Scotland’s Economic and Fiscal Forecasts – summary

January 2026

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Foreword

The Scottish Fiscal Commission (SFC) is the independent fiscal institution for Scotland. Our statutory duty is to provide independent and official forecasts of Scottish GDP, devolved tax revenues, and devolved social security spending to inform the Scottish Budget. Our forecasts represent the collective view of the four Commissioners, who take full responsibility for the judgements that underpin them.

Our forecasts have been used to inform the Scottish Government's Budget for 2026-27, also published today. Our protocol for engagement with the Scottish Government guides our interactions with the Government during the forecasting process.

We would like to thank the hard-working staff of the SFC for their support in the production of our forecasts and underpinning analysis. Our forecasts rely on data from a range of providers, and we are grateful for their support. We would also like to thank officials from the Scottish Government, Revenue Scotland, the DWP, HM Treasury, HMRC, and the OBR for their constructive challenge of our judgments and for ensuring that we considered all the available evidence.

This is the last set of forecasts that Professor Lombardi will contribute to as a Commissioner before he stands down in February. We would like to thank him for his contribution to the Commission's work since June 2022.

Professor Graeme Roy

Dr Eleanor Ryan

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Justine Riccomini

13 January 2026

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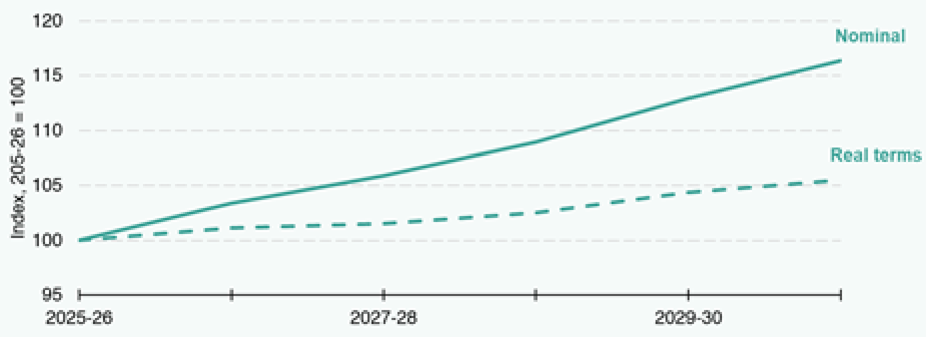
Fiscal overview

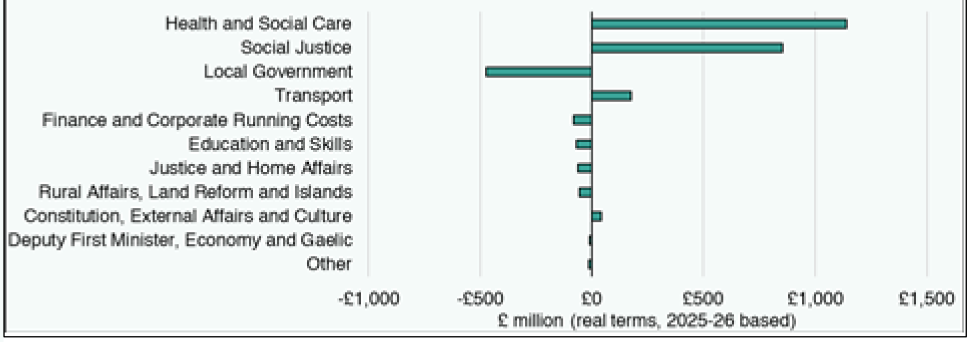
Day-to-day funding is almost 90 per cent of the Scottish Budget and covers running costs such as grants to local government and staff pay. After accounting for inflation, resource funding is expected to grow by 5.5 per cent by 2030-31.

The resource Spending Review plans to 2028-29 show large increases in spending, in the Health and Social Care and Social Justice portfolios and decreases in Local Government prtfolio after adjusting for inflation.

Day-to-day funding forecast to rise over the next five years



Largest resource changes in Health and Social Care, Social Justice and Local Government

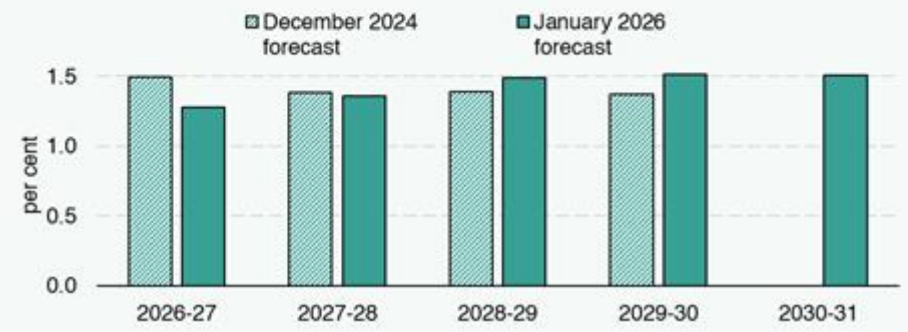


Economy

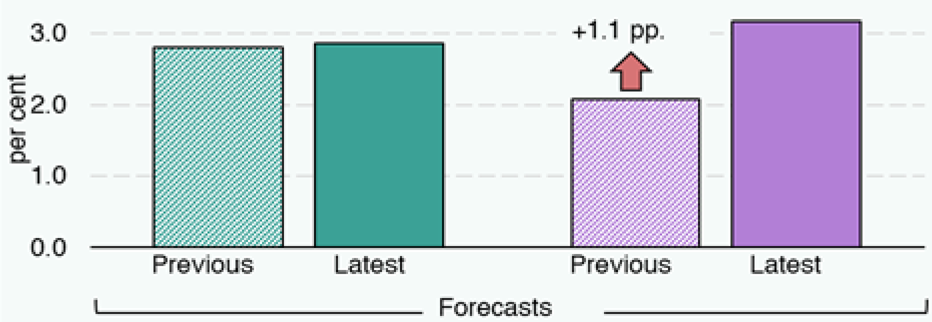
Since our December 2024 forecast, we have made small adjustments to our five-year economic outlook. We have reduced our forecast of productivity growth but overall, when combined with other updates, our GDP growth forecast is largely unchanged.

Compared to each of our respective forecasts a year ago, we expect slightly higher nominal earnings growth in 2026-27 while the OBR has revised up its outlook for the UK by a relatively larger amount. The OBR's forecast is now more similar to ours.

