Scottish Government
Riaghaltas na h-Alba

Scottish Budget 2025 to 2026: distributional analysis

This paper provides an analysis of the impact of tax, social security and key spending measures included in the Scottish Budget 2025-26 on households in Scotland. It assesses effects on households across different income levels, age groups, and household characteristics.

Distributional analysis provides a key insight into the impact that Scottish Government policies are having on inequality and which groups receive the greatest support. For the first time, the distributional analysis is extended to include key resource spending measures.

Summary and key points

This analysis shows:

- The Scottish tax and social security system is progressive and redistributes from high income households to low income households. The higher a household's income, the greater the share of their income they pay in income taxes, and the less they receive in social security.
- Differences between Scottish and UK Government policy since the devolution of tax and social security powers in 2016 mean that the system in Scotland is more progressive than it would have been without changes made under devolution.
- As a result, on average, households in the lower half of the income distribution are around £450 better off a year than they would be under UK Government tax and social security policies.
- Overall, around 62% of households in Scotland are better off or unaffected under the Scottish tax and social security system.
- Scottish Child Payment is the largest single contributor to the improved financial resources of low-income households relative to the rest of the UK, while the impact on higher income households is driven by the Income Tax system.
- The Scottish Government decision to provide a payment to those not in receipt of a relevant qualifying benefit means most pensioner families will be £100 better off than in the rest of the UK.
- Scottish Income Tax changes – Increases to the Basic and Intermediate rate threshold, while freezing the Higher, Advanced and Top rate thresholds, mean that almost half (47%) of Scottish households are better off, with over three-quarters (76%) of households either better off or unaffected as a result.
- Increases to the Basic and Intermediate rate thresholds have a small positive impact in the bottom half of the income distribution. The negative impact of frozen thresholds principally falls on the highest earning 20% of households, with the top 10% paying an average of 0.1% of their income (around £130) more.
- Reform of the Pension Age Winter Heating Payment results in a fairly uniform average loss across the distribution compared to universal eligibility.
- Overall, the distribution of public spending on health, schools, transport and funded early learning and childcare is similar across income groups, although considering the progressivity of the tax system this is redistributive. Spending is a greater share of household income for those in low income households across all of the areas.

A detailed description of the methodology used to produce this analysis is included in the annex of this note.

Scope of this analysis

The **first** part of this paper analyses the impact of the Scottish tax and social security system on household incomes. This is shown both in isolation and in comparison to the system in place in the rest of the UK.[1] Understanding the impact of the tax and social security system as a whole is important context for considering the changes made in an annual Budget.

The **second** part of this paper analyses some of the policy changes announced or confirmed in the Scottish Government budget, namely:

- The Scottish Government policy to target £200 and £300 payments of Pension Age Winter Heating Payment (PAWHP) at families in receipt of a relevant qualifying benefit while providing £100 payments to other pension age families.
- Increases of 3.5% to the Basic rate and Intermediate rate thresholds of Income Tax, while continuing to freeze the Higher, Advanced and Top rate thresholds.

A box also considers the potential impact of changes to employer National Insurance Contribution rates and thresholds on households.

The first two parts of this analysis only include policies that affect the financial resources available to households – i.e. personal taxes and cash benefits. They do not incorporate in-kind benefits (such as free school meals or free early learning and childcare).

The **third** part of this paper extends the analysis to public spending for the first time considering the following areas:

- Health
- Schools
- Early Learning and Childcare
- Transport

All impacts on household incomes are shown excluding any behavioural responses. This is particularly important when considering impacts of tax policy on higher income deciles, where behavioural responses to policy changes are likely to be greatest. The analysis may not reflect impact on the very richest households.

In total modelling of public spending accounts for almost half of all government resource spending, as detailed in Table 1 below. A full list of policies incorporated is included in the methodological annex.

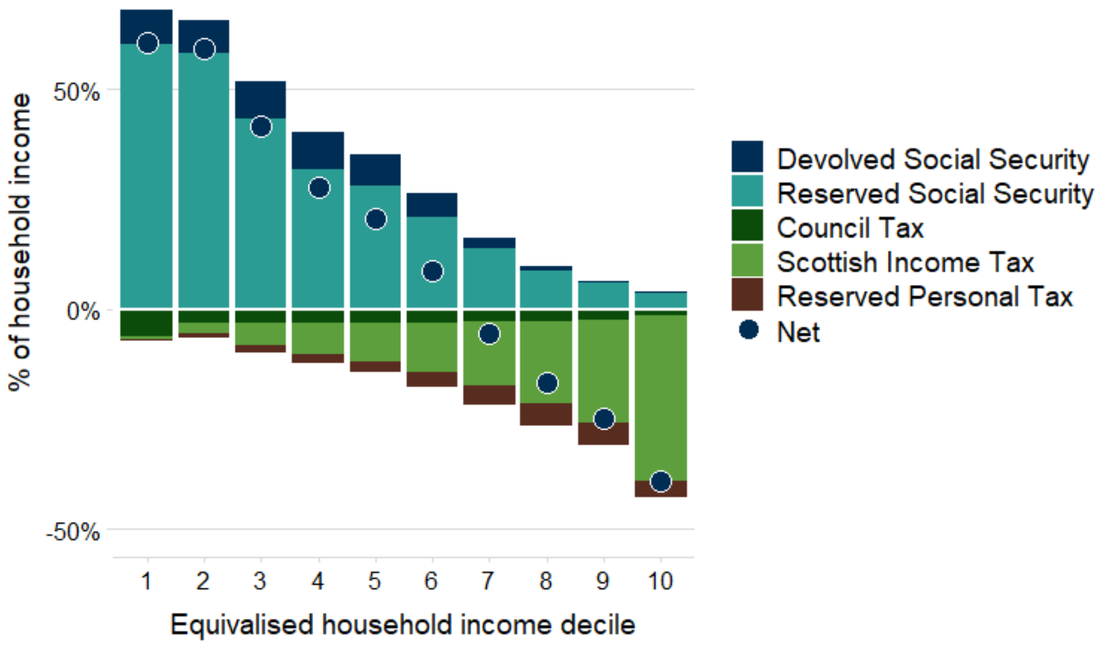
[1] For the purposes of this analysis, the 'rest of the UK' comparator uses the Income Tax system in place in England and Northern Ireland, and the Social Security system in place in England and Wales.

Part One: Overall impact of the tax and social security system

The tax and social security system that applies in Scotland is progressive – the higher a household's income, the greater the share of their income they pay in income taxes. This enables redistribution of income from higher income to lower income households, both in the form of direct payments – the focus of this part of the analysis – and the funding of public services considered in part three.

Figure 1 shows this through the total impact of personal taxes and social security payments in 2025-26 on household incomes[2]. It includes both devolved taxes (Scottish Income Tax and Council Tax), reserved taxes (Employee National Insurance Contributions and Income Tax on savings and dividends), and devolved and reserved social security payments.

Figure 1: Total tax paid and social security received in Scotland as a proportion of household income in 2025-26, by income decile[3]



Source: OCEA analysis using UKMOD

The impact of Scottish Income Tax on households increases with household income. The benefits of social security payments are greatest for the lowest income households, although the bulk of these – notably Universal Credit and the State Pension – remain reserved to the UK Government. Council Tax (after accounting for the impact of the Council Tax reduction scheme and Council Tax discounts) has a

[2] Household income refers to household income after tax and accounting for social security benefits, all incomes are before housing costs
[3] All charts and figures in this analysis use the distribution of equivalised household income before housing costs. Equivalisation is a process to adjust household income to account for the different needs of households of different sizes; further details are provided in the annex.

proportionally greater impact on lower income households, with higher income households paying a lower share of their income. Overall, the tax and social security system as a whole redistributes from high income households to those on middle and lower incomes, with (on average) households in the six lowest income deciles being net beneficiaries.

The average impact of the tax and social security system across all households is close to zero. However, it is important to note that the taxes included in this analysis do not directly or exclusively fund the social security payments shown.

This analysis excludes significant sources of tax revenue not levied directly on households – several of which saw significant policy changes by the UK Government this year such as employer NICs, Capital Gains Tax and Inheritance Tax, along with benefits-in-kind. Distributional analysis of some elements of public spending can be found below in Section 3.

Whether the average household receives a net benefit from social security payments and personal taxes will depend on both UK Government and Scottish Government decisions on the balance between social security and other types of spending; and between direct personal taxes and other forms of taxation.

