needs, due to high inflation in the construction sector

Budget – government priorities

1 Grow the economy	▪ £200 million additional investment in the Scottish National Investment Bank to ensure continuation and advancement of work to create jobs ▪ Significant investment in total £7 billion infrastructure package for offshore wind, regeneration funding, digital connectivity programmes & rail services ▪ Continued investment of over £2 billion in Scotland's colleges, universities and skills development programmes
2 Tackle the climate emergency	▪ Over £300 million investment for the Heat in Buildings Programme ▪ £188.7 million investment in active and sustainable travel measures ▪ Over £54 million in various low carbon programmes ▪ £90 million to protect, maintain and increase woodlands and peatlands ▪ £660 million to support farmers, crofters, land managers and rural communities
3 Ensure high quality and sustainable public services	▪ £16.2 billion for Health Boards to deliver front line and other key services ▪ Over £2.6 billion towards public transport, which supports bus, rail and ferry services ▪ £158 million uplift to support the education and skills portfolio ▪ £125 million for payment of adult social care staff in private and third sector commissioned services
4 Eradicate child poverty	▪ £768 million investment in the Affordable Housing Supply Programme in 2025–26, supporting the delivery of around 8,000 homes ▪ £1 billion for early learning and childcare through local government ▪ Additional £800 million in social security benefits compared to 2024-25 ▪ Funding £464 million in Network Support Grant and concessionary travel schemes

6. RECENT FINANCIAL RESULTS

HMT BUDGETARY RESULTS V ANNUAL ACCOUNTS RESULTS

- Scottish Government operates within the UK Budget limits based on the specific HM Treasury budget classifications and follows the UK budgeting rules set out in Consolidated Budgeting Guidance
- SG publishes two budgets: the Scottish Budget (which provides the budget against which performance is measured in the Consolidated Accounts) and the Scottish Budget in HM Treasury terms

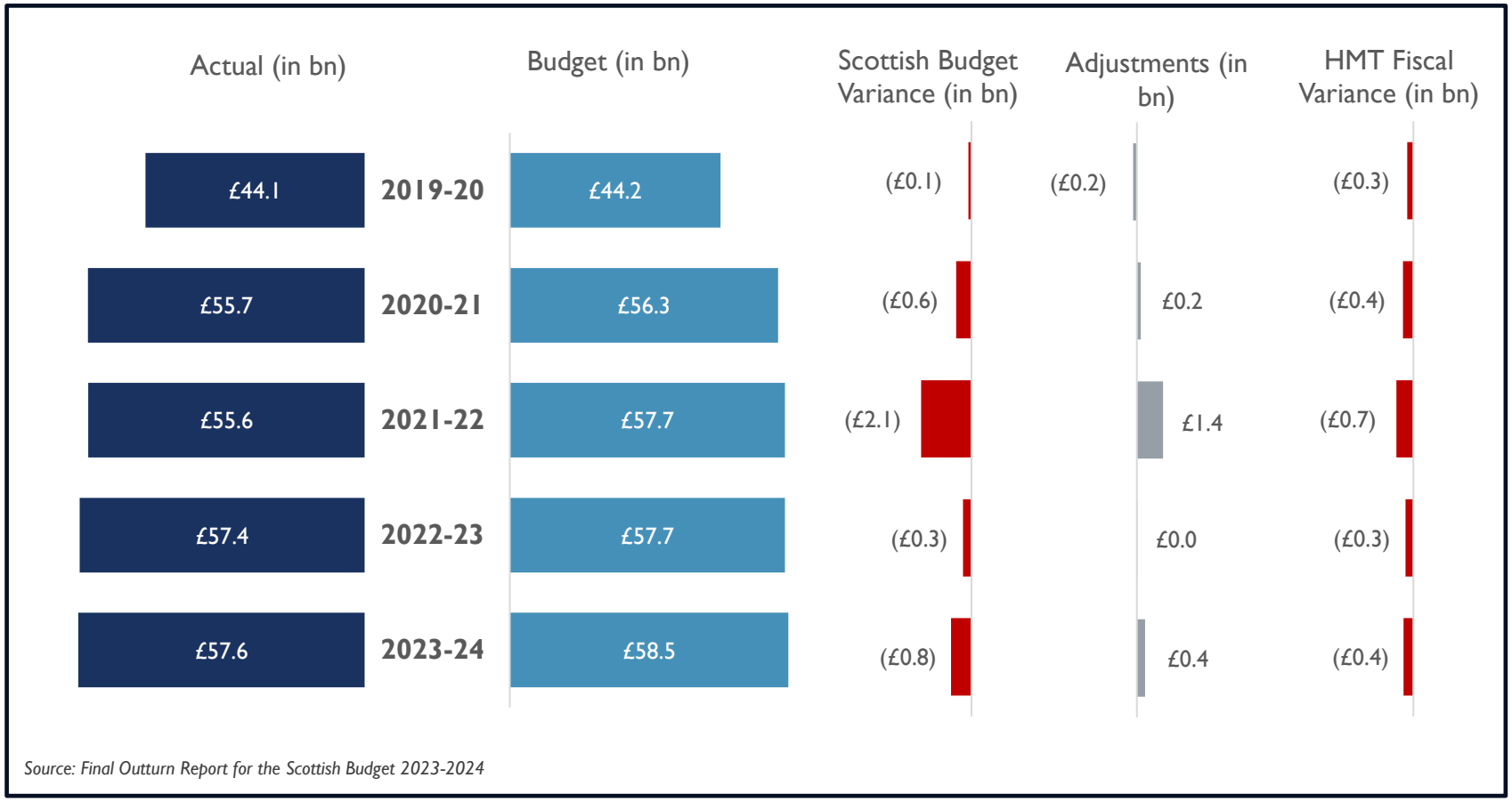
HM Treasury budget

- HM Treasury Budget focuses on three major HM Treasury Budget classifications:
  - **Fiscal Resource budgets:** Largest element comprising of day-to-day costs of delivering public services
  - **Capital budgets:** Supports the delivery of public infrastructure in Scotland
  - **Financial Transactions:** Used for loans and equity investments outside the public sector, distinct from day-to-day or capital spending
- There is an additional classification **non-cash resource** which is largely for the depreciation of assets
- A substantial portion of the UK-funded **Annually Managed Expenditure** (AME) is allocated by the UK Government to the Scottish Government to administer a select group of programmes
- These budgets are ring-fenced for specific purposes, principally NHS and teachers' pension payments and Student Loans
- The three primary classifications represent the entirety of the Scottish Government's discretionary spending authority. To maintain a balanced budget, underspending must occur within these areas, with any surplus transferred to the Scotland Reserve for use in future financial year

Scottish Government Annual Accounts

- Under the Public Finance and Accountability (Scotland) Act 2000, Scottish Ministers are required to outline their resource usage in a Budget Act, prepare accounts detailing how those resources were applied, and submit these accounts for audit by the Auditor General
- Spending plans for FY 2024-25 were set out in the Scottish Budget published on 19th December 2023, which were presented alongside the introduction of the Budget Bill. The Budget Bill was subsequently amended in the Autumn Budget Revision (published 3rd October 2024) and the Spring Budget Revision (published 30th January 2025)
- The financial results for the year are reported in the annual accounts, which are based on the budget following the Spring Budget Revision and are prepared in compliance with the government financial reporting accounting requirements
- Late funding changes, including tax receipts, consequential adjustments, and final borrowing decisions, are excluded from the annual account. AME and non-cash budget outturns are included, diverging from the HMT approach as they are not considered for the Scotland Reserve
- As a consequence, the headline underspend can differ materially from what is carried forward within the Scotland Reserve full reconciliation is provided in the final outturn reports for parliament and published alongside the accounts

