Scottish Fiscal Commission

Scotland’s Economic and Fiscal Forecasts – Summary

May 2025

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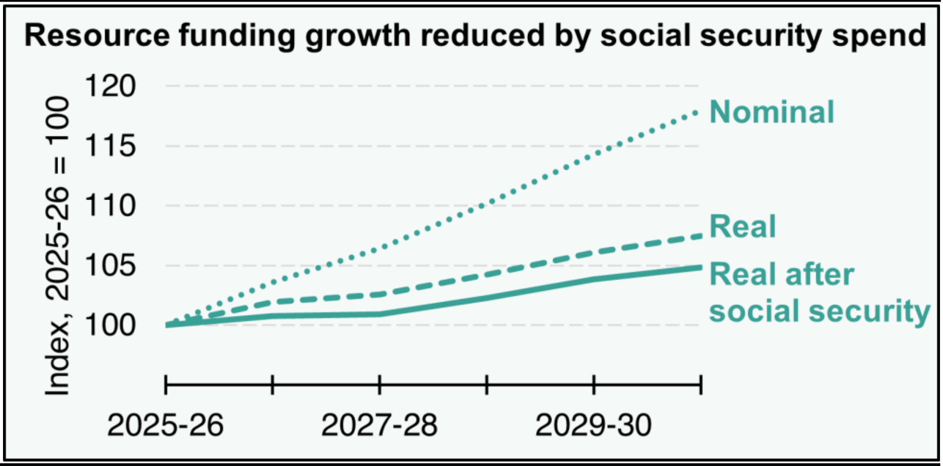
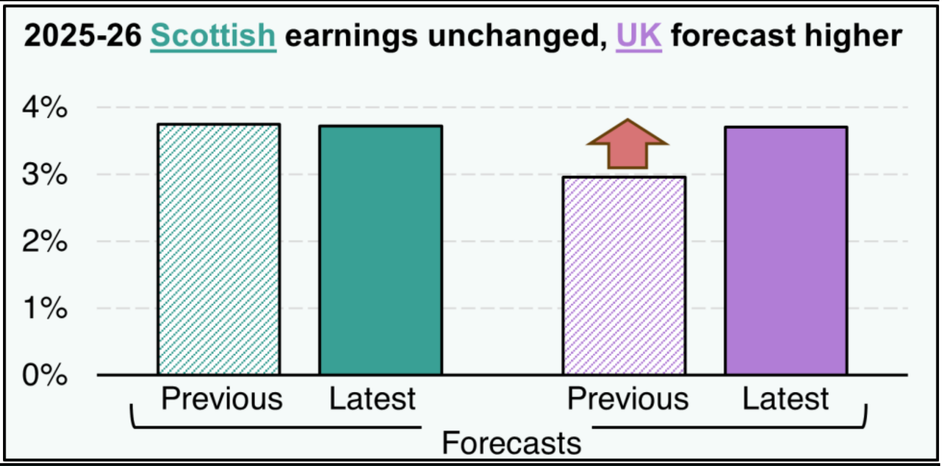
Fiscal Overview

Resource funding is over £52 billion in 2025-26 and covers day-to-day costs such as social security payments and staff pay. After inflation, it is forecast to grow 7 per cent by 2030-31. After social security spending, this drops to 5 per cent.



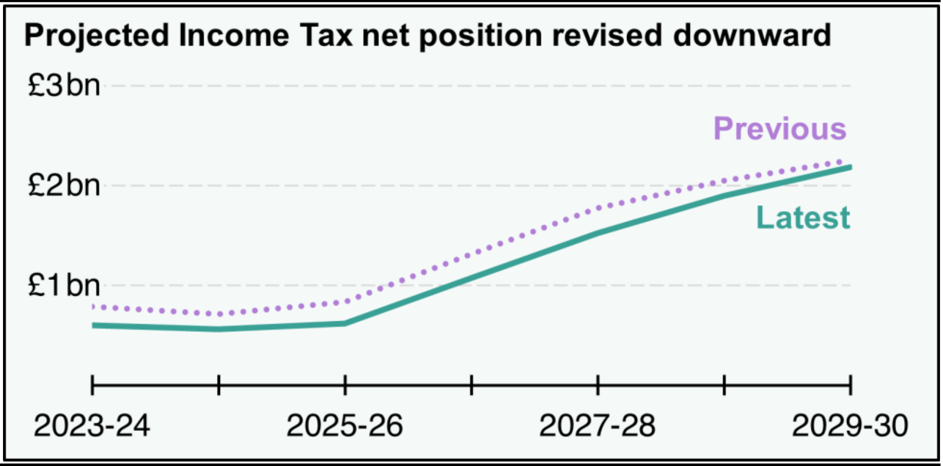
Economy

Our forecast of Scottish nominal earnings growth in 2025-26 is broadly unchanged from that we produced last December. On the other hand, the OBR's forecast of growth for the UK has been revised upward by 0.8 percentage points. This feeds through to the Income Tax net position.



