
Scotland's Economic and Fiscal Forecasts Update – June 2025

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Any enquiries regarding this publication should be sent to us at:
Scottish Fiscal Commission, Governor's House, Regent Road, Edinburgh, EH1 3DE,
or email: info@FiscalCommission.scot.

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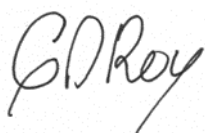
Foreword

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.

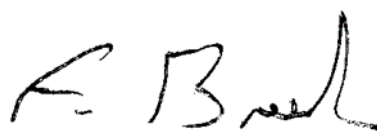
We started work on these forecasts after the Scottish Government notified us that it would publish its Medium-Term Financial Strategy (MTFS) on 29 May 2025. On 6 May the Government informed us that it was considering delaying publication and on 13 May confirmed that it would publish the MTFS on 25 June 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.



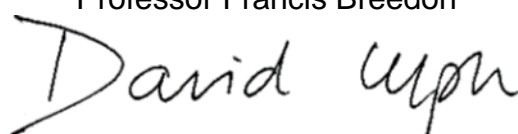
Professor Graeme Roy



Professor Francis Breedon



Professor Domenico Lombardi



Professor David Ulph

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.

Chapter 1

Introduction

Contents of this report

- 1.1 This report was published alongside the Scottish Government's Medium-Term Financial Strategy (MTFS) and contains updated details of the Scottish Government's funding that feeds into its central scenario. This new information includes changes in the Block Grant following on from the UK Government's Spending Review on 11 June 2025, and additional social security Block Grant Adjustment funding of £120 million starting in 2025-26 to cover the recent changes in the UK Government's Winter Fuel Payment.
- 1.2 The report restates the five-year fiscal forecasts we originally published on 29 May 2025. These forecasts have been updated to include two additional policies that were included in the 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. Details of both policies were provided to us ahead of our 5 June deadline for new tax and social security policies.
- 1.3 We have not included in this report a formal forecast for the changes in Pension Age Winter Heating Payment that were announced on 18 June. 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.
- 1.4 However, we have included an illustrative estimate of the costs in [Chapter 3](#) to demonstrate the potential effects on the Budget. The Scottish Government has included an equivalent estimate in its MTFS spending projections.
- 1.5 The report also contains our formal assessment of the reasonableness of the Scottish Government's borrowing plans.
- 1.6 In this chapter we explain the process we have followed in producing this report and how the different elements of our forecasts relate to the Scottish Government's MTFS.
- 1.7 This report contains the following chapters:

Chapter	Description
Summary	A summary of the fiscal overview, and the key points from forecast changes.
Chapter 1: Introduction	An outline of the structure and content of the document.
Chapter 2: Fiscal overview	A discussion of the latest funding outlook based on our forecasts and UK Government funding.
Chapter 3: Changes since May 2025 forecasts	Forecasts for the additional policies included in this report

- 1.8 Some additional information, such as comparisons to our previous forecasts, is in our supplementary figures accompanying this report and available on our website. If there is any information you are looking for that is not in this report or the supplementary figures, please get in touch with us at info@FiscalCommission.scot.

How we produced this report

- 1.9 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 that publication of the MTFS was being deferred until 25 June 2025.²
- 1.10 We decided to proceed with the publication of our economic and fiscal 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.
- 1.11 We agreed a new timetable with the Government for the June 2025 report and wrote to the Convener of the Finance and Public Administration Committee with a summary of the various deadlines.³
- 1.12 The headline dates are on the next page:

² Scottish Government (13 May 2025) [Letter from the Cabinet Secretary for Finance and Local Government to the Convener of the Finance and Public Administration Committee](#).

³ Scottish Fiscal Commission (20 May 2025) [Letter from the Chair of the Scottish Fiscal Commission to the Convener of the Finance and Public Administration Committee](#).

Date	Description
24 February 2025	Cabinet Secretary for Finance and Local Government wrote to advise that the Scottish Government intended to publish its MTFS on 29 May 2025.
25 April	Deadline for inclusion of new data in the forecasts.
6 May	Cabinet Secretary for Finance and Local Government wrote to advise that she was considering deferring the publication of the MTFS.
12 May	Scottish Fiscal Commission (SFC) provided its final forecasts to be included in 29 May report to the Scottish Government.
13 May	Cabinet Secretary for Finance and Local Government wrote to advise that the MTFS will be published on 25 June 2025.
29 May	SFC published its May 2025 Scottish Economic and Fiscal Forecasts.
5 June	Deadline for the Scottish Government to provide the SFC with any final policy measures to be included in the updated June 2025 forecasts.
10 June	The SFC provided its final updated forecasts to the Scottish Government.
16 June	Deadline for the Scottish Government to provide the SFC with final information on borrowing, spending, and funding.
23 June	The SFC shared the near-final report with the Cabinet Secretary for Finance and Local Government, Cabinet Secretary for Social Justice, and Deputy First Minister and Cabinet Secretary for Economy and Gaelic.
23 June	Call between Professor Graeme Roy (Chair of the SFC) and the Cabinet Secretary for Finance and Local Government.
24 June	The SFC shared the pre-release version of the report with the Cabinet Secretary for Finance and Local Government, Cabinet Secretary for Social Justice, and Deputy First Minister and Cabinet Secretary for Economy and Gaelic.
25 June	Scotland's Economic and Fiscal Forecasts – MTFS Update June 2025 published.

How the Scottish Government uses our forecasts

- 1.13 On 25 June 2025 the Scottish Government published the 2025 MTFS. The MTFS sets out the Scottish Government's five-year funding position based on our forecasts of tax revenues and social security spending as well as assumptions about future funding and Scottish Government borrowing plans.

Chapter 2

Fiscal overview

Introduction

- 2.1 This chapter updates the Scottish Government’s funding position from our May 2025 report. It is based on our May 2025 tax and social security forecasts with the three policy changes described in [Chapter 3](#). The funding position includes the changes in the Block Grant following on from the UK Government’s Spending Review on 11 June 2025, and the changes in the Scottish Government borrowing and reserve positions included in its Medium-Term Financial Strategy (MTFS).
- 2.2 In our May 2025 report, to provide an overview of the Scottish Government’s overall funding position, we used the OBR’s overall forecast growth of all UK departmental budgets from its March 2025 forecasts. This reflected the funding available for the UK Government’s Spending Review. We noted that the exact detail of the Barnett consequential would depend on the detail of the Spending Review.
- 2.3 The UK Government’s Spending Review has now confirmed the Block Grant through to 2028-29 for resource and through to 2029-30 for capital. We have extended forecast Block Grant funding up to 2030-31. Compared with our May 2025 report the resource Block Grant is now slightly lower across the forecast period. For capital, it is slightly higher in 2026-27, but lower after that. The Block Grant for financial transactions (FTs) is higher.
- 2.4 With multi-year spending plans set by the UK Government there is now more detail in terms of Block Grant funding. This provides a stable position for the Scottish Government to deliver a spending review later in the year. The MTFS contains a Scottish Government Spending Review framework which states the “intention that Scottish Ministers publish the conclusions of the spending review exercise in December 2025, alongside the 2026-27 Scottish Budget”. For the Spending Review to be meaningful, it should contain sufficiently detailed Budget plans.
- 2.5 The MTFS presents the Scottish Government’s scenarios for the funding outlook, with our funding forecasts forming its central scenario. The MTFS also sets out the scale of the gap between resource spending and available funding. The Scottish Government states that in the central scenario spending exceeds available funding by just under £1 billion in 2026-27, and the gap is expected to rise to £2.6 billion by 2029-30.
- 2.6 The Scottish Government sets out its plans to close the gap in its Fiscal Sustainability Delivery Plan (FSDP), which is also published today, 25 June 2025. The plans are based on the three pillars of public spending, economy, and taxation first described in the Government’s 2023 MTFS. The Government identifies a number of “cashable savings” in the first public spending pillar that includes workforce reductions, public sector efficiencies, and revenue raising from charging for services, and public service reform.

- 2.7 We will provide additional analysis of the Government's funding position in our Fiscal Update, which will be published on 26 August 2025. This will include our analysis of the implications of the latest Income Tax outturn data for 2023-24 (due to be published in July 2025) and an update on public sector pay deals that have been agreed over the summer.