GDP growth forecast remains stable



2026-27 Scottish earnings stable, UK forecast revised up

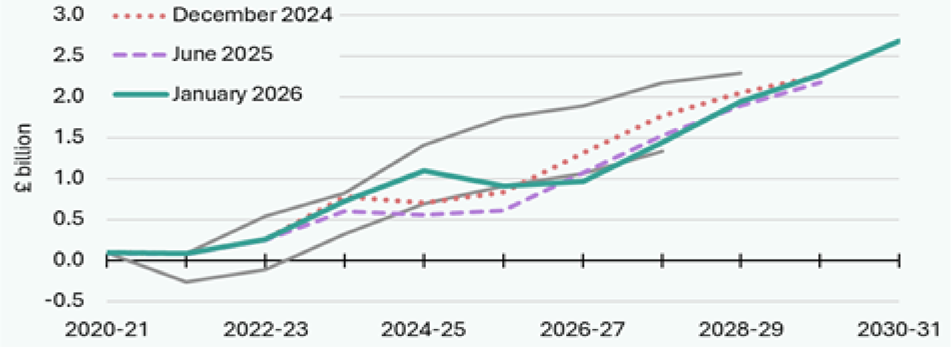


Tax

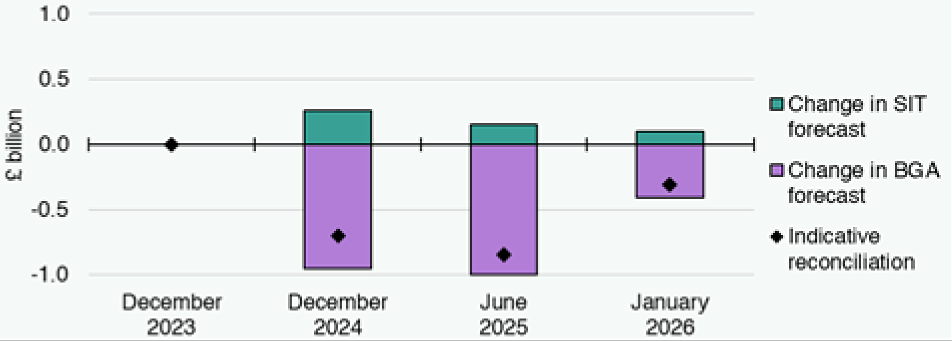
The Income Tax net position (net funding available from Income Tax) remains positive and is expected to rise over time. However, there can be revisions as projections are determined by comparing two large forecasts.

The latest indicative reconciliation for 2024-25 is negative £310 m. This is much smaller than previous estimates. Changes in the forecast BGA are the main reason for this. This final reconciliation is due in summer 2026 and be applied in the 2027-28 Scottish Budget.

All recent projections show Scottish Income Tax net position expected to rise over time



Changes to indicative reconciliations estimates largely driven by BGA changes

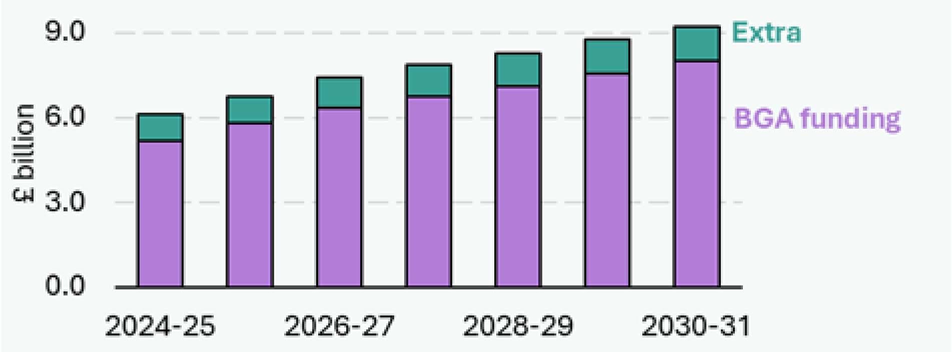


Social security

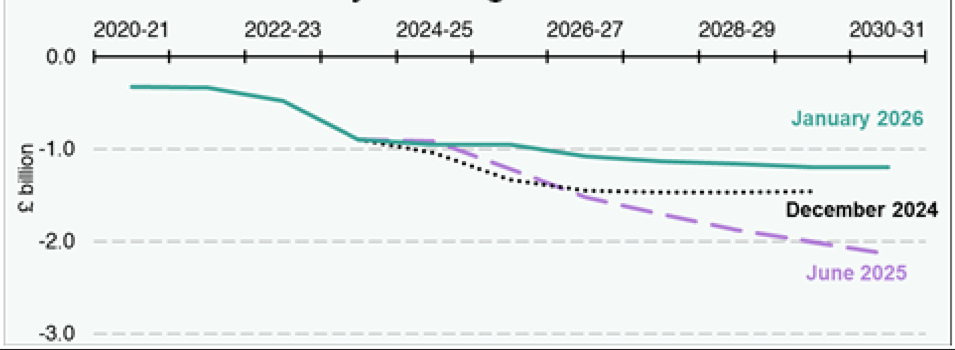
Social security spending is forecast to increase from £7.4 bn in 2026-27 to £9.2 bn in 2030-31, driven by uprating of payments and rising caseloads. Spending exceeds BGA funding by £1.1 bn in 2026-27, with this difference rising to £1.2 bn in 2030-31.

Since June 2025, the effect of social security on the Budget has narrowed by £0.8 bn in 2029-30, £0.5 bn is from the UK Government reversing plans for PIP, increasing funding, and £0.15 bn is from removing the Two-Child Limit Payment from Scottish spending.

Social security spending exceeds BGA funding in all years



Higher funding and lower spending forecast narrow the effect of social security on Budget



Scotland's Economic and Fiscal Forecasts January 2026

Blank	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Budget funding, £ million						
Total funding (nominal)	59,536	61,677	62,968	64,583	66,731	68,420
Resource funding (nominal)	52,340	54,109	55,420	57,018	59,120	60,909
Capital funding (nominal)	7,196	7,568	7,548	7,565	7,611	7,511
Economy, per cent growth						
Real GDP	1.2	1.3	1.4	1.5	1.5	1.5
Consumer Price Index	3.5	2.2	2.0	2.1	2.0	2.0
Average real earnings	1.9	0.6	0.7	0.7	0.7	0.8
Employment	-0.3	0.1	0.4	0.5	0.5	0.5
Tax, £ million (nominal)						
Income Tax	20,280	21,508	22,828	24,051	25,398	26,769
NDR	3,097	3,387	3,396	3,464	3,867	3,811
LBTT	1,014	1,049	1,090	1,141	1,195	1,251
SLfT	50	27	21	23	24	26
SAT		42	43	45	46	48
Tax policy announcements, £ million (nominal)						
Income tax		-50	72	194	205	216
NDR		-153	-101	-68	0	0
SLfT		4	5	6	7	9
Social security, £ million (nominal)						
Total spending	6,759	7,405	7,888	8,300	8,758	9,226
Social security policy announcements, £ million (nominal)						
SCP child under one premium			3	7	7	7
Additional funding for SWF and DHP	8					

Summary

Overview

1 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 tools 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.