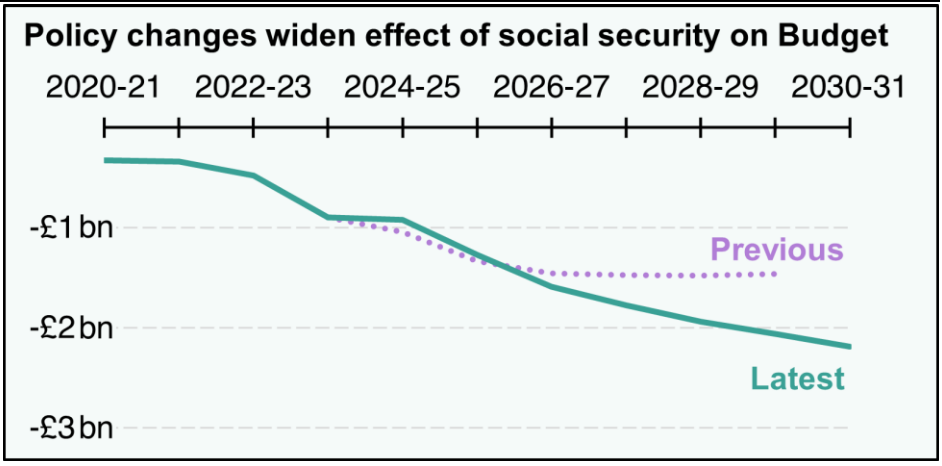
Tax

The Income Tax net position – the net funding for the Scottish Government from Income Tax – remains positive but is around £180 million a year lower compared with the December projection. This is largely because of changes in the Block Grant Adjustment due to the OBR forecast.



Social security

The effect of social security spending on the Budget has widened by £0.6 billion in 2029-30; £0.2 billion because of the Scottish Government's two-child limit mitigation policy and £0.4 billion because of UK Government policies that will reduce Block Grant Adjustment funding.



	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Budget funding, £ million (nominal)							
Total funding	55,504	59,561	61,302	63,091	65,138	67,356	69,363
Resource funding	49,298	52,193	54,077	55,532	57,513	59,641	61,557
Capital funding	6,206	7,368	7,225	7,559	7,625	7,715	7,807
Budget funding, per cent growth (real)							
Total funding		4.5	1.2	0.9	1.3	1.5	1.1
Resource funding		3.1	1.9	0.6	1.6	1.8	1.3
Capital funding		15.7	-3.5	2.5	-1.1	-0.7	-0.7
Economy, per cent growth							
Real GDP	1.2	1.2	1.8	1.7	1.6	1.6	1.6
Consumer Prices Index	2.3	3.2	1.9	2.0	2.0	2.0	2.0
Average real earnings	1.6	1.0	0.9	1.0	0.9	0.9	1.0
Employment	0.2	0.1	0.6	0.5	0.4	0.4	0.4
Tax, £ million (nominal)							
Income Tax	18,992	20,495	21,901	23,139	24,186	25,288	26,428
NDR	3,155	3,099	3,551	3,510	3,564	3,861	3,825
LBTT	898	1,029	1,093	1,138	1,187	1,240	1,297
SLfT	53	38	24	24	25	25	26
Social security, £ million (nominal)							
Total spending	6,122	6,874	7,658	8,094	8,498	8,944	9,405

Foreword

The Scottish Fiscal Commission (SFC) is the independent fiscal institution for Scotland. Our statutory duty is to provide independent and official forecasts of Scottish GDP, devolved tax revenues, and devolved social security spending. Our forecasts represent the collective view of the Scottish Fiscal Commission, comprising the four Commissioners. We take full responsibility for the judgements that underpin them.

We started work on these forecasts after the Scottish Government notified us that it would publish its Medium-Term Financial Strategy (MTFS) on 29 May 2025. On 6 May the Government informed us that it was considering delaying publication and on 13 May confirmed that it would publish the MTFS on 25 June 2025. As all the necessary analysis and engagement had taken place, we decided to publish our forecasts on 29 May 2025 as originally planned.

We would like to thank the hard-working staff of the SFC for their support in the production of our forecasts and underpinning analysis. We would also like to thank officials from the Scottish Government, Revenue Scotland, Social Security Scotland, the DWP, HM Treasury, HMRC, and the OBR for their constructive challenge of our judgements and for ensuring that we considered all the available evidence.

Professor Graeme Roy

Professor Francis Breedon

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Professor David Ulph

29 May 2025

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Summary

Introduction

1 This report sets out our latest five-year economic and fiscal forecasts. The Scottish Government's decision to delay the publication of its Medium-Term Financial Strategy (MTFS) and Fiscal Sustainability Delivery Plan (FSDP) until 25 June 2025 means we have based our forecasts on the latest public information from the Scottish Government.

2 We will publish an update report on 25 June 2025, alongside the Government's MTFS and FSDP, that restates our forecasts and includes any new tax and social security policy changes made by the Scottish Government.