ACCOUNTING VS BUDGETARY OUTTURN

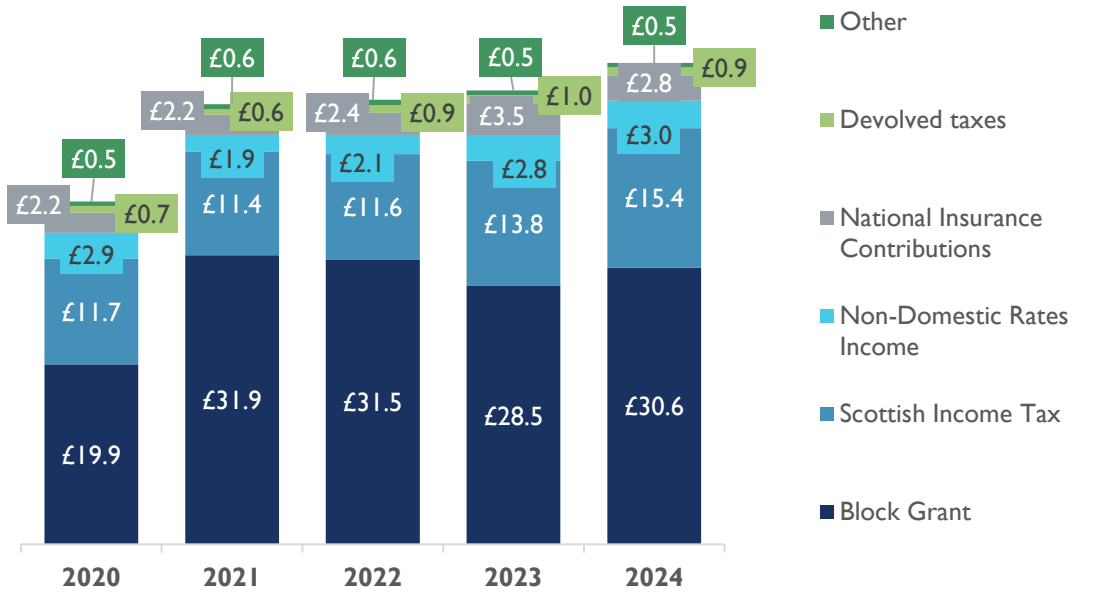


Source: Final Outturn Report for the Scottish Budget 2023-2024

- The Scottish Government has consistently underspent its budget which highlights the Government's prudent financial management and efficient spending
- The overall reported position for the total Scottish Budget in 2023-24 shows an expenditure outturn of £57.6bn against the approved Parliamentary budget of £58.5bn, which results in an underspend of £847m which is 1.5% of budget
- This translates into a £412m in HMT Budgetary terms (excluding non-cash and AME budgets)
- The £412m underspend is carried forward in full in the Scotland Reserve and utilised in 2024-25
- Adjustments include GIA and HMT resource capital and FT, AME / Other, non-cash, resource, capital and financial transactions funding & post audit adjustments and reductions relating to IFRS 16 underspends

STRONG TRACK RECORD OF RELIABLE AND PREDICTABLE FUNDING SOURCES

Diverse Revenue Streams (in bn)

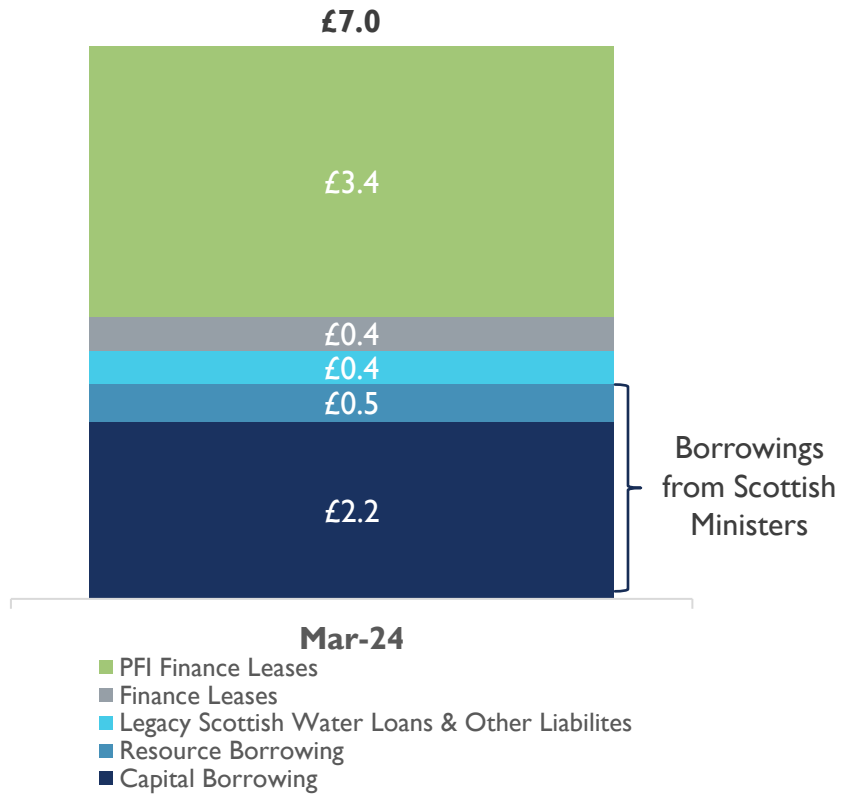


Source: Scottish Consolidated Fund Accounts (2023-2024)

- Receipts from the Office of the Secretary of State for Scotland (Block Grant) are paid into the Scottish Consolidated Fund under Section 64(2) of the Scotland Act 1998
- The UK Block Grant has consistently provided Scotland with a reliable and predictable stream of funding, forming the backbone of the devolved budget
- Scottish income tax remains stable over the years, indicating a steady tax base
- Non-Domestic Rates Income (NDRI), collected by local authorities, is pooled and a distributable amount set by the Scottish Government is added to the General Revenue Grant in weekly payments. As this funding doesn't flow directly to the SCF, it is recorded as a notional receipt
- NDR income dipped in 2021 reflecting the economic impact of the COVID-19 pandemic, which affected commercial property occupancy and business activity. The recovery in 2022 indicates a resilient property market and effective fiscal management
- National Insurance Contributions from Scottish taxpayers are collected by HMRC and paid into the SCF as a funding stream for NHS Scotland, and has been consistently increasing over the years

BORROWINGS

Total Debt (£bn)



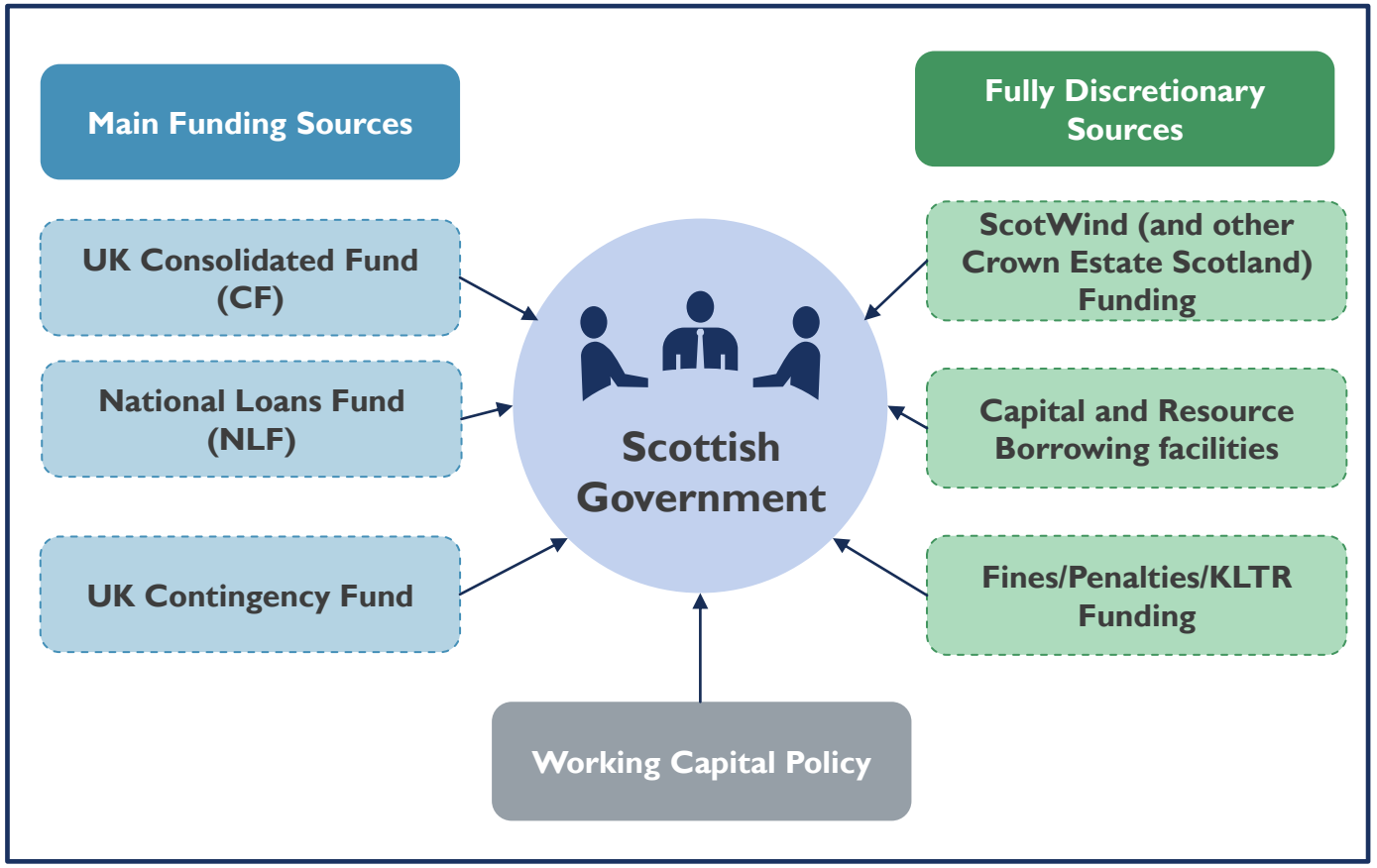
Source: Scottish Consolidated Accounts (2023-2024)