2 In this report we set out changes to our forecasts, the latest information on the Scottish Government's funding position, and discuss the spending plans set out in the Spending Review.

Changes to forecasts

Economic outlook

3 In our December 2024 report, we highlighted the potential impact of the conflicts in the Middle East and Ukraine to our forecasts. In our May 2025 report, we also highlighted the potential impact of the US Government introducing a range of new import tariffs, with a large increase in global trade policy uncertainty.[1] Today, we continue to see a picture of global instability and uncertainty, including recent events in Venezuela. This is weighing on household and business confidence, as is a slowing labour market across the UK. Given this ongoing instability and uncertainty, our view of economic conditions in Scotland remains largely unchanged compared with our expectations in December 2024 and May 2025.

4 Therefore, we have made only small adjustments to our five-year economic outlook, in line with recent outturn data and updated UK economy assumptions based on the OBR's November 2025 forecast.

5 Some of the changes we have made since last December are to our projections of long-run economic growth, including a revised judgement on productivity growth and updates for the latest population and labour force participation data. Overall, these updates have led to small changes to our GDP and labour market forecasts.

6 The small revisions in our economy forecast have a limited effect on our tax and social security forecasts. However, there are larger changes in our tax and social security forecasts stemming from new data releases and Scottish and UK Government policy changes.

[1] Our economic forecasts were unchanged between our May 2025 and June 2025 forecasts.

Tax

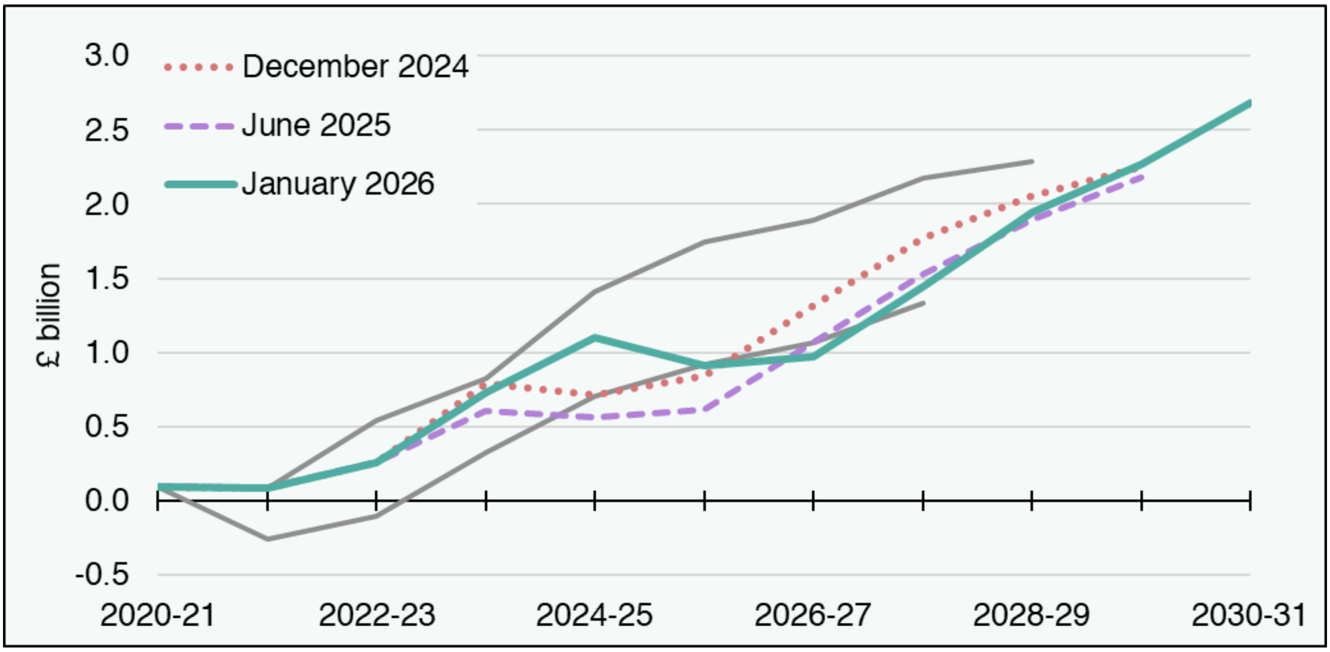
Changes in the Income Tax net position since December 2024

7 Overall, our Income Tax forecast is similar to December 2024 and June 2025, with downwards changes mostly because of updated data, partially offset by small upwards revisions to our earnings forecast. For 2026-27, we have reduced our forecast by £274 million compared to December 2024, and by £394 million compared to June 2025, revisions of around 1 per cent to 2 per cent.

8 The Income Tax net position shows the net effect of Income Tax on funding for the Scottish Budget, as determined by the fiscal framework. The net position is calculated by subtracting the Income Tax Block Grant Adjustment (BGA) from Scottish Income Tax revenues. Figure 1 shows outturn data and projections of the Income Tax net position from the last few years. The projected Income Tax net position for 2026-27, on which the Scottish Budget for 2026-27 will be set, is £969 million. This compares to £838 million on which the Scottish Budget for 2025-26 was set, based on the latest available forecasts in December 2024.

Figure 1: Current and previous projections of the Income Tax net position

Projections since December 2022 show net position expected to rise over time



Description of Figure 1: Line chart of our previous projections (published in December 2022, December 2023, December 2024, and June 2025) and our new projection (published in January 2026) of the Income Tax net position. All gradually rise over time, but our latest projection sits below our December 2024 in all years.

Source: Scottish Fiscal Commission, OBR.

9 Compared with the December 2024 and June 2025 projections, the Income Tax net position has been revised up in 2024-25 and 2025-26, largely caused by lower-than-expected UK Income Tax data reducing the BGA forecast. For the 2026-27 budget year, the Income Tax net position has been revised down to £969 million from £1,072 million in June 2025. This revision reflects lower than expected 2023-24 Scottish Income Tax outturn data and the effect of a larger upwards revision to UK average earnings growth in the latest OBR forecasts, offsetting the downwards revisions to the BGA in 2024-25 and 2025-26.

