Bob Doris
Convener
Public Service Reform 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 its pre-Budget scrutiny of the upcoming Autumn Budget Revision and Scottish Budget 2027-28. We discuss the economic and fiscal developments since our last report in January 2026 and the potential implications for the Scottish Budget for the remainder of 2026-27 and beyond.

Since January, 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 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 expenditure 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.

Overall spending on devolved social security in 2025-26 was £179 million lower than we forecast, a relative error of 3 per cent. This error was driven by lower growth in spending than forecast, as the caseload for Adult Disability Payment was below our forecasts for the first time.

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 improvement is needed.

I am happy to discuss any aspect of these reports and anything the Commission can do to aid the work of the Committee.

Yours sincerely,

GD Roy

Professor Graeme Roy