Differences between Scotland and the rest of the UK

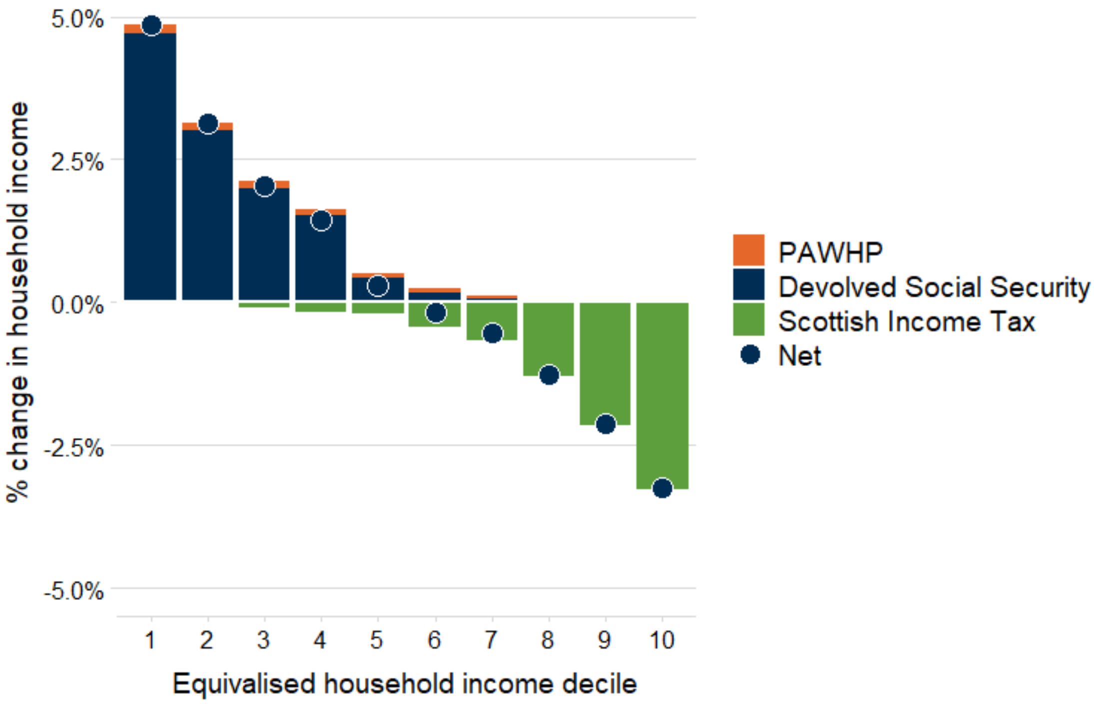
Since further powers over some taxes and social security payments were devolved to the Scottish Parliament in 2016, there has been increased divergence between the tax and social security systems in Scotland and the rest of the UK.

Figures 2 and 3 below show how Scotland's tax and social security system compares to the system currently in place in the rest of the UK, including the impact of policy changes announced in the 2025-26 Scottish Budget.[4] The figures show the annual impact as a share of household income and in cash terms, respectively.

As a result of divergence between Scottish and UK Government policies, on average the bottom five deciles are better off in Scotland than in the rest of the UK.

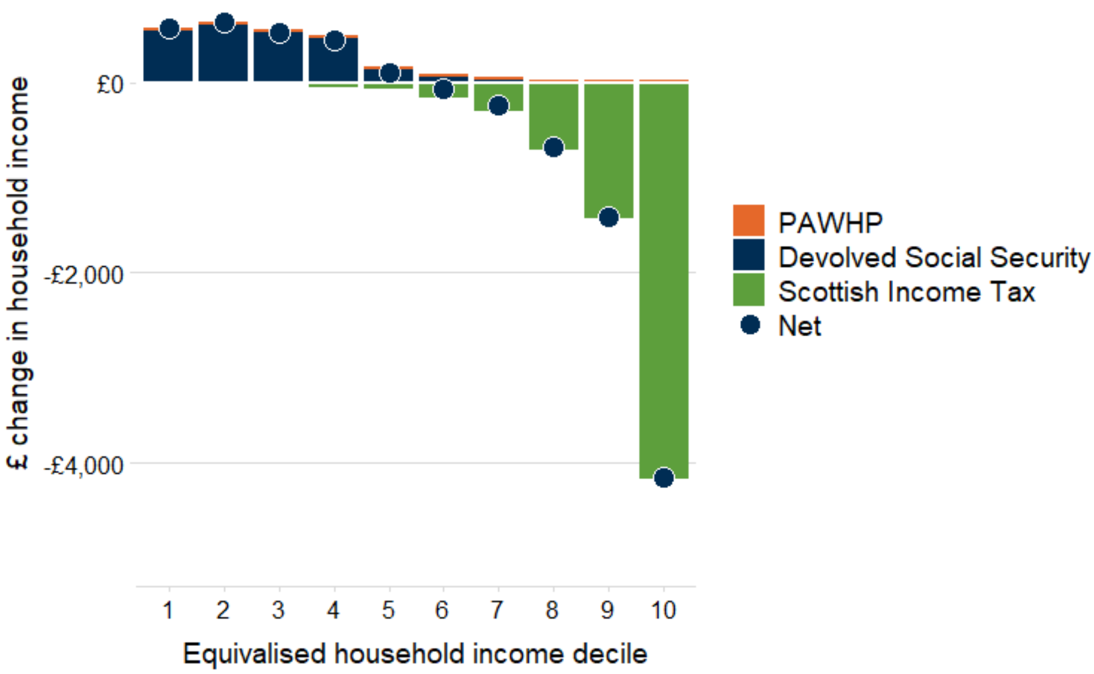
[4] This comparison excludes differences in Council Tax between Scotland and the rest of the UK, due to the challenge of making direct comparisons between the Council Tax policies in place in Scotland and England, Wales and Northern Ireland.

Figure 2: Tax paid and social security received in Scotland relative to the rUK system as a proportion of household income in 2025-26, by income decile



Source: OCEA analysis using UKMOD

Figure 3: Tax paid and social security received in Scotland relative to the rUK system in cash terms in 2025-26, by income decile

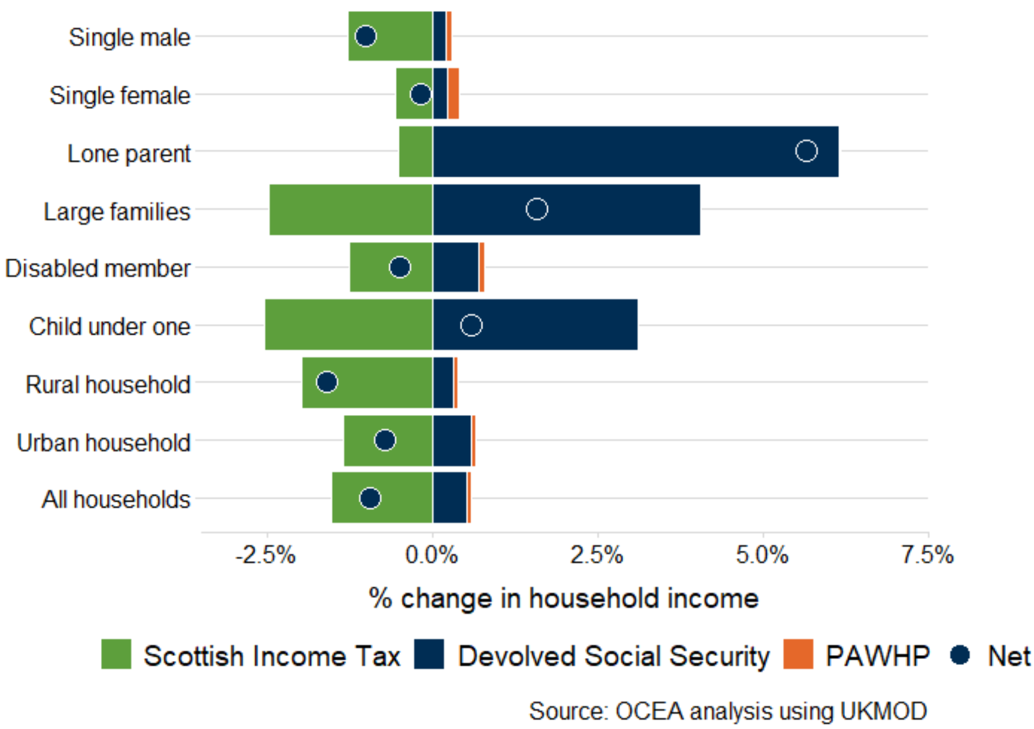


Source: OCEA analysis using UKMOD

The Scottish Child Payment is the largest single contributor to the improved financial resources of low-income households relative to the rest of the UK, while the impact on higher income households is driven by the Income Tax system in Scotland. This results in people paying more Income Tax than in the rest of the UK on higher incomes and slightly less among those earning under around £30,300[5]. The Scottish Government decision to provide a £100 payment to those not in receipt of a relevant qualifying benefit means most pensioner families will be £100 better off than in the rest of the UK.

Taking changes to the tax and social security system together, 62% of households are better off or unaffected under the Scottish system than in the rest of the UK, with the majority of these in the bottom half of the income distribution. In addition to considering the impact across the income distribution, we can also consider the impact of policy changes on specific household types. Figure 4 shows the difference between Scotland and the rest of the UK's policies on tax and social security by eight household types. These household types have been selected with reference to protected characteristics as defined in the Equalities Act 2010, and the priority household types used in Scottish child poverty analysis.[6] Additional urban/rural measures have been added this year for the first time.