10 The Scottish and UK Income Tax outturn data for 2023-24 also resulted in the reconciliation applied to the Budget in 2026-27 being more positive, it has increased by £126 million from £279 million to £406 million. The reconciliation to be applied to the 2027-28 Budget was projected to be negative £851 million in June 2025 but is now projected to be a negative £310 million. Previously the projection would have been larger than the Scottish Government's resource borrowing limit in that year, but the Scottish Government can now borrow in full to cover it and intends to do so.

11 For the 2026-27 Budget, the Scottish Government has announced that there will be an above-inflation increase of 7.4 per cent to the 2025-26 basic and intermediate rate thresholds of Scottish Income Tax 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.

12 The Scottish Government has confirmed its policy to freeze the higher rate, advanced rate, and top rate thresholds in 2026-27, as announced in the 2025-26 Scottish Budget. As we already included this policy in our December 2024 forecast and it is part of our forecast baseline, we do not include it here as a new policy change.

Other devolved taxes

13 Our Non-Domestic Rates forecast is based on the new valuation roll which comes into effect on 1 April 2026, leading to an increase in forecast revenue from £3,097 million in 2025-26 to £3,387 million in 2026-27. The Scottish Government has announced multiple policy measures which we estimate will reduce revenue by £153 million in 2026-27, including transitional reliefs in relation to the new valuation roll and reliefs for retail, hospitality and leisure properties.

14 For Land and Building Transaction Tax we forecast revenue of £1,049 million in 2026-27. There have only been small revisions to our forecast since December 2024 as performance of the property market has largely been in line with our previous expectations. The Scottish Government intends to introduce new Council Tax bands for high value properties with a 2026 market value above £1 million in 2028. We do not forecast Council Tax because it is a local tax, which is not under our forecasting remit. We have assessed the potential behavioural effect of this policy on LBTT revenue, and consider that it will fall below our materiality threshold, and so we have not made any adjustments to our LBTT forecast.

15 We expect Scottish Landfill Tax revenue to decrease from 2026-27 as incineration capacity increases, diverting waste away from landfill. This decrease in revenue occurs even after including the effect of the two-year Temporary Regulatory Position on the enforcement of the Biodegradable Municipal Waste (BMW) ban which was announced by the Scottish Environmental Protection Agency (SEPA). The update from SEPA means the ban on BMW being sent to landfill takes effect from 1 January 2028, rather than 1 January 2026.[2]

16 Scottish Aggregates Tax is a new tax that will come into effect from 1 April 2026 so this is the first time we have published a forecast of it to accompany the Scottish Budget. We forecast it will raise £42 million in 2026-27.

Social security

Overview and changes to social security spending forecasts

17 We forecast spending on social security will rise from £7.4 billion in 2026-27 to £9.2 billion in 2030-31. This rise is driven by annual increases in payment rates with inflation and an ongoing rise in the number of people receiving disability and carer payments.

18 Compared with our December 2024 forecast, overall spending is forecast to be £66 million lower in 2026-27 and £4 million higher in 2030-31. The largest change is the decrease in our forecast for disability and carer payments. This decrease is partially offset by an increase in spending on Pension Age Winter Heating Payment (PAWHP) as a result of the Scottish Government policy change in June 2025, and the effect of higher inflation forecasts on payment amounts.

19 Within disability and carer payments, we have reduced our spending forecast for Adult Disability Payment (ADP) because there have been fewer approved applications and more people exiting the payment than we expected in December 2024. We continue to expect the number of people receiving ADP, and spending on it, to exceed what would have occurred had Personal Independence Payment (PIP) remained in Scotland. However, the latest data suggests the difference between ADP and the counterfactual of the continuation of PIP is narrower than our previous forecasts suggested.

Funding related to social security and the effect on the Budget

20 The Scottish Government receives funding from the UK Government for social security spending which has been devolved, most of which is through Block Grant Adjustments (BGAs). Social security spending above BGA funding can be considered to be the effect on the Scottish Budget of social security devolution and policy changes. This is expected to widen from £954 million in 2024-25 to £1,202 million in 2030-31.

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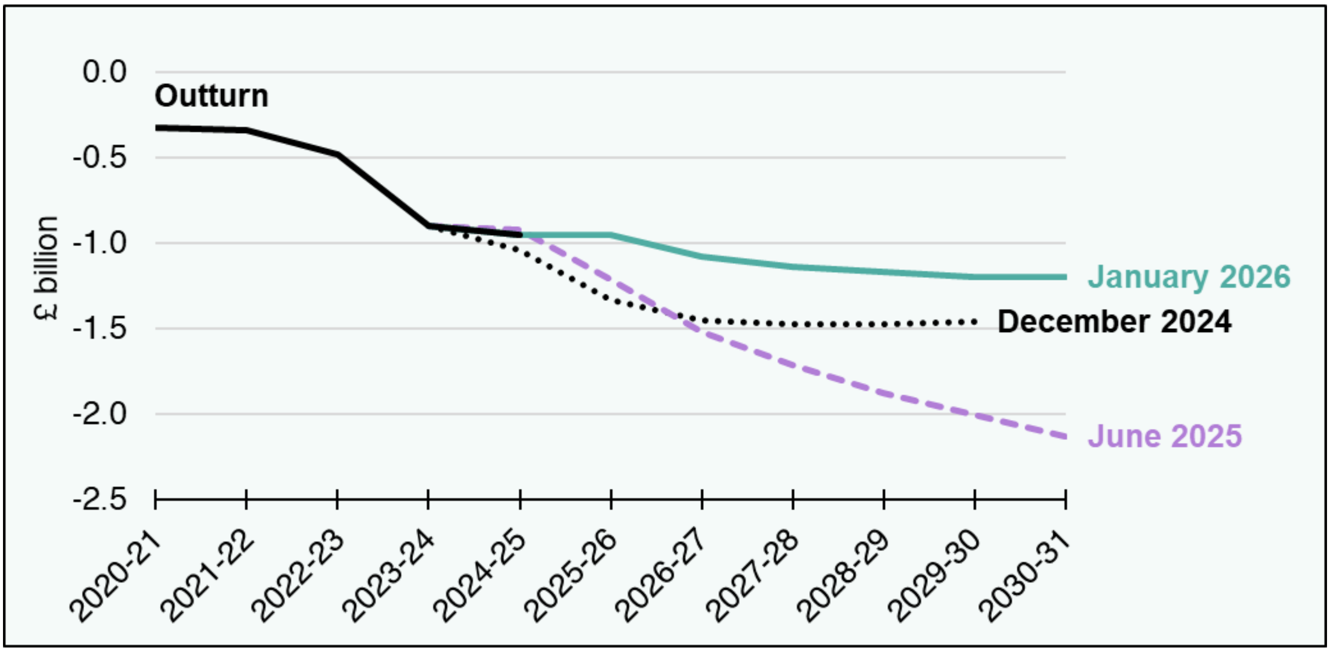
[2] SEPA (2025) Temporary Regulatory Position Statement on the Ban on Landfilling Biodegradable Municipal Waste.