Fiscal Overview

Total funding

3 Total funding in 2025-26 is £59.6 billion, almost £0.8 billion higher than in our December 2024 forecast. This increase is because of additional UK Government funding and the Scottish Government now drawing down from the Scotland Reserve. Funding in 2025-26 is now forecast to be 7.3 per cent higher than in 2024-25 in nominal terms and 4.5 per cent higher in real terms. Total funding is then forecast to grow in both nominal and real terms in each of the next five years.

4 Since December 2024 the Block Grant has changed following the UK Supplementary Estimates 2024-25, Spring Statement 2025, and the 2025-26 Main Estimates. The Scottish Government has confirmed the level of borrowing in 2024-25, and it will likely add £200 million to the Scotland Reserve in 2024-25 to support extra spending in 2025-26.

5 We have had to make some assumptions to update the funding position in future years. The UK Spending Review on 11 June 2025 will confirm how the UK Government plans to allocate spending between departments. We have assumed that spending in devolved areas grows broadly in line with planned total growth in departmental budgets, with an adjustment to capital spending for announcements on defence spending. However, should the UK Government choose to allocate less to devolved areas, such as by further prioritising defence, it will result in funding being lower than we forecast.

6 Focusing on the next five years, resource funding, used for day-to-day running costs, is forecast to grow by 1.9 per cent in real terms in 2026-27. Growth slows to 0.6 per cent in 2027-28, partly because of the projected Income Tax reconciliation being larger than the borrowing limit. Growth then returns to an average of 1.6 per cent over the remainder of the forecast period.

7 Growth in capital funding is more variable. The expansion of capital spending in the 2024 UK Budget led to a significant increase between 2024-25 and 2025-26. In nominal terms this increase is now 18.7 per cent. Other than in 2026-27, capital funding still grows in nominal terms over the forecast horizon. However, after accounting for inflation we expect real terms reductions in the last three years of the forecast, as growth in UK Government funding slows while we assume Scottish Government borrowing plans are held constant at £300 million a year.

Figure 1: Funding outlook

£ million (nominal terms), unless specified	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Total funding	55,504	59,561	61,302	63,091	65,138	67,356	69,363
Nominal terms growth rate (per cent)		7.3	2.9	2.9	3.2	3.4	3.0
Real terms growth rate (per cent)		4.5	1.2	0.9	1.3	1.5	1.1
Resource funding	49,298	52,193	54,077	55,532	57,513	59,641	61,557
Nominal terms growth rate (per cent)		5.9	3.6	2.7	3.6	3.7	3.2
Real terms growth rate (per cent)		3.1	1.9	0.6	1.6	1.8	1.3
Capital funding	6,206	7,368	7,225	7,559	7,625	7,715	7,807
Nominal terms growth rate (per cent)		18.7	-1.9	4.6	0.9	1.2	1.2
Real terms growth rate (per cent)		15.7	-3.5	2.5	-1.1	-0.7	-0.7

Source: Scottish Fiscal Commission, Scottish Government.

Real terms growth rates calculated using the OBR’s March 2025 forecast of Gross Domestic Product (GDP) deflator growth.

Resource funding

8 Over the period 2025-26 to 2030-31, resource funding is expected to grow by nearly 18 per cent in nominal terms. After adjusting for inflation, the growth is 7 per cent. Devolved social security, which is taking up an increasing share of the resource budget, leads to lower real terms growth of 5 per cent over the next five years for all other areas of resource spending.

Funding risks

9 Our forecasts of Block Grant funding from 2026-27 onwards are based on the Office for Budget Responsibility (OBR) forecasts of total UK Government departmental budgets. The Block Grant depends on levels of UK Government spending in devolved areas, and the UK Spending Review on 11 June 2025 will set funding levels for 2026-27 to 2028-29. How much funding in these years differs from current forecasts will depend on how the UK Government chooses to allocate its spending between devolved and reserved areas.

10 The tax net position is positive, contributing additional funding to the Scottish Budget over the next five years. Compared with December 2024, there have been small downward revisions to the projection of the tax net position. The projected Income Tax net position is the largest component, and its relative importance grows over time. This is mainly because of policy divergence between Scotland and the rest of the UK, and partly because the OBR forecasts materially lower earnings growth for the UK from 2026-27 than we do for Scotland. If the gap between Scottish and UK earnings turns out to be smaller, then there is a risk that the Income Tax net position will be less positive than currently projected. This could happen if, for example, the OBR revises up earnings growth forecasts for later years as it has done for 2025-26.

11 There is a large negative reconciliation of £851 million currently projected for 2027-28 relating to the 2024-25 Income Tax net position. This is largely because the Block Grant Adjustment (BGA) has increased by substantially more than our Scottish Income Tax forecast since the 2024-25 Budget was set in December 2023. The reconciliation has become more negative since December 2024 when we projected it at minus £701 million. If a reconciliation of this scale materialises, it will exceed the borrowing limit, which is currently forecast to be £663 million. Therefore, resource funding in 2027-28 may be reduced even if the Scottish Government makes full use of its borrowing powers.