Total funding

- 2.8 Figure 2.1 sets out the latest five-year funding outlook for both resource and capital. These are nominal amounts, with growth rates presented in both nominal and real terms (after adjusting for inflation).
- 2.9 Total funding in 2025-26 is now forecast to be slightly above £60 billion. This is almost £1.3 billion more (2 per cent) than when the 2025-26 Budget was set in December 2024, and £485 million higher (0.8 per cent) than our May 2025 estimate. Most of the change since December is on the resource side:
- The UK Spring Statement 2025 confirmed Barnett consequentials, which included an amount to compensate departments for the rise in employer National Insurance Contributions (NICs).
 - As underspends from 2024-25 begin to be clearer with provisional outturn, there is now a higher planned drawdown from the Scotland Reserve in 2025-26.
 - The Scottish Government will receive additional social security Block Grant Adjustment (BGA) funding because of the UK Government's recent changes to Winter Fuel Payment in England and Wales.
 - Following 2024-25 year-end decisions by the Scottish Government to borrow less than previously planned, borrowing costs are lower.
- 2.10 For the upcoming year (2026-27) total funding is now expected to be £61.3 billion, a similar total to that in our May 2025 report. However, underlying this there is more pressure on resource funding. The resource block grant is now lower than in our May report. While the capital block grant is higher, offsetting the resource fall, it is not possible to move funding from capital to resource.
- 2.11 For later years, total funding is lower by almost £1 billion in 2030-31 than in our May 2025 report.

Figure 2.1: 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 2.2: 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.

Block Grant

- 2.12 The Block Grant is lower than in our May 2025 report following on from the UK Government's Spending Review, which confirmed the Block Grant until 2028-29 for resource and until 2029-30 for capital.
- 2.13 In May, we did not have detailed spending allocations by department from the UK Government. We therefore assumed the resource and capital Block Grants would change in line with the OBR's March 2025 forecast of growth in overall UK departmental spending.⁴ Average real terms growth for each year up to 2030-31 was 1.1 per cent for the resource block grant, 1.0 per cent for the capital block grant excluding financial transactions (FTs), and a real terms fall for FTs as allocations were assumed to be flat in nominal terms.
- 2.14 Figure 2.3 shows the changes to the Block Grant following on from the UK Government's Spending Review. Compared with our May 2025 report, the resource block grant is lower in every year from 2026-27 onwards. The capital block grant is slightly higher in 2026-27, but lower thereafter. On the other hand, the FTs block grant is substantially greater than we assumed in May.
- 2.15 The drivers behind trends for the Block Grant are different for resource, capital, and FTs, so we explain them in the relevant sections later in this chapter.
- 2.16 Despite greater certainty for the Block Grant following on from the UK Government's Spending Review, it is important to note that it may still change at each fiscal event, as the UK Government adjusts spending decisions in response to economic and fiscal circumstances.

⁴ For Capital Block Grant we reduced the OBR's capital departmental expenditure limits growth rate to reflect that a significant share of extra spending from the UK Government will be on defence, which is a reserved matter.

Figure 2.3: Block Grant funding

£ million (nominal terms), unless specified	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Resource	41,622	42,724	43,850	45,027	46,224	47,453
Changes since May 2025	9	-212	-407	-523	-653	-790
Real terms growth rate (per cent)		1.0	0.6	0.7	0.8	0.8
Real terms growth rate in May 2025 (per cent)		1.5	1.0	1.0	1.0	1.0
Capital (excluding FTs)	6,256	6,689	6,595	6,640	6,665	6,691
Changes since May 2025	-2	53	-375	-396	-461	-526
Real terms growth rate (per cent)		5.2	-3.4	-1.2	-1.5	-1.5
Real terms growth rate in May 2025 (per cent)		4.3	2.9	-1.0	-0.6	-0.6
Financial transactions (FTs)	167	245	252	311	361	421
Changes since May 2025		78	85	144	194	253
Real terms growth rate (per cent)		44.1	0.8	21.1	14.2	14.2
Real terms growth rate in May 2025 (per cent)		-1.6	-2.0	-1.9	-1.8	-1.6

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.

Resource funding

- 2.17 Resource funding is used to meet the day-to-day expenditure incurred in providing various services to households and businesses, such as social security payments, and the pay of public sector workers delivering health, education, policing, and other services. In the current financial year (2025-26), just under 88 per cent of total funding is resource.
- 2.18 Figure 2.4 presents the latest five-year outlook for resource funding broken down by source.

Figure 2.4: Detailed resource funding outlook, latest position

Source of funding (£ million)	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Block Grant	39,626	41,622	42,724	43,850	45,027	46,224	47,453
Barnett baseline [1]	35,576	41,141	42,714	43,840	45,018	46,215	47,444
Barnett consequentials [2]	3,336	481	0	0	0	0	0
Non-Barnett funding [3]	715	0	10	9	9	9	9
Fiscal framework funding	6,299	7,929	7,820	8,009	8,742	9,311	9,902
Forecast devolved revenues [4]	19,802	21,569	23,044	24,326	25,423	26,579	27,776
Tax and non-tax BGAs	-18,110	-20,366	-21,687	-22,569	-23,360	-24,268	-25,212
Social security BGAs [5]	5,182	5,725	6,191	6,440	6,680	7,001	7,339
Adjustment for forecast error, of which:	-338	500	272	-188	0	0	0
Reconciliations	-338	500	272	-851	-222	0	0
Borrowing	0	0	0	663	222	0	0
Scotland Reserve drawdown, of which:	-237	501	0	0	0	0	0
Drawdowns by year-end	264	501	0	0	0	0	0
Underspend additions	-501	0	0	0	0	0	0
Other sources	3,368	3,374	3,749	3,675	3,709	4,036	4,000
Other funding, of which:	300	260	200	195	175	175	175
Assumed [6]	0	117	210	210	210	210	210
Confirmed [7]	300	143	-10	-15	-35	-35	-35
Non-Domestic Rates (NDR) distributable amount	3,068	3,114	3,549	3,480	3,534	3,861	3,825
Less: resource borrowing costs	-132	-142	-121	-67	-117	-193	-202
Less: capital borrowing costs	-135	-160	-198	-232	-262	-280	-297
Resource funding available for discretionary spend	49,027	52,623	53,975	55,235	57,100	59,099	60,856

Source: Scottish Fiscal Commission, Scottish Government.

[1] For 2024-25, as set in the UK Government's Spending Review 2021. For 2025-26, as set in Phase 1 of the Spending Review 2025 concluded alongside the UK Autumn Budget 2024. For 2026-27 until 2028-29, as set in Phase 2 of the UK Government's Spending Review 2025. For 2029-30, Scottish Government assumption that the Block Grant will grow in line with the average nominal-terms growth rate over the Spending Review 2025 period. For 2030-31, we assume that the Block Grant grows at the same rate as it did from 2028-29 to 2029-30.

[2] Amounts for 2024-25 are explained in Supplementary Figure S2.2. For 2025-26, it consists of £24 million of consequential from the UK Spring Statement 2025, £339 million for the rise in National Insurance Contributions, £117 million for other reasons confirmed in the 2025-26 Main Estimates, and £9 million from Phase 2 of the UK Government's Spending Review 2025. There is then a deduction of £9 million for double-counting Budget Cover Transfers as part of Barnett. The consequential relating to employer National Insurance Contributions (NICs) were baselined for Phase 2 of the Spending Review.

[3] Funding agreed between the UK and Scottish Governments not based on the use of the Barnett formula. Amount for 2024-25 (Spending Review 2021) is explained in Supplementary Figure S2.2. For 2026-27 until 2029-30 (Spending Review 2025) it relates to the Debt Advice Levy.

[4] Forecast devolved revenues include an estimated £25 million from Fines, Forfeitures, and Fixed Penalties. The Scottish Government estimates these revenues.

[5] From 2025-26 this includes a Scottish Government assumption on how much extra BGA the latest policy change from the UK Government on Winter Fuel Payment will generate.

[6] Amounts for 2024-25 are explained in Supplementary Figure S2.2. For 2025-26, £117 million consists of £109 million from the Scottish share of the UK-levied Migrant Surcharge and £8 million from Budget Cover Transfers, both to be confirmed at the future Supplementary Estimates 2025-26 in winter 2026. For the remaining years, £210 million is the assumed amount from the Migrant Surcharge.