Figure 2: Change in effect of social security spending on the Scottish Budget

Change in the social security spending above the BGA funding since December 2024



Description of Figure 2: Line chart showing the effect of social security spending on the Scottish Budget for this forecast, compared with previous forecasts. For 2029-30, this widened from £1.5 billion in our December 2024 forecast to £2.0 billion in June 2025 and then narrowed to £1.2 billion in our January 2026 forecast.

Source: Scottish Fiscal Commission.

21 Figure 2 presents the changes in the effect of social security spending on the Budget since the December 2024 position. The movement is caused by a decrease in our forecasts for spending in Scotland, and increases to estimated BGA funding. The BGA funding increased because revisions to spending forecasts for England and Wales, including the effect of UK Government policy, have an effect through the operation of the fiscal framework.

22 For 2029-30, the effect of social security spending on the Scottish Budget widened from £1,463 million in our December 2024 forecast to £2,008 million in our June 2025 forecast because:

- Spending forecast on the Scottish Government's planned Two Child Limit Payment widened the effect by £0.2 billion.
- UK Government plans to restrict PIP eligibility and other changes to the incapacity and disability system were expected to decrease spending on disability and carer payments in England and Wales, leading to lower BGA funding and widening the effect by £440 million.
- Partly aligning PAWHP and Winter Fuel Payment narrowed the effect by £50 million, through an increase to BGA funding received by the Scottish Government.

23 Between June 2025 and January 2026, the effect of social security on the Budget in 2029-30 narrowed from £2,008 million to £1,200 million as a result of the following:

- There has been a narrowing of over £150 million in relation to the disability and carer payments because of forecast revisions. Excluding the PIP policy reversal, the OBR increased its forecast for spending in England and Wales to reflect the latest data, leading to an increase of £41 million in disability and carer payment BGA funding in 2029-30. Our forecast for disability and carer payments is £111 million lower in 2029-30.

- The UK Government reversal of PIP eligibility changes increases funding received by the Scottish Government through the BGAs by £476 million through higher spending forecasts for England and Wales. This is larger than the estimate of the reduction in the BGA applied in June as the OBR has revised up its assumption of PIP caseload growth.

- 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 reduce our forecast of Scottish Government spending by £152 million.

24 These changes have led to the difference between social security spending and BGA funding narrowing compared to our December 2024 and June 2025 forecasts. This reduces the pressure on the Budget from social security spending. We highlight two risks to this assessment.

25 First, future policy changes by the Scottish and UK Governments could lead to further movements. In early 2026, after the Scottish Budget, the Scottish Government is expected to respond to the recommendations of the Independent Review of Adult Disability Payment (ADP). If this leads to changes to ADP policy, it could lead to changes in spending. The UK Government is undertaking a review of PIP in England and Wales, expected to report in autumn 2026. Any subsequent policy changes that affect spending in England and Wales would have a knock-on effect on BGA funding for the Scottish Government.

26 Second, there is underlying uncertainty in our social security forecasts, which we have discussed in previous publications, in particular for disability payments as the new system was being implemented. A more stable picture is now emerging with the main disability payments in operation and Social Security Scotland processes established.

27 We think there is still a risk to the Scottish Budget from social security spending, but the current scale of the risk is lower now than for previous forecasts.

Overall funding position

28 The total funding available to the Scottish Government is forecast to be £61,677 million in 2026-27, an increase of 1.3 per cent relative to 2025-26 after adjusting for inflation (in real terms). As shown in Figure 3, total funding grows in real terms in each year of the forecast period, an average of 0.8 per cent per year, and is £68,420 million in 2030-31 in nominal terms.

29 Within resource funding, for day-to-day spending like staff pay and procuring good and services, is growing in each year of the forecast by an average of 1.1 per cent in real terms. Resource funding, for day-to-day spending like staff pay and procuring good and services, is growing in each year of the forecast by an average of 1.1 per cent in real terms

30 Capital funding grows by nearly 2.9 per cent in real terms in 2026-27, thereafter there are real terms cuts to funding for investment in all future years. The Scottish Government has reduced capital funding in 2025-26 which has increased the growth rate in funding between 2025-26 and 2026-27.

Figure 3: 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)		3.6	2.1	2.6	3.3	2.5
Real terms growth rate (per cent)		1.3	0.1	0.7	1.5	0.6
Resource funding [1]	**52,340**	**54,109**	**55,420**	**57,018**	**59,120**	**60,909**
Nominal terms growth rate (per cent)		3.4	2.4	2.9	3.7	3.0
Real terms growth rate (per cent)		1.1	0.4	1.0	1.8	1.1
Resource funding for public services [2]	**45,582**	**46,704**	**47,532**	**48,718**	**50,362**	**51,683**
Nominal terms growth rate (per cent)		2.5	1.8	2.5	3.4	2.6
Real terms growth rate (per cent)		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)		5.2	-0.3	0.2	0.6	-1.3
Real terms growth rate (per cent)		2.9	-2.2	-1.6	-1.2	-3.2

Source: Scottish Fiscal Commission, Scottish Government.

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

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

[2] Resource funding less our current forecast of the cost of devolved social security spending.

Figures may not sum because of rounding.

31 Relative to the funding position in June 2025, the Scottish Government's total funding is higher in all years from 2026-27 onwards by an average of 1.0 per cent. Resource funding is £484 million higher in 2026-27 than we forecast in June 2025 and has increased in all years with an average increase between 2026-27 and 2030-31 of £412 million per year, equivalent to 0.8 per cent of resource funding in 2026-27.

32 The Scottish Government has taken the decision to reduce capital funding in-year to minimise any underspend. This reduces capital funding by £226 million in 2025-26. Capital funding has increased by £214 million in 2026-27 compared with our June 2025 forecast. There is an average increase in capital funding of £176 million throughout the forecast period, equivalent to 2.3 per cent of the capital budget. However, in real terms, capital funding is falling by 5 per cent between 2025-26 and 2030-31.

33 While there have been increases in Block Grant funding from the UK Government for resource and capital funding in 2026-27 and 2027-28 relative to June 2025, the Scottish Government has also taken decisions on its other funding sources to manage its budget and balance resource and capital funding across the next four years. This includes borrowing, using the Scotland Reserve, and using Crown Estate revenues, which mostly come from the ScotWind leasing programme, to support both capital and day-to-day spending. The Scottish Government also plans to switch £132 million of resource funding to capital in 2028-29 which reduces resource funding in that year, but increases available capital funding.