- Scotland has a low level of debt of 13.9% debt to total operating revenue
  - The 2024–2025 accounts will be published in October 2025, highlighting a reduction in both Scottish Minister Borrowing and Scottish Government debt
  - The government's direct debt comprises of ~42% of total debt and includes:
  - Capital Borrowing: To date only borrowed from National Loans Fund; ~65% of debt has maturity after 5 years
  - Resource Borrowing: Borrowed from National Loans Fund; most of the debt matures within 5 years
  - Legacy borrowings in relation to Scottish Water of £0.4bn
- Other obligations of ~58% of total debt and includes:
  - Public Finance Initiative Leases of £3.4bn
  - Finance Leases of £0.4bn

ACCESS TO SIGNIFICANT SOURCES OF LIQUIDITY

The Scottish Government is insulated from Liquidity risk through a variety of facilities and sources

- The SG has unrestricted access to funds from the UK Consolidated Fund at any time, provided it stays within its authorised annual cash grant and cash requirement limits. This occurs in two ways:
  - Monthly supply drawdowns based on forecast requirements – submitted three weeks in advance
  - Emergency/ad-hoc cash requirements provided they are within annual limits within 48 hours
- The SG maintains a working capital balance of c.£400m (varies from £300m -£600m). When this is forecast to fall below £300m, an additional drawdown can be initiated
- Further, the SG can drawdown emergency cash requirements from the UK Contingency fund (with agreement from HMT) even after the existing annual cash authorisation limits have been exhausted
- Additionally, SG can use Resource Borrowing facility (i.e. drawdowns from the NLF) purely for Cash Management purpose
- Apart from these, SG has access to further discretionary liquidity sources including ScotWind (and other Crown Estate Scotland) Funding, capital and resource borrowing facilities and small funding items such as Fines/Penalties/KLTR Funding



7. SCOTTISH GOVERNMENT PRIORITIES AND OBJECTIVES

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MEDIUM TERM FISCAL FORECASTS

Medium Term Financial Strategy (MTFS)

- Normally published annually, the Medium-Term Financial Strategy (MTFS) provides the medium-term economic, funding and spending outlooks and sets the strategy for managing the public finances over the medium term
- In 2025, this was accompanied by the Fiscal Sustainability Delivery Plan (FSDP) which set out clear actions to deliver this strategy and manage the challenges facing the public finances
- MTFS released in June 2025 has provided an outlook from financial years **2025-26 to 2029-30**
- **Over the past 25 years, the Scottish Government has consistently managed to balance its budget, even in the face of previously forecasted funding gaps**

MTFS – Three Pillars

1. **Public money is focused on delivering government objectives, underpinned by reform and prioritisation to maximise impact**
2. **Supporting sustainable, inclusive, economic policies to grow Scotland's economy and broaden the tax base**
3. **Ensuring a strategic approach to tax revenues considering tax choices & competitiveness**

Economic Outlook

- The projections below are estimates by SFC
- Real GDP growth is expected to be stable around 1.6% in the medium term, while employment growth would be close 0.5% on average

Growth Forecast (%)	FY26	FY27	FY28	FY29	FY30	FY31
Real GDP	1.2	1.8	1.7	1.6	1.6	1.6
Employment	0.1	0.6	0.5	0.4	0.4	0.4
Inflation (CPI)	3.2	1.9	2.0	2.0	2.0	-
Bank Rate	4.0	3.8	3.8	3.8	3.8	-

Fiscal Outlook

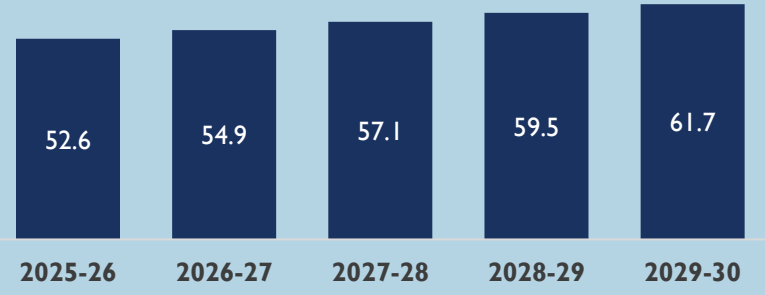
- Summarises the resource and capital spending position of the govt
- Block Grant is the single largest source of funding for the Scottish Government

	2025-26	2026-27	2027-28	2028-29	2029-30
Resource Spending	**52,623**	**54,938**	**57,132**	**59,453**	**61,723**
Block Grant	41,622	42,714	43,840	45,018	46,215
Others	11,001	11,261	11,395	12,082	12,884
Resource Funding	**52,623**	**53,975**	**55,235**	**57,100**	**59,099**
Resource Fiscal Gap	**-**	**(963)**	**(1,897)**	**(2,353)**	**(2,624)**
Capital Block Grant	6,256	6,689	6,595	6,640	6,665
Others	975	420	410	419	402
Capital Funding	**7,230**	**7,109**	**7,004**	**7,059**	**7,067**
Capital Spending	**7,230**	**8,180**	**8,501**	**8,962**	**9,213**
Capital Fiscal Gap	**-**	**(1,070)**	**(1,497)**	**(1,903)**	**(2,146)**

Spending Outlook

- Resource Spending comprises ~90% of Scottish Budget, with highest spend on Health & Social Care, Local Govt. and Public Sector wages
- Resource Spending is forecast to increase at 4.1% CAGR between FY26 & FY30 while Capital spend is expected to grow at a CAGR of 6.2% in the same period

Forecast Resource Spending (£bn)



Sources: 'Scotland's Fiscal Outlook: The Scottish Government's Medium-Term Financial Strategy'

MEDIUM TERM FINANCIAL STRATEGY (MTFS) AND FISCAL SUSTAINABILITY DELIVERY PLAN (FSDP)

FSDP was published in June 2025 alongside the Medium-Term Financial Strategy. The plan outlines range of activities the government would undertake to ensure fiscal sustainability while delivering on three pillars of government's medium-term strategy

	Measures	Key Actions
Pillar -1: Public money is focused on delivering government objectives, underpinned by reform and prioritisation to maximise impact	▪ Increasing public value ▪ Efficiencies and productivity ▪ Service reform ▪ Prevention	▪ A multi-year resource spending review to better prioritise spending and increase value for money ▪ Controlling the public sector pay bill through managing pay growth & the devolved public sector workforce ▪ Public sector efficiencies realised across all areas of government, including a focus on reducing the cost of corporate functions ▪ Reform of public services addressing medium to long-term spending growth ▪ Reduce demand-led spending through preventative measures that reduce public service demand
Pillar -2: Supporting sustainable, inclusive, economic policies to grow Scotland's economy and broaden the tax base	▪ Increasing aggregate business activity ▪ Increasing employment levels ▪ Increasing average wages	▪ Seizing new opportunities in offshore wind and its supply chains through public investment of up to £500m ▪ Accelerating developments through planning reforms ▪ Ensuring the right skills in the right places through national skills system reforms and targeted support for priority sectors ▪ Investing in and expanding access to housing and transport infrastructure
Pillar -3: Ensuring a strategic approach to tax revenues considering tax choices & competitiveness	▪ Priorities to improve the operation and performance of the existing tax system. ▪ Future tax reform to deliver sustainable and growing tax revenues	▪ Maintaining and protecting progressive approach to taxation ▪ Working in partnership with Local Government to ensure local taxes are fair and sustainable ▪ Implementing new devolved taxes ▪ Expanding the evidence base for Scottish Income Tax ▪ Reviewing the operation of existing taxes ▪ Strengthening approach to Scottish tax compliance

INFRASTRUCTURE INVESTMENT PLAN

Overview

- The Infrastructure Investment Plan (IIP) sets out the SG's approach to investing in publicly funded assets, aligned with strategic themes and the investment hierarchy
- The IIP set out our ambition to deliver the National Infrastructure Mission commitment to boost economic growth by increasing annual investment in infrastructure by 1% of 2017 Scottish GDP by 2025-26. This has been met
- A draft of the next IIP is due to be published for consultation alongside the Budget and Spending Review later this year. The focus is on continuity and ambition. The core themes will be largely unchanged, and a new Infrastructure pipeline will be published alongside the plan setting out key investment programmes and projects
- The next IIP will take a 10- year focus (aligned with UKG plans and to better reflect the policy lifecycle for infrastructure) and will be informed by a 25-year needs assessment conducted by Scottish Future's Trust. This will allow us to build in plans to capitalise on future opportunities and be resilient to future threats.