12 The Income Tax net position for 2025-26 was fixed when the Budget was set in December 2024. Our forecast for 2025-26 has remained broadly steady, whereas the BGA for 2025-26 has increased, largely because of the OBR updating its earnings forecast. In December 2024 we highlighted how our forecasts of earnings growth were higher for Scotland than the OBR's for the UK as a whole, with an asymmetric downside risk to the projections of the Income Tax net position from 2025-26 onwards. While there will be no effect on funding until 2028-29, the change in the projected net position suggests the risk we highlighted has materialised.

Spending pressures

13 The Scottish Government has decided to delay the MTFS and FSDP to 25 June 2025 to have more clarity on its funding outlook following the UK Spending Review on 11 June 2025. This means that we must wait for its spending plans and the comparison to available funding.

14 As we noted in our last Fiscal Sustainability Report, there are several pressures emerging in key areas of policy such as health and social care because of the population ageing.[1] Meeting net zero obligations will also require difficult spending decisions.[2] The Scottish Budget needs to be broadly balanced every year so prioritising spending in a particular area means less funding is available for other devolved responsibilities.

15 Pay and workforce are major and immediate pressures on the Scottish Budget. Pay deals reached so far in 2025-26 have been above the Scottish Government's Public Sector Pay Policy of 3 per cent in 2025-26 (9 per cent over three years).[3] This is likely to create a pressure for pay awards to be higher than planned for other workforces still negotiating.

16 The UK Government set 2025-26 day-to-day spending plans in its Autumn Budget 2024 with an assumed 2.6 per cent rise in wages, in line with the OBR's October 2024 forecast of CPI inflation for that year.[4] Since then UK departments had budgeted for an increase of 2.8 per cent in 2025-26.[5]

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[1] Scottish Fiscal Commission (2025) Fiscal Sustainability Report – April 2025.

[2] Scottish Fiscal Commission (2024) Fiscal Sustainability Perspectives: Climate Change.

[3] The Scottish Government's PSPP sets out that any employer not agreeing a three-year pay deal would be restricted to a maximum 3 per cent uplift for 2025-26. Two of the key deals so far are two-year pay deals and exceed 3 per cent in 2025-26. Scottish Government (2024) Scottish Budget 2025 to 2026: public sector pay policy.
For example, most nurses and NHS workers in Scotland have agreed a pay rise of 4.25 per cent in 2025-26 and 3.75 per cent in 2026-27. There is also a guarantee that the pay rise will be 1 percentage point above CPI inflation. Therefore, if inflation in 2025 is higher than 3.25 per cent, there will be an additional pay increase and higher costs to the Scottish Government. Scottish Government (2025) NHS staff pay.
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 Prices Index (RPI), whichever is higher. Unite (2025) Scotrail workers accept two-year pay offer.

[4] HM Treasury (2024) Economic Evidence to the Pay Review Bodies: 2025-26 Pay Round.

[5] 2.8 per cent is the affordability remit most departments provided to the public sector Pay Review Bodies for 2025-26 pay awards. OBR (2025) Economic and fiscal outlook – March 2025 (Paragraph 5.30).

17 The UK Government uses Pay Review Bodies (PRBs) to inform pay increases for most parts of the public sector in the rest of the UK, including areas devolved to Scotland. Most PRBs reported on 22 May 2025.[6] The PRBs' recommendations all exceeded 2.8 per cent. Other than for the judiciary, the UK Government has accepted these recommendations in full.[7] The offers from the UK Government have not yet been agreed with the relevant unions.

18 The level of funding which the Scottish Government receives depends on the level of UK pay rises eventually agreed and the approach taken by the UK Government to funding these. Specifically, it depends on whether pay increases over and above the current UK budget plans are funded from new, additional money, or from existing departmental resources. The UK Spending Review on 11 June 2025 will confirm whether any more funding is made available to departments to meet these higher costs. The Scottish Government will need to balance its approach to pay and workforce against the funding it receives as a result of UK Government pay deals, and plan for how to handle the possibility that its paybill is growing faster than funding.

19 Pay challenges are made more difficult by the increases in employer National Insurance Contributions (NICs) from 2025-26. The Scottish Government has received £339 million through the Block Grant. This is between 47 and 63 per cent of the cost to the devolved public sector workforce depending on definition. The remaining cost will need to be met from the wider Budget, and the funding and spending implications are still to be confirmed by the Scottish Government. In addition, larger pay rises will widen the difference between the costs to the Scottish Budget associated with the tax measure and the corresponding funding.

20 Extra pressures have been added by commitments made in the recent 2025-26 Programme for Government, such as 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 2025. The Scottish Government has not set out the cost of the policy, but the evaluation of the pilot indicated a cost of around £40 million a year, implying additional spending of at least £20 million in the current financial year.[8]

21 The 2025-26 resource funding position has increased by £764 million since December 2024. The 2025-26 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.

