
Scotland's Economic and Fiscal Forecasts Update – June 2025 – Summary

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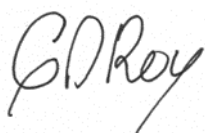
Foreword

The Scottish Fiscal Commission (SFC) is the independent fiscal institution for Scotland. Our statutory duty is to provide independent and official forecasts of Scottish Gross Domestic Product (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.

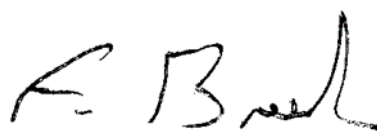
We started work on these forecasts after the Scottish Government notified us that it would publish its Medium-Term Financial Strategy (MTFS) on 29 May 2025. On 6 May the Government informed us that it was considering delaying publication and on 13 May confirmed that it would publish the MTFS on 25 June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

The forecasts in this update report, which is published alongside the Scottish Government's MTFS, restate our May 2025 forecasts and include additional tax and social security policies. The report also includes updated information on the Scottish Government's funding, including the changes in the Block Grant following on from the UK Government's Spending Review on 11 June.


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



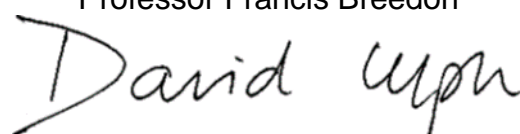
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25 June 2025

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Summary

Introduction

- 1 This report is published alongside the Scottish Government's Medium-Term Financial Strategy (MTFS) and Fiscal Sustainability Delivery Plan (FSDP). It contains updated details of the Scottish Government's funding, including changes in the Block Grant following on from the UK Government's Spending Review on 11 June 2025.
- 2 This report restates the five-year forecasts we originally published on 29 May 2025. These forecasts have been updated to include two additional policies that have been included in the 2025 MTFS. The first is for Scottish Aggregates Tax, and the second is for the launch date of March 2026 for the Two Child Limit Payment announced on 17 June.
- 3 The report also includes an illustrative estimate of the cost of the changes in Pension Age Winter Heating Payment that were announced on 18 June. The additional social security Block Grant Adjustment (BGA) funding of £120 million starting in 2025-26 covering the recent changes in the UK Government's Winter Fuel Payment is also included.
- 4 The report contains our formal assessment of the reasonableness of the Scottish Government's borrowing plans.

Changes since May 2025 forecasts

- 5 Our report presents our first forecast for Scottish Aggregates Tax and an update to our forecast for the Two Child Limit Payment. We also present an illustrative estimate for the cost of the new policy for Pension Age Winter Heating Payment (PAWHP). These are the only areas where the Scottish Government has provided policy updates since we published our most recent forecasts on 29 May 2025. For all other areas there are no policy changes, and our forecasts for these remain unchanged from May. We have restated them in Annex A. Our economic forecasts are also unchanged from May, but the recent escalation of conflict in the Middle East introduces another element of risk.
- 6 The Scottish Government has announced that the rate of Scottish Aggregates Tax (SAT) in 2026-27 will align with that of the UK Aggregates Levy. Based on this policy we forecast SAT revenue of £37 million in 2026-27. Our forecast is broadly flat over the next five years, with uprating in the tax rate offset by a diminishing tax base.
- 7 The Scottish and UK Governments have not finalised an approach to calculating the corresponding BGA for SAT. Therefore, in the absence of information on the BGA, the effect of SAT on the Scottish Budget is unknown and we do not include SAT revenue in our funding tables in Chapter 2.
- 8 We have updated our forecast for the Two Child Limit Payment to reflect the Scottish Government's recent announcement that the payment will launch in March 2026, rather than April 2026 as we had assumed in our May forecasts. This leads to an increase of an additional £11 million in our forecast for spending in 2025-26.