Figure 4: Tax paid and social security received in Scotland relative to the rUK system in cash terms in 2025-26, by household type[7]

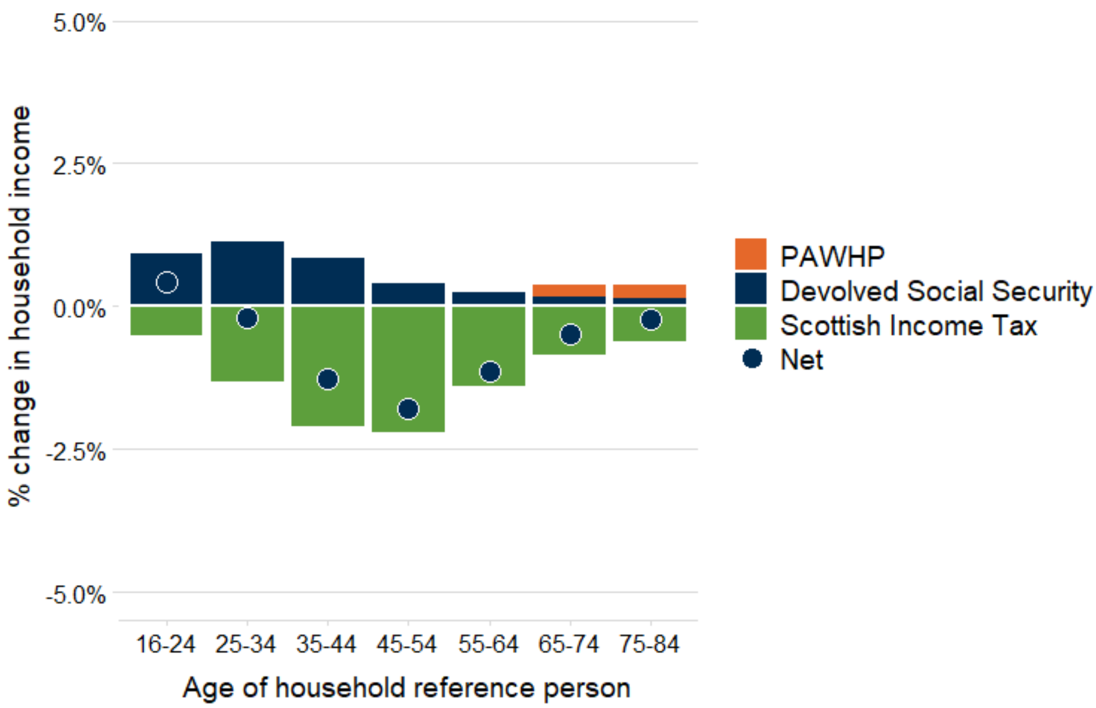


[5] This means that around 51% of Scottish taxpayers will continue to pay slightly less Income Tax than if they lived elsewhere in the UK.
[6] In addition to the household types shown, we have explored analysis of households with a minority ethnic member, and households with a mother under 25 years old; but found in both instances that the sample size in the data was too small to allow for reliable analysis.
[7] Large families refers to families with three or more children.

Again, largely driven by the Scottish Child Payment, households with children generally see the greatest benefit relative to their income.

The impacts of differences between the tax and social security systems also vary by age. Figure 5 below shows the impact of differences based on the age of the household reference person.[8]

Figure 5: Tax paid and social security received in Scotland relative to the rUK system in cash terms in 2025-26, by age of household reference person



Source: OCEA analysis using UKMOD

Figure 5 shows that the impact of differences in Income Tax policy is greatest in the middle age cohorts (those aged 35 to 54) where average incomes are highest. In older age cohorts, increasing numbers of workers retire or reduce their working hours, causing average incomes to fall. The impact of differences in social security payments is greatest in younger age cohorts who are more likely to have children, again due to the impact of the Scottish Child Payment.

[8] The household reference person is the person in the household in whose name the accommodation is owned or rented; if it is jointly owned or rented, it is the highest earner; if there are two joint highest earners, it is the oldest person

Part Two: Analysis of 2025-26 Budget decisions

This section analyses the impact of the tax and social security policy decisions made or confirmed in the Scottish Budget. It changes more substantially than part one from publication to publication due to its reflecting a different set of budget decisions each time. For Budget 2025-26 it shows the impact on household incomes of:

- An increase in the Basic rate and Intermediate rate thresholds of 3.5% to £15,397 and £27,491 respectively[9].
- Freezing the Higher rate, Advanced rate and Top rate thresholds at £43,662, £75,000 and £125,140 respectively.
- Reforming the Pension Age Winter Heating Payment to pay £200 or £300 payments to pension age families in receipt of a relevant qualifying benefit, following the UK Government decision to target eligibility for the Winter Fuel Payment. And providing a further £100 payment to other pension age families.

These are assessed against an assumed ‘no policy change’ counterfactual. This consists of:

- Uprating most social security payments and tax bands (excluding the Personal Allowance) with inflation – including the Top rate thresholds given the SFC’s approach to baselines[10].
- A universal Pension Age Winter Heating Payment for all pensioners.

Council Tax has been assumed to be uprated in line with CPI. Councils will make decisions on local rates following the Scottish Budget.

The increase of the Scottish Carer’s Payment earnings threshold is not modelled. Whether someone is a carer is taken from the underlying survey, and higher incomes as a result of the higher earnings threshold would be due to a behavioural effect which is not modelled.

Because social security payments have been uprated in line with inflation, and no significant social security policy changes have been introduced in this Budget apart from those above, the following charts only show the impact of changes to Income Tax and Pension Age Winter Heating Payment.

Figures 6 and 7 below summarise the impact of the decisions made in the Budget on household incomes. Impacts are shown as a proportion of household income and in cash terms.

[9] This refers to a proportion increase to thresholds, unlike uprating which applies to the Scottish Income Tax bands.
[10] In all instances, uprating with inflation refers to increasing by September 2024 Consumer Price Index inflation rate for the preceding 12 months (1.7%).

Figure 6: Impact of Budget decisions on average household incomes in 2025-26 by household income decile, as a proportion of income

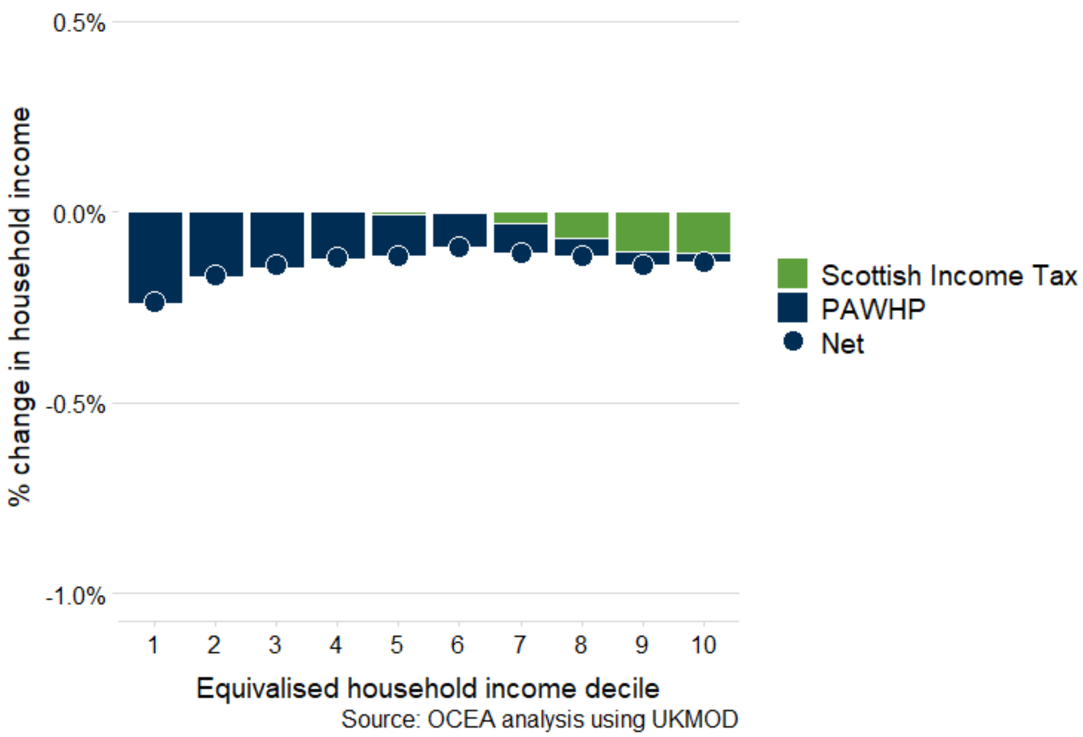
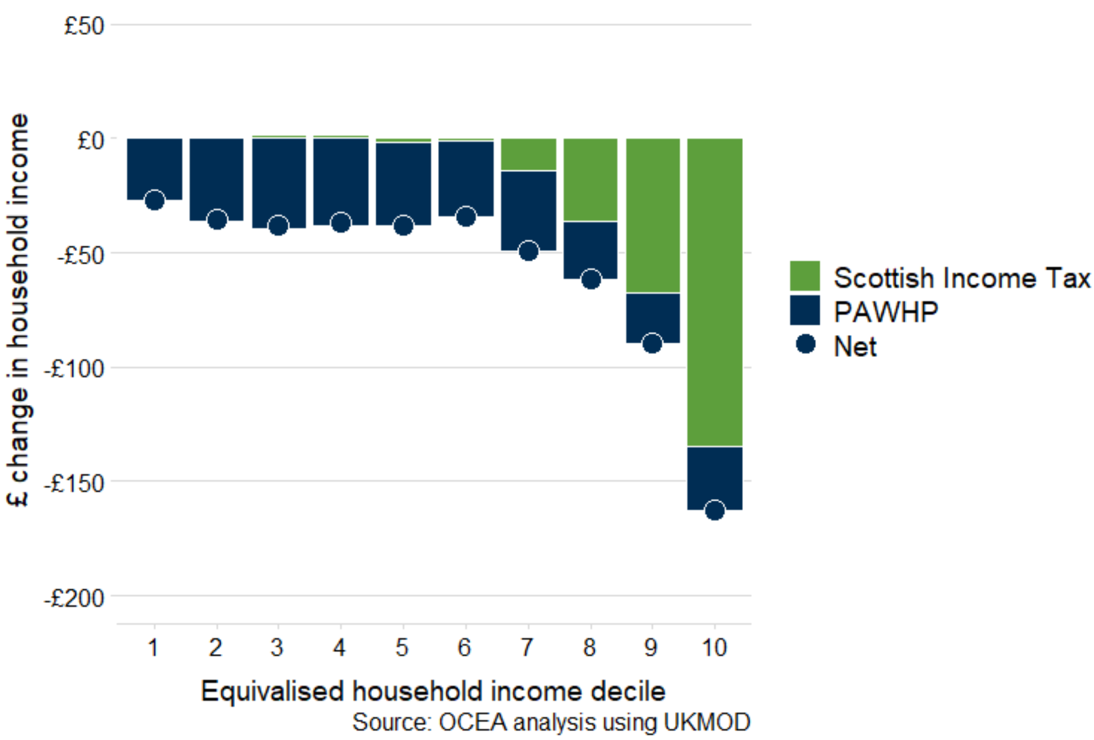