[7] Amounts for 2024-25 are explained in Supplementary Figure S2.2. For 2025-26, £143 million consists of: £101 million from the Migrant Surcharge and £9 million of Budget Cover Transfers recently confirmed in the 2025-26 Main Estimates, £23 million from ScotWind proceeds, £5 million from the King's and Lord Treasurer's Remembrancer, and £4 million from the Proceeds of Crime Act. For the remaining years, it is the extra Block Grant deduction for the devolution of the Crown Estate, agreed in the 2023 Fiscal Framework Review.

Figures may not sum because of rounding.

Block Grant

2.19 In May 2025, ahead of the UK Government's Spending Review, we used the OBR's March 2025 UK-wide forecast, and assumed that the resource Block Grant would grow by 5.6 per cent in real terms between 2025-26 and 2030-31. Now that we have the detailed Barnett consequential, we project the growth of 3.9 per cent in real terms by 2030-31. There is still a modest real terms increase in resource block grant in all years of the forecast period.

- 2.20 We highlighted in May that the exact outlook for the Block Grant would depend upon how the UK Government chose to allocate its overall spending plans between departments. The mechanical application of the Barnett formula from UK departmental allocations in the Spending Review has resulted in Scotland's Block Grant being lower than had it grown in line with overall UK public spending. The MTFS describes some of the ways in which this has fed through to Scotland's funding.⁵
- 2.21 Another reason for the lower growth is that some of the UK Government spending announcements, especially for 2026-27, are to be funded from increases in the centrally retained share of English Business Rates. Business Rates are devolved, being called Non-Domestic Rates (NDR) in Scotland. NDR is collected locally and deposited directly into the Scottish Consolidated Fund. To avoid the Scottish Government also receiving Barnett consequentials for spending generated by the equivalent English tax, an adjustment is made in the form of negative consequentials.

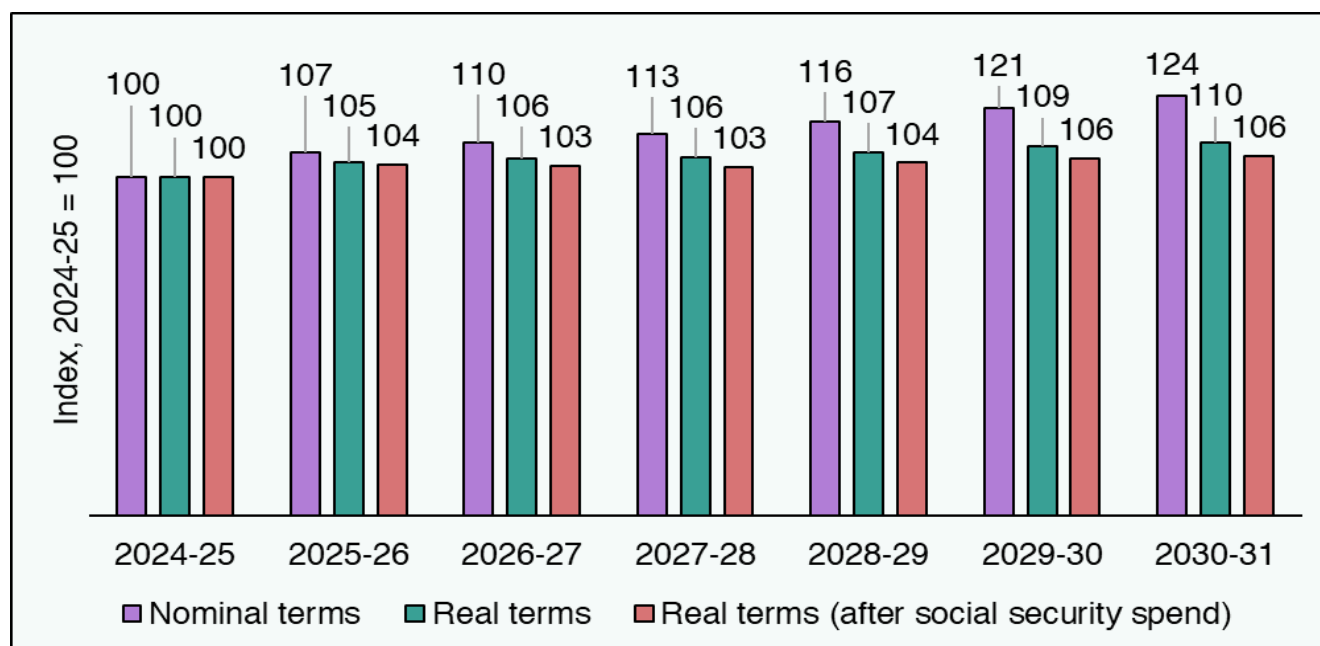
Resource funding outlook

- 2.22 Figure 2.5 shows that, 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, growth is 10 per cent. However, if we factor in forecast social security spending, real terms growth available for other areas is reduced to 6 per cent over the period to 2030-31.
- 2.23 As we discussed in previous reports, the Scottish Government's approach to social security is adding pressure to the resource budget. We forecast that spending on devolved social security payments will increase from 13.2 per cent of resource funding in 2025-26 to 15.6 per cent in 2030-31. This expansion of social security spending adds pressure because it is growing faster than the specific UK Government funding provided. Spending on devolved social security is projected to be around £1.2 billion more than the Scottish Government receives in funding in 2025-26, with the gap widening to around £2.1 billion in 2030-31.

⁵ Scottish Government (2025) [Medium-Term Financial Strategy](#) (Resource Block Grant).

Figure 2.5: Resource funding outlook

Resource funding grows over time, but inflation and social security reduce that growth



Description of Figure 2.5: Column chart showing resource funding trends from 2024-25 to 2030-31, indexed so that 2024-25 levels are equal to 100. Resource funding grows in 2025-26, slows down in 2026-27, and grows faster again thereafter, reaching 24 per cent above 2024-25 levels by the end of the forecast period. Adjusting for inflation more than halves the growth, with 2030-31 seeing funding 10 per cent above 2024-25 levels. Accounting for social security spend reduces growth further, so much so that it is almost flat from 2025-26 and 2028-29, and is only 6 per cent above 2024-25 levels by 2030-31.

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.

Capital funding

- 2.24 Figure 2.6 shows the capital funding position from 2024-25 to 2030-31, including financial transactions (FTs). From 2024-25 to 2025-26, capital funding increases by 20.7 per cent in nominal terms. Levels then fall in 2026-27 due to lower capital borrowing assumptions and no planned use of ScotWind. They fall further in 2027-28 due to reductions in the Block Grant. The funding position increases in nominal terms from 2028-29 onwards and reaches £7.5 billion by 2030-31. In real terms there is a decrease in funding each year from 2026-27 onwards.
- 2.25 The UK Autumn Budget 2024 provided the Scottish Government with £167 million of FTs funding in 2025-26. In May 2025 we assumed this funding would remain constant in nominal terms over the next five years. Following on from the UK Government's Spending Review, there has been a substantial increase in FTs funding: an increase of 119 per cent by 2030-31 compared with the 2025-26 funding position.

Figure 2.6: Detailed capital funding outlook, latest position

Source of funding (£ million)	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Capital (excluding FTs)	6,048	7,230	7,109	7,004	7,059	7,067	7,093
Barnett baseline [1]	4,690	6,256	6,689	6,595	6,640	6,665	6,691
Barnett consequentials	336	0	0	0	0	0	0
Non-Barnett funding [2]	670	0	0	0	0	0	0
Capital borrowing	139	472	300	300	300	300	300
Scotland Reserve drawdown, of which:	112	31	0	0	0	0	0
Drawdowns by year-end	143	31	0	0	0	0	0
Underspend additions	-31	0	0	0	0	0	0
Other funding, of which:	101	472	120	110	119	102	102
Assumed [3]	0	122	0	0	0	0	102
Confirmed [4]	101	350	120	110	119	102	0
Financial transactions (FTs)	102	192	245	252	311	361	421
Barnett baseline	176	167	245	252	311	361	421
Barnett consequentials	-53	0	0	0	0	0	0
Scotland Reserve drawdown, of which:	-21	25	0	0	0	0	0
Drawdowns by year-end	4	25	0	0	0	0	0
Underspend additions	-25	0	0	0	0	0	0
Other funding, of which:	0	0	0	0	0	0	0
Assumed	0	0	0	0	0	0	0
Confirmed	0	0	0	0	0	0	0
Total capital funding	6,150	7,422	7,354	7,256	7,370	7,429	7,513

Source: Scottish Fiscal Commission, Scottish Government.

