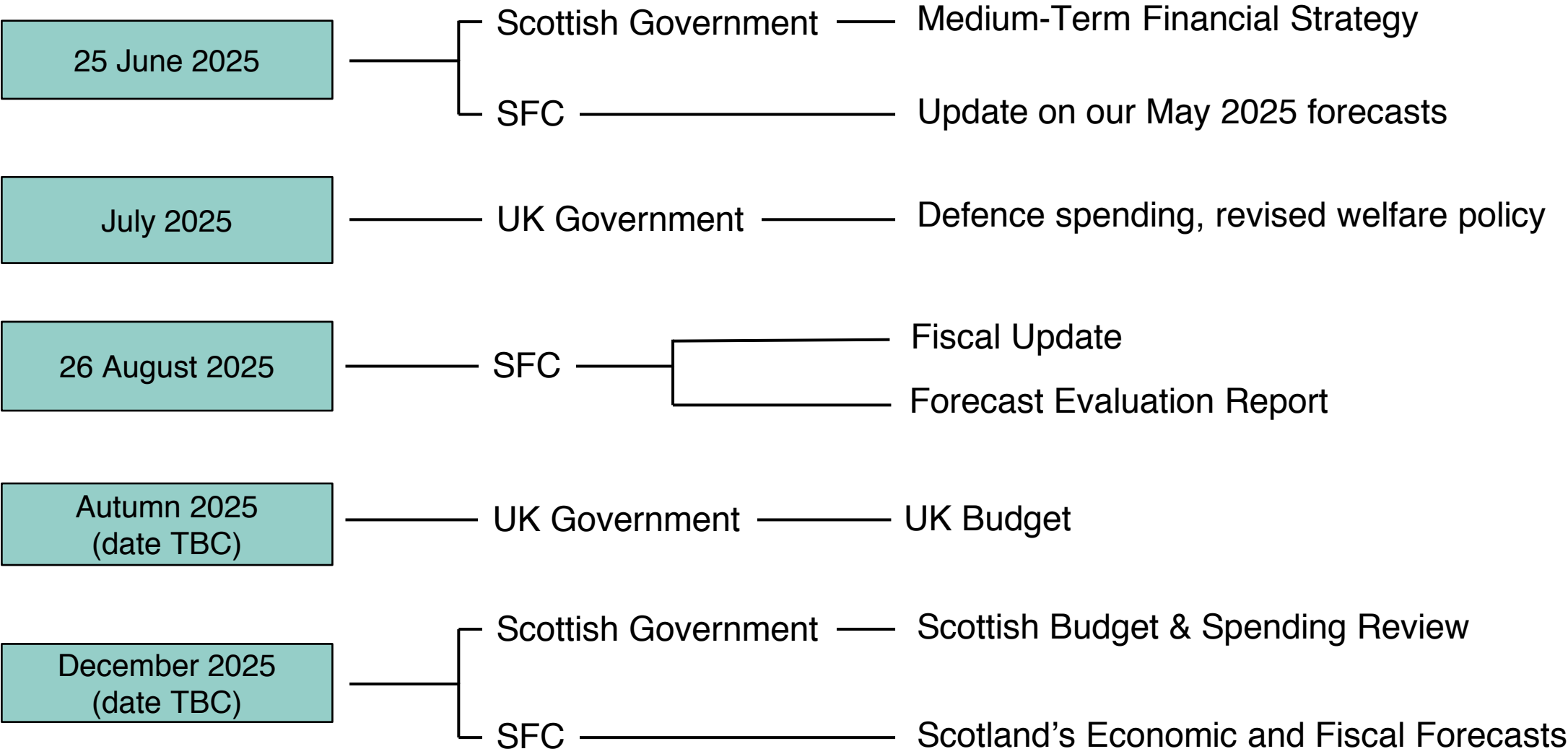


Fiscal Update and Forecast Evaluation Report

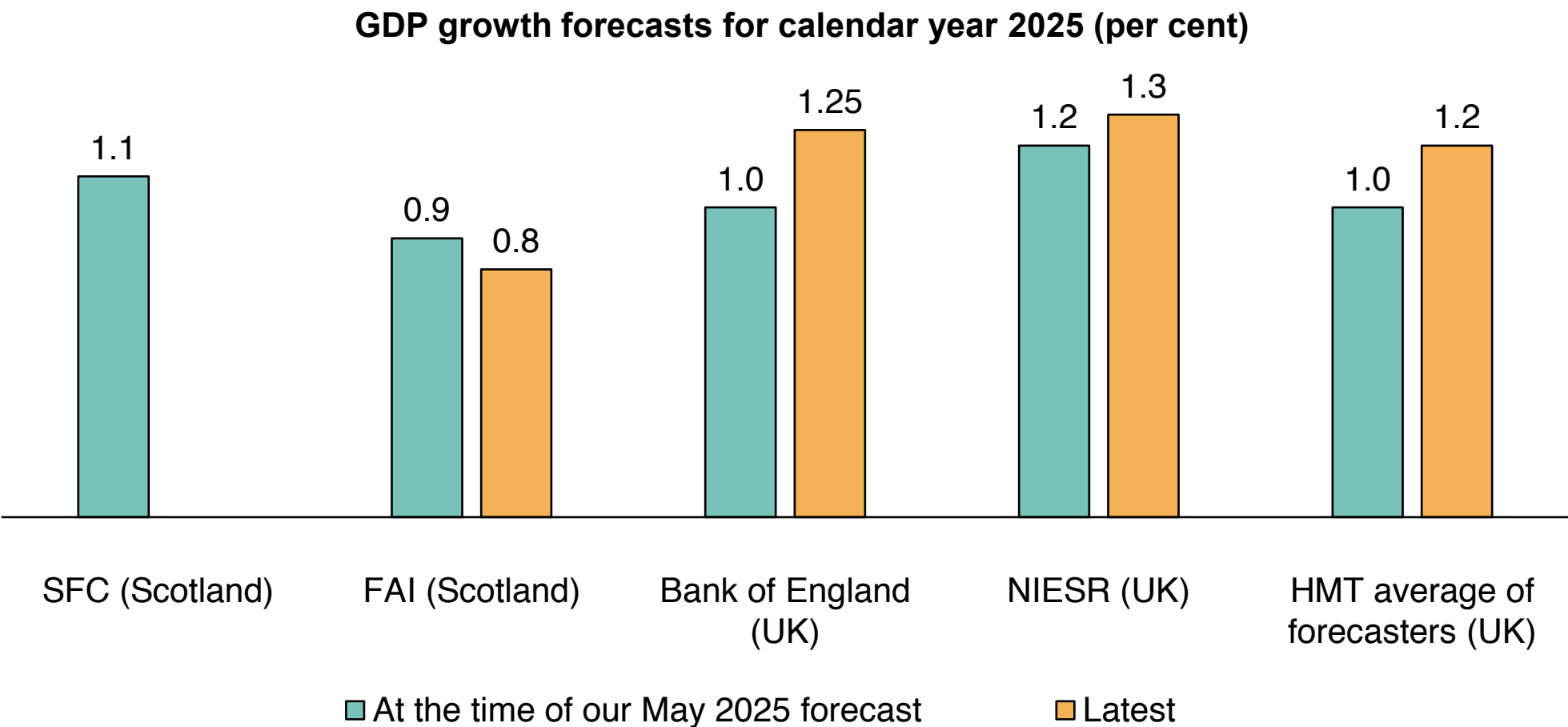
Prof. Graeme Roy
Chair



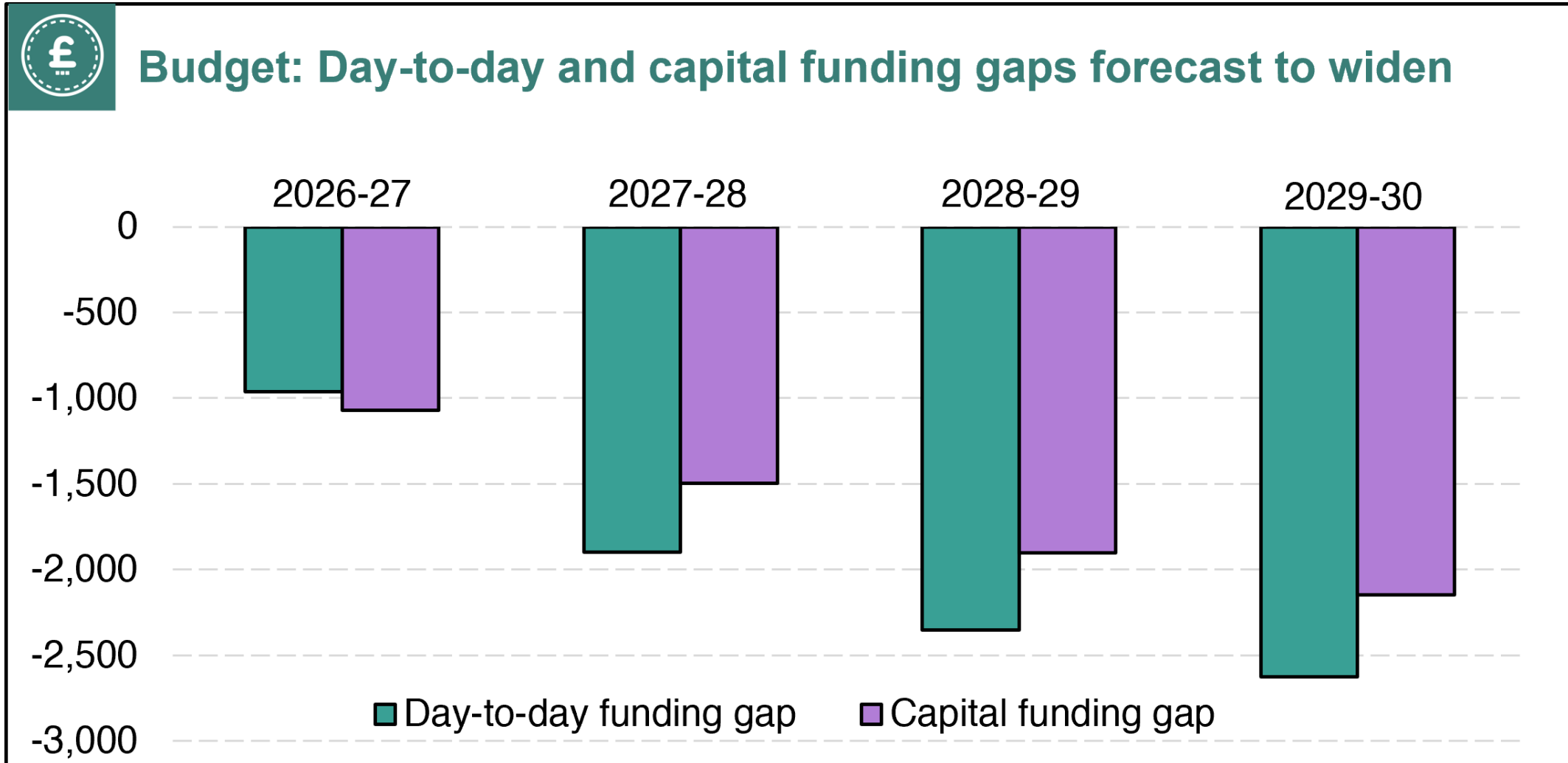
Timeline



Near-term outlook for GDP growth



The scale of the fiscal challenge



Income Tax Reconciliations

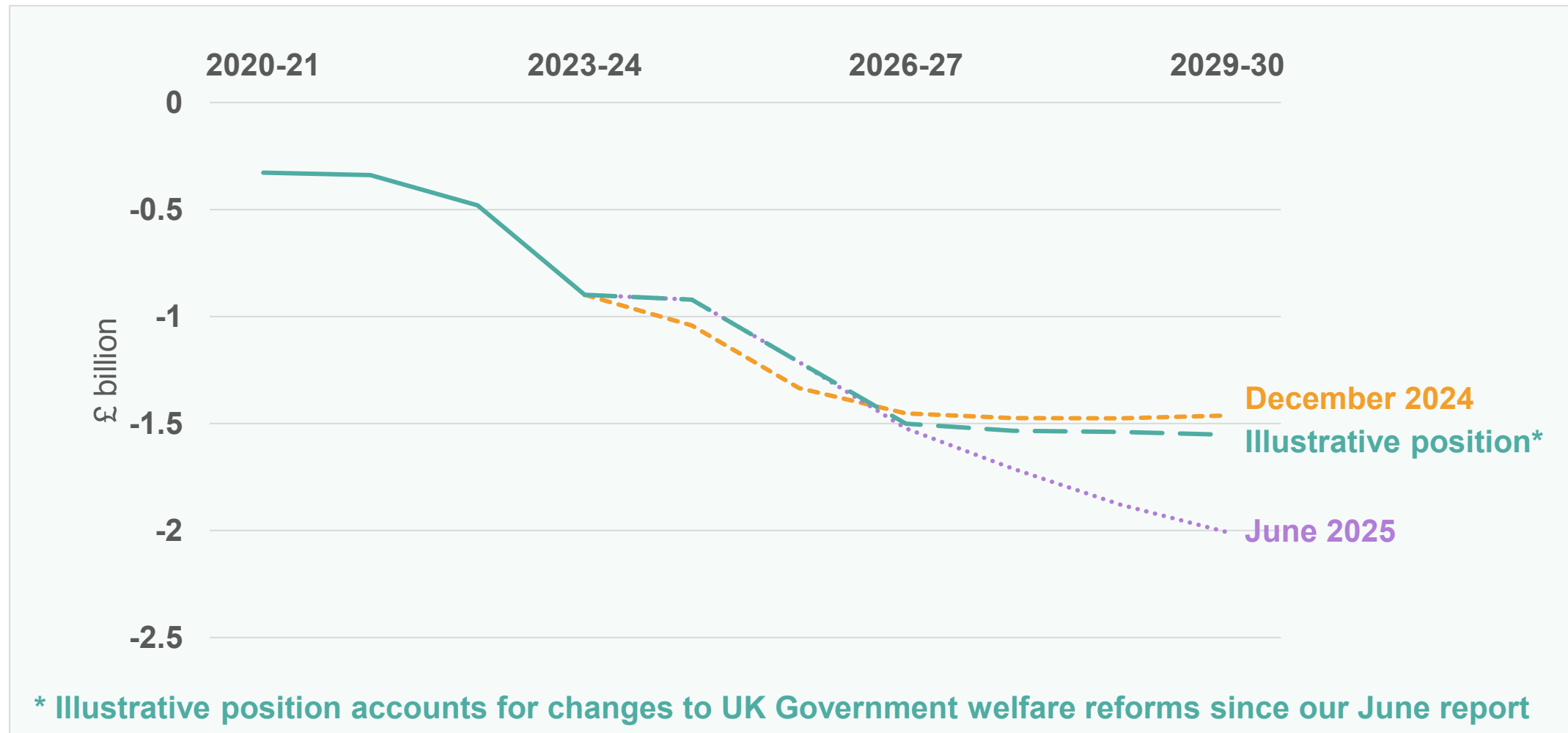
- Final income tax revenues for 2023-24 showed faster Scottish revenue growth compared to rest of the UK than our budget-setting forecast suggested.
- There will be a positive final “reconciliation” of £406 million applied in next year’s budget (2026-27).
- However, latest SFC/OBR forecasts suggest negative income tax reconciliations applying in the 2027-28 and 2028-29 budgets.
- The negative reconciliation currently indicated for 2027-28 is £851 million, higher than the resource borrowing limit allowed in the fiscal framework.

Tax base performance gap

Collection year	Policy differences only Income Tax net position (£ million)	Income Tax net position (£ million)	Tax base performance gap (£ million)	Tax base performance gap as percentage of SIT revenue	Income Tax net position status
2020-21	637	96	-540	4.6	Outturn
2021-22	747	85	-662	4.9	Outturn
2022-23	877	260	-617	4.1	Outturn
2023-24	1,225	730	-495	2.9	Outturn
2024-25	1,560	562	-998	5.2	Projected
2025-26	1,674	616	-1,058	5.2	Projected

- Performance gap decreased as % of SIT revenue up to 2023-24, coinciding with period of higher relative earnings growth in Scotland
- Increased again in 2024-25, but this is based on projections comparing OBR and our forecasts, and may change once we get outturn data.