Figure 7: Impact of Budget decisions on average household incomes in 2025-26 by household income decile, in cash terms

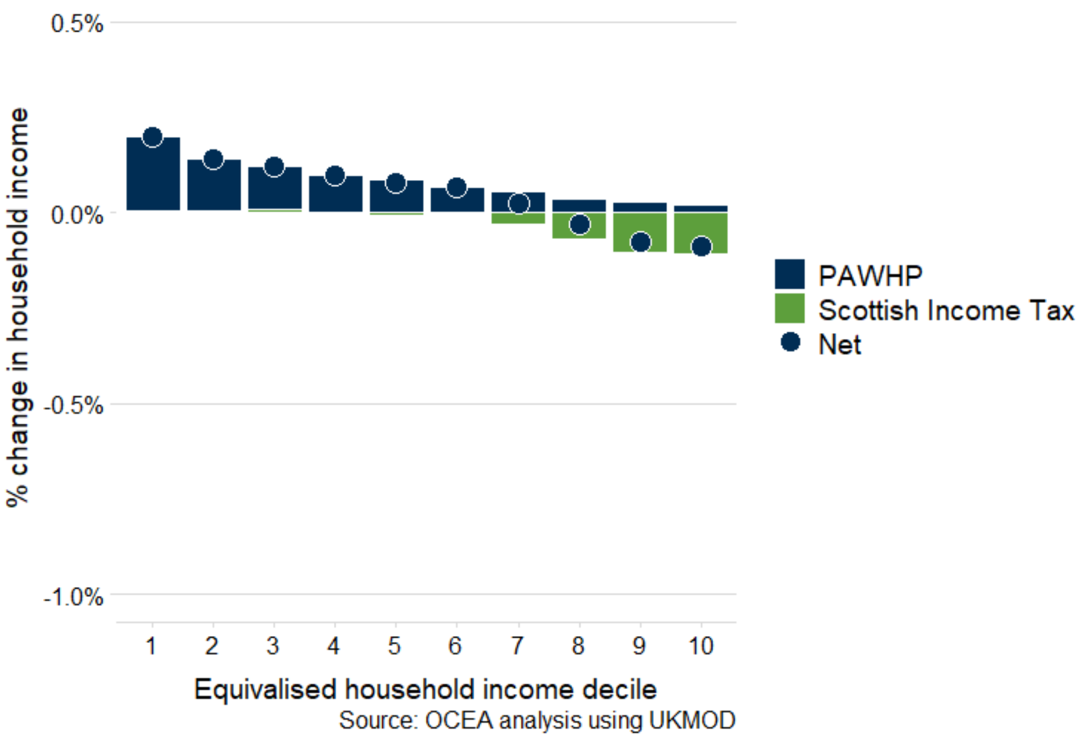


Reform of the Pension Age Winter Heating Payment results in a fairly uniform average loss in cash terms across the distribution relative to the universal eligibility originally planned.

As a share of income, the loss is largest in the bottom decile. Low take-up of Pension Credit (PC) means many households in the bottom decile are not in receipt of a relevant qualifying benefit which could make them substantially better off if claimed. This is not only because they would receive a higher PAWHP payment but because PC itself is generally worth a substantially larger amount than PAWHP and interacts with Council Tax and Housing Benefit[11]. The relatively low level of Pension Credit income thresholds is also a factor that results in some of these low-income households not qualifying for the higher payments.

Since the decision to move to a targeted benefit, the introduction of £100 payments provides an additional benefit to households in the bottom half of the income distribution.

Figure 8: Impact of extension of £100 payments on average household incomes in 2025-26 by household income decile, as a proportion of income

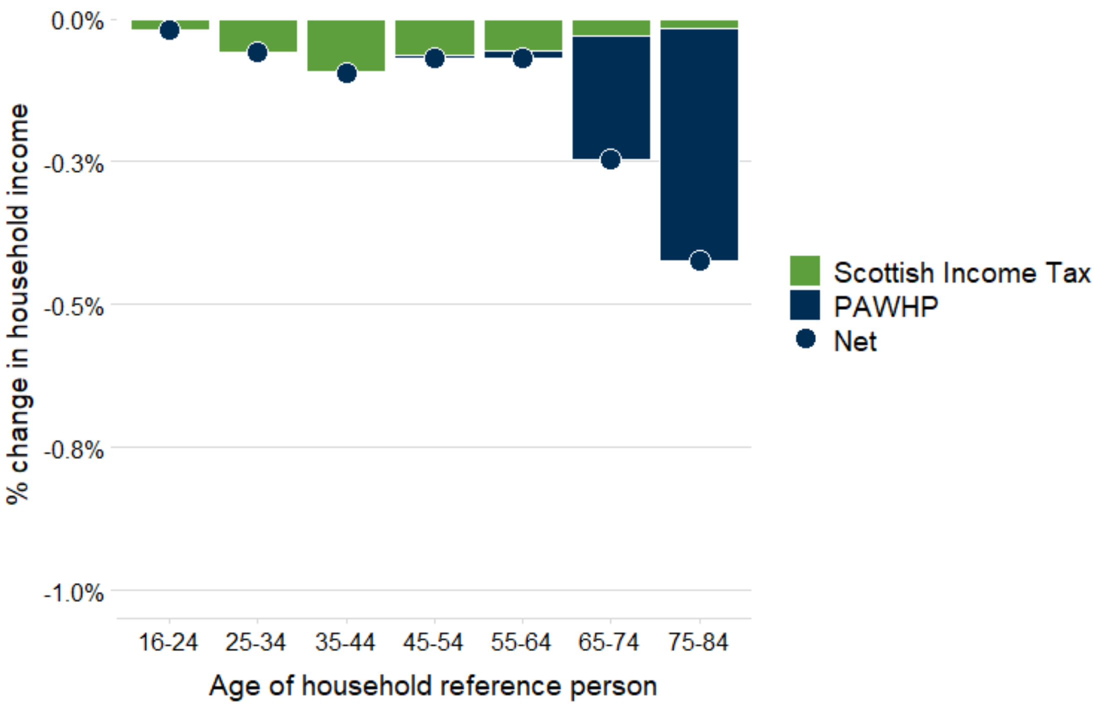


[11] All analysis considers take-up, see the methodology section for more information.

The Income Tax policy further increases the progressivity of the tax system, with the increasing thresholds benefitting households in the lower half of the income distribution by a small amount (up to £12). Almost all Higher rate taxpayers and taxpayers above the frozen thresholds see a progressively greater reduction in income.

Figure 9 shows that there is relatively little overlap between the affected groups, with frozen thresholds primarily affecting 25 to 64 year olds, and the PAWHP changes affecting those 65 and above.

Figure 9: Impact of Budget decisions in 2025-26, by age of household reference person



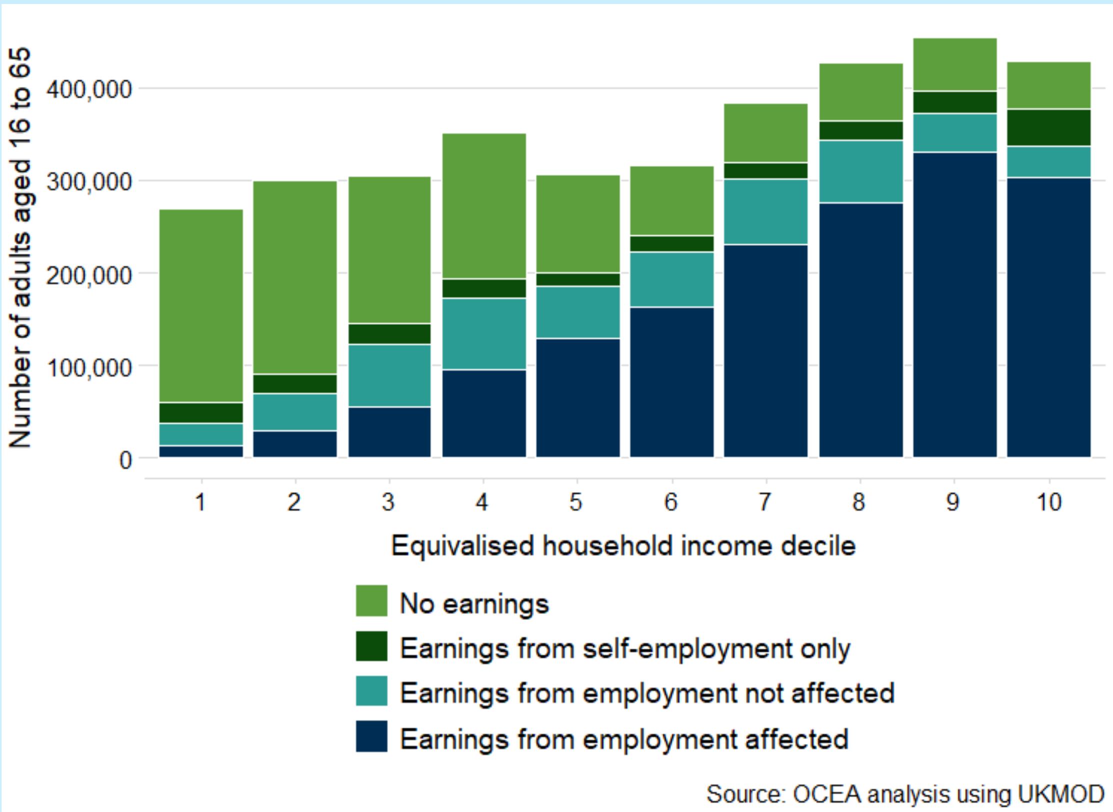
Source: OCEA analysis using UKMOD

BOX: Consideration of the Potential Impact of Employer NICs changes
Household incomes will also be affected by recent changes in UK Government policy. The largest revenue-raising measures taken in the UK Autumn Budget were changes to employer National Insurance Contributions (NICs). There was a reduction in the secondary earnings threshold from £9,100 to £5,000 per annum, and an increase in the rate from 13.8 per cent to 15 per cent. The Office for Budget Responsibility (OBR) expect these measures to raise over £18 billion in 2025-26 after behavioural change.