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[6] NHS Pay Review Body (2025) NHS Pay Review Body Thirty-Eight Report: 2025, Prison Service Pay Review Body (2025) PSPRB Twenty-Fourth Report on England and Wales 2025, School Teachers' Review Body (2025) School Teachers' Review Body 35th report: 2025, Review Body on Doctors' and Dentists' Remuneration (2025) Review Body on Doctors' and Dentists' Remuneration Fifty Third Report: 2025, Review Body on Senior Salaries (2025) Senior Salaries Review Body Report: 2025, Armed Forces' Pay Review Body (2025) Armed Forces' Pay Review Body: Fifty-Fourth Report 2025.

[7] The recommendation for the judiciary was 4.75 per cent, and the UK Government has offered 4 per cent. UK Parliament (2025) Written statements issued on 22 May 2025: Armed Forces Workforce, Civil Service Workforce, NHS Workforce, Teacher Workforce, MoJ: Judiciary and Prison Officers Workforce.

[8] Transport Scotland (2024) ScotRail Peak Fares Removal Pilot – Final Evaluation Report – August 2024.

22 The risk to the budget from rising social security spending has been a consistent theme in our previous reports. Recent UK Government announcements on its plans to reduce spending on Personal Independence Payment (PIP) in England and Wales will reduce funding for the Scottish Government by £0.4 billion in 2029-30.

23 The UK Government welfare changes announced in March 2025 reduced the spending and associated funding the Scottish Government will receive. However, there has been some recent discussion of UK Government policies which would increase spending, such as making more people eligible for the Winter Fuel Payment.[9] If there are changes to devolved areas of social security which increase spending in England and Wales, then funding for the Scottish Government would increase.

24 UK Government policy changes in devolved areas affect the Scottish Budget. Where the UK Government increases spending in devolved areas this provides additional funding, but any reductions in spending will reduce the funding available to the Scottish Government. As the UK Government addresses its own fiscal sustainability challenges in the coming decades, this will have implications for the Scottish Budget. Our work on fiscal sustainability has demonstrated how fiscal sustainability challenges that are common to both Scotland and the rest of the UK eventually feed through to the Scottish Government's finances.

25 We expect the Scottish Government's MTFS and FSDP to discuss these short-, medium-, and long-term pressures. We will provide initial commentary alongside the publications in June 2025, and a fuller discussion in our Fiscal Update in August 2025. All these publications will inform parliamentary pre-Budget scrutiny in the autumn.

Capital funding

26 Following a large increase of almost 16 per cent in real terms capital funding in 2025-26, funding is forecast to fall from £7.4 billion in 2025-26 to £7.2 billion in 2026-27. This is because the Scottish Government's planned capital borrowing is lower in 2026-27 and there are no plans at this point for use of ScotWind proceeds in 2026-27 and beyond.[10] The funding position increases in nominal terms from 2027-28 onwards and reaches £7.8 billion by 2030-31, but after accounting for inflation this equates to a real terms fall in each of the last three years of the forecast.

27 The Scottish Government has revised down borrowing for 2024-25 to £139 million from £300 million.[11] For 2025-26 we assume the Scottish Government borrows the maximum possible, £472 million, as planned in December 2024, and then borrows £300 million in all subsequent years. We expect the MTFS in June 2025 to include details of the Scottish Government's latest borrowing plans, and we will provide our formal assessment on the same day.

[9] UK Parliament (2025) Engagements – Hansard.

[10] The borrowing plans presented here for 2026-27 and beyond are unchanged from those set out alongside the 2025-26 Scottish Budget. We assume no further use of ScotWind funds in 2026-27 and beyond.

[11] Scottish Government (2025) Implementation of the Scotland Act 2016: ninth annual report.

28 We also highlight that there have been several delays to the Scottish Government's planned publication of its infrastructure investment pipeline. Without a published pipeline of projects to consider, the Scottish Parliament has been constrained in its scrutiny of capital plans. This point has been raised by the Finance and Public Administration Committee in its report on the 2025-26 Scottish Budget.[12]

Economy

29 Since our December 2024 forecast, ongoing developments in international trade policy have created significant uncertainty and volatility. There have been various announcements of new tariffs in the US and elsewhere, some of which have been delayed or withdrawn, and new trade deals are being agreed. All these changing announcements have made forecasting trade and the wider effects of tariffs difficult. Even if the volatility were to reduce, the uncertainty about whether any future trade regime will persist remains.

30 To create a stable and coherent forecast, we have aligned our economy assumptions with the OBR's March 2025 central forecast. This includes the economic impact of the increased policy uncertainty in the run-up to January 2025, without directly adjusting for any specific tariffs introduced since January. We note these global trade developments as a downside risk to our forecast. We have considered the potential effects of tariffs through scenarios in Box 3.1.