34 Our assessment is that the planned use of capital and resource funding is reasonable, and in practice the Scottish Government might not use all these tools as currently planned. The Scottish Government cannot overspend and therefore usually has underspends each year. As the final funding and spending position becomes clearer during the year the Government typically changes its funding decisions to reduce the size of any underspends. This may include reducing borrowing or the use of Crown Estate revenues as has been the case in the past.

35 We do however note that the Crown Estate revenues, including ScotWind, are currently a limited – and largely a one-off – source of revenue, against a backdrop of spending risks, and a commitment to deliver efficiency savings. There are risks if a non-recurring source of funding is used to support recurring day-to-day spending. Over the Spending Review period the Scottish Government is allocating a total of £476 million of Crown Estate revenues, leaving a balance of £61 million unallocated.

36 Overall, the additional funding available to the Scottish Government for both resource and capital relative to June 2025 is small compared to the size of the Budget and the scale of the fiscal challenges identified by the Scottish Government in its MTFS in June 2025.

Spending plans

37 The Scottish Government has published its 2026-27 Scottish Budget alongside a Spending Review which covers 2026-27 to 2028-29 for resource and up to 2029-30 for capital. The Scottish Government is to be commended for publishing a Spending Review. It is helpful for Parliamentarians and other stakeholders to see multi-year spending plans, especially in advance of the Scottish election.

38 The Scottish Government has taken action to improve the comparison of spending plans to previous years. The 2025-26 position is presented by the Scottish Government as at the Autumn Budget Revision (ABR), and in an improvement from last year the Scottish Government has now baselined £786 million of resource spending into the 2026-27 Budget that had previously been transferred between portfolios at the 2025-26 ABR. This improves the comparability of the spending plans between years.

39 However, there is still a remaining £606 million of resource internal transfers between portfolios contained in the 2025-26 ABR which have not been reflected in the 2026-27 Budget. This has implications for comparing Budget changes between 2025-26 and 2026-27 for key portfolios, in particular Local Government, Education and Skills, and Health and Social Care. Our presentation of resource spending in 2025-26 is based on the 2025-26 ABR position adjusted for the routine in-year transfers which have not been baselined, and therefore provides a more accurate picture.

40 Figure 4 highlights the effects on the growth rates for resource spending by portfolio in 2026-27 from comparing to the 2025-26 position with and without these in-year transfers. Health and Social Care spending grows by 1.5 per cent and Local Government spending falls by 2.9 per cent in real terms in the Scottish Government's presentation. Comparing spending plans for 2026-27 with the 2025-26 ABR (including the transfers not baselined) means that Health and Social Care grows in real terms by 0.7 per cent, and Local Government grows by 0.4 per cent. Together these make up around two-thirds of resource spending.

Figure 4: Resource spending by portfolio comparison between 2025-26 and 2026-27 with and without transfers not baselined

£ million (nominal terms), unless specified	2025-26 ABR	2025-26 reversing transfers not baselined	2026-27 Budget	Real-terms growth from 2025-26 ABR (per cent)	Real-terms growth from 2025-26 reversing transfers not baselined (per cent)
Health and Social care	20,157	20,317	20,919	1.5	0.7
Local Government	14,252	13,776	14,141	-2.9	0.4
Social Justice	7,331	7,468	7,981	6.5	4.5
Justice and Home Affairs	3,277	3,275	3,418	2.0	2.1
Education and Skills	2,846	3,011	3,102	6.6	0.8
Transport	1,582	1,582	1,684	4.1	4.1
Rural Affairs, Land Reform and Islands	911	917	921	-1.2	-1.8
Deputy First Minister, Economy and Gaelic	578	587	636	7.6	6.0
Finance and Corporate Running Costs	381	376	365	-6.3	-5.0
Constitution, External Affairs and Culture	325	323	354	6.6	7.4
Crown Office and Procurator Fiscal Service	227	227	238	2.4	2.4
Scottish Parliament	135	135	149	7.7	7.8
Housing	81	91	90	8.9	-3.9
Climate Action and Energy	93	91	95	-0.5	2.1
Audit Scotland	14	14	15	6.7	6.7
Total resource spending	52,190	52,190	54,108	1.4	1.4
Total resource spending (real terms)	52,190	52,190	52,927	1.4	1.4

Source: Scottish Fiscal Commission, Scottish Government.

Real term values calculated using OBR's November 2025 forecast of the GDP deflator.

Figures may not sum because of rounding.

41 The Spending Review provides resource and capital spending plans at the portfolio level. Information on spending for top-level budget lines within portfolios has been combined for capital and resource, and only in the largest areas of spending is information given at more detailed levels. It is not possible to see the allocations for most public bodies in the Spending Review.

Resource Spending Review

42 The resource spending plans show how the share of spending on each portfolio is changing over time, relative to the baseline of 2025-26. The share of spending on Health and Social Care, and Social Justice, which includes social security payments, is set to increase between 2025-26 and 2028-29. Whereas the share of spending allocated to Local Government is set to fall between 2025-26 and 2028-29.

Figure 5: Resource spending by portfolio as share of total resource spending

Portfolio, percentage share	2025-26 [1]	2026-27	2027-28	2028-29
Health and Social Care	38.9	38.7	39.5	40.0
Local Government (incl. NDR)	26.4	26.1	25.5	24.8
Social Justice	14.3	14.8	15.2	15.5
Justice and Home Affairs	6.3	6.3	6.2	6.0
Education and Skills	5.8	5.7	5.6	5.5
Transport	3.0	3.1	3.0	3.3
Rural Affairs, Land Reform and Islands	1.8	1.7	1.7	1.6
Deputy First Minister, Economy and Gaelic	1.1	1.2	1.1	1.1
Finance and Corporate Running Costs	0.7	0.7	0.6	0.6
Constitution, External Affairs and Culture	0.6	0.7	0.6	0.7
Crown Office and Procurator Fiscal Service	0.4	0.4	0.4	0.4
Scottish Parliament	0.3	0.3	0.3	0.3
Housing	0.2	0.2	0.2	0.2
Climate Action and Energy	0.2	0.2	0.2	0.2
Audit Scotland	0.0	0.0	0.0	0.0
Total	**100**	**100**	**100**	**100**

Source: Scottish Fiscal Commission, Scottish Government.

