Craig Hoy
Convener
Social Justice, Housing and Local Government 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.

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. 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. We highlight the quality of data, cooperation and communication from Social Security Scotland. Since our first Statement of Data Needs in 2018 we are now able to almost exclusively use data provided by Social Security Scotland and the Scottish Government.

Included in Annex B of the Fiscal Update is an explanation of why we are removing employability services from our social security spending forecasts to improve clarity and transparency in reporting. 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.

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,

Professor Graeme Roy

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

For general enquiries: info@FiscalCommission.scot