Clare Haughey
Convener
Finance and Public Administration Committee

The Scottish Parliament
Edinburgh
EH99 1SP

25 August 2026

Dear Convener,

Today the Scottish Fiscal Commission has published three reports. Our Fiscal Update has been prepared to assist the Parliament and its Committees with pre-Budget scrutiny of the upcoming Autumn Budget Revision and Scottish Budget 2027-28. We discuss the economic and fiscal developments since our last forecasts in January 2026 and the potential implications for the Scottish Budget for the remainder of 2026-27 and beyond.

We note that the change in leadership in the UK Government with a new Prime Minister and Cabinet may lead to a change in its fiscal plans. Any changes to UK spending plans, fiscal policy or the balance of spending between devolved and reserved responsibilities will affect the Scottish Government’s funding. The effect of any such changes will be confirmed at the UK Budget on 28 October 2026, and we will provide an update in our forecasts for the Scottish Budget.

The global economic outlook has weakened since January. With rising global energy prices and food likely to cost more, inflation is likely to be higher than previously forecast. This could further squeeze household incomes and place added pressure on public spending.

The Scottish Spending Review in January had tight settlements for all parts of the public sector, and this was underpinned by commitments to efficiency savings. The spending plans for 2026-27 relied on delivering £563 million of planned savings, including significant savings from NHS boards. Failure to achieve these savings would present difficulties this year and increase pressure on future budgets.

The Scottish Government has stated that it intends to reduce the size of the public sector workforce as part of its plans for efficiency savings. The public sector workforce has however, grown over the past year. Higher inflation may also increase pressure for larger public sector pay awards than currently planned for.

In our Forecast Evaluation Report, we evaluate our December 2024 forecasts for the economy, fully devolved taxes, social security spending in 2025-26, and our December 2023 forecast for Scottish Income Tax revenue in 2024-25.

Income Tax outturn data for 2024-25 was published by HMRC in July 2026. We saw our smallest ever relative error for income tax of 1.1 per cent, an overestimate of £209 million. Despite this small error, funding for the Scottish Budget will be reduced by a record £720 million through a reconciliation. This is driven by the fact that this year both the Scottish Fiscal Commission and Office for Budget Responsibility forecast errors contribute negatively to funding, leading to reduced funding for the Scottish Budget. The £720 million reconciliation is likely to exceed the Scottish Government's borrowing limit for 2027-28.

We have also published our biennial Statement of Data Needs, setting out the progress on data availability since our last report in 2024, and the areas where further improvement is needed. We commend the Scottish Government on the improvements in the presentation and range of information it provides on the Scottish Budget over the last nine years and identify several areas where the transparency of the budget could be improved.

Included in Annex B of the Fiscal Update is an explanation of why we plan to remove employability services from our social security spending forecasts. Excluding the forecast of Employability Services spending reduces our headline social security spending forecast by £70 million from 2026-27. However, this will have no impact on the overall funding or spending positions of the Scottish Government.

Annex C of the Fiscal Update presents our forecast of Air Departure Tax, which is due to replace Air Passenger Duty from April 2027. Air Departure Tax will be paid by airlines and other aircraft operators in relation to the carriage of passengers on flights departing from Scottish airports. Our forecasts estimate that Air Departure Tax will generate £428 million of revenue in 2027-28, and this revenue will steadily increase over the following five years. This additional tax revenue will have a limited effect on funding in 2027-28 as there will be a corresponding Block Grant Adjustment that removes funding from the Scottish Budget.

I look forward to discussing any aspect of these reports and anything the Commission can do to aid the work of the Committee when we give evidence on 2 September 2026.

Yours sincerely,

GD Roy

Professor Graeme Roy

Scottish Fiscal Commission, The Governor's House, Regent Road, Edinburgh, EH1 3DE

For general enquiries: info@FiscalCommission.scot