- 9 We have also produced an illustrative estimate of spending related to the Scottish Government's new policy for PAWHP. The Scottish Government informed us of these changes on 16 June following the UK Government's Spending Review and confirmation of funding and policy arrangements from the UK Government. It was too late for us to produce a full costing that took account of potential behavioural responses and other factors. We will publish a formal costing in due course.
- 10 Our illustrative estimate for PAWHP is for spending of £151 million in 2025-26, rising to £182 million in 2030-31 as a result of the caseload rising and payments being uprated with inflation. In 2025-26 this is £53 million higher than our May 2025 forecast for PAWHP because of the new policy.

Fiscal overview

Total funding

- 11 Total funding in 2025-26 is just over £60 billion. This is £485 million higher than presented in our May 2025 report. Most of this increase comes from additional funding being carried into 2025-26 from the previous year. There is also additional social security Block Grant Adjustment funding as a result of UK Government changes to Winter Fuel Payment in England and Wales and lower borrowing costs than previously planned.
- 12 In 2026-27, although the total available funding is similar to our May 2025 report, the split between resource and capital has changed, with resource lower and capital higher. By 2030-31 total funding is projected to be £994 million lower than in our May report with resource funding down £700 million and capital funding down £293 million.
- 13 This follows the UK Government Spending Review on 11 June 2025, which set Scotland's block grant resource funding through to 2028-29 and capital funding through to 2029-30.
- 14 In May 2025, ahead of the UK Government's Spending Review, we assumed the resource and capital Block Grant would change broadly in line with the Office for Budget Responsibility's (OBR) March 2025 forecast of growth in overall UK department spending. Making this assumption allowed us to present an overview of the Scottish Government's funding position. Now that we have the details of the UK Government's Spending Review, we have updated that position.

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	55,177	60,046	61,329	62,491	64,469	66,528	68,370
Nominal terms growth rate (per cent)		8.8	2.1	1.9	3.2	3.2	2.8
Real terms growth rate (per cent)		6.0	0.5	-0.1	1.2	1.3	0.9
Resource funding	49,027	52,623	53,975	55,235	57,100	59,099	60,856
Nominal terms growth rate (per cent)		7.3	2.6	2.3	3.4	3.5	3.0
Real terms growth rate (per cent)		4.6	0.9	0.3	1.4	1.6	1.1
Resource funding minus social security spending	42,905	45,685	46,261	47,083	48,541	50,090	51,383
Nominal terms growth rate (per cent)		6.5	1.3	1.8	3.1	3.2	2.6
Real terms growth rate (per cent)		3.7	-0.4	-0.3	1.1	1.3	0.7
Capital funding	6,150	7,422	7,354	7,256	7,370	7,429	7,513
Nominal terms growth rate (per cent)		20.7	-0.9	-1.3	1.6	0.8	1.1
Real terms growth rate (per cent)		17.6	-2.5	-3.3	-0.4	-1.1	-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.

Figures may not sum because of rounding.

Figure 2: Change in funding outlook since May 2025, nominal terms

Change since May 2025	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Total funding, £ million	-327	485	27	-600	-669	-828	-994
Total funding, per cent	-0.6	0.8	0.0	-1.0	-1.0	-1.2	-1.4
Resource funding, £ million	-271	430	-102	-298	-413	-542	-700
Resource funding, per cent	-0.6	0.8	-0.2	-0.5	-0.7	-0.9	-1.1
Capital funding, £ million	-56	54	129	-303	-255	-286	-293
Capital funding, per cent	-0.9	0.7	1.8	-4.2	-3.5	-3.9	-3.9

Source: Scottish Fiscal Commission, Scottish Government.

