Kenneth Gibson MSP
Convener
Finance and Public Administration Committee

The Scottish Parliament
Edinburgh
EH99 1SP

29 May 2025

Dear Convener,

Today the Scottish Fiscal Commission published Scotland's Economic and Fiscal Forecasts – May 2025, giving our latest forecasts for the economy, tax revenues and social security, alongside commentary on the funding implications of these forecasts.

In our report we show that, the total funding available to the Scottish Government in 2025-26 will be £59.6 billion, almost £0.8 billion higher than in our December 2024 forecast. This is mostly because of additional UK Government funding and because the Scottish Government is expected to draw down money not spent in 2024-25.

The funding available for day-to-day spending is estimated to grow by 1.9 per cent in real terms in 2026-27. Growth slows to 0.6 per cent in 2027-28 and then returns to an average of 1.6 per cent over the remaining three years of the forecast. Despite this growth, the pressures on the Scottish Government's budget remain significant.

Two of the key Scottish public sector pay deals already agreed for this year have been above the Scottish Government's policy of three per cent, and the deal for most Scottish NHS workers is above the comparable pay offer for the rest of the UK. This is likely to create further pressure for ongoing negotiations in other parts of the public sector. There is also a knock-on effect for wage costs in future years.

The challenges on pay are made more difficult by April's rise in employer National Insurance Contributions. Although the Scottish Government has received £339 million of additional funding from the UK, this only covers between half to two thirds of the Scottish Government's estimated additional costs from the tax rise.

Recent UK Government announcements which reduce spending on Personal Independence Payment (PIP) in England and Wales are expected to reduce funding for the Scottish Government by £0.4 billion in 2029-30. This funding pressure comes on top of existing Scottish Government commitments on social security spending, which now includes the launch of a new payment to mitigate the UK Government two-child limit mitigation policy and means by 2029-30, spending on social security will now be £2 billion more than associated funding, reducing the money available for other areas.

Further spending pressures have been added by commitments made in the recent Programme for Government, for example the permanent removal of peak-time rail fares. This will come into effect from September 2025 but was not included in the 2025-26 Budget Bill passed by Parliament in February this year.

On 25 February 2025, we received notice from the Cabinet Secretary for Finance and Local Government of the publication of the Scottish Government's Medium-Term Financial Strategy (MTFS) on 29 May 2025. On 6 May and 13 May 2025, we received further correspondence from the Cabinet Secretary informing us of the decision to defer the MTFS until 25 June 2025.

We decided to proceed with the publication of our forecasts on 29 May 2025 as all the necessary forecasting analysis and engagement with the Government had taken place by the time we were informed of the delay. We also believe the publication of these forecasts also supports transparency and parliamentary scrutiny.

To accompany the publication of the MTFS on 25 June 2025, we will publish a follow-up report that provides further detail and commentary on the Government's funding position and our formal assessment of the reasonableness of the Government's borrowing plans.

Our June 2025 report will also include a restatement of the forecasts published in this report, thereby fulfilling our duty to publish forecasts to accompany the MTFS. We will only update our tax or social security forecasts to reflect new policies announced in the MTFS.

I look forward to giving evidence on our forecasts on 10 June 2025 and I am happy to discuss any aspect of our forecasts.

Yours sincerely

Professor Graeme Roy