New Scottish Government Investment Hierarchy

1. **Determine Future Need**
   Consider appropriate infrastructure needs and demand in light of net zero carbon and inclusive growth priorities, changes in service design, availability of digital platforms and technological innovation, and resilience in light of population and climate change forecasts
2. **Maximise the useful life of existing assets**
   Maximise adaptation, repair and maintenance of existing assets
3. **Repurpose & Co-locate**
   Reconfigure or repurpose existing assets, giving preference to co-location or shared facilities
4. **Replace, Create or Build New Assets**
   Consider suitability and sustainability of new assets

IIP - Core Strategic Themes

- Enabling the transition to net zero emissions and environmental sustainability
- Driving inclusive economic growth
- Building resilient and sustainable places

IIP – The next decade of investment

- Draft 10 year IIP will be published later this year, alongside the 2026-2027 Budget and Scottish Spending Review
- Widespread engagement and consultation on key elements of the plan over H1 2026
- Final 10-year plan published H2 2026, incorporating stakeholder views and any impacts of Holyrood election
- IIP will be reviewed on a rolling 5- year cycle

INFRASTRUCTURE DRIVES

Economic Growth

Investment is one of the top levers the SG has for driving economic growth

- Annual capital budget delivers investment in economic, social and natural infrastructure across Scotland
- This is enhanced through borrowing and the limited use of revenue-financed investments
- SG continues to work with Local Authorities, UK Government, Enterprise Agencies and PUFINS to ensure investment in Scotland is maximised, unlocking jobs, skills and local supply chains
- Working closely with the private sector to lever in additional investment, developing ways for the Scottish Government to support that through derisking and blended finance
- Met National Infrastructure Mission and will consult on a new, stretching target for the next decade

Delivery

The Scottish Government has a strong track record of infrastructure delivery

- Delivered against long-term capital priorities in the past (Queensferry Crossing, Learning Estate investment)
- Continue to do so going forward, as will be set-out in the upcoming fiscal publications (IIP, Infrastructure Pipeline, Spending Reviews)
- Investment spans economic, social and natural infrastructure – transport, digital, housing, schools and green investment
- Invest now to insulate Scotland against future challenges and ready Scotland to take advantage of future opportunities
  - Climate and demographic change – building resilience now for a cleaner, more sustainable future
  - Renewable energy and housing – investing now to deliver the supply chains for the future

SG priorities

Our infrastructure investment is integral to delivering across all our priorities

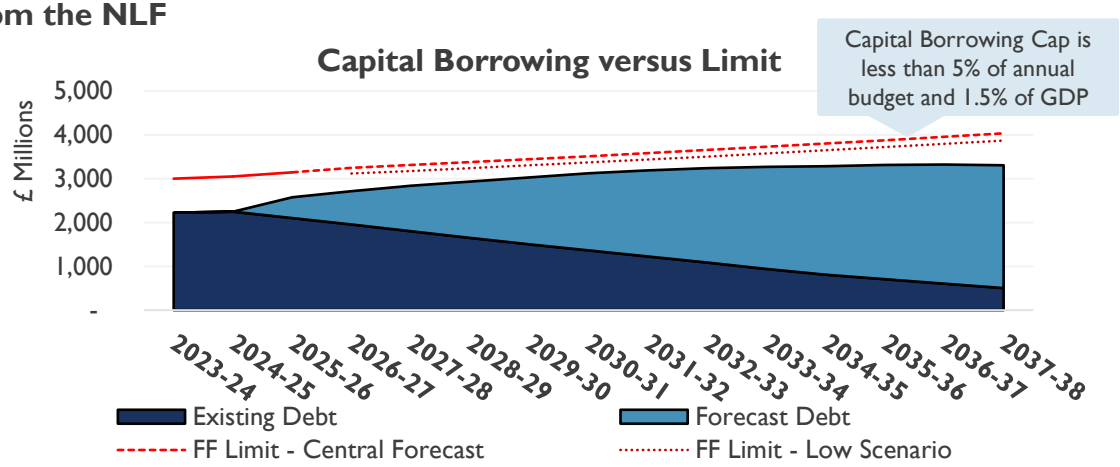
- Investment spans the whole SG policy platform: tackling child poverty, achieving net-zero, growing the economy and delivering sustainable public services
- Investing now to support delivery of National Planning Framework 4 and the annual PfG
- Current and future Climate Change Plans will require substantial capital investment
- SG is building assets now that will support communities into the future

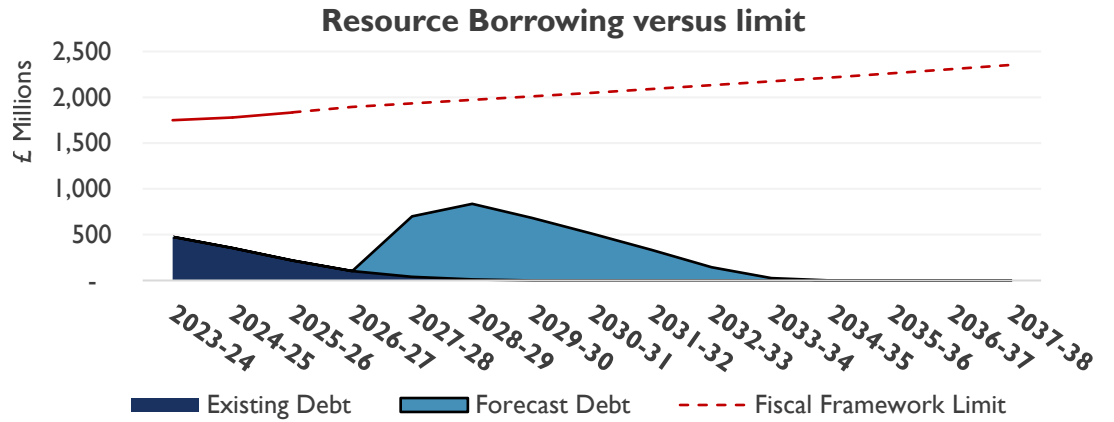
BORROWING LIMITS, POLICY AND FORECASTS

Bond issuances will serve as an alternative funding source, substituting drawings from the NLF

Capital Borrowing - Restrictions	Policy Approach
Purpose: Capital expenditure **Maximum Limit:** £3bn in 2023-24 prices **Annual Limit:** £450m in 2023-24 prices **Borrowing source:** NLF commercial loan (directly from a bank or other lender), or the Scottish Government issuing bonds **Tenor:** typically, 10 years but flexible	• Use £300 million of capital borrowing per annum as the default assumption • 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

Resource Borrowing - Restrictions	Policy Approach
Purpose: Cash management, or tax/benefit forecast errors and reconciliations **Maximum Limit:** £1.75bn in 2023-24 prices **Annual Limit:** £600m in 2023-24 prices **Borrowing source:** NLF **Tenor:** 3 to 5 years **Resource borrowing power is unlocked only when negative tax and social security forecast errors arise**	In practice resource borrowing decisions need to be taken on a case-by-case basis and finalised at the end of each financial year in the context of the overall financial position and financial forecasts at the time ***In 2024-25 the SG was able to reduce Resource Borrowing to nil from the initial forecast of £338m***





KEY CREDIT HIGHLIGHTS

Strong Institutional Framework and Structural Support

Scotland benefits from a robust institutional framework, with the Consolidated Fund ensuring predictable funding streams whilst also providing strong structural support to debt holders

01

Supportive Economic Fundamentals

A large and diversified economy with relatively high GDP per capita, which underpins its revenue base and fiscal capacity. The scale and diversity of the economy supports resilience against cyclical fluctuations, while a broad revenue base reduces concentration risk

02

Strong Financial Management and Governance

Financial policies and transparent reporting, demonstrate effective governance and prudent long-term planning

03

04

Stable and Predictable Revenue Base

Revenues are anchored by the UK Government block grant mechanism, complemented by devolved taxation powers, underpinning budgetary stability

05

Low Debt Burden and Ease of Access to Funding

Scotland has a low debt burden of 13.9% debt to total operating revenue, coupled with privileged access to the National Loan Fund and ability to borrow and issue bonds in the capital markets

06

Robust Budgeting Process

A well-established budgeting process, coupled with prudent expenditure controls, ensures fiscal discipline and supports resilience against external shocks

8. APPENDIX

APPENDIX 8.1: INSTITUTIONAL FRAMEWORK AND GOVERNANCE

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SCOTTISH FISCAL LANDSCAPE – KEY UK INSTITUTIONS

HM Revenue & Customs

- Established in 2005, HMRC is the UK's tax, payments & customs authority collecting funds that pays for the UK's public services
- Safeguards the flow of money to the Exchequer through collection, compliance and enforcement
- Facilitates legitimate international trade and protects the UK's fiscal, economic, social and physical security before and at the border

HM Treasury

- HM Treasury is the UK's economic and finance ministry that maintains control over public spending, sets the direction of the UK's economic policy and works to achieve strong and sustainable economic growth
- Performs strategic oversight of the UK tax system including direct, indirect, business, property, personal tax and corporation tax

