29 May 2025

MODEST GROWTH IN FUNDING SINCE LAST SCOTTISH BUDGET, BUT SIGNIFICANT PRESSURES ON SPENDING

The Scottish Fiscal Commission has today published its latest economic and fiscal forecasts. These forecasts will inform the Scottish Government's Medium-Term Financial Strategy, to be published in June.

The Commission estimates that total funding available to the Scottish Government in 2025-26 will be £59.6 billion, almost £0.8 billion higher than in their 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. By 2029-30 spending on social security will now be £2 billion more than the 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.

The Commission's Chair, Professor Graeme Roy, said

> "We need to wait until later in June to see the Scottish Government's spending and funding plans, but what we do know now is that while budgets have improved slightly this year, spending pressures are also increasing with public sector pay, social security and other commitments.
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> There are also longer term pressures in key areas like health and social care as a result of our ageing population, and the challenge of meeting net zero obligations that I have discussed in earlier reports."

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Notes for Editors

1. The Commission's Report, Scotland's Economic and Fiscal Forecasts – May 2025 is available now to read here. Background information is also available including spreadsheets with data for tables and charts.

2. The report contains the Scottish Fiscal Commission's latest economic, tax and social security forecasts. The forecasts will inform the Scottish Government's Medium-Term Financial Strategy (MTFS), which will be published on Wednesday 25 June. The Commission will publish an update report on 25 June, alongside the Government's MTFS, that will restate the forecasts, include any new tax and social security policy changes made by the Scottish Government, and assess the reasonableness of the Government's borrowing plans.

3. The Scottish Fiscal Commission started work on these forecasts in February following notification from the Scottish Government that it would publish its Medium-Term Financial Strategy (MTFS) on 29 May. On 6 May the Scottish Government informed the Commission that it was considering delaying publication, and on 13 May confirmed that it would publish the MTFS on 25 June. As all the necessary analysis and engagement had taken place the Commission decided to publish its forecasts on 29 May as originally planned.

4. The 2025-26 resource funding position has increased by £764 million since December 2024. The Autumn Budget Revision should confirm how this is being allocated to fund additional commitments such as pay increases and the removal of peak fares, as well as the employer NICs increases.

5. The Scottish Government's Public Sector Pay Policy set out that any employer not agreeing a three-year pay deal would be restricted to a maximum 3 per cent uplift for 2025-26. The two deals agreed so far are two year pay deals and exceed 3 per cent in 2025-26. For example, most nurses and NHS workers (covered by the Agenda for Change agreement) in Scotland have agreed a pay rise of 4.25 per cent in 2025-26 and 3.75 per cent in 2026-27. ScotRail, now under public ownership, agreed to a pay rise of 3.6 per cent in 2025-26, with the potential for an increase above 3 per cent in 2026-27. Specifically, the ScotRail pay deal for 2026-27 is 3 per cent, or the January 2026 Retail Price Index (RPI) inflation rate, whichever is higher

6. The Scottish Fiscal Commission is the independent fiscal institution for Scotland, established by the Scottish Fiscal Commission Act 2016. Our statutory duty is to provide the independent and official forecasts of Scottish GDP, devolved tax revenue and devolved social security spending, for the Scottish Government to use in its budget and financial planning.

7. Our forecasts represent the collective view of the Scottish Fiscal Commission, comprising the Commissioners: Professor Francis Breedon, Professor Domenico Lombardi, Professor David Ulph, and the Chair, Professor Graeme Roy.

8. There will be a public webinar on our forecasts on 29 May at 13:00. This will include a presentation followed by Q & A. You can register for this online event here.

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