13 January 2026

BUDGET AND SPENDING REVIEW UNDERSCORE TIGHT FISCAL OUTLOOK AS SCOTTISH GOVERNMENT PLANS EFFICIENCIES AND REFORM

The Scottish Government's Budget and Spending Review published today contains its tax and spending plans based on forecasts produced by the Scottish Fiscal Commission (SFC).

The Scottish Government's Medium-Term Financial Strategy published in June 2025 identified significant gaps between spending and funding over the next four years. Since then, there has been a modest increase in funding because of decisions by the Scottish and UK Governments, as well as forecast changes. With limited growth in funding, the Scottish Government is using the flexibilities at its disposal to smooth funding over the next four years of the Spending Review as well as seeking ambitious savings, including through public service reforms, efficiencies, and cuts to the public sector workforce.

The Scottish Government will increase the Income Tax basic and intermediate rate thresholds in 2026-27, reducing revenues by £50 million in 2026-27. It has also announced further freezes in the higher rate, advanced rate, and top rate thresholds in 2027-28 and 2028-29. The combined effect of the threshold changes is an increase in revenues of £72 million in 2027-28 and around £200 million from 2028-29 onwards. UK Government policy changes, including its reversal of plans to restrict eligibility for Personal Independence Payment, have also increased the Scottish Government's funding.

The Scottish Government is using various tools to manage its budget and balance day-to-day and capital funding across the next four years. This includes borrowing, using the Scotland Reserve, transferring some funding from day-to-day spending to capital investment, and using £476 million of Crown Estate revenues (which mostly come from the ScotWind leasing programme) to support both capital and day-to-day spending.

Day-to-day spending will grow by an average of 1.1 per cent after adjusting for inflation each year to 2030-31. The Scottish Government's decision to reduce capital funding in 2025-26 leads to the real terms increase in 2026-27 being 2.9 per cent. Thereafter there are real terms cuts to funding for investment in all future years.

To help support spending across all portfolios, the Government has announced wide-ranging efficiency savings, workforce reductions and public sector reforms. The publication of these portfolio plans is welcome and builds on commitments made last

June. But delivering on these plans will be key to managing future spending pressures.

In addition, the Government still faces the potential for continuing pressures on public sector pay and further growth in demand-led social security payments, as well as the longer-term pressures associated with an ageing population and net zero targets.

The Commission’s Chair, Professor Graeme Roy, said

> “The Scottish Government’s Spending Review is a welcome step towards multi-year planning. However, there is still room for providing more detail on spending decisions to allow the public sector to plan for the medium term.
>
> Underpinning the Spending Review are ambitious plans for efficiency savings and reducing the public sector workforce. If and how these plans are delivered will have implications for future public services and shape the fiscal context beyond May’s election.”

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Notes for Editors

1. The Scottish Fiscal Commission's Report, Scotland's Economic and Fiscal Forecasts – January 2026, is available now, along with a one-page graphic of key figures and a summary document. Background information is also available including spreadsheets with data for tables and charts.

2. The main report contains our official economic, tax, and social security forecasts, along with policy costings for the changes in tax and social security proposed in the 2026-27 Scottish Budget and Spending Review. Our forecasts are just one component of the Scottish Budget. The report also gives an overview of the Scottish Government's spending plans and the funding outlook for the next five years. It additionally provides our assessment of the reasonableness of the Government's funding plans.

3. Figure 1 shows the growth in capital and day-to-day funding available to the Scottish Government over the five years of our forecast.