31 As Figure 2 shows, there are minor changes in the economy forecast in this report compared with our December 2024 outlook.

32 We forecast growth in Gross Domestic Product (GDP) of 1.2 per cent in 2025-26, lower than the 1.6 per cent we expected in December. This mainly reflects slower GDP growth at the end of 2024 compared with our last forecast. Rising global uncertainty, together with other factors such as higher inflation and interest rate expectations, contributed to weaker consumer and business sentiment and lower economic activity in late 2024.

33 Inflation is forecast to be higher in 2025-26 than we expected in December 2024. Our forecast of inflation for 2025-26 is 3.2 per cent, peaking in the third quarter of the year. This is broadly consistent with the latest inflation figure for April 2025 of 3.5 per cent. We then expect inflation to return to the Bank of England's 2 per cent target by mid-2026.

34 The labour market has remained on track with our expectations in December 2024, with broadly flat employment growth. While still relatively strong, earnings growth has slowed from last year as vacancies have fallen from their recent record-high levels, reducing pressure on wages.

35 From 2026-27 onwards, both GDP and employment growth rates are slightly higher than in our December 2024 forecast, consistent with the higher migration and faster population growth in the new population projections published by the Office for National Statistics in January 2025. New migration data for the UK was published after our data cut-off for these forecasts. We will consider the latest migration data and UK Government policy changes for our forecasts alongside the 2026-27 Scottish Budget.

[12] Finance and Public Administration Committee (2025) Budget Scrutiny 2025-26.

Figure 2: Headline economy forecasts, growth rate

Per cent	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
GDP							
December 2024	1.2	1.6	1.5	1.4	1.4	1.4	
May 2025	1.2	1.2	1.8	1.7	1.6	1.6	1.6
CPI inflation							
December 2024	2.3	2.6	2.2	2.1	2.1	2.0	
May 2025	2.3	3.2	1.9	2.0	2.0	2.0	2.0
Average nominal earnings							
December 2024	4.3	3.7	2.8	2.9	2.9	2.9	
May 2025	4.5	3.7	2.9	3.0	2.9	3.0	3.0
Employment							
December 2024	0.2	0.1	0.3	0.3	0.3	0.2	
May 2025	0.2	0.1	0.6	0.5	0.4	0.4	0.4

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts.

Tax

36 Our forecasts are similar to December 2024, with any changes largely coming from data we have received since December and updates to our economy forecasts.

37 Since December 2024, we have revised down our forecast of Scottish Income Tax in 2023-24 based on information we have received on growth in tax paid through Self Assessment. We have also lowered our forecast for 2024-25 because Pay As You Earn Real Time Information data showed slower growth than we expected. From 2025-26 onwards our forecast has increased, largely because of faster forecast growth in earnings and employment.

38 As in December, the profile of our Non-Domestic Rates forecast shows big increases in 2026-27 and 2029-30 because there will be new valuation rolls in 2026 and 2029. We have also revised down our appeals loss assumption which increases revenue across the forecast period, although by a greater amount in the near term.

39 For Land and Buildings Transaction Tax we are expecting prices and transactions volumes to continue to rise as we have seen in 2024-25. From 2025-26 onwards our forecast exceeds £1 billion each year. As in previous forecasts, our forecast of Scottish Landfill Tax shows a downward trend, largely caused by the introduction of the Biodegradable Municipal Waste ban on 31 December 2025.

40 The projected Income Tax net position has decreased slightly since December 2024 for all years. The decreases in 2023-24 and 2024-25 are because of revisions to our Scottish Income Tax forecast. From 2025-26 onwards there has been a larger upward revision to the BGA than to our revenue forecast, which leads to the lower projected net position. The main reason for this is that the OBR has increased its forecast of earnings growth in 2025-26.

Figure 3: Latest changes to projected Income Tax net position and underlying forecasts

£ million	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Scottish Income Tax							
December 2024	17,315	19,099	20,477	21,782	22,980	23,913	24,930
May 2025	17,072	18,992	20,495	21,901	23,139	24,186	25,288
Change	-243	-107	18	119	159	273	358
Income Tax BGA							
December 2024	-16,527	-18,389	-19,639	-20,468	-21,207	-21,862	-22,675
May 2025	-16,468	-18,431	-19,879	-20,830	-21,614	-22,287	-23,107
Change	59	-42	-240	-361	-407	-425	-432
Net position							
December 2024	788	711	838	1,314	1,774	2,051	2,255
May 2025	604	562	616	1,072	1,526	1,899	2,182
Change	-184	-149	-222	-242	-248	-152	-74

Source: Scottish Fiscal Commission, Scottish Government.

Positive figures for the net position represent added funding to the Scottish Budget, where the BGA reduces funding by less than the tax revenue raised.

Figures may not sum because of rounding.