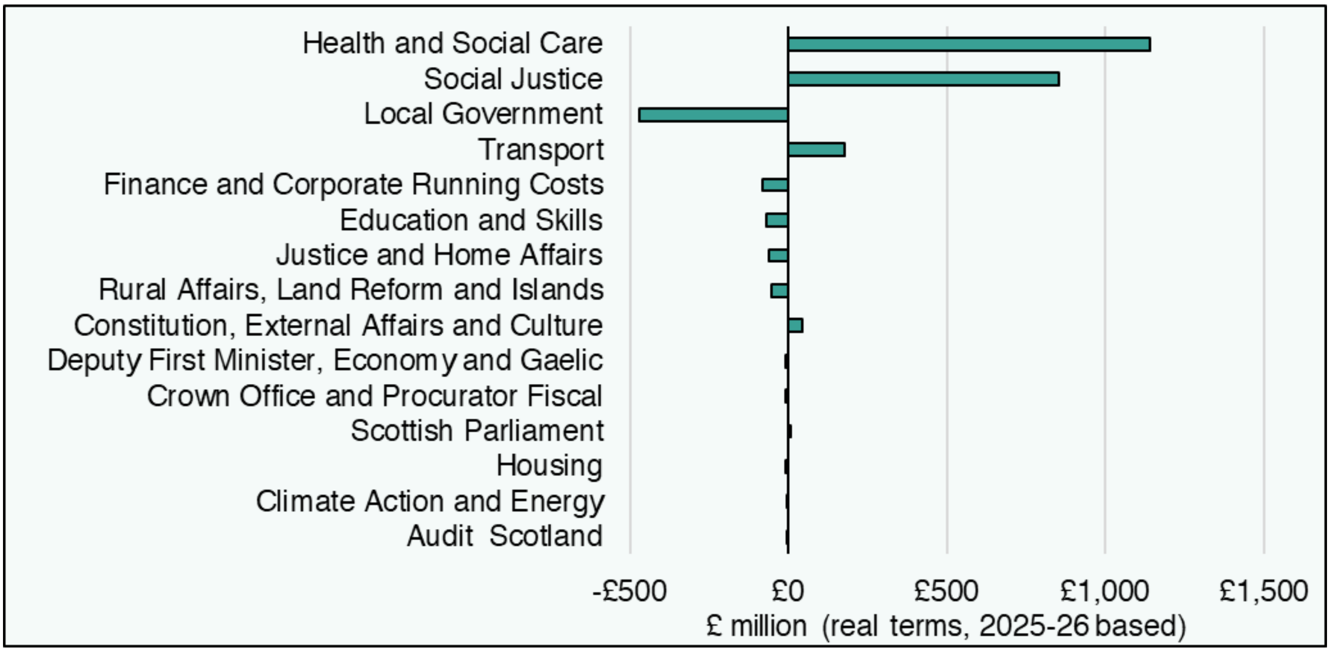
[1] Spending by portfolio 2025-26 is the position at the Autumn Budget Revision adjusted for transfers which have not been baselined.

Figures may not sum because of rounding.

43 The changes in the share of spending allocated to each portfolio explain the real terms spending changes in different areas. The largest reduction in real terms spending is in Local Government, where in real terms spending is expected to fall by £472 million between 2025-26 and 2028-29. The largest real terms increase is in Health and Social Care where spending is expected to increase by £1,141 million in real terms over the same period.

Figure 6: Changes in resource spending between 2025-26 and 2028-29 by portfolio, real terms, £ million

Changes in real term spending is positive for some portfolios and negative for others.



Description of Figure 6: Bar chart showing the real term changes in portfolio spending plans between 2025-26 and 2028-29. The largest positive change applies to the Health and Social Care portfolio, followed by Social Justice. The Local Government portfolio experiences that largest negative change.

Source: Scottish Fiscal Commission, Scottish Government

Spending by portfolio 2025-26 is the position at the Autumn Budget Revision adjusted for transfers which have not been baselined.

Capital Spending Review

44 The capital Spending Review extends to 2029-30. The nature of capital spending means it is likely to vary more from year to year than resource spending, as major projects commence and complete. Transport is the largest component of capital spending and grows from 28.6 per cent of spending in 2025-26 to 34.4 per cent of spending in 2029-30. The next largest portfolios for capital spending are Health and Social Care, Housing and Local Government.

45 The Scottish Government has also published an Infrastructure Delivery Pipeline (IDP) and Infrastructure Strategy alongside the Spending Review. The IDP sets out the major capital projects which the Scottish Government is planning to deliver. Major projects the Scottish Government is committing to delivering through the Spending Review allocations include progressing with dualling the A9, delivering an ambulance replacement programme, and the replacement of HM Prison Barlinnie with the new HM Prison Glasgow.

Figure 7: Capital spending by portfolio as a share of total capital spending

Portfolio, percentage share	2025-26	2026-27	2027-28	2028-29	2029-30
Transport	28.6	31.3	32.7	34.2	34.4
Health and Social Care	15.0	14.1	12.6	15.1	14.2
Housing	12.9	14.3	15.5	16.2	17.6
Finance and Local Government	11.3	9.2	9.1	9.1	9.3
Deputy First Minister, Economy and Gaelic	8.4	7.6	7.6	6.4	6.4
Justice and Home Affairs	7.0	8.8	6.5	3.7	3.1
Education and Skills	6.7	6.4	6.6	6.6	6.3
Climate Action and Energy	6.0	4.4	4.4	4.4	4.7
Rural Affairs, Land Reform and Islands	2.8	2.6	2.7	2.9	2.8
Social Justice	0.7	0.6	0.9	0.5	0.4
Constitution, External Affairs and Culture	0.5	0.6	1.2	0.7	0.5
Crown Office and Procurator Fiscal Service	0.2	0.1	0.2	0.2	0.2
Audit Scotland and Scottish Parliament	0.0	0.0	0.0	0.0	0.0
Total	**100**	**100**	**100**	**100**	**100**

Source: Scottish Fiscal Commission, Scottish Government.

Figures may not sum because of rounding.

46 While the IDP has been developed alongside the Spending Review, it only covers part of the capital spending review allocations and is also presented differently. Spending on maintenance is a large part of capital spending and planned maintenance spend by portfolio is combined over the four years of the Spending Review. The IDP also lists projects the Government is committed to delivering but which are not in the delivery pipeline. Some of these projects may be started or completed during the Spending Review period if business cases are developed and signed off, but the funding allocated to these projects is unclear.

Spending Review efficiency and reform plans

47 The Spending Review shows how the Scottish Government plans to allocate funding between portfolios. The efficiency and reform plans published as part of the Spending Review indicates how savings will be achieved within each portfolio. In total, the Scottish Government has identified £1.5 billion of savings to be delivered across the next three years through workforce savings, efficiencies in corporate functions and other service reforms. Delivery of this plan is expected to allow the Government's priorities to be delivered within the allocations given at the Spending Review. If these savings are not delivered, then this will create challenges for the Scottish Government to deliver public services as planned while also balancing its Budget.