Empirical studies[12] suggest that a substantial amount of the increased cost of employment[13] could be passed through in the form of lower wages, and this was reflected in the judgements of the OBR at the UK Autumn Budget. It is less clear whether this wage pass-through effect will be consistent across the earnings distribution.

It is not possible to fully model the impact on households but Figure B1 shows the number of adults in Scotland broken down into groups based on how they could be affected by the change.

Figure B1: Adults affected by employer NICs changes

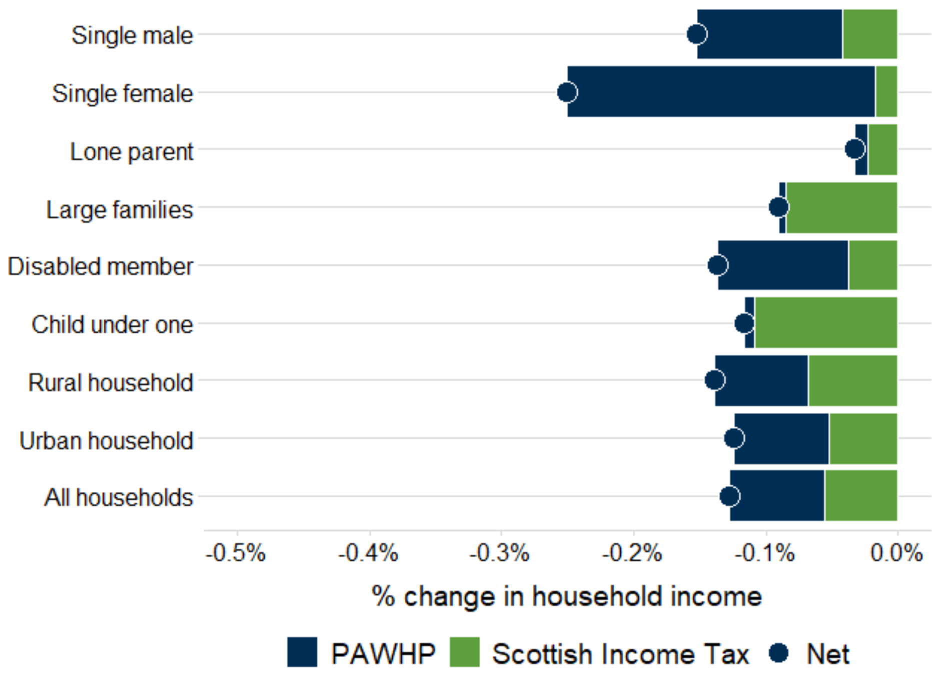


[12] Will Workers Pay The Employer National Insurance Contributions Rise? | Oxford University Centre for Business Taxation
[13] We cannot account for the change in the Employer Allowance which will result in some microbusinesses being better off as a result of the change.

- Those with no employee earnings are not directly affected by the change. These groups are more prevalent at the bottom of the income distribution, although there are a larger number of self-employed people in the top decile.
- Employee earnings above the minimum wage could see additional costs to employers passed through in the form of lower wages.
- While adults with employment earnings at the minimum wage cannot legally see their wages reduced further, they could instead see a reduction in their hours or may be more likely to experience job losses. *A small number of employees earning less than £5,000 per year are also included in this group as they are less likely to see a reduction in their wage rate.

Figure 10 also analyses the impact of the policy changes announced in this budget by the same household types as used in Figure 4. The pronounced difference in the change due to PAWHP, such as for single female households, largely reflects a lower average household income in the group.

Figure 10: Impact of 2025-26 Budget decisions, by household type



Source: OCEA analysis using UKMOD

Part Three: Public spending

This section extends the distributional analysis to consider areas of public spending, specifically resource spending[14] on health, schools, funded early learning and childcare (ELC), and transport. This is with the aim to provide a more comprehensive picture of the distributional implications of the budget and, in time, to inform decisions about spending priorities.

Unlike with tax and social security, spending on these public services does not have a direct monetary impact on household incomes. The average amount spent by government on different household types is used to reflect a benefit to those households.[15] However in practice, the benefit of a service could be greater or lesser than the cost of providing it, and this could vary across different groups, and from household to household.

As such, these estimates are not directly comparable to the tax and social security figures presented in parts one and two. The approaches will continue to be tested and refined for future publications as the analysis is extended to other areas. For more information see the methodology in the annex.

The areas covered in Table 1 account for around £24 billion – almost half of all resource spending in 2025-26.[16] Figure 11 shows the distribution of spending on these areas is dominated by health and schools.

Table 1: Resource spending by area in 2025-26[17]

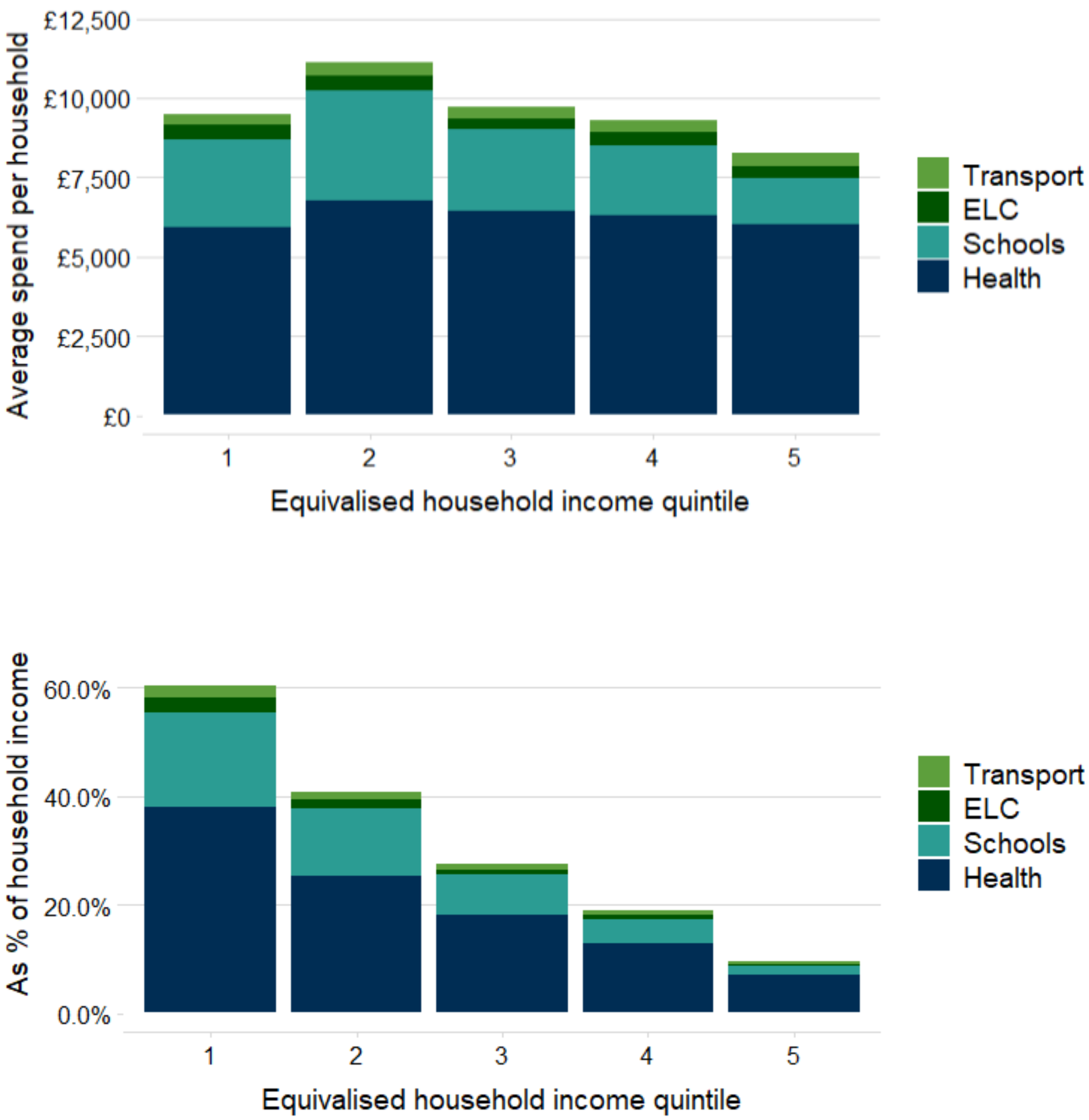
Area	Resource spend in £	% of total resource spend
Health	£16 billion	31%
Schools	£6 billion	12%
ELC	£1 billion	2%
Transport	£1 billion	2%

It should be noted that, similar to the previous sections, all figures show annual average spending among all households in the quintiles[18], not just among those who are estimated to be using these services – this enables amounts to be presented in a comparable way across areas. As shown in Figure 10, most income quintiles receive similar levels of the public services being considered in cash terms, with spending

[14] Capital spending isn't included as the allocation of spending is significantly more complicated and cannot be adequately captured in a static analysis.
[15] Note that this includes all households in each quintile, including those not eligible to receive spending so that spending is presented in a comparable way across areas.
[16] Resource spend for ELC and schools is by Local Authorities which may represent more or less than is funded by Scottish Government.
[17] Health and Transport come from the Level 4 spending tables that accompany the Scottish Budget. Schools and ELC come from the 2022-23 Local Government Finance Statistics which report all expenditure by Local Authorities in Scotland. Schools and the funded ELC offer are delivered by Local Authorities, so this represents the best data on costs to deliver each year. ELC uses gross expenditure on pre-primary education – this spending is assumed to be fully dedicated to funded ELC.
[18] We have opted to use quintiles in this section to avoid overinterpretation of results, reflecting that estimates of public spending are more imprecise and require more assumptions to produce.

highest in the second income quintile. When considering spend as a share of household income, public service spend is a significantly larger proportion of household income in the lower income quintiles.