Office for Budget Responsibility

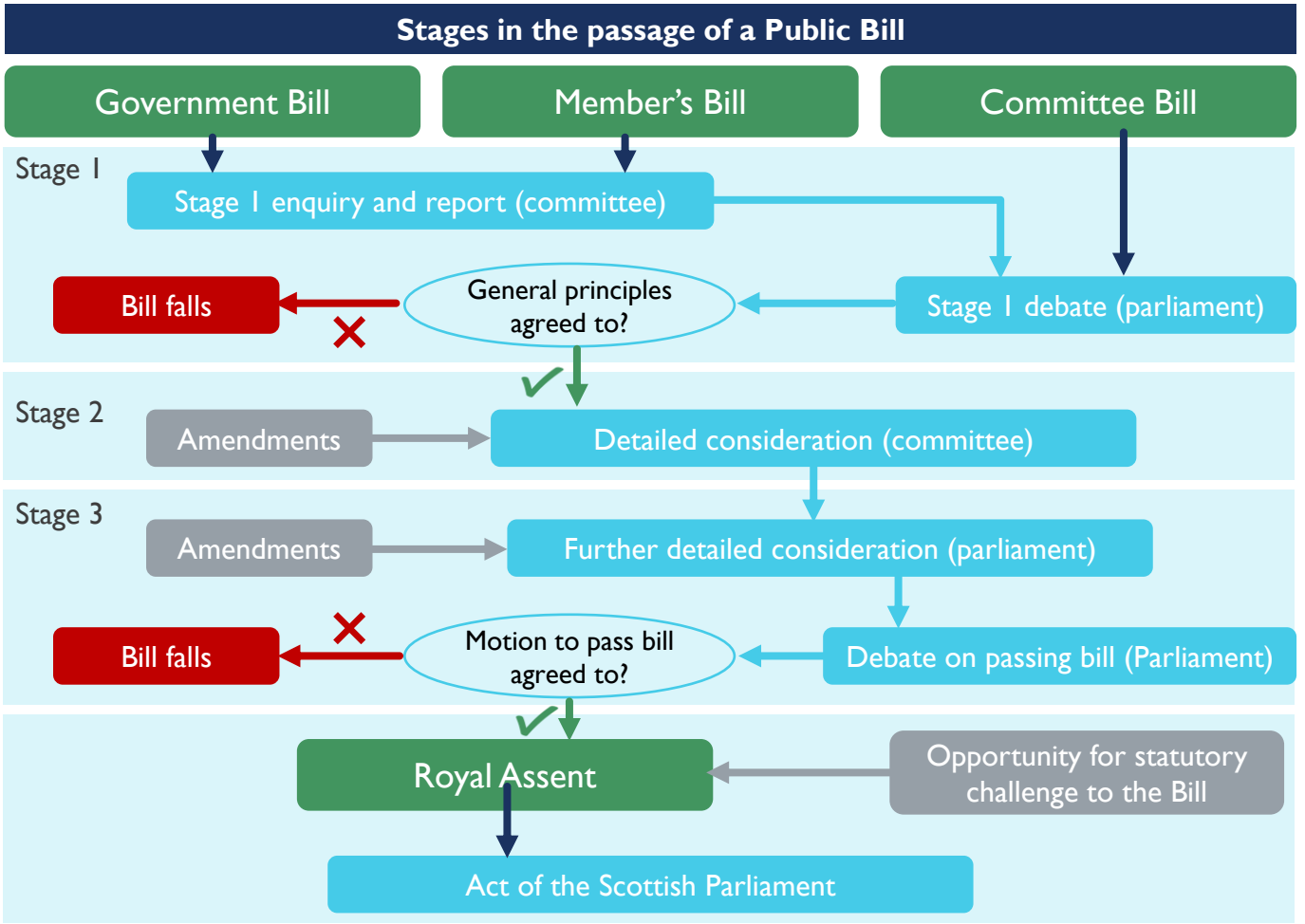
- The Office for Budget Responsibility (OBR) is an executive non-departmental public body, sponsored by HM Treasury
- OBR provides independent and authoritative analysis of the UK's public finances
- Produces detailed five-year forecasts for the economy and public finances twice a year, accompanied by Budget Statement

UK Parliament

- The UK Parliament is the supreme legislative body of the United Kingdom, comprised of the monarch, the House of Lords, and the House of Commons
- It is responsible for making and passing laws, scrutinizing government actions, and representing the public
- Also approves budgets, debates national issues, and ensures democratic accountability

LEGISLATIVE PROCESS

- The process for preparation of each annual legislative programme :
  - Each autumn Parliament and Legislation Unit (PLU) seeks updates from Directorates about their potential requirements for future Bills
  - That is followed by a series of commissions or bilateral meetings between Minister for Parliamentary Business (MfPB) and Ministers to discuss individual portfolio priorities
  - MfPB uses these parallel commissions to produce a draft legislative programme. This draft programme balances progress with manifesto commitments, internal Scottish Government resource, parliamentary committee capacity, portfolio balance, topical and urgent issues, and the potential for in-year additions in response to events
  - A draft annual legislative programme is then formally considered by the Cabinet Sub-Committee on Legislation (CSCL) which consists of the DFM, MfPB, Minister for Zero Carbon Buildings, Active Travel and Tenants' Rights and the Lord Advocate



SCOTLAND OPERATES ITS OWN LEGAL AND JUDICIAL SYSTEM

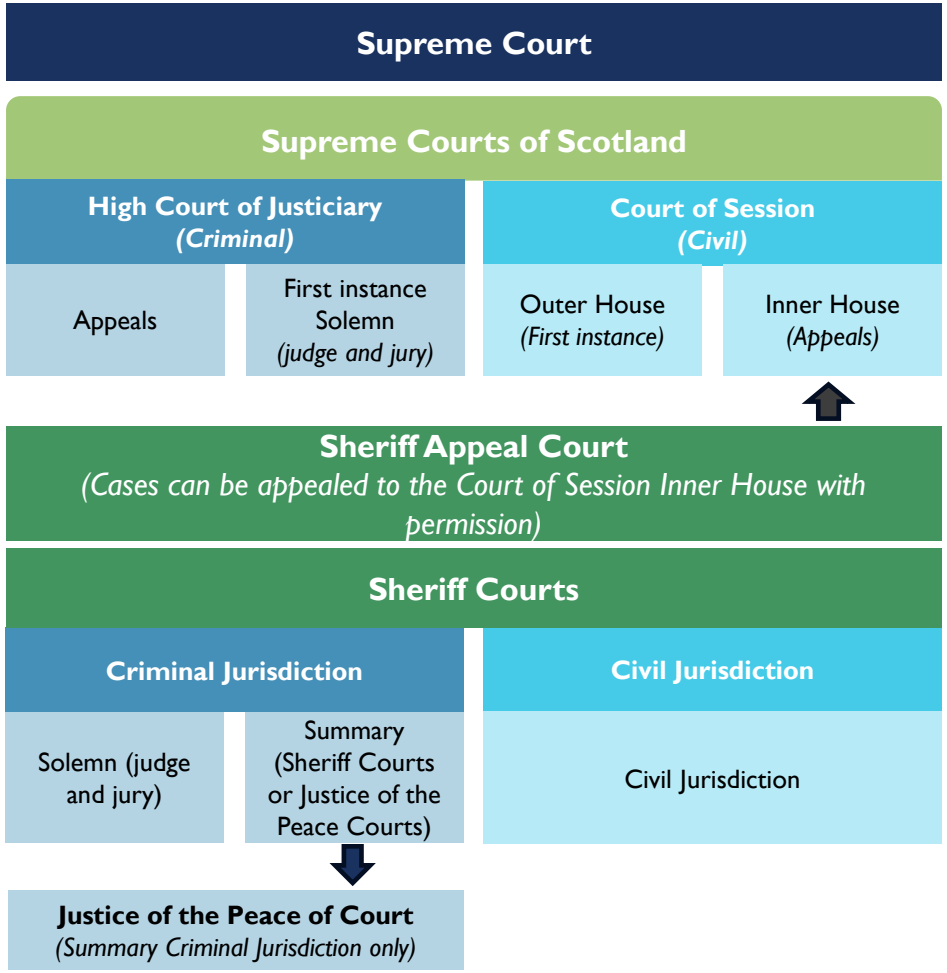
- As a distinct jurisdiction, Scotland operates its own legal and judicial system which is different from that of the rest of the UK
- The Act of Union 1707 between Scotland and England permitted Scotland to retain its separate legal system, which continues to be administered in Scotland. This means that the Scottish justice system has its own court system, police force, prosecution service and prison and criminal justice social work services
- Scottish law is a mixed model that combines elements of both civil law traditions & common law elements. While the rest of the UK the legal decisions are driven through a pure common law system and are driven by precedent
- The Lord President, is the head of the Scottish judiciary

Court Structure

- The High Court of Justiciary and Court of Session, collectively known as the **Supreme Courts of Scotland**
- **The High Court of Justiciary:** supreme criminal court
- **The Court of Session:** supreme civil court, sits in Parliament House in Edinburgh as a court of first instance and a court of appeal. **The Inner House** in essence is an appeal court. **The Outer House** mostly hears civil cases when they first come to court ((i.e. at first instance)
- **Sheriff Appeal Court:** Civil appeals are heard by a bench of three appeal sheriffs
- **Sheriff Courts:** Local civil courts dealing with more serious criminal cases, such as assaults, housebreaking, robbery, drug-related offences
- **Justice of the Peace Court:** Deal with less serious criminal cases also known as summary cases

Tribunals

- Play a vital role in Scottish justice system. They are less formal and more accessible than courts
- Tribunal system has two tiers – **First Tier** (decisions are based on previously heard cases) , **Upper Tribunal** (hears appeals against decisions of First-tier tribunal). From the Upper Tribunal, any appeal hearing would go to the Court of Session
- **First Tier** tribunals deal with matters related to health, education, housing, property, taxation and social security



NATIONAL PERFORMANCE FRAMEWORK

The National Performance Framework is for all of Scotland and sets out a vision for collective wellbeing. The National Outcomes define what good looks like, while the national indicators help us assess whether we are progressing in the right direction towards them.