41 As we have highlighted in previous reports, our forecast of Scottish earnings growth continues to be higher than the OBR's UK forecast from 2026-27 onwards, and this contributes to a rising net position, as Figure 3 shows. If the gap between Scottish and UK earnings turns out to be smaller, or if Scottish earnings growth is slower, then the net position would be lower. We continue to judge this to be an asymmetric and downside risk to the net position.

42 We are projecting a large negative reconciliation of £851 million to be applied in the 2027-28 Scottish Budget. This is largely because the BGA has increased substantially more than our Scottish Income Tax forecast since the 2024-25 Scottish Budget was set. Underlying this are the outturn data for 2022-23 and revisions to the OBR's earnings forecast. Both increased the BGA relative to Income Tax revenue.

43 Our latest illustrative estimate of a 'policy-only' Income Tax net position for 2025-26 is £1,674 million. This shows, all else equal, how much more funding the Scottish Budget could have with the current Scottish Income Tax rates and thresholds compared with those in place in the rest of the UK.

44 The actual projected Income Tax net position in 2025-26 is £616 million. The difference between the net position and the illustrative policy-only amount is £1,058 million in 2025-26. We refer to this figure as the 'economic performance gap' and it is largely because of slower aggregate earnings and employment growth in Scotland compared with the rest of the UK, alongside effects from Scottish and UK policies, taxpayer behaviour, and differences in the sectoral make-up of the Scottish economy and in the distribution of incomes between Scotland and the rest of the UK.

Social security

45 We forecast spending on devolved social security payments will increase from £6.9 billion in 2025-26 to £9.4 billion in 2030-31. Spending increases over time because of annual uprating of payment rates in line with inflation, which accounts for £1.0 billion of the increase, and from rising numbers of people receiving disability and carer's payments, which accounts for £1.3 billion of the increase.

46 Compared with our December 2024 forecast, spending has decreased by £56 million in 2025-26, but our forecast for 2029-30 is £190 million higher. Reductions to 2024-25 and 2025-26 are from updates to our Child Disability Payment forecast and incorporating the latest financial outturn. The most substantial change in our forecast is the increase in spending because of the two-child limit mitigation policy, which will be introduced in 2026-27. This policy was announced in the Scottish Budget in December 2024 but was not in our December 2024 forecast report as we were notified after the final policy deadline when it was too late for us to include.[13] We published a costing in January 2025.[14]

47 We forecast spending on the policy to mitigate the two-child limit will be £156 million in 2026-27, rising to £199 million in 2029-30, with mitigation payments being made for around 50,000 children.

[13] Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024.

[14] Scottish Fiscal Commission (2025) Mitigating the two-child limit and the Scottish Budget.

Figure 4: Change in total social security spending since December 2024

£ million	2023-24 outturn	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
December 2024	5,330	6,224	6,930	7,471	7,922	8,321	8,754	
May 2025	5,330	6,122	6,874	7,658	8,094	8,498	8,944	9,405
Change since December 2024	0	-103	-56	187	173	176	190	

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Funding related to social security

48 The Scottish Government receives funding for social security from the UK Government through BGA. The amount of BGA funding is broadly based on outturn and forecast spending in England and Wales on equivalent payments. When the UK Government introduces a policy in England and Wales for a payment with an associated BGA, and that policy leads to a change in the level of spending, then there is a proportional effect on the level of BGA funding the Scottish Government receives.

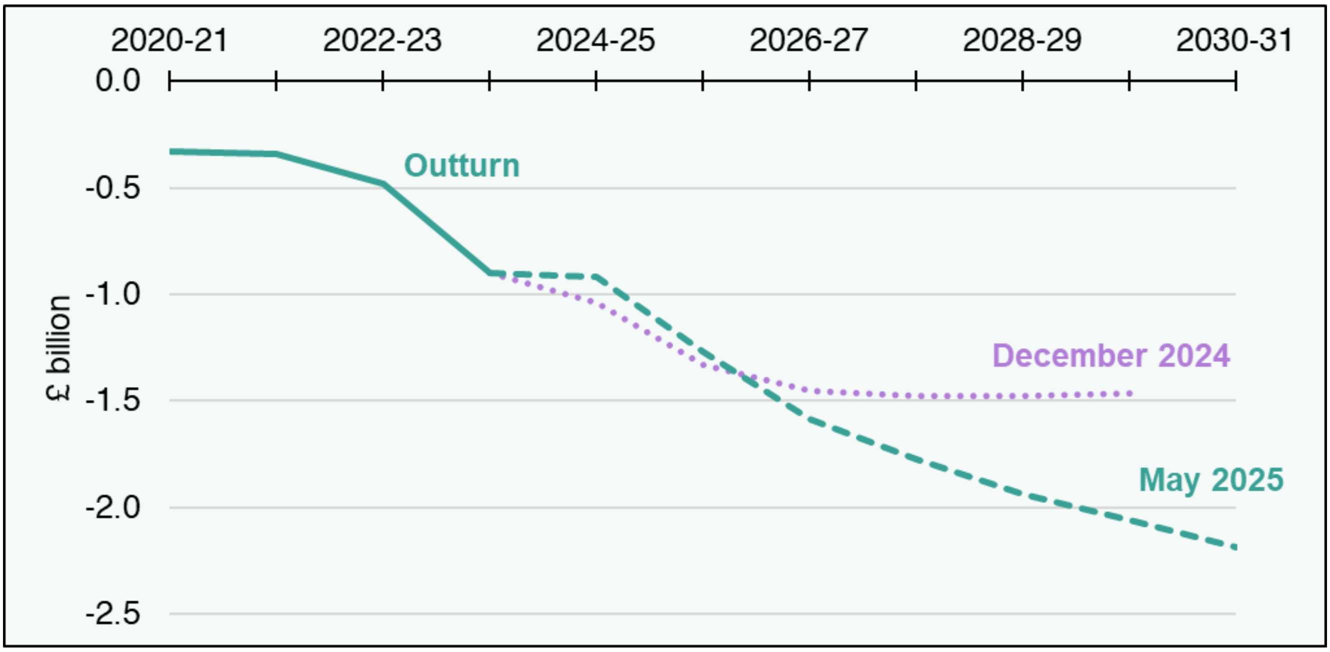
49 Social security spending above the BGA funding can be considered as the effect of social security devolution and policy changes on the Scottish Budget. This is estimated to increase to £2.1 billion in 2029-30. Figure 4 shows that, since December 2024, the effect of social security on the Scottish Budget has widened by £0.6 billion in 2029-30. This widening is the result of policy changes from the Scottish and UK Governments. Had there been no policy changes then the gap would have remained at around £1.4 billion in 2029-30.