Figure 11: Average government spend among all households in cash terms and as a share of household income, by income quintile

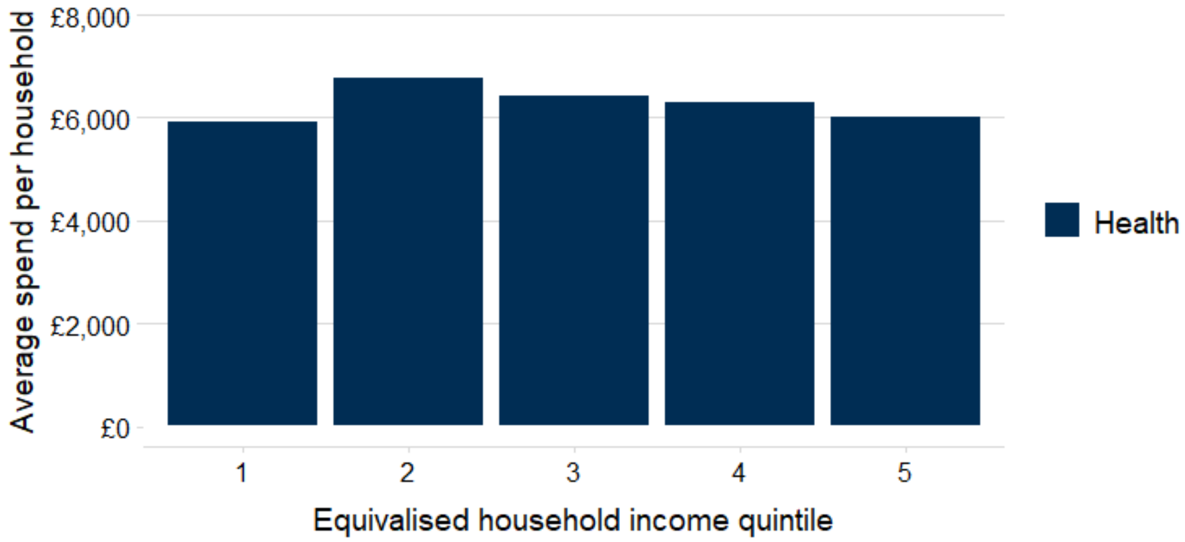


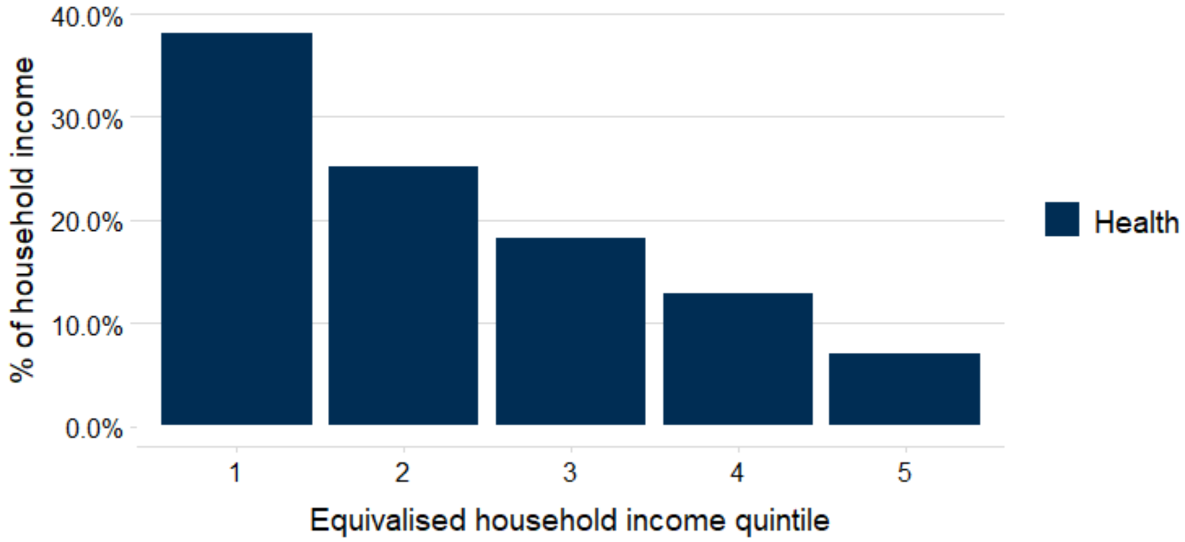
Source: OCEA Distributional Analysis Model

Health spending

Health resource spending includes spending on NHS boards, community health and mental health services. Spending is assigned primarily based on age and sex in this analysis[19]. The shape of the distribution is largely driven by the position of households with older people in the income distribution. Overall, the level of average cash spend is relatively flat, although with less going to households in the bottom quintile. This quintile has fewer older people and more young people – including groups such as students. As a share of household income, health resource spending provides a greater impact for lower income quintiles.

Figure 12: Average government spend on health, all households in cash terms and as a share of household income, by income quintile





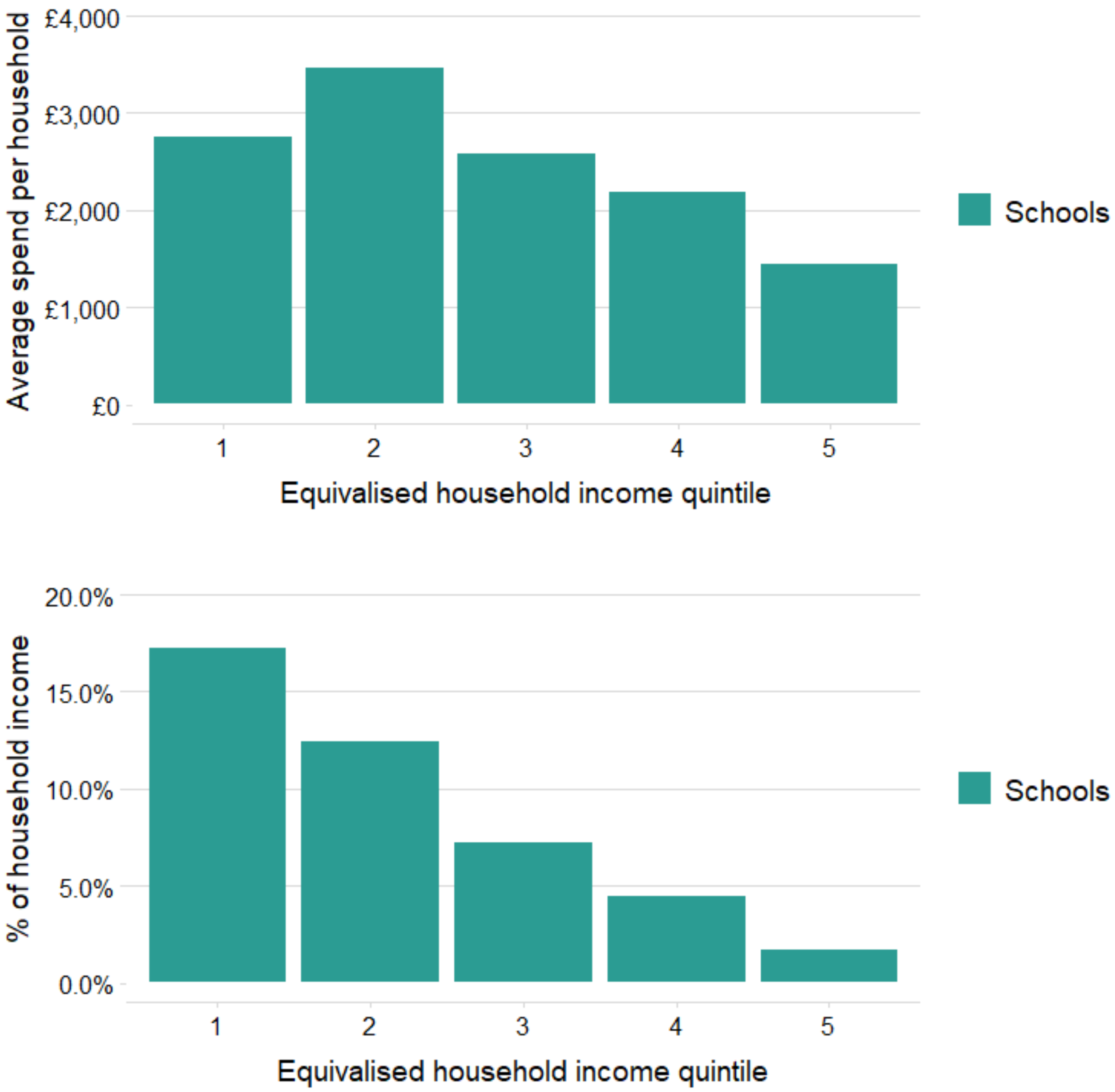
Source: OCEA Distributional Analysis Model

[19] Although the methodology makes use of the NRAC formula, it has a limited impact upon the results. See the methodological annex for more information about how this is used.