[1] For 2024-25, as set in the UK Government's Spending Review 2021. For 2025-26, as set in Phase 1 of the Spending Review 2025 alongside the UK Autumn Budget 2024. For 2026-27 until 2029-30 as set in Phase 2 of the UK Government's Spending Review 2025. For 2030-31 we assume that the Block Grant grows at the same rate as it did from 2028-29 to 2029-30.

[2] £670 million of capital grant funding for Network Rail agreed between the UK and Scottish Governments in the Spending Review 2021.

[3] Relates to City Deals only. For 2025-26, it will be confirmed in the Supplementary Estimates 2025-26 in winter 2026. For 2030-31, this is our assumption of capital City Deals, which we flatline based on the last confirmed amount in the UK Government's Spending Review 2025.

[4] For 2025-26, £350 million consists of £341 million from ScotWind proceeds and £9 million of Budget Cover Transfers confirmed in the Main Estimates for that year. From 2026-27 onwards, these are the capital City Deals that were confirmed at Phase 2 of the UK Government's Spending Review 2025.

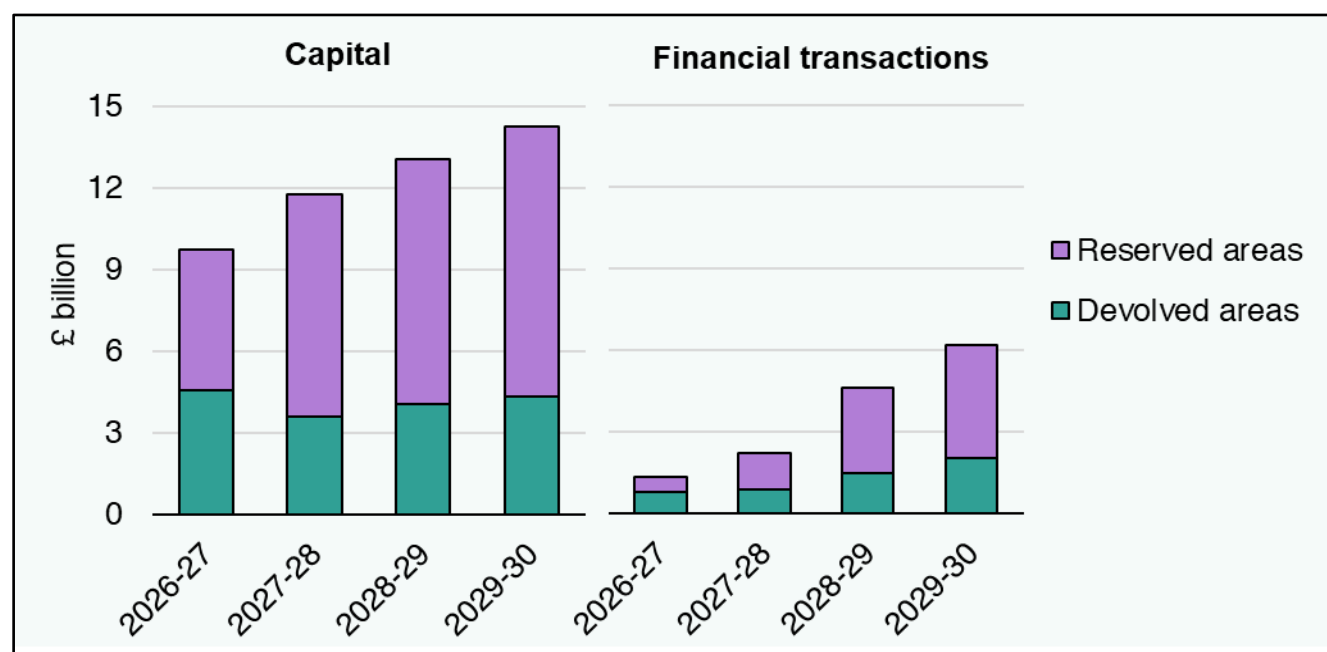
Figures may not sum because of rounding.

Block Grant

- 2.26 Before the UK Government's Spending Review, our May 2025 report had the 2025-26 capital Block Grant growing by 5.1 per cent in real terms by 2030-31.
- 2.27 Following on from the UK Government's Spending Review, by 2030-31 the capital Block Grant is expected to fall in real terms by 2.6 per cent. In 2026-27 there is slightly higher capital Block Grant funding than expected, but there are steeper real terms falls in later years. As Figure 2.7 shows, the main reason for the decrease is that the UK Government is prioritising reserved areas such as defence. UK Government spending on reserved areas does not result in funding for the Scottish Budget, and any spending in Scotland in reserved areas is incurred by the UK Government.
- 2.28 Figure 2.7 also shows that, despite prioritising reserved areas for capital spending, the UK Government has confirmed some new FTs spending in devolved areas, which results in Block Grant funding for the Scottish Government. This is substantially different from the May 2025 assumption that the FTs Block Grant would remain constant in nominal terms.

Figure 2.7: Additional UK Government capital spending, nominal terms

Reserved areas get the largest share of the new UK Government capital spending



Description of Figure 2.7: Two column charts showing new UK Government capital spending plans confirmed in Phase 2 of the Spending Review 2025, by reserved and devolved areas. The chart on the left shows general capital and the chart on the right shows financial transactions. Devolved spending falls in 2027-28 and then remains broadly flat, while reserved spending is larger and grows every year. For financial transactions, devolved spending increases annually, but reserved spending grows much more rapidly.

Source: Scottish Fiscal Commission, HM Treasury.

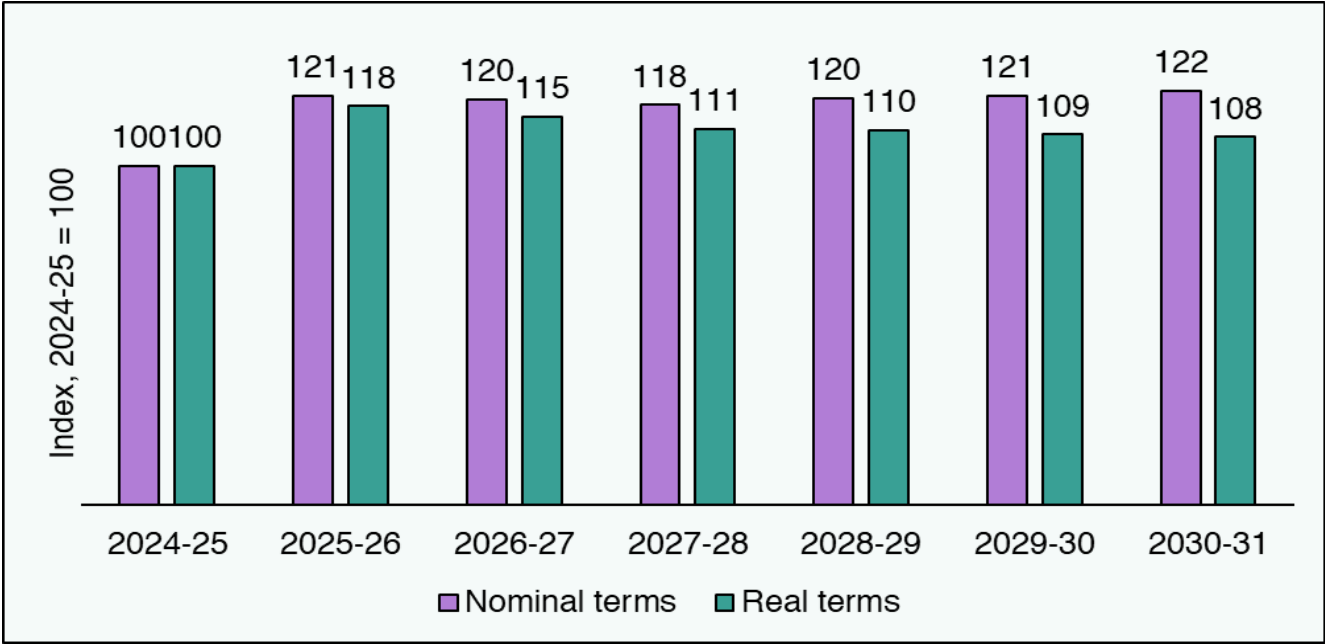
Reserved and devolved shares have been calculated by applying the agreed comparability factors to the additional capital spending for UK Government departments confirmed in Phase 2 of the UK Government's Spending Review 2025.

