

26 August 2025

## **SCOTTISH SPENDING REVIEW CRUCIAL TO ADDRESSING FISCAL CHALLENGES**

In its Fiscal Update published today, the Scottish Fiscal Commission has said that the Scottish Spending Review due this December provides an opportunity for the Scottish Government and the Scottish Parliament to address both the immediate budget pressures and, crucially, long-term fiscal sustainability challenges.

The Scottish Government's Medium-term Financial Strategy (MTFS) in June set out the scale of the challenge it faces in balancing its budget. Based on current trends, the Scottish Government expects spending to exceed available funding for day-to-day spending by £2.6 billion by 2029-30 and for capital spending by £2.1 billion. This is equal to 4 per cent of planned day-to-day spending in 2029-30, and 23 per cent of capital spending.

Just as importantly, the Scottish Budget also faces long-term pressures beyond the five years covered by the MTFS. For example, an ageing population is expected to increase demand for health-related spending and meeting the new climate change targets set by the Scottish Government will require substantial investment. The Scottish Spending Review needs to be set with a view to improving the long-run sustainability of the public finances.

Addressing the fiscal challenges facing Scotland will be the responsibility of the Scottish Government and Scottish Parliament elected in May 2026.

The Commission's Chair, Professor Graeme Roy, said:

"The Scottish Spending Review in December will determine the trajectory of public spending over the next Parliamentary term and it must provide a meaningful basis for informed debate on the public finances during and after the election.

"Closing the fiscal gap will require all parties in this Parliament and the next to work together to address the fiscal challenges and any debate around new spending plans, changes to social security policy or tax changes needs to consider the broader public finances."

**ENDS**

## **Notes for Editors**

1. The Commission's report Fiscal Update – August 2025 is available now. This report provides an update on developments since June, and looks at recent trends in funding and spending as well as upcoming fiscal developments. An accompanying spreadsheet contains the data for tables and charts.
2. Since June the UK Government has made a number of policy changes on social security and defence that will affect the Scottish Government's funding. These are discussed in the Fiscal Update. The UK Budget in the autumn should provide more clarity on the implications for the Scottish Government and set the scene for the Scottish Budget in December.
3. Annex B of the Fiscal Update presents the Commission's costing for the Scottish Government's Pension Age Winter Heating Payment policy. This provides an update to the illustrative estimates for the policy which the Commission included in its June 2025 publication. Total spending is forecast to be £187 million in 2025-26, with £30 million of that expected to be recovered from those with income over £35,000.
4. The Commission has also published its annual Forecast Evaluation Report which reviews its forecast performance in 2024-25 and income tax forecasts for 2023-24.
5. Income tax outturn data for 2023-24 was published by HMRC in July 2025. Following the publication of this data, a final reconciliation has been agreed by the Scottish and UK Governments for 2023-24 of £406 million to be applied to the 2026-27 Scottish Budget. Our forecast error contributes to this reconciliation and we evaluate our forecast for 2023-24 in our Forecast Evaluation Report.
6. The Scottish Fiscal Commission is the independent fiscal institution for Scotland, established by the Scottish Fiscal Commission Act 2016. Our reports represent the collective view of the Scottish Fiscal Commission, comprising the Commissioners: Professor Francis Breedon, Professor Domenico Lombardi, Professor David Ulph, and the Chair, Professor Graeme Roy.

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