Schools

School resource spending includes spending on primary, secondary and special schools – it does not at present include spending on Free School Meals or School Clothing Grant and the analysis only considers state-schools. Spending is focussed on lower income households, both in cash terms and as a share of income, reflecting the distribution of families with children of school age across income quintiles.

Figure 13: Average government spend on schools, all households in cash terms and as a share of household income, by income quintile

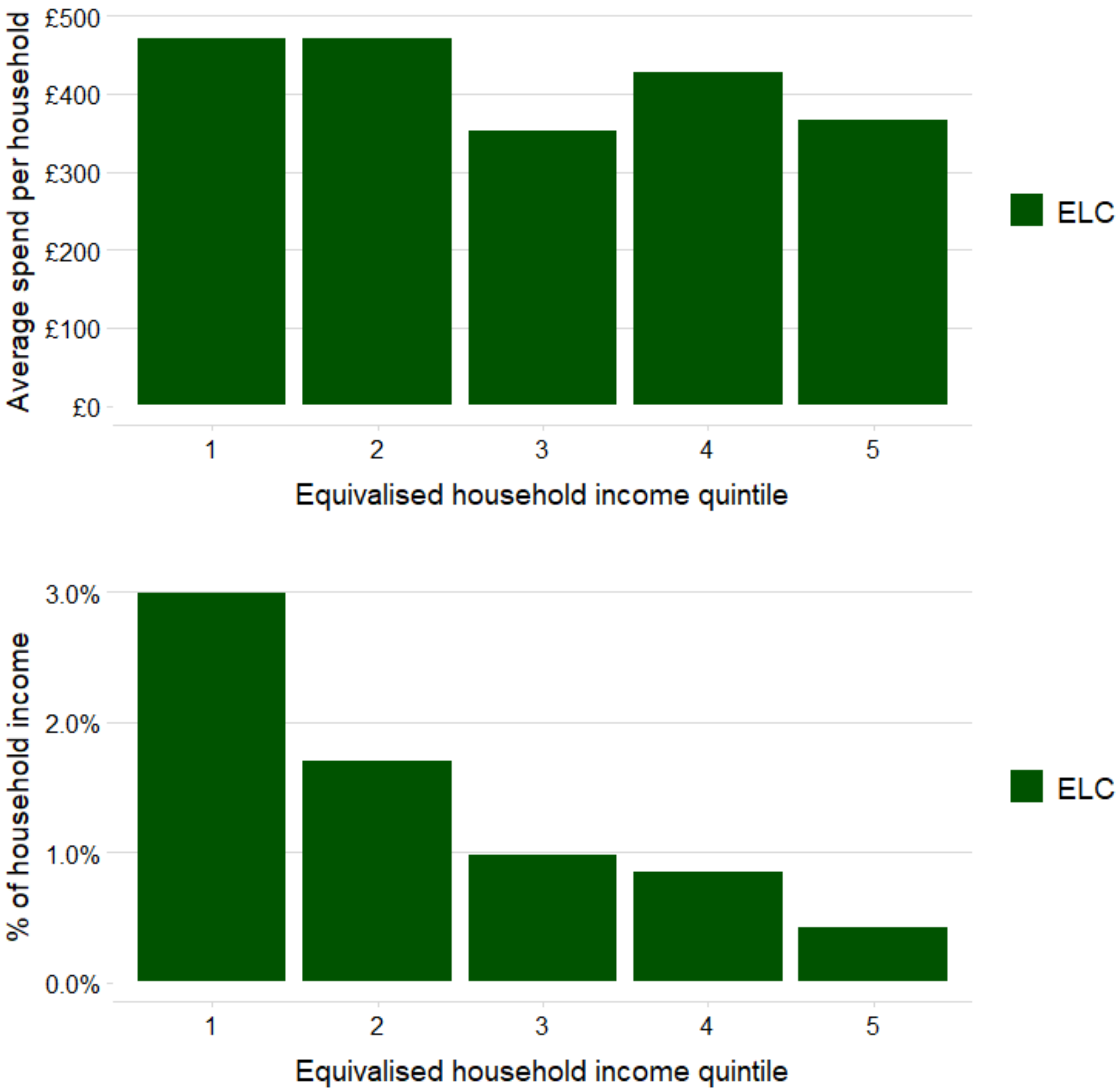


Source: OCEA Distributional Analysis Model

Funded Early Learning and Childcare

The pattern of ELC spending is driven by the position of households with 3 and 4 year olds and eligible 2 year olds in the income distribution. This results in greater average spending in the bottom half of the income distribution in cash terms and as a share of household income.

Figure 14: Average government spend on funded ELC, all households in cash terms and as a share of household income, by income quintile

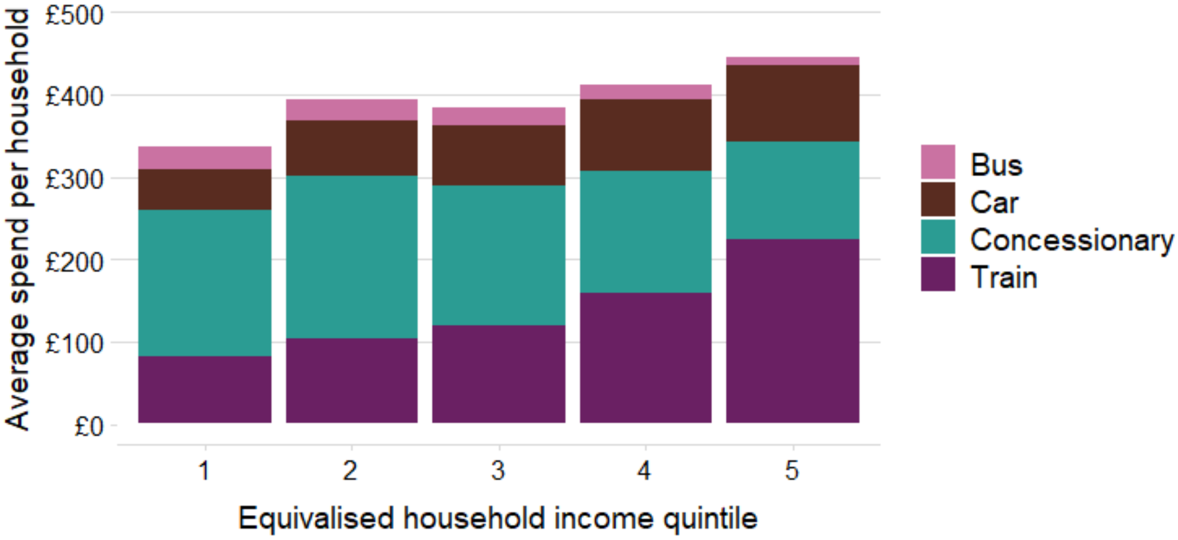


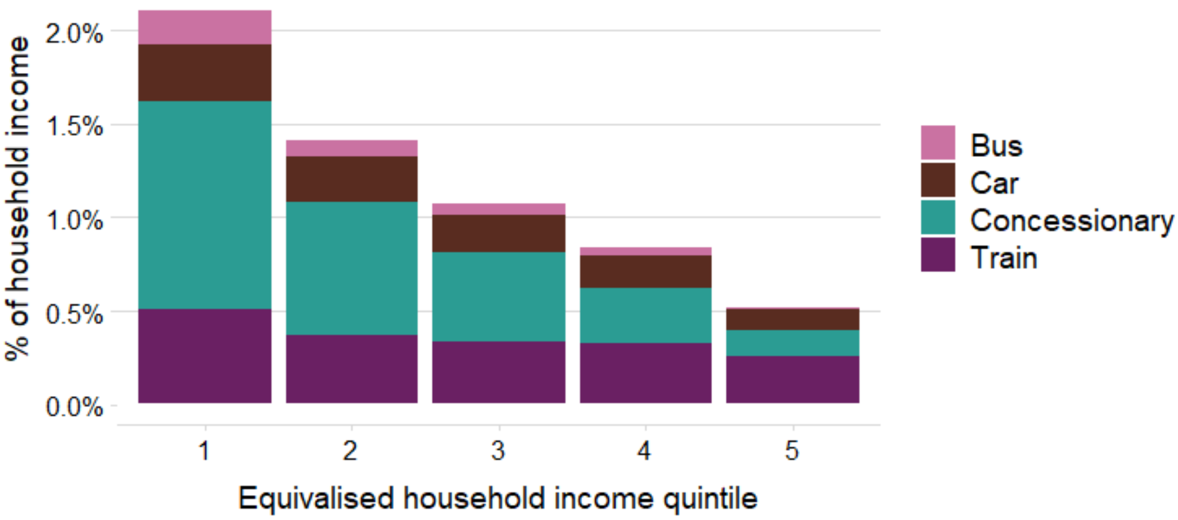
Source: OCEA Distributional Analysis Model

Transport

Transport includes resource spending on concessionary fares, bus, rail and road.[20] In cash terms, overall transport spending is higher for high income households than lower income households. This is driven by the larger amount spent on road and rail. In contrast, spending on bus services and concessionary travel is more focussed on lower income households.

Figure 15: Average government spend on transport, all households in cash terms and as a share of household income, by income quintile





Source: OCEA Distributional Analysis Model

[20] The boundary between resource and capital spending is more complicated in transport than for other areas, largely due to rail, road and ferries. If we were to include capital spending in our modelling this would result in a larger allocation of spending to higher income deciles.