Capital funding outlook

- 2.29 Figure 2.8 shows the outlook for capital funding in both nominal and real terms from 2024-25 to 2030-31. There is a large rise in overall capital funding in 2025-26, because of a large increase to the Block Grant, ScotWind proceeds being used, and greater borrowing. After that, capital funding levels are forecast to stabilise at around 22 per cent above 2024-25 levels in nominal terms. When accounting for inflation, the large increase in funding in 2025-26 is progressively eroded, leading to capital funding levels being only 8 per cent above 2024-25 levels in real terms by the end of the forecast period.
- 2.30 Capital funding is expected to fall between 2025-26 and 2026-27 because there is no planned use of ScotWind proceeds and capital borrowing is lower in 2026-27. In 2027-28 funding falls further as the capital Block Grant is lower. From 2028-29 funding grows by 1 per cent each year in nominal terms.

Figure 2.8: Capital funding outlook

Capital funding to grow rapidly in 2025-26, but expected to remain flat after that



Description of Figure 2.8: Column chart showing capital funding trends from 2024-25 to 2030-31, in nominal and real terms. Capital funding grows by 21 per cent in 2025-26 in nominal terms, before falling in 2026-27 and 2027-28. It then remains broadly constant so that by 2030-31 it is 22 per cent above 2024-25 levels. After adjusting for inflation, capital funding levels fall progressively from their peak in 2025-26, and by 2030-31 they are only 8 per cent above 2024-25 levels.

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.

Capital borrowing

- 2.31 The Scottish Government can borrow to support capital spending. The annual capital borrowing limit for 2025-26 is £472 million and the total debt stock limit is £3.1 billion. Both limits have grown with inflation each year since 2024-25.
- 2.32 In the 2025 MTFs, the Scottish Government has restated the policy it set out alongside the 2025-26 Scottish Budget. That is, it will aim to borrow £300 million each year but will amend this as necessary to meet budget-specific or in-year requirements. With this approach, Figure 2.9 shows that borrowing stabilises at almost 90 per cent of the cap by the end of the forecast period.

Figure 2.9: Capital borrowing plans

£ million (nominal terms), unless specified	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Borrowing	139	472	300	300	300	300	300
Annual limit	458	472	487	497	507	517	527
Total limit	3,050	3,145	3,249	3,316	3,380	3,444	3,513
Debt stock	2,245	2,576	2,716	2,835	2,936	3,032	3,121
Share of debt cap (per cent)	74	82	84	86	87	88	89

Source: Scottish Fiscal Commission, Scottish Government.

Capital borrowing plans are based on assumed borrowing from the National Loans Fund.

Spending projections and fiscal gaps

2.33 The Scottish Government's MTFS contains its projections for both resource and capital spending over the next five years. The Government then compares its projected spend with the funding outlook in our report to generate estimated fiscal gaps. From 2026-27 onwards, the Government shows both resource and capital spending exceeding the funding available. The Scottish FSDP extends the approach taken in the 2023 MTFS to say what action it is intending to take to control spending.

2.34 The MTFS considers the potential impact of a number of upside and downside funding and spending risks. This additional analysis provides some helpful insights into the medium-term risks the Government may face. Next in this chapter we focus on the central spending and funding scenario and the associated fiscal gaps.

Spending projections

2.35 The Government's resource spending projections in the MTFS are based on its assessment of demand for areas like health and social care, local government, and pay. The 2025-26 fiscal gap is constrained to be zero, so that spending and funding are equal. The projections for 2026-27 through to 2029-30 are based on the following assumptions:

- Social security spending grows in line with our forecasts. These include the latest spending decisions the Scottish Government has made, such as bringing forward the launch of the Two Child Limit Payment, as well as replicating the new policy from the UK Government for its own Pension Age Winter Heating Payment.
- Spending on Health and Social Care grows by an average of 3.3 per cent a year in real terms, as does the non-pay social care component of Local Government spending, in line with growth rates for resource health spending identified in our April 2025 Fiscal Sustainability Report.
- Growth in the paybill is based on the published Public Sector Pay Policy, unless pay deals have been agreed, with the assumption that the workforce remains flat over the medium term.

- Known commitments such as the removal of peak rail fares, concessionary travel, Scottish elections in 2026, and hosting the European Football Championship in 2028 are costed.
- The rest of the budget is kept flat in real terms using the latest GDP deflators.

2.36 Although not included in its MTFs, the Scottish Government has told us that the capital spending projections are based on detailed project and programme level forecasts. The Government intends to publish a new Infrastructure Pipeline and draft Infrastructure Investment Plan alongside its Spending Review which will set out the Government's plans for capital investment. In addition, the Government is due to publish a draft of its next Climate Change Plan later this year, which is likely to involve further public sector investment.

Fiscal gaps

2.37 Based on these projections, the Scottish Government expects spending to outpace funding for both resource and capital. Figure 2.10 shows how the gap by 2029-30 is expected to reach £2.6 billion for resource and £2.1 billion for capital.

Figure 2.10: 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 (excluding FTs)				
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. They are rounded to the nearest £ million.

Figures may not sum because of rounding.

2.38 The Scottish Government then produces 'upside' and 'downside' scenarios for funding. Under these, the gap for resource is somewhere between £1.3 billion and £4.0 billion, and for capital is somewhere between £1.8 billion and £2.4 billion.

Closing the fiscal gaps

- 2.39 The FSDP sets out the actions the Scottish Government is intending to take to close the gaps shown in Figure 2.10. The Government has extended its approach taken in its 2023 MTFS. The approach is organised around three pillars: public spending, economic growth, and taxation. Most of the new developments are in the public spending pillar, with measures to control spending. While more up-to-date strategies have been published on the other two pillars since the last MTFS in 2023, this MTFS outlines no new policies for these.
- 2.40 The Scottish Government identifies several efficiency and reform actions in the public spending pillar that it expects will generate enough savings to close the resource gap. The most concrete proposal is a workforce reduction target of 0.5 per cent on average each year. The Government estimates this will save £100 million in 2026-27, rising to £700 million by 2029-30. The Government expects wider public sector efficiencies and reform, and revenue raising, to save a further £600 million in 2026-27 to £1,500 million in 2029-30. Finally, the Government has set targets to increase “public value” that would save between £300 million and £700 million a year.⁶
- 2.41 If the expected savings identified by the Government can be realised, by themselves they would be sufficient to close the projected resource fiscal gap in all five years. Additionally, the Government will publish the results of a multi-year resource spending review alongside the next Budget. We anticipate that the spending review will provide more detail on how the cashable savings will be achieved as well as other savings and efficiencies.
- 2.42 The Scottish Government has set out the scale of the challenge for resource funding. In our view, additional detail in the Scottish Government’s Spending Review later this year is a vital step in transforming ambition into concrete action.
- 2.43 There is less detail in the FSDP on how the Government intends to close the capital gap. The Government intends to publish a refreshed Infrastructure Investment Plan (pipeline) alongside the 2026-27 Budget. This should provide more detail on projects and how they may be funded. The MTFS sets out the importance of capital spending to the Government’s future plans, including the draft Climate Change Plan due later this year.

⁶ The cash savings identified in the Government’s recently published public service reform strategy of £1 billion over the next five years are included in the total for identified cashable savings in the FSDP.

Resource and capital assessments

Resource assessment

- 2.44 Our May 2025 report discussed several emerging pressures on, and risks to, the resource budget. The lower resource Block Grant since May 2025 makes it more challenging for the Scottish Government to balance future budgets, given the increasing pressure from devolved social security spending and the expected large negative reconciliation projected for 2027-28. This difficulty is evident in the scale of the resource fiscal gap identified in the MTFS.
- 2.45 One of the immediate pressures we discussed in our May 2025 report was public sector pay. The MTFS provides some additional contextual information on public sector pay, noting that it accounts for 55.0 per cent of the entire Scottish resource budget in 2025-26.
- 2.46 As we noted in May, 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. NHS workers in Scotland on Agenda for Change terms, and staff from the Scottish Prison Service, have agreed a pay rise of 4.25 per cent in 2025-26 and 3.75 per cent in 2026-27.⁷ 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 2026-27.⁸
- 2.47 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.
- 2.48 Three of the agreed pay deals so far for 2025-26 and onwards include an element of protection against higher inflation. There is a guarantee that the NHS Agenda for Change and Scottish Prison Service pay rises for both 2025-26 and 2026-27 will be 1 percentage point above Consumer Prices Index (CPI) inflation. For ScotRail, the pay deal for 2026-27 will be 3 per cent or January 2026 Retail Prices Index (RPI) inflation, whichever is higher.