Social security – effect on the budget



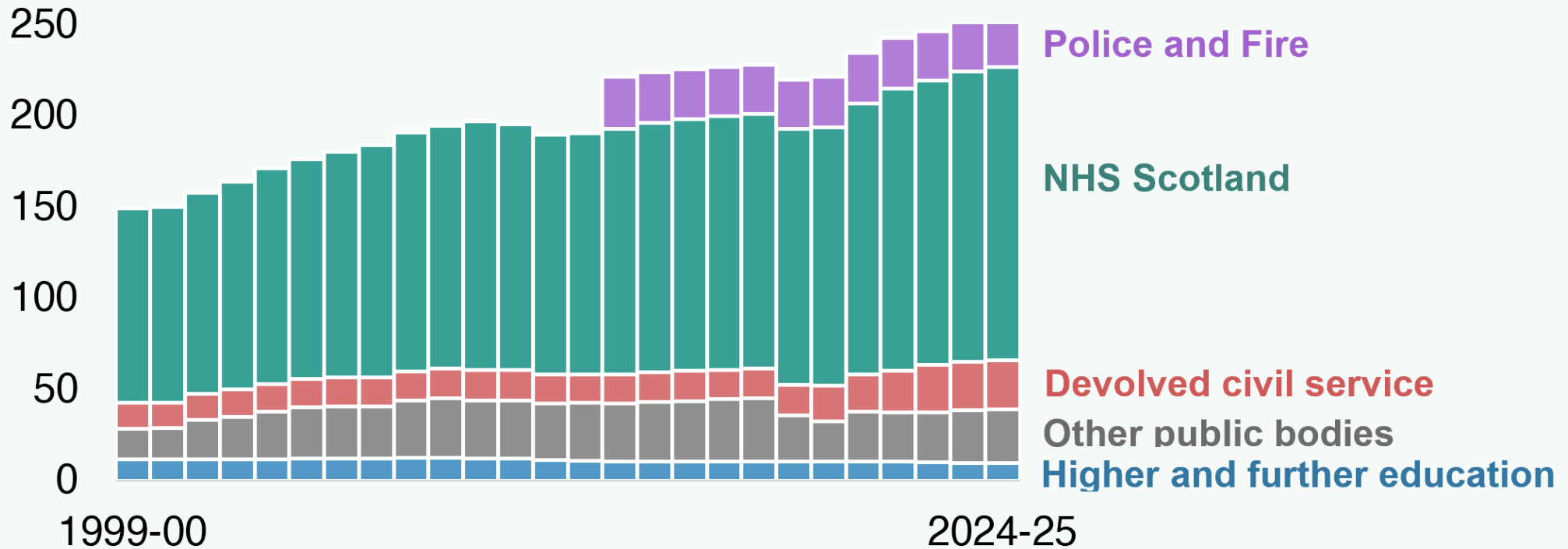
Scottish Spending Review crucial in framing debates to come

- The Scottish Government's Spending Review in December needs to set out details of how these gaps will be closed.
- Initial plans on closing gaps were published by the Scottish Government in its Fiscal Sustainability Delivery Plan in June.
- Included reducing the size of the devolved public sector workforce by an average of 0.5 per cent per year.
- Reducing public sector employment will require a departure from previous trends

Public sector workforce under Scottish Government control has grown each year since 2018-19



Devolved public sector workforce*: most rapid growth in NHS and Devolved civil service



*excluding local government, by sector (thousands, full-time equivalent)

Clear Budget information aids scrutiny and debates

- Scottish Government must present Budgetary information transparently to inform debates
- We raise issues about the importance of baseline information in budget documents and including routine in-year transfers in baseline and budget plans – this allows Parliamentarians, journalists and the public to see changes to key budget lines, like Health, Local Government and Education.

Portfolio	Real-terms change from 2024-25 (ABR)	Real-terms change from 2024-25 (SBR)	Percentage point difference
Health and Social Care	3.4	0.3	-3.1
Finance and Local Government	2.6	-1.2	-3.8
Education and Skills	3.0	1.7	-1.3
Total resource spending	3.7	1.4	-2.3

Fiscal challenge is an all-party issue

- Important that all political parties and wider stakeholders engage in these debates
- Scottish budget faces long-term pressures from population ageing and its impact on health spending and meeting new climate change targets
- Spending Review sets the trajectory of funding, but addressing these challenges will be the responsibility of the Scottish Government and Scottish Parliament elected in May 2026

Thank you for listening

Slides available on our website

www.fiscalcommission.scot

Please email us with any further questions

press@fiscalcommission.scot