Annex: Methodology

Modelling Approach

This analysis uses UKMOD, an open-access microsimulation model developed by the Institute for Social and Economic Research (ISER) at the University of Essex. The model applies tax and benefit rules to a set of individual and household-level data, allowing the user to simulate and compare alternative scenarios. Public spending analysis links supplementary information to the UKMOD output dataset in order to estimate where households are likely to receive public spending, and reflect the average spend in a given area across the household income distribution.

The input data in UKMOD is derived from the Department for Work and Pensions' Family Resources Survey (FRS). The analysis of tax and benefits in this paper uses two years of FRS data, 2021-22 and 2022-23, while the public spending work uses four years, 2019-20 to 2022-23. ELC uses the additional year 2018-19 to obtain a better sample size. Data from 2020-21 is excluded in all cases due to the impacts of the pandemic on survey collection. To pool the data, the grossing weights used to scale the FRS sample to the whole population are divided by the number of data years.

The income components and other monetary variables are then scaled to the year being analysed (2025-26) based on the Office for Budget Responsibility (OBR) latest forecasts. No adjustments are made for demographic change.

All modelling includes adjustments to take-up rates of social security payments to reflect the latest take-up estimates. Overall amounts are reviewed against published outturn statistics. The model does not include any behavioural effects associated with tax policies.

Analysing the distribution of income

Analysis in parts one and two shows the effect of policies on net household income, before housing costs whereas part three shows an allocation of government spending across the household income distribution.

In this context, household income is after taxes and social security payments.

Equivalisation means income is adjusted based on household size and composition, to allow for the fact that larger households will require a higher income to maintain a similar standard of living as a smaller household. This analysis uses the modified OECD equivalence scale, following the same approach as used in UK and Scottish Government poverty analysis. Further detail on the equivalisation calculation is available in the definitions section of [Poverty and Income Inequality in Scotland 2020-23].

Household income means that all income is assumed to be shared across all members of the household. This analysis uses the Family Resources Survey definition of a household (i.e. one person living alone or a group of people (not necessarily related) living at the same address, who share cooking facilities and share a living room or sitting room or dining area.)

Before housing costs means that no deductions are made for rent or mortgage payments from household incomes.

To summarise impacts across the income distribution, households are ranked from the lowest equivalised household income to the highest, then divided into ten or five equal groups called deciles or quintiles respectively.

Results in parts one and two are reported based on the average gain or loss of income within these household income deciles. In part three they reflect the average government resource spending per person within household income quintiles. There may still be considerable variation around the estimated averages.

As an indication of the income levels in each decile, table A1 below shows the median gross (i.e. pre-tax and pre-social security) unequivalised household income in each decile.

Table A1: median unequivalised gross annual household income, by equivalised income decile, 2025-26

Equivalised household income decile, before housing costs	**Median unequivalised gross annual household income (£)**
Lowest	£1,100
2	£2,900
3	£10,300
4	£20,700
5	£25,300
6	£31,800
7	£49,000
8	£61,100
9	£77,000
Highest	£129,800

Scope

Tax and benefits

The following policies are devolved taxes or social security payments which are explicitly modelled in this analysis:

Scottish Income Tax
Council Tax, excluding water and sewerage charges
Council Tax Reduction[21]
Scottish Child Payment

[21] In all charts, Council Tax Reduction is deducted directly from Council Tax, rather than being included as a separate social security payment.

Discretionary Housing Payments (DHPs) used to mitigate the bedroom tax and benefit cap.[22]
Carers Allowance Supplement
Best Start Grant and Best Start Foods
Child Winter Heating Payment
Pension Age Winter Heating Payment

In addition to the payments listed above, the Scottish Government also has responsibility for a range of disability benefits, which have been replaced by the Adult Disability Payment, Child Disability Payment and Pension Age Disability Payment.

These benefits are reflected in the underlying survey data, but the impact of the changes introduced by the Scottish Government are not modelled. Consequently, differences in policy on these aspects of the social security system do not account for any of the differences shown in figures 2 or 3 above. As more data becomes available on the effect Scottish Government policy changes have on take-up, we may revisit modelling of these aspects of the social security system.

Figure 1 presents analysis of a wider segment of the tax and social security system, including several reserved policy measures, and so additionally includes:

- Employee National Insurance Contributions
- Income tax on savings and dividends income
- Universal Credit, and the legacy benefits it replaces
- Pension Credit
- Child Benefit
- State Pensions
- Statutory sick pay
- Statutory maternity pay

[22] This covers the majority of spend on DHPs in Scotland; other Discretionary Housing Payments are excluded due to not being awarded by fixed criteria.

Public spending

In 2021 Scottish Government published a feasibility study[23] of distributional analysis of taxes, social security and public services which has been used to develop the public spending methodology.

In order to model the distribution of public spending, it is necessary to identify who uses public services. For ELC and schools there is evidence in the FRS about service use and that data is used in our modelling. For other services, data from other sources is combined with the FRS to assign service usage based on individual characteristics. Resource spending is aggregated to household level and all charts show resource spending allocated at household level in order to be comparable to the analysis of taxes and social security in parts one and two.

This has limitations, such as assuming people with the same broad characteristics access a service in the same way. More information can be found in this IFS report on modelling public service spending.

The Welsh Government[24] present distributional analysis of public spending at individual level rather than household level, so spending amounts will not be directly comparable.

Health

The health spending modelling uses an insurance based approach where age and sex are used to assign spending. A further adjustment is made to account for additional needs based on the area where an individual lives. However, this is a minor adjustment as we only have location data at a high level. The approach is similar to the NRAC formula which is used to allocate NHS funds to health boards in Scotland[25] and uses the same cost curves for age and sex. The total is then scaled so that it equals the total health budget from the Level 4 spend tables.

This methodology differs from the Welsh Government's as we do not have adequate data on service usage to take account of variation in expected usage based on other characteristics such as income.

Funded Early Learning and Childcare (ELC)

ELC refers to up to 1,140 hours a year of funded childcare for three or four year olds, and some eligible two year olds. As the years of data being used are pre and post ELC 1,140 expansion hours are estimated for the pooled data.

To analyse how public spending on funded early learning and childcare (ELC) is distributed across income quintiles, we use data on the amount of money spent on ELC (using all spending on 'pre-primary education' from the Local Government

[23] Budget 2019 to 2020: feasibility of distributional analysis - study - gov.scot (www.gov.scot)
[24] Distributional analysis of devolved public spending in Wales: December 2023 (gov.wales)
[25] Resource Allocation Formula (NRAC) - Target shares for NHS Boards for 2025 to 2026 - Resource Allocation Formula (NRAC) - Publications - Public Health Scotland

Finance Official Statistics[26]) along with data about which households use funded ELC, and how many hours they use, from the Family Resources Survey, the ELC Census[27] and Improvement Service ELC reporting data.

The total amount of public spending on funded ELC is divided by the total number of funded ELC hours used, and then allocated to income quintiles based on the number of hours used by households in each quintile.

FRS households record the type and number of hours of childcare received and whether this is funded ELC. Where data does not align with the ELC sources it is adjusted. For 3 and 4 year olds this is adjusted upwards by considering all households using any formal childcare (which brings the number of households recieving funded ELC more closely in line with the ELC Census figures). Hours are also adjusted upwards by including all formal and informal hours in the calculation (which brings the average number of hours used more closely in line with the data from Improvement Service ELC collections).

Schools

The schools modelling uses the FRS to identify children who attend state-run primary, secondary or special schools. It uses the Local Financial Returns to allocate spending to each child based on the type of school they attend and the Local Authority they live in. This is then scaled so that the total equals the total schools spend in the Local Government statistics.

Transport

The transport modelling uses information from the Scottish Household Survey to predict the likelihood of using a car, bus, train and concessionary bus passes based on a person’s characteristics. Individual’s characteristics in the FRS are then used to estimate their usage of each transport mode. Modelled probabilities are used to proportionally allocate expenditure among individuals. This is then scaled so that the total equals the transport resource spend in the Level 4 spending lines. As a sense check, results for particular demographics are compared to the Transport and Travel in Scotland (TATIS) survey.

[26] Local Government Finance Statistics 2022-23
[27] Early learning and childcare (ELC) - Summary statistics for schools in Scotland 2023 - gov.scot (www.gov.scot)

Counterfactuals

Table A2 below summarises the parameters used for each of the two counterfactuals reported on in this analysis.

Table A2: counterfactual parameters

Policy	rUK policy counterfactual for 2025-26	No policy change counterfactual for 2025-26
Income Tax	Income Tax rates and bands as in place in England & Northern Ireland for 2025-26, based on Autumn Budget announcements.	Personal allowance frozen, as per UKG policy. All other bands uprated by CPI (1.7%). All rates unchanged
Council Tax	Excluded from comparisons made against counterfactual	Average Band D Council Tax uprated with CPI
Scottish Child Payment	Policy not in place.	Awards uprated with CPI. Eligibility criteria remain unchanged.
Discretionary Housing Payments to mitigate bedroom tax and benefit cap	Policy not in place.	Awards uprated with CPI. Eligibility criteria remain unchanged
Carer's Allowance Supplement	Policy not in place.	Awards uprated with CPI. Eligibility criteria remain unchanged.
Child Winter Heating Payment	Policy not in place.	Awards fixed in cash terms. Eligibility criteria remain unchanged.
Best Start Grant & Best Start Foods	Replaced with Sure Start and Healthy Start grants	Awards fixed in cash terms. Eligibility criteria remain unchanged.
Council Tax Reduction	Excluded from comparisons made against this counterfactual, as grouped as part of Council Tax	Eligibility criteria and calculation approach remain unchanged
Pension Age Winter Heating Payment	Targeted Winter Fuel Payment	Universal Pension Age Winter Heating Payment

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