⁷ 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](#).

⁸ Unite (2025) [Scotrail workers accept two-year pay offer](#).

- 2.49 The inclusion of inflation protection clauses brings an additional risk to the spending outlook. The Government sets out these risks in Box 3.01 of the MTFS. We note that the last two months of data show annual CPI inflation running at 3.5 per cent in April and 3.4 per cent in May.⁹ In addition, the recent military escalation between Israel and Iran has resulted in a steep increase in global oil prices, which could feed through to domestic inflation.¹⁰
- 2.50 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.
- 2.51 Annex F in the MTFS provides information on the scale of resource borrowing, presenting yearly repayment amounts, as well as projected debt stocks at the end of each financial year which can be compared with the overall debt cap. This shows that resource debt stock at the end of the current financial year (2025-26) is expected to equate to 12 per cent of the debt cap. Debt stock is expected to peak as a share of the debt cap in 2028-29.
- 2.52 The Scottish Government faces the challenges and risks we have outlined in this section, and the considerable challenge of closing the fiscal gap in future years. However, we consider the resource borrowing plans and assumptions to be reasonable.

Capital assessment

- 2.53 Following a significant increase in capital funding in 2025-26 of over 18 per cent in real terms, the 2026-27 position is now also better than in May 2025, following on from the UK Government's Spending Review. Against the background of increases in capital spending by the UK Government and initiatives such as its house-building targets, there is a potential risk of a lack of capacity in sectors such as construction to deliver increased infrastructure investment in a relatively short time. The Scottish Government has committed to publish a refreshed Infrastructure Pipeline alongside the next Budget later this year. This should provide useful detail on the intended projects, their timings, and their associated delivery risks.
- 2.54 From 2027-28, however, there is less Block Grant capital funding for the Scottish Government than previously expected, given the areas the UK Government prioritises for its capital investment plans.
- 2.55 Plans set out in the MTFS are in line with the capital borrowing policy published alongside the 2025-26 Scottish Budget, which included ensuring "by way of a fiscal test" that at least £1.5 billion of capital borrowing headroom remains available for the subsequent parliamentary term.

⁹ The Office for National Statistics has identified an error in the CPI inflation figure for April 2025. This should have been 3.4 per cent.

¹⁰ BBC News (2025) [Global oil prices soar after Israel attacks Iran](#).

- 2.56 The MTFS also provides the latest position on Scottish Government bonds. It states that an update on Scottish Government bonds will be provided “ahead of the 2026-27 Scottish Budget” and that its due diligence “continues to suggest bonds offer a valuable tool to support the capital borrowing policy and broader fiscal and economic objectives.” If the Scottish Government does decide to issue bonds in 2026-27, we need to see details well in advance of the 2026-27 Budget to assess the reasonableness of the plans. The fiscal framework limits for capital borrowing are the same regardless of the source of borrowing.
- 2.57 We find the Scottish Government’s borrowing plans and funding assumptions to be reasonable. However, we note that, with the large increase in capital funding in 2025-26 and the subsequent real terms reductions, it may be that the year-to-year profile for borrowing will change.

Chapter 3

Changes since May 2025 forecasts

- 3.1 This chapter presents our first forecast for Scottish Aggregates Tax (SAT) and an updated forecast for the new Two Child Limit Payment. We also present an illustrative estimate for the cost of the recently announced changes to Pension Age Winter Heating Payment and an update on the social security funding position. These are the only areas where the Scottish Government has provided policy updates since we published our most recent forecasts on 29 May 2025.
- 3.2 For all other areas there are no policy changes, and we have restated unchanged May 2025 forecasts in [Annex A](#).

Tax

Scottish Aggregates Tax

- 3.3 Aggregates are products such as rock, sand, and gravel that are used for commercial purposes. SAT is planned to come into effect on 1 April 2026 and will be paid by quarry operators and importers of aggregates in Scotland. This will replace the UK-wide Aggregates Levy.
- 3.4 As part of its Medium-Term Financial Strategy, the Scottish Government has announced that the rate of SAT in 2026-27 will align with that of the UK Aggregates Levy. Given this policy announcement, Figure 3.1 shows our first forecast for SAT revenues. Our forecast is broadly flat over the next five years. This is because we uprate the tax rate with inflation and forecast the tax base will diminish.
- 3.5 The Scottish and UK Governments have not finalised an approach to calculating the corresponding Block Grant Adjustment (BGA) for SAT. As such, we do not include revenues raised from SAT in our funding tables in [Chapter 2](#).

Figure 3.1: Summary of Scottish Aggregates Tax forecast

£ million	2026-27	2027-28	2028-29	2029-30	2030-31
Scottish Aggregates Tax	37	38	38	38	38

Source: Scottish Fiscal Commission.

Revenues are net of repayments and exclude penalties, interest, and revenue losses.

Data and assumptions

- 3.6 While the Scottish Government has announced that the rate of SAT will align with that of the UK Aggregates Levy in 2026-27, it has not provided information on what the rate will be in subsequent years. Furthermore, the UK Government has not announced what the UK Aggregates Levy rate will be in 2026-27.

- 3.7 We have assumed that the SAT rate in 2026-27 will be £2.15 per tonne, obtained by taking the UK Aggregates Levy rate in 2025-26 of £2.08 per tonne and uprating it in line with our forecast of Retail Prices Index (RPI) inflation.¹¹ We use RPI inflation because the two most recent increases the UK Government made to Aggregates Levy used this index. For subsequent years, we have assumed that the SAT rate will be uprated in line with RPI inflation, matching the approach we take for Scottish Landfill Tax rates laid out in our paper on how we set policy baselines.¹²
- 3.8 We use data from the UK Minerals Yearbook to estimate the share of UK aggregates tonnage that is produced in Scotland.¹³ We then adjust this to reflect imports of aggregates into Scotland, and exports from Scotland, using data from the 2023 Aggregate Minerals Survey for Great Britain.¹⁴ This is because only aggregates commercially exploited in Scotland will be liable for SAT.¹⁵
- 3.9 Finally, we combine these adjusted shares with data from the Environmental Taxes Bulletin produced by HM Revenue and Customs (HMRC) to estimate the tonnage of aggregates within the scope of SAT.¹⁶ We estimate this tonnage to be around 22 Mt in 2026-27.
- 3.10 We make further assumptions for:
- the share of tonnage likely to be exempt (around 9 per cent);
 - the share of tonnage that receives tax credits for reasons other than because it is exported (around 12 per cent);
 - the rate of change of liable tonnage, which we assume to be the trend quarter-on-quarter rate observed in the last three years (around minus 0.5 per cent).
- 3.11 We plan to review our forecasting approach once the tax comes into effect and data from Revenue Scotland is available.

¹¹ More specifically, RPI inflation in 2026 Q2 of 3.2 per cent.

¹² Scottish Fiscal Commission (2024) [How we set policy baselines](#).

¹³ British Geological Survey (2025) [UK Minerals Yearbook 2024](#).

¹⁴ British Geological Survey (forthcoming) Collation of the Results of the 2023 Aggregate Minerals Survey for Great Britain.

¹⁵ 'Commercial exploitation' includes when aggregate is sold, moved, mixed with other products, or used in building, with some exceptions. SAT will only be payable the first time any given aggregate is commercially exploited. [Aggregates Tax and Devolved Taxes Administration \(Scotland\) Act 2024](#) (section 7).

¹⁶ HM Revenue and Customs (2024) [Environmental Taxes Bulletin \(June 2024\)](#).