Resource funding

- 15 Over the period from 2024-25 to 2030-31, resource funding is expected to grow by 24 per cent in nominal terms. After adjusting for inflation, the growth is 10 per cent. Devolved social security spending is taking up an increasing share of the resource budget. This reduces funding growth available for all other areas of spending to 6 per cent in real terms over the next five years.
- 16 In the current year (2025-26), spending on social security is 13.2 per cent of resource funding, and is expected to increase to 15.6 per cent by the end of the forecast period in 2030-31.
- 17 One of the immediate pressures we discussed in our May 2025 report was public sector pay. The MTFS provides some additional information on public sector pay, noting that it accounts for 55.0 per cent of the entire Scottish resource budget in 2025-26.
- 18 As we noted in our May 2025 report, pay deals agreed so far in 2025-26 have been above the Scottish Government's Public Sector Pay Policy of 3 per cent in 2025-26. For example, NHS workers in Scotland on Agenda for Change terms have agreed a pay rise of 4.25 per cent in 2025-26 and 3.75 per cent in 2026-27.¹
- 19 We have commented before on the cumulative future impact of current pay awards. A higher current award not only increases the paybill in the current year, but also the cost of every future award because it increases the base to which those future awards are applied.

¹ The Agenda for Change covers all staff directly employed by the NHS, except for doctors, dentists, and some senior managers. This includes, for example, nurses, paramedics, and hospital porters. Scottish Government (2025) [NHS staff pay deal agreed](#), Management Steering Group – [Agenda for Change](#).

- 20 The remaining pay negotiations this year will now be conducted against the background of the Scottish Government's newly announced workforce reduction policy. Although the Government has retained its policy of no compulsory redundancies, the impact of this change may influence negotiations.

Spending projections and fiscal gaps

- 21 The Scottish Government's MTFS contains its projections for both resource and capital spending over the next five years, which it compares with the funding forecasts in this report to generate the estimated fiscal gaps shown in Figure 3.
- 22 The gaps between the Scottish Government's spending projections and the available funding are significant. For resource, there is a move from a balanced budget in 2025-26 to a gap of just under £1 billion in 2026-27 and a gap of over £2.6 billion in 2029-30. For capital, the gap reaches £2.1 billion by 2029-30.

Figure 3: Resource and capital gaps, nominal terms

£ million (nominal terms)	2026-27	2027-28	2028-29	2029-30
Resource				
Funding	53,975	55,235	57,100	59,099
Spending [1]	54,938	57,132	59,453	61,723
Gap	-963	-1,897	-2,353	-2,624
Capital				
Funding	7,109	7,004	7,059	7,067
Spending [1]	8,180	8,501	8,962	9,213
Gap	-1,070	-1,497	-1,903	-2,146

Source: Scottish Fiscal Commission, Scottish Government.

[1] Spending figures have been produced by the Scottish Government. The figures are rounded to the nearest £ million.

Figures may not sum because of rounding.

- 23 The Scottish Government's FSDP sets out the action the Government is planning to take to control spending, close the identified gaps, and balance the Budget.
- 24 The FSDP identifies broad areas of efficiency and reforms in the public sector which the Government plans to use to close the fiscal gaps identified in the MTFS. The most concrete proposal is a workforce reduction target of 0.5 per cent on average each year. The Scottish Government estimates this would save around £100 million in 2026-27 rising to around £700 million in 2029-30.
- 25 The Scottish Government has set out the scale of the fiscal challenge in the MTFS. The Scottish Government's Spending Review later this year will be an important step in providing more details on how it will deliver on the ambitions presented in the FSDP

Additional information

Abbreviations

BGA	Block Grant Adjustment
FSDP	Fiscal Sustainability Delivery Plan
GDP	Gross Domestic Product
MTFS	Medium-Term Financial Strategy
NHS	National Health Service
NICs	National Insurance Contributions
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Co-operation and Development
PAWHP	Pension Age Winter Heating Payment
SAT	Scottish Aggregates Tax
SFC	Scottish Fiscal Commission
UK	United Kingdom

A full glossary of terms is available on our website: [Glossary | Scottish Fiscal Commission](#).

Professional standards

The SFC 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).²

The SFC 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.³

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 publication or the SFC, please contact info@FiscalCommission.scot. Press enquiries should be sent to press@FiscalCommission.scot.

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

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² OECD (2014) [Recommendation of the Council on Principles for Independent Fiscal Institutions](#).

³ Scottish Fiscal Commission (2022) [Statement of Voluntary Compliance with the Code of Practice for Statistics and Error Policy](#).

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