Purpose: Focus on creating a more successful country with opportunities for all of Scotland to flourish through increased wellbeing, and sustainable and inclusive economic growth

Values: A society which treats all people with kindness, dignity and compassion, respects the rule of law, and acts in an open and transparent way

Open, connected and positive contribution internationally

Tackle poverty by sharing opportunities, wealth and power more equally

Living in inclusive, empowered, resilient and safe communities

Nurtured with love, safety, and respect to achieve our full potential

Well educated, skilled and able to contribute to society

Thriving and innovative businesses, with quality jobs and fair work for everyone

Healthy and active

Value, enjoy, protect and enhance environment

Express and enjoy creative, vibrant and diverse cultures widely

Respect, protect and fulfil human rights and live free from discrimination

Globally, competitive, entrepreneurial, inclusive and sustainable economy

APPENDIX 8.2: SCOTLAND'S ECONOMY AND ECONOMIC STRATEGY

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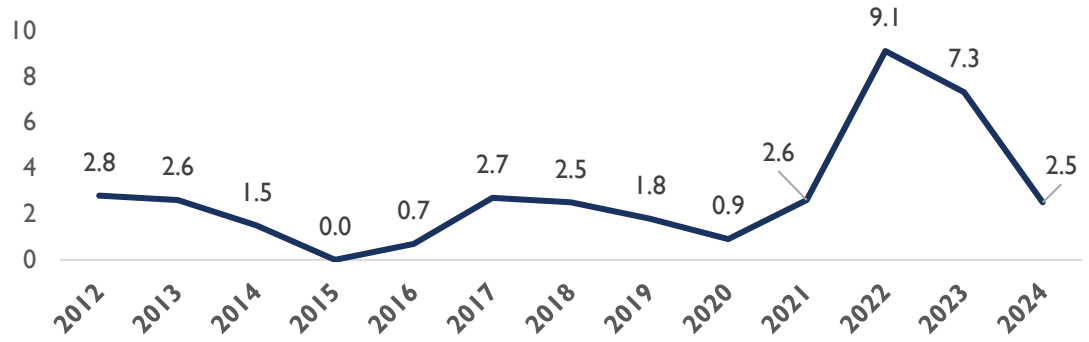
INFLATION

- Scotland does not have a distinct inflation measure; instead, the UK employs a single Consumer Price Index (CPI) to monitor inflation throughout the entire country, including Scotland
- Bank of England (BoE) sets monetary policy for the UK as a whole
- Inflation in the UK was largely stable around 2% from 2012-20, reflecting steady economic growth post 2008 economic crisis
- Post the Covid-period, inflation spiked to >9% in 2021-22, driven by soaring energy prices and global supply shocks, exacerbated by war in Ukraine
- Higher interest rates since end-2022 reduced aggregate demand and controlled inflation, which has been stable at around 2% in mid-2024, close to BoE's target of 2%
- Owing to lower inflation levels, BoE started reducing benchmark rates in 2024, from 5.25% to 4.25%
- Inflation is likely to rise again to ~3.7% by Sep-25, due to increase in energy prices and utility bills

UK CPI Inflation Rate – Annual (%)



Source: ONS

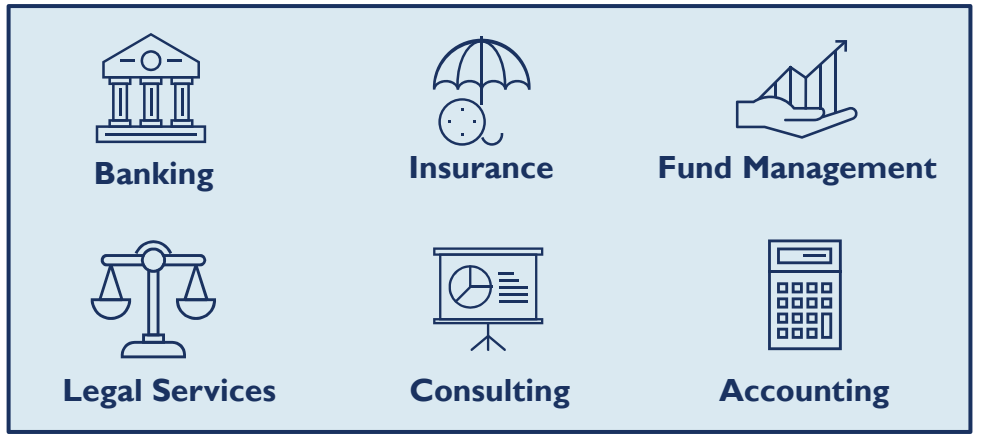
BoE Bank Rate (%)

Source: BoE

FINANCIAL AND RELATED PROFESSIONAL BUSINESS SERVICES

Financial and Related Professional Business Services - Sector Statistics

- **Employment** in the Financial and Related Professional Business Services sector in Scotland stood at 151,000 people in 2023, accounting for 5.7% of employment in Scotland and 6% of employment in Financial and Related Professional Business Services across Great Britain.
- **GVA** contribution from the sector accounts for 10.5% of the Scottish Economy.
- **Total exports** from the Financial and Related Professional Business Services sector stood at £10.4 billion in 2022 (up 14.7% from 2021)



Sector Highlights

- Edinburgh currently ranks 29th and Glasgow 32nd on Z/Yen's most recent Global Financial Centres Index.
- There are currently 240 + FinTech Businesses in Scotland (834% increase since 2018). The fintech community in Scotland has attracted £2.2 billion in investment since 2018, reflecting growing investor confidence.
- Edinburgh is the largest asset management centre in the UK outside London with over £500bn in assets managed in Scotland. Scotland-headquartered investment funds account for 17% of UK-based funds under management.
- Each of the 'Big four' accounting firms (Deloitte, EY, KPMG, and PwC) has a presence in Edinburgh, as do many other international and local firms. ICAS, established in 1854 as the first professional organisation for Chartered Accountants globally, is based in Edinburgh and has over 20,000 members across the world

ROLE OF OIL & GAS IN SCOTLAND'S ECONOMY

The oil and gas sector contributes to economic output, employment, public finances, and energy supply, while also supporting Scotland's energy transition ambitions

Economic Scale and Jobs	▪ Oil and gas extraction contributed £25.2 billion (11.8% of GDP) to Scotland's economy, supporting jobs, mainly in the North-East and Highlands & Islands. ▪ As part of its effort to move away from oil and gas, the Scottish Government has adopted a "Just Transition" approach to support affected workers and communities through retraining and clean energy job opportunities
Public Finances and Fiscal Impact	▪ Currently, taxation powers for oil and gas are reserved, implying revenues don't directly affect Scotland's public finances. However, economic activity in this sector does contribute to tax revenues from devolved taxes like Income Tax ▪ Revenues reached £7.9 billion in 2022–23 and fell to £4.9 billion in 2023–24, driven by several factors such as oil price, production, operating expenditure, capital investment, and the prevailing fiscal regime
Energy Supply and Security	▪ Whilst Scotland currently relies on oil and gas for its energy needs, with 77% of all Scottish energy consumption and around 90% of domestic heat demand met by gas ▪ Scotland is shifting its dependence away from oil and gas by investing in net-zero energy systems like EV charging and offshore platform decommissioning, creating new jobs and economic opportunities
Industrial Capability	▪ Scotland's oil and gas industry provides a strong foundation for various other industries through its well-established infrastructure, specialized supply chain, and skilled workforce ▪ The industry underpins a broad and innovative supply chain, which also supports emerging low-carbon sectors such as offshore wind, hydrogen, and carbon capture and storage (CCS)
Support for energy transition and skills	▪ The sector supports Scotland's broader energy transition ambitions, enabling growth in renewables and low-carbon technologies ▪ Scotland's oil and gas workers will be essential to the energy transition. An estimate 90% of the UK's oil and gas workforce have transferable skills to work in adjacent energy sectors

GREEN INDUSTRIAL STRATEGY

- Scotland's Green Industrial Strategy's mission is to ensure that Scotland realises the maximum possible economic benefit from the opportunities created by the global transition to net zero
- The strategy demonstrates that with the right focus, investment, and partnerships, Scottish businesses and workers can innovate, grow, and share their expertise globally
- Scotland's Green Industrial Strategy is important, as Scotland is competing with other nations to secure investment, build infrastructure and grow globally competitive industries in renewable energy technologies related to net zero
- The strategy follows a strategic approach to ensure prioritisation of resources and investment, coordinated policy and working partnerships

Prioritising resources and investment

- **Maximising Scotland's wind economy:** Harnessing of wind energy potential, including onshore, offshore, and floating, to lead in clean power, supply chain growth, and circularity of turbine materials
- **Developing a self-sustaining carbon capture, utilisation and storage sector:** Leveraging Scotland's CO_2 storage potential, subsea engineering expertise, and skilled workforce to enable low-carbon products and capture a share of Europe's carbon storage market
- **Supporting green economy professional and financial services, with global reach:** Strengthening Scotland's high-value service sectors while supporting innovation and future growth through government initiatives
- **Growing hydrogen sector:** Using Scotland's renewable energy edge to lead in producing and exporting sustainable hydrogen, products, and expertise for domestic and global decarbonisation
- **Establishing Scotland as a competitive centre for the clean Energy Intensive Industries of the future:** Promoting electrification of energy-intensive industries and positioning Scotland as a prime location for clean industrial growth powered by renewable electricity