Social security

Updated social security forecast

- 3.12 Figure 3.2 shows our updated forecast of total devolved social security spending and the change since May 2025.
- 3.13 We have updated our forecast for the new Two Child Limit Payment to reflect the Scottish Government's recent announcement that the payment will launch in March 2026.¹⁷
- 3.14 We also present an illustrative estimate of spending associated with the Scottish Government's new policy for Pension Age Winter Heating Payment. As we were informed of this policy after the deadline agreed with the Scottish Government, it has not been possible for us to produce a full costing. Forecasts for all other payments are unchanged since May 2025 and restated in [Annex A](#).

Figure 3.2: Updated forecast of social security spending

£ million	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
May 2025	6,122	6,874	7,658	8,094	8,498	8,944	9,405
June 2025, of which:	6,122	6,939	7,714	8,151	8,559	9,009	9,474
Social Justice portfolio	6,062	6,865	7,644	8,081	8,489	8,939	9,404
Deputy First Minister, Economy and Gaelic portfolio	60	73	70	70	70	70	70
Change since May 2025	0	64	55	57	61	65	69

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Two Child Limit Payment

- 3.15 Our May 2025 forecast for two-child limit mitigation was consistent with the lead option set out in the Scottish Government's February 2025 consultation document.¹⁸ We assumed that the new payment would launch from April 2026.
- 3.16 The Scottish Government has now announced that the new Two Child Limit Payment will launch on 2 March 2026. We estimate that this will cost an additional £11 million in 2025-26.

¹⁷ Scottish Government (2025) [Scrapping the two child limit to help end child poverty](#).

¹⁸ Scottish Government (2025) [Universal Credit – mitigation of the two-child limit: consultation](#).

- 3.17 We have not changed our forecast for 2026-27 onwards, as the latest information does not materially change our view for that period. The analysis of the numbers of families and children involved that we set out in our January 2025 costing still holds.¹⁹ The only other changes we have made since January are the updates to inflation and uprating that were included in our May 2025 forecast.
- 3.18 Figure 3.3 shows our updated forecast of the cost of the two-child limit mitigation policy. For 2026-27 onwards these are the same amounts as we showed in Figures 5.2 and 5.5 of our May 2025 forecasts. The total cost of the mitigation policy is slightly higher than the spending on the new payment, as we expect behavioural changes will also affect spending on Scottish Child Payment.

Figure 3.3: Updated forecast of costs of two-child limit mitigation

£ million	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Two-child limit mitigation policy cost	11	156	172	185	199	209
Spending on Two Child Limit Payment	11	155	170	182	194	204

Source: Scottish Fiscal Commission.

- 3.19 The Two Child Limit Payment will be paid monthly in arrears, shortly after the client's Universal Credit assessment period ends, and with the same value as the Universal Credit child element. Figure 3.4 shows our forecast of the monthly payment rate, assuming that the Universal Credit child element is uprated annually in line with Consumer Prices Index (CPI) inflation as usual.

Figure 3.4: Forecast monthly value of Two Child Limit Payment

£ per month	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Two Child Limit Payment	292.81	303.64	309.11	315.29	321.60	328.03

Source: Scottish Fiscal Commission.

Pension Age Winter Heating Payment

- 3.20 On 9 June 2025 the UK Government announced a new policy for Winter Fuel Payment (WFP) in England and Wales, to be implemented in 2025-26.²⁰ Under the new policy all people of pension age with an annual income of £35,000 or less will receive the payment. This will lead to higher spending in England and Wales. As a result, the associated Block Grant Adjustment (BGA) funding the Scottish Government is expected to receive increases by around £120 million.

¹⁹ Scottish Fiscal Commission (2025) [Mitigating the two-child limit and the Scottish Budget](#).

²⁰ HM Treasury (2025) [Nine million pensioners to receive Winter Fuel Payments this winter](#).

- 3.21 On 18 June 2025 the Scottish Government announced changes to Pension Age Winter Heating Payment (PAWHP) in Scotland which will align eligibility with the UK Government plans for WFP.²¹ 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.
- 3.22 However, we have produced an illustrative estimate to show the potential effects on the Scottish Budget of the change in spending and the expected increase in BGA funding. We will publish a formal costing in due course.
- 3.23 Figure 3.5 compares our illustrative estimate for PAWHP following this policy change with our forecast from May 2025. As this is an illustrative estimate, we have taken a simplified approach. We assume a constant proportion of the pension-age population will be eligible. Under this assumption, spending is an average of £60 million higher from 2025-26, with the costs rising over time due to uprating and population growth. We now estimate that 860,000 individuals will keep the payment in 2025-26, and that 195,000 with higher incomes will not.

Figure 3.5: Change in Pension Age Winter Heating Payment spending since May 2025

£ million	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
May 2025	29	98	103	103	105	109	113
June 2025 [1]	29	151	158	160	166	174	182
Change since May 2025	0	53	55	57	61	65	69

Source: Scottish Fiscal Commission.

[1] June 2025 forecast is an illustrative estimate.

Figures may not sum because of rounding.

- 3.24 Figure 3.6 shows the change in funding that is expected as a result of the UK Government policy change. Figure 3.7 shows the combined effect of the changes to funding and spending. Compared with our May 2025 forecasts, the net effect of the changes to PAWHP and WFP is to narrow the net effect of social security spending on the Scottish Budget.

²¹ Scottish Government (2025) [Pension Age Winter Heating Payments](#).

Figure 3.6: Change in BGA funding since May 2025

£ million	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
May 2025 social security BGAs	5,200	5,605	6,071	6,321	6,562	6,882	7,219
June 2025 social security BGAs	5,200	5,725	6,191	6,440	6,680	7,001	7,339
Change since May 2025	0	120	120	119	118	119	120

Source: Scottish Fiscal Commission, Scottish Government.

BGA estimates up to 2029-30 have been agreed by the Scottish Government and HM Treasury. The figure for 2030-31 is estimated by the Scottish Fiscal Commission.

Figures may not sum because of rounding.

- 3.25 The UK Government has stated that WFP will initially be paid out universally, with later recovery by HMRC from individuals who have a taxable annual income above the £35,000 threshold. The BGA changes presented here are based on HM Treasury estimates of the net cost of the new policy in England and Wales after the recovery from higher income pensioners. At present it is not clear how the income threshold will be implemented in Scotland or if there will be any effect on Scottish Income Tax revenues or Income Tax BGAs.

Funding related to social security

- 3.26 Figure 3.7 shows our updated projection of the difference between devolved social security spending and the funding the Scottish Government receives through the social security BGAs. Compared with the position we set out in May 2025, the net effect of the increases to funding and spending is to narrow the effect of social security spending on the Scottish Budget by an average of £57 million from 2025-26. We now project that social security spending will be £1.2 billion higher than BGA funding in 2025-26, with the difference rising to £2.1 billion by 2030-31.
- 3.27 [Annex A](#) includes a full update to the comparison of social security funding and spending that was shown in Figure 5.3 of our May 2025 report.

Figure 3.7: Updated effect of social security spending forecast on the Scottish Budget

£ million	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
May 2025	-922	-1,269	-1,587	-1,773	-1,936	-2,062	-2,186
June 2025	-922	-1,213	-1,522	-1,712	-1,879	-2,008	-2,135
Change due to Two Child Limit Payment update	0	-11	0	0	0	0	0
Change due to WFP and PAWHP	0	67	65	62	57	53	50
Total change since May 2025	0	56	65	62	57	53	50

Source: Scottish Fiscal Commission, Scottish Government.

Figures may not sum because of rounding.

Annex A

Restated May 2025 Forecasts

Economy

A.1 Figure A.1 provides a summary of our economy forecasts as restated from our May 2025 report.

Figure A.1: Headline economy forecasts, growth rates unless otherwise specified

Per cent	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
GDP	1.2	1.2	1.8	1.7	1.6	1.6	1.6
CPI inflation	2.3	3.2	1.9	2.0	2.0	2.0	2.0
Average nominal earnings [1]	4.5	3.7	2.9	3.0	2.9	3.0	3.0
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
Unemployment rate	3.7	4.1	4.1	4.1	4.1	4.1	4.1

Source: Scottish Fiscal Commission (2025) [Scotland's Economic and Fiscal Forecasts – May 2025](#).

Given the ongoing concerns with the quality of the official labour market statistics from the Labour Force Survey and the Annual Population Survey that we usually rely on, our view of employment growth and the unemployment rate is based on a range of indicators including Real Time Information payroll data.