Figure 1: Funding outlook, 2025-26 to 2030-31

£ million (nominal terms), unless specified	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Total funding	**59,536**	**61,677**	**62,968**	**64,583**	**66,731**	**68,420**
Nominal terms growth rate (per cent)	Blank	3.6	2.1	2.6	3.3	2.5
Real terms growth rate (per cent)	Blank	1.3	0.1	0.7	1.5	0.6
Day-to-day funding [1]	**52,340**	**54,109**	**55,420**	**57,018**	**59,120**	**60,909**
Nominal terms growth rate (per cent)	Blank	3.4	2.4	2.9	3.7	3.0
Real terms growth rate (per cent)	Blank	1.1	0.4	1.0	1.8	1.1
Day-to-day funding for public services [2]	**45,582**	**46,704**	**47,532**	**48,718**	**50,362**	**51,683**
Nominal terms growth rate (per cent)	Blank	2.5	1.8	2.5	3.4	2.6
Real terms growth rate (per cent)	Blank	0.2	-0.2	0.6	1.5	0.7
Capital funding	**7,196**	**7,568**	**7,548**	**7,565**	**7,611**	**7,511**
Nominal terms growth rate (per cent)	Blank	5.2	-0.3	0.2	0.6	-1.3
Real terms growth rate (per cent)	Blank	2.9	-2.2	-1.6	-1.2	-3.2

Source: Scottish Fiscal Commission, Scottish Government.

Real term growth rates adjust for inflation and are calculated using the OBR's November 2025 forecast of the Gross Domestic Product (GDP) deflator.

[1] Day-to-day funding in 2025-26 is presented before adjusting for underspend additions to the Scotland Reserve.

[2] Day-to-day funding less our current forecast of the cost of devolved social security spending.

Figures may not sum because of rounding.

4. The Scottish Government has made several tax changes in its Budget. For Income Tax, the Scottish Government has announced that there will be an above-inflation increase of 7.4 per cent to the basic and intermediate rate thresholds in 2026-27, reducing revenues by £50 million in 2026-27. It has also announced further freezes in the higher rate, advanced rate, and top rate thresholds in 2027-28 and

2028-29. The combined effect of the threshold changes is an increase in revenues of £72 million in 2027-28 and around £200 million from 2028-29 onwards. There are multiple policy measures for Non-Domestic Rates that will reduce revenue by £153 million in 2026-27: transitional reliefs in relation to the new valuation roll, and reliefs for retail, hospitality, and leisure properties. For Scottish Landfill Tax, policy changes increase revenue by £4 million. The combined effect of all tax policies is to reduce revenue by £199 million in 2026-27.

5. For social security the Scottish Fiscal Commission's forecasts include the new higher rate of Scottish Child Payment for children under one, to be launched during 2027-28. It will have annual costs of around £7 million from 2028-29. The UK Government's removal of the two-child limit from Universal Credit, and the resulting cancellation of the Scottish Government's planned Two Child Limit Payment, reduces the forecast of Scottish Government spending by £126 million in 2026-27 compared to June 2025. The UK Government's reversal of PIP eligibility restrictions increases forecast funding received by the Scottish Government through BGAs by £476 million by 2029-30.

6. The Scottish Government's Spending Review covers 2026-27 to 2028-29 for day-to-day spending and 2026-27 to 2029-30 for capital.

7. The Scottish Fiscal Commission is the independent fiscal institution for Scotland, established by the Scottish Fiscal Commission Act 2016. Our statutory duty is to provide the independent and official forecasts of Scottish GDP, devolved tax revenue and devolved social security spending for the Scottish Government to use in its budget and financial planning. The Commission's forecasts will also assist the Parliament's scrutiny of the Scottish Budget and Budget Bill.

8. Our forecasts represent the collective view of the Scottish Fiscal Commission, comprising the Commissioners: Professor Domenico Lombardi, Justine Riccomini, Dr Eleanor Ryan, and the Chair, Professor Graeme Roy.

9. There will be a public webinar about our report at 11:00 AM on 21 January 2026. This will include a presentation followed by Q&A. You can register for this online event on Eventbrite.

Scotland's Economic and Fiscal Forecasts – January 2026 – Public Webinar Tickets, Wed 21 Jan 2026 at 11:00 | Eventbrite