Coordinated policy (connecting energy, climate, economy goals)

- Supporting Investment, ensuring an investment-friendly ecosystem
- Investing in strong research and development foundations
- Supporting the development of a skilled workforce
- Helping supply chain businesses to seize opportunities
- Delivering an agile planning and consenting system
- Delivering required housing and enabling infrastructure

Partnership working: delivering in a green industrial ecosystem

- Driving economic growth by building a mission-led green industrial ecosystem that offers certainty to investors and shares success broadly
- Working in partnership with various organizations in Scotland to make sure the best use of resources
- Continue to pursue bilateral and multilateral opportunities to foster a partnership with European neighbours

CLIMATE CHANGE PLAN

Overview

- Scotland has targeted to become 'Net Zero' by 2045, five years ahead of the rest of the UK, through actions and fundings on transport, clean energy and homes, nature and adaption and community support
- Scotland's net emissions have dropped 51.3% since 1990, with all sectors except international aviation and shipping showing declines
- Scotland move towards a "carbon budget" mechanism under the Climate Change (Scotland) Act 2009 to set legally binding, five-year limits on greenhouse gas emissions, guiding its path to net zero
- SG updated the 2018 Climate Change Plan in December 2020, which sets out a pathway to reduce Scotland's emissions over the period to 2032
- Work is underway on Scotland's next climate change plan for 2026–2040

Adaptation Delivery Highlights

- The Climate Change Committee (CCC) urges the Scottish Government to take urgent, accountable action and plan for 2°C to 4°C warming impacts
- Scotland's third 5-year Adaptation Plan sets out the adaptation policy agenda to 2029, which has 23 delivery objectives and an M&E framework tracking 38 indicators of climate resilience

Nature Connects

- **Funding for LA Coastal Management:** The Nature Restoration Fund invested £65m in nature and supported Coastal Change Adaptation Plans
- **Biodiversity Investment Plan finalised:** Six actions to boost nature investment
- **Better policy coordination on soils:** Scotland's Soils Route Map published after a year of policy engagement to protect soils

Business, Economy and Industry

- **New adaptation guidance for businesses:** SME climate resilience guidance is available at findbusinesssupport.gov.scot and advisors in all Enterprise Agencies upskilled to support climate resilience
- **Investment in adaptation measures for agriculture:** £14m has been invested for the Future Farming Investment Scheme, supporting capital projects that boost efficiency and climate- or nature-friendly farming
- **New adaptation action to protect forestry sector:** Forestry Scotland's Routemap to Resilience published outlining actions to help woodlands adapt, respond, and recover from climate-related threats over the next decade

Public Services & Infrastructure

- **Better local flooding information:** SEPA have published new surface water flood maps, providing the most detailed and accurate picture of where flooding could occur from heavy rainfall
- **Climate resilient infrastructure:** 20+ infrastructure groups united to share data and protect Scotland from climate impacts
- **More SG support for flooding action:** Scotland's first Flood Resilience Strategy launched to boost community resilience and create a national advisory service
- **More action to address climate weakness in the transport system:** Publication of a new Trunk Road Adaptation Plan in 2025, with 45 recommendations for the next five years to improve climate resilience across national trunk road network

Communities

- **Improved public access to information:** Adaptation.scot hub has been launched, a digital home for all adaptation support and advice SG have produced
- **Accelerated action at the regional level:** Climate Ready partnerships expanded with new Tayside collaboration, 1,000 stories gathered, Highland assessments developed, and Scotland's first national gathering held

Source: Climate Change Plan (2018-2032); Climate Change Plan: monitoring report 2025

KEY CLIMATE ACHIEVEMENTS AND COMMITMENTS

Commitments Updated in 2025 Annual Monitoring Progress Report

- Achieved an 84% increase in woodland creation compared to 2022/23, reaching a total of 15,040 hectares in 2023/24, including 7,700 hectares of native woodland
- In the 2024 Programme for Government (PfG), committed to restore over 10,000 hectares of peatland in 2024–25, with a target to increase this to at least 12,000 hectares in 2025–26
- Updated Agricultural Reform Route Map in summer 2024, setting out changes to farm payments from 2025 and the shift to a new support framework from 2026
- Published a draft Transport Just Transition Plan for consultation, in February 2025, as the country transitions to net zero and adapts to a changing climate, through measures that promote healthier lifestyles, improve access to transport, or support the natural environment

Key "On Track" Policy Outcome Indicators

Electricity

- Electricity grid intensity (CO2e / KWh)
- Installed capacity of renewable generation (GW)
- Renewable capacity at planning stages (GW: 3 categories)
- Loss of Load Expectation (hrs / year)

Agriculture

- Increased engagement with Farm Advisory Services on environmental issues and climate change
- Use of Nitrogen fertilisers
- Spreading precision of Nitrogen fertilisers
- Area of woodland on agricultural land

Buildings

- Energy intensity of residential buildings (MWh per household)
- Emissions intensity of non-domestic buildings (tonnes of CO2e per £ million Gross Value Added)
- % new homes built with a calculated space heating demand of not more than 20 kWh/m²/yrT

Transport

- % of new bus registrations that are ULEV
- % of ferries that are low emissions

Waste

- Total amount of biodegradable landfilled waste (tonnes)
- Total waste generated (tonnes)

LULUCF

- Woodland Carbon Code: Projected carbon sequestration (validated credits)

Source: Climate Change Plan (2018-2032); Climate Change Plan: monitoring report 2025

APPENDIX 8.3: RECENT FINANCIAL RESULTS

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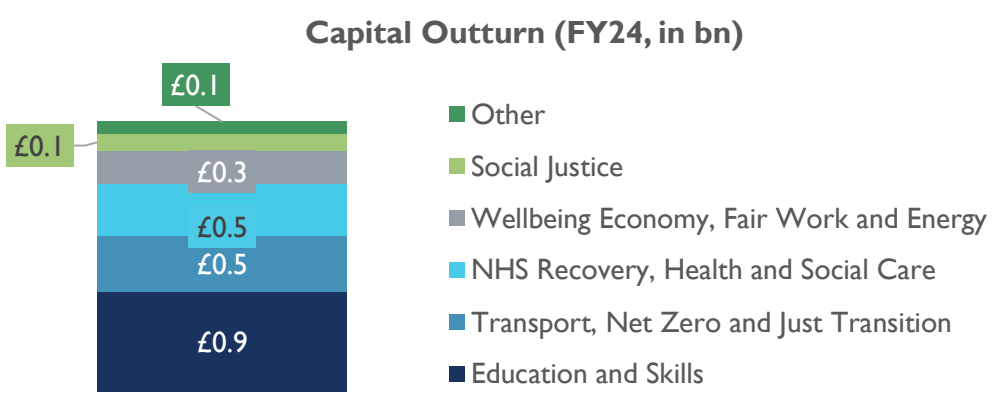
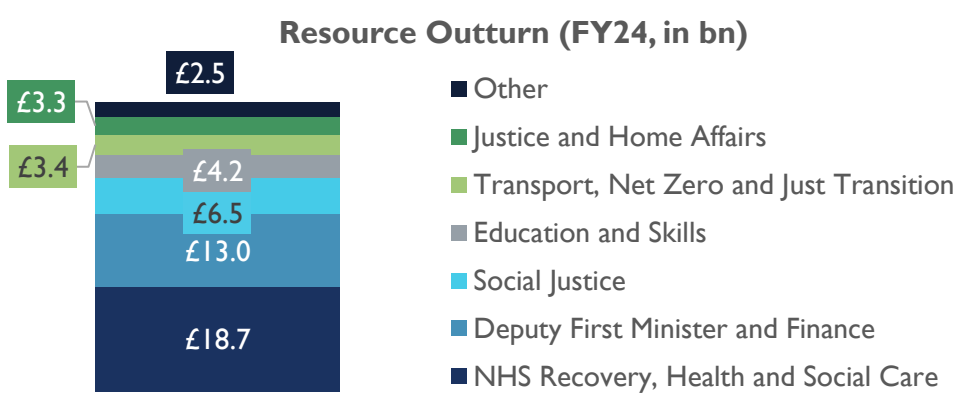
SCOTTISH GOVERNMENT REVENUE AND EXPENDITURE (2023-24)





Source: Scottish Consolidated Accounts (2023-2024)

Government Expenditure (Resource and Capital Outturn)

- In fiscal 2023-24, Scotland recorded a Net Resource Outturn of £51.6bn against a budget of £51.8bn
- The Net Capital Outturn (capex) for the year was £2.4bn against a budget of £2.5bn

BUDGET 2025-2026 - SUMMARY OF PORTFOLIO SPENDING PLANS

Total Proposed Budget for 2025-26 (£million)