[1] Nominal earnings are adjusted for inflation using the Consumer Expenditure Deflator.

Tax

A.2 Figure A.2 provides a summary of our tax forecasts. We have restated our May 2025 forecasts for Scottish Income Tax, Non-Domestic Rates, Land and Buildings Transaction Tax, and Scottish Landfill Tax.²² Further information on these forecasts can be found in our May 2025 report. We also show our first forecast of Scottish Aggregates Tax that will come into effect from 1 April 2026.

²² Scottish Fiscal Commission (2025) [Scotland's Economic and Fiscal Forecasts – May 2025](#).

Figure A.2: Summary of tax forecasts

£ million	2023-24 [1]	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Scottish Income Tax	17,072	18,992	20,495	21,901	23,139	24,186	25,288	26,428
Non-Domestic Rates	3,033	3,155	3,099	3,551	3,510	3,564	3,861	3,825
Land and Buildings Transaction Tax	784	898	1,029	1,093	1,138	1,187	1,240	1,297
Scottish Landfill Tax	68	53	38	24	24	25	25	26
Scottish Aggregates Tax				37	38	38	38	38
Total	20,958	23,098	24,660	26,607	27,849	29,000	30,453	31,614

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2025) [Scotland's Economic and Fiscal Forecasts – May 2025](#), Revenue Scotland (2024) [Annual Report and Accounts 2023-24 – Devolved Taxes Accounts](#), Scottish Government (2024) [Non-domestic rates income statistics](#).

Land and Buildings Transaction Tax, Scottish Landfill Tax, and Scottish Aggregates Tax revenues are net of repayments and exclude penalties, interest, and revenue losses.

[1] The 2023-24 column shows a forecast for Income Tax, and outturn for Non-Domestic Rates, Land and Buildings Transaction Tax, and Scottish Landfill Tax.

Figures may not sum because of rounding.

Social security

- A.3 Figure A.3 provides a summary of our devolved social security spending forecasts. Pension Age Winter Heating Payment and Two Child Limit Payment have been updated as discussed in [Chapter 3](#).
- A.4 Figure A.4 updates the analysis presented in Figure 5.3 of our May 2025 report, including the additional spending on the new Two Child Limit Payment in 2025-26 and the illustrative changes to funding and spending associated with the recently announced changes to Winter Fuel Payment and Pension Age Winter Heating Payment.

Figure A.3: Social security spending forecast

£ million	2023-24 outturn	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Social Justice portfolio								
Adult Disability Payment [1]	2,632	3,120	3,590	4,020	4,355	4,680	5,040	5,418
Best Start Foods	13	16	17	19	20	20	21	21
Best Start Grant	21	20	21	22	22	22	23	24
Carer's Allowance Supplement	48	54	64	68	71	73	76	80
Carer Support Payment [2]	358	389	452	505	525	545	570	594
Child Disability Payment	425	512	581	639	664	682	699	715
Child Winter Heating Payment	8	10	11	12	13	14	14	14
Discretionary Housing Payments	82	87	93	100	105	110	114	119
Employment Injury Assistance [3]	81	82	83	83	83	81	79	77
Funeral Support Payment	13	12	14	14	15	15	15	16
Pension Age Disability Payment [4]	659	759	844	917	961	999	1,038	1,078
Pension Age Winter Heating Payment [5]		29	151	158	160	166	174	182
Scottish Adult Disability Living Allowance [6]	445	431	399	373	345	318	292	268
Scottish Child Payment	429	454	467	489	503	512	517	523
Scottish Welfare Fund	36	53	36	36	36	36	36	36
Severe Disablement Allowance	6	5	5	4	3	3	3	2
Two Child Limit Payment			11	155	170	182	194	204
Winter Heating Payment	23	29	28	30	31	32	33	34
Deputy First Minister, Economy and Gaelic portfolio								
Employability Services [7]	52	60	73	70	70	70	70	70
Total spending	5,330	6,122	6,939	7,714	8,151	8,559	9,009	9,474

Source: Scottish Fiscal Commission, Scottish Government.

[1] Adult Disability Payment is replacing Personal Independence Payment. Figures include spending on Personal Independence Payment until case transfer is complete.

[2] Carer Support Payment is replacing Carer's Allowance. Figures include spending on Carer's Allowance until case transfer is complete, and Carer Additional Person Payment which will be introduced after case transfer is complete.

[3] The forecast of Employment Injury Assistance is an indicative forecast, and includes our estimate of the change in the baseline Industrial Injuries Disablement Scheme and changes arising from the introduction of Employment Injury Assistance.

[4] Pension Age Disability Payment is replacing Attendance Allowance. Figures include spending on Attendance Allowance until case transfer is complete.

[5] Pension Age Winter Heating Payment replaced Winter Fuel Payment in winter 2024-25. The forecast from 2025-26 is illustrative based on recent Scottish Government policy change.

[6] Scottish Adult Disability Living Allowance includes our estimate of Disability Living Allowance and changes arising from the introduction of Scottish Adult Disability Living Allowance.

[7] The forecast of Employability Services is an indicative forecast, and includes spending on Fair Start Scotland and elements of No One Left Behind.

Figures may not sum because of rounding.

Figure A.4: Effect of social security spending forecast on the Scottish Budget

£ million	2023-24 outturn	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Social security net position [1] [2], of which:	-198	-156	-407	-538	-689	-826	-927	-1,029
UK Spring Statement 2025 measures [3]	0	0	0	-12	-169	-329	-440	
Other	-198	-156	-407	-526	-520	-497	-487	
Spending on payments without a BGA, of which:	-701	-765	-806	-984	-1,023	-1,054	-1,081	-1,107
Payments unique to Scotland [4]	-569	-606	-649	-827	-864	-894	-920	-944
Other social security spending [5]	-132	-159	-157	-157	-159	-160	-161	-162
Effect on the Scottish Budget	-899	-922	-1,213	-1,522	-1,712	-1,879	-2,008	-2,135

Source: Scottish Fiscal Commission, OBR (2025) [Economic and fiscal outlook – March 2025](#).

[1] This includes the disability payments, Carer Support Payment, winter heating payments for adults, and Employment Injury Assistance.

[2] BGA estimates up to 2029-30 have been agreed by the Scottish Government and HM Treasury. The figure for 2030-31 is estimated by the Scottish Fiscal Commission.

[3] Estimated effect on BGA funding of the policy measures on incapacity and disability benefits costed in the UK Spring Statement 2025.

[4] 'Payments unique to Scotland' includes Scottish Child Payment, Carer's Allowance Supplement, Child Winter Heating Payment, Best Start Grant Early Learning Payment, Best Start Grant School Age Payment, and Two Child Limit Payment. We also include spending through Discretionary Housing Payments on bedroom tax mitigation and the extra costs of the commitment to mitigating Benefit Cap deductions.

[5] 'Other social security' includes spending on Best Start Grant Pregnancy and Baby Payment, Best Start Foods, Discretionary Housing Payments, Funeral Support Payment, Employability Services, and the Scottish Welfare Fund. Funding for these payments comes through the general Block Grant and it is not possible to provide an estimate of funding received for individual payments.

Figures may not sum because of rounding.

Additional information

Abbreviations

BBC	British Broadcasting Corporation
BGA	Block Grant Adjustment
CPI	Consumer Prices Index
DLA	Disability Living Allowance
FSDP	Fiscal Sustainability Delivery Plan
FTs	Financial transactions
GDP	Gross Domestic Product
HMRC	His Majesty's Revenue and Customs
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
PAWHP	Pension Age Winter Heating Payment
RPI	Retail Prices Index
SAT	Scottish Aggregates Tax
SFC	Scottish Fiscal Commission
UK	United Kingdom
WFP	Winter Fuel Payment

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

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Correspondence and enquiries

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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:

Economy	Silvia Palombi	Silvia.Palombi@FiscalCommission.scot
Public funding	Ross Burnside	Ross.Burnside@FiscalCommission.scot
Tax	Will Jones	Will.Jones@FiscalCommission.scot
Social security	Francisco Forner	Francisco.Forner@FiscalCommission.scot

²³ OECD (2014) [Recommendation of the Council on Principles for Independent Fiscal Institutions](#).

²⁴ Scottish Fiscal Commission (2022) [Statement of Voluntary Compliance with the Code of Practice for Statistics and Error Policy](#).

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