50 The largest contribution to the change is from the UK Government's March 2025 announcement of a set of measures for incapacity and disability benefits. These measures are forecast by the OBR to reduce UK Government spending on welfare payments and funding transfers by £4.8 billion in 2029-30. Through the fiscal framework, this reduction in spending in England and Wales leads to a decrease in the funding the Scottish Government receives through the BGAs by £0.4 billion in 2029-30.

51 The other factor is the inclusion of the two-child limit mitigation policy which increases spending by £0.2 billion in 2029-30.

Figure 5: Effect of latest social security spending forecast on the Scottish Budget, compared with December 2024 forecast

UK and Scottish Government policy changes widen the social security effect on the Scottish Budget



Description of Figure 5: Line chart showing the effect of social security spending on the Scottish Budget under our previous estimate (published in December 2024) and our latest estimate (published in May 2025). Latest policy decisions are expected to widen the effect of social security spending on the Scottish Budget by £0.6 billion in 2029-30.

Source: Scottish Fiscal Commission, Scottish Government.

BGAs before 2023-24 have not yet been updated to take account of revised population estimates.

The 2030-31 BGA has been estimated by the Scottish Fiscal Commission, whereas specific payment BGA estimates up to 2029-30 have been agreed by the Scottish Government and HM Treasury.

Additional information

Abbreviations

BGA	Block Grant Adjustment
CPI	Consumer Prices Index
DWP	Department for Work and Pensions
FSDP	Fiscal Sustainability Delivery Plan
GDP	Gross Domestic Product
HMRC	His Majesty's Revenue and Customs
HMT	His Majesty's Treasury
LBTT	Land and Buildings Transaction Tax
MTFS	Medium-Term Financial Strategy
NDR	Non-Domestic Rates
NHS	National Health Service
NICs	National Insurance Contributions
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Co-operation and Development
PIP	Personal Independence Payment
PRBs	Pay Review Bodies
PSPP	Public Sector Pay Policy
RPI	Retail Prices Index
SFC	Scottish Fiscal Commission
SLfT	Scottish Landfill Tax
UK	United Kingdom
US	United States

A full glossary of terms is available on our website: Glossary | Scottish Fiscal Commission.

Professional standards

The Scottish Fiscal Commission is committed to fulfilling our role as an Independent Fiscal Institution, in line with the principles set out by the Organisation for Economic Co-operation and Development (OECD).[15]

The Scottish Fiscal Commission also seeks to adhere to the highest possible standards for analysis. While we do not produce official statistics, we voluntarily comply as far as possible with the UK Statistics Authority's Code of Practice for Statistics. Further details and our statement of voluntary compliance can be found on our website.[16]

Correspondence and enquiries

We welcome comments from users about the content and format of our publications. If you have any feedback or general enquiries about this report or the Scottish Fiscal Commission, please contact info@FiscalCommission.scot. Press enquiries should be sent to press@FiscalCommission.scot.

All charts and tables in this report have also been made available in spreadsheet form on our website. For technical enquiries about the analysis and data presented in this paper please contact the responsible analyst:

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[15] OECD (2014) Recommendation of the Council on Principles for Independent Fiscal Institutions.

[16] Scottish Fiscal Commission (2022) Statement of Voluntary Compliance with the Code of Practice for Statistics and Error Policy.

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