2025-26 Scottish Budget	Resource	Ring-fenced	Capital	Financial Transactions	Total	UK Funded AME	Total
Health and Social Care	20,200	417	1,005	-	21,623	108	21,731
Finance and Local Government	10,053	13	771	25	10,862	6,031	16,893
Social Justice	7,472	71	702	-	8,244	-	8,244
Education and Skills	3,194	(335)	513	(12)	3,360	874	4,234
Justice and Home Affairs	3,494	192	511	-	4,197	-	4,197
Transport	1,545	345	2,128	(10)	4,009	1	4,009
Deputy First Minister, Economy and Gaelic	613	26	528	167	1,334	-	1,334
Rural Affairs, Land Reform and Islands	916	23	209	-	1,148	-	1,148
Net Zero and Energy	132	10	761	(3)	900	-	900
Constitution, External Affairs & Culture	321	20	35	-	376	-	376
Crown Office and Procurator Fiscal Service	225	10	12	-	248	1	249
Scottish Government	**48,165**	**792**	**7,175**	**167**	**56,299**	**7,016**	**63,315**
Scottish Parliament and Audit Scotland	149	15	1	-	166	2	168
Total Scotland	**48,315**	**807**	**7,176**	**167**	**56,465**	**7,018**	**63,483**

Total Managed Expenditure

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

APPENDIX 8.4: SCOTTISH GOVERNMENT PRIORITIES AND OBJECTIVES

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BORROWINGS FORECAST – MTFS 2025-2026

Capital Borrowing Forecast (£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	1,617	1,744	1,814	2,026	2,227	2,245	2,576	2,716	2,835	2,936	3,032
New Borrowing in year (incurred)	200	150	300	300	139	-	-	-	-	-	-
New Borrowing in year (forecast)	-	-	-	-	-	472	300	300	300	300	300
Principal Repayments	52	60	67	79	100	120	129	132	135	125	115
Interest Repayments	13	14	16	24	34	39	37	34	31	28	25
Resource Cost of Borrowing Incurred	**64**	**74**	**83**	**103**	**135**	**160**	**166**	**166**	**166**	**153**	**140**
Principal Repayments	-	-	-	-	-	-	11	29	43	59	75
Interest Repayments	-	-	-	-	-	-	21	38	53	68	82
Resource Cost of Forecast Borrowing	**-**	**-**	**-**	**-**	**-**	**-**	**32**	**66**	**96**	**127**	**157**
Projected Total Resource Cost	**64**	**74**	**83**	**103**	**135**	**160**	**198**	**232**	**262**	**280**	**297**
Notional Borrowing Repayments	21	21	21	21	21	21	21	21	21	21	21
Debt Stock at end of Year	1,744	1,814	2,026	2,227	2.245	2,576	2,716	2,835	2,936	3,032	3,121
Dept Cap	3,000	3,000	3,000	3,000	3,050	3,145	3,249	3,316	3,380	3,444	3,513
% of Debt Cap	58%	60%	68%	74%	74%	82%	84%	86%	87%	88%	89%
Headroom	1,256	1,186	974	773	805	569	533	481	444	412	391

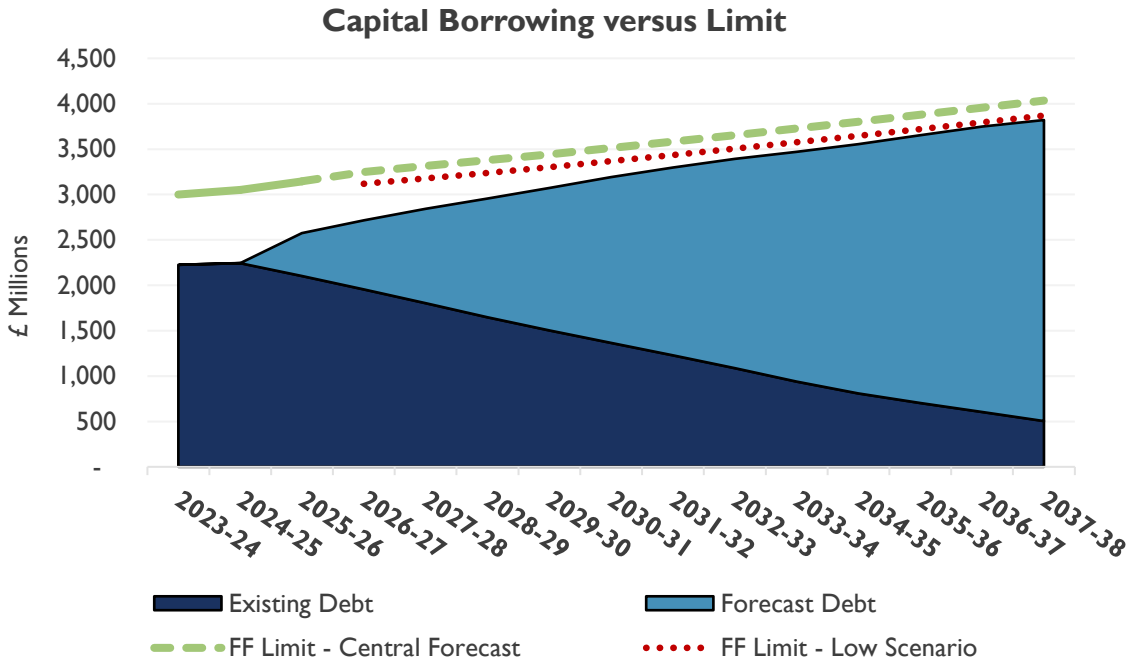
Resource Borrowing Forecast (£million)

	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	702	837	683
New Borrowing in year (incurred)	207	319	47	104	-	-	-	-	-	-	-
New Borrowing in year (forecast)	-	-	-	-	-	-	-	663	222	-	-
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	-	-	-	-	-	-	-	-	59	143	170
Interest Repayments	-	-	-	-	-	-	-	-	29	39	32
Resource Cost of Forecast Borrowing	-	-	-	-	-	-	-	-	**88**	**181**	**202**
Projected Total Resource Cost	**-**	**21**	**77**	**114**	**132**	**142**	**121**	**67**	**117**	**193**	**202**
Debt Stock at end of Year	207	505	480	476	353	219	103	702	837	683	513
Dept Cap	1,750	1,750	1,750	1,750	1,779	1,834	1,895	1,934	1,972	2,009	2,049
% of Debt Cap	12%	29%	27%	27%	20%	12%	5%	36%	42%	34%	25%
Headroom	1,543	1,245	1,270	1,274	1,426	1,616	1,793	1,232	1,135	1,326	1,536

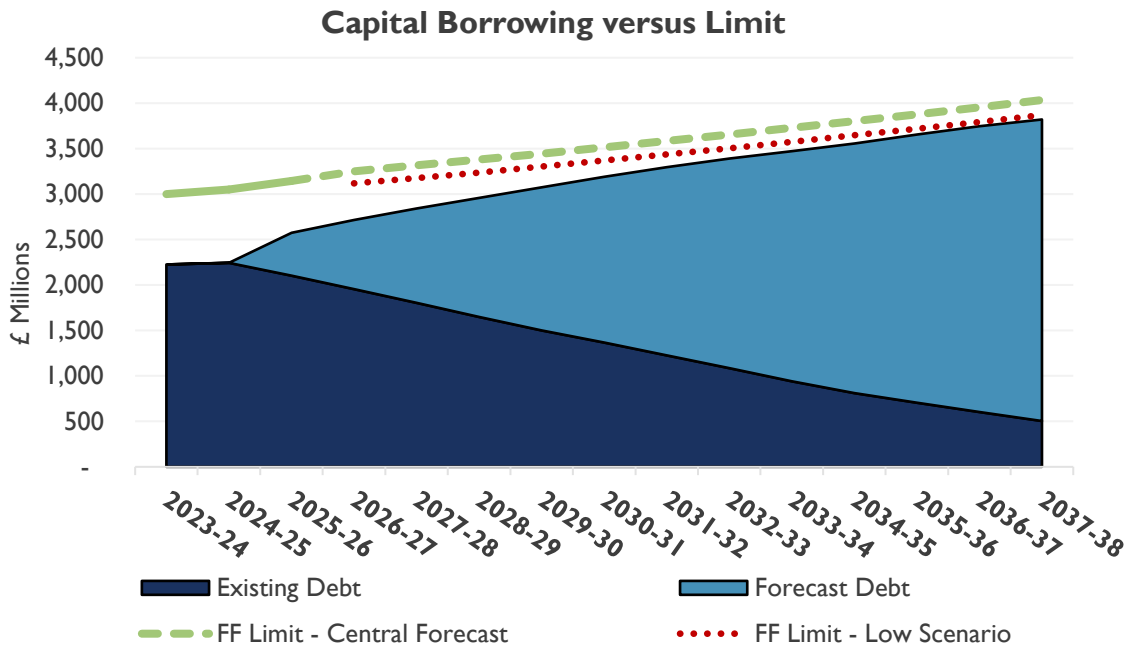
Sources: 'Scotland's Fiscal Outlook: The Scottish Government's Medium-Term Financial Strategy'

CAPITAL BORROWING – BOND SCENARIOS

Five Year Programme



Alternate Year Programme



- Both Bond Scenarios can be accommodated within existing policy approach.
- Note that these forecast ***limits*** use GDP deflators as at March 2025. Borrowing limits are revised at every UK Fiscal Event in the Autumn
- Therefore, cumulative limits are expected to rise in line with expected increases in GDP Deflator history.

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