48 Of the £1.5 billion savings identified, the majority are to be achieved in the Health and Social Care portfolio where the Scottish Government expects to achieve savings of £384 million in 2026-27, £374 million in 2027-28, and £303 million in 2028-29. These are mostly to be achieved through the existing target for 3 per cent recurring savings against core funding for NHS Boards, which is to be achieved each year. The recent Audit Scotland report on the NHS noted that while progress was made in 2024-25, just two territorial boards and three national boards achieved the 3 per cent recurring savings target.[3] Seven NHS boards required additional funding from the Scottish Government in 2024-25, which was in the form of loans and will have to be repaid once boards reach financial balance. Audit Scotland notes that since 2019-20 only one board has repaid any of these loans. The progress towards achieving these targets for recurring savings to date, and the number of health boards not breaking even, suggest that it could be challenging for the Scottish Government to deliver the efficiency savings it has incorporated into the Health and Social Care portfolio spending plans.

49 In addition, the Government still faces the potential for continuing pressures on public sector pay and further growth in demand-led social security payments.

50 There continue to be particular risks around public sector pay. The Scottish Government has set the Spending Review allocations based on the existing three-year public sector pay policy. To remain within the limits of that pay policy, there would need to be an average pay award of 1.1 per cent in 2027-28. This would be a real term cut to pay in 2027-28. For the majority of NHS workers it would require a pay award of 0.78 per cent in 2027-28, as pay awards have been higher than other parts of the public sector on average in 2025-26 and 2026-27. For the purposes of our economy and tax forecasts, we assume pay awards in 2027-28 equal inflation. We think using this assumption for 2027-28 is more in line with historical trends.

51 The Scottish Government also has a target to reduce the overall devolved public sector workforce by an average of 0.5 per cent per year from 2025-26 to 2029-30. Achieving this reduction in the workforce would require a significant departure from recent trends.

52 If pay awards are higher than the Scottish Government has assumed, to keep the paybill at the level used as the basis for the Spending Review, the Scottish Government would have to make larger workforce reductions than it has already planned. We have also noted the risk that the intended workforce reductions are not delivered, and therefore there is a risk the paybill in the coming years will be higher than currently used as the basis for the Spending Review.

53 If the ambitious savings to be delivered across the Spending Review period are not achieved, this will create challenges for the Scottish Government to deliver public services as planned while also balancing its Budget. The publication of these efficiency and reform plans is welcome, building on the commitments set out in the Fiscal Sustainability and Delivery Plan (FSDP). The on-going monitoring of progress against these plans will be important in ensuring the required savings are on track to be delivered.

[3] Audit Scotland (2025) NHS in Scotland 2025: Finance and performance.

Additional information

Abbreviations

ABR	Autumn Budget Revision
ADP	Adult Disability Payment
ADS	Additional Dwelling Supplement
ADT	Air Departure Tax
AETR	Average Effective Tax Rate
AME	Annually managed expenditure
APD	Air Passenger Duty
APS	Annual Population Survey
ASHE	Annual Survey of Hours and Earnings
BGA	Block Grant Adjustment
BMW	Biodegradable Municipal Waste
BoE	Bank of England
BPR	Basic Property Rate
CDP	Child Disability Payment
CoACS	Co-ownership Authorised Contractual Schemes
COFOG	Classifications of the Functions of Government
COPFS	Crown Office and Procurator Fiscal Service
COVID-19	Coronavirus disease 2019
CPI	Consumer Prices Index
DLA	Disability Living Allowance
DHP	Discretionary Housing Payment
DWP	Department for Work and Pensions
EfW	Energy from Waste
EU	European Union
FAI	Fraser of Allander Institute

FSDP	Fiscal Sustainability Delivery Plan
FTs	Financial transactions
GDP	Gross domestic product
GFC	Global Financial Crisis
HMP	His Majesty's Prison
HMRC	His Majesty's Revenue and Customs
HMT	His Majesty's Treasury
LBTT	Land and Buildings Transaction Tax
LFS	Labour Force Survey
METR	Marginal Effective Tax Rate
MTFS	Medium-Term Financial Strategy
NDR	Non-Domestic Rates
NHS	National Health Service
NICs	National Insurance contributions
NIESR	National Institute of Economic and Social Research
NLF	National Loans Fund
NSND	Non-savings, non-dividend
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
PADP	Pension Age Disability Payment
PAWHP	Pension Age Winter Heating Payment
PAYE	Pay As You Earn
PIP	Personal Independence Payment
PTOA	Proprietor, Tenant, and Occupier Address
RHL	Retail, Hospitality, and Leisure
RPI	Retail Prices Index
RTI	Real Time Information

SAT	Scottish Aggregates Tax
SBBS	Small Business Bonus Scheme
SBTR	Small Business Transitional Relief
SCP	Scottish Child Payment
SDLT	Stamp Duty Land Tax
SEFF	Scotland's Economic and Fiscal Forecasts
SEPA	Scottish Environmental Protection Agency
SFC	Scottish Fiscal Commission
SIT	Scottish Income Tax
SLCF	Scottish Landfill Communities Fund
SLfT	Scottish Landfill Tax
SWF	Scottish Welfare Fund
SSR	Scottish Spending Review
TCLP	Two Child Limit Payment
UC	Universal Credit
UK	United Kingdom
UN	United Nations
US	United States
WFP	Winter Fuel Payment

A full glossary of terms is available on our website: Glossary I Scottish Fiscal Commission.

Professional standards

The SFC is committed to fulfilling our role as an Independent Fiscal Institution, in line with the principles set out by the Organisation for Economic Co-operation and Development (OECD).[4]

The SFC also seeks to adhere to the highest possible standards for analysis. While we do not produce official statistics, we voluntarily apply as far as possible the UK Statistics Authority's

[4] OECD (2014) Recommendation of the Council on Principles for Independent Fiscal Institutions.

Code of Practice for Statistics. Further details and our statement of voluntary application can be found on our website.[5]

Correspondence and enquiries

We welcome comments from users about the content and format of our publications. If you have any feedback or general enquiries about this publication or the SFC, please contact info@FiscalCommission.scot. Press enquiries should be sent to press@FiscalCommission.scot.

All charts and tables in this publication have also been made available in spreadsheet form on our website. For technical enquiries about the analysis and data presented in this paper please contact the responsible analyst:

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[5] Scottish Fiscal Commission (2025) Statement of Voluntary Application of the Code of Practice for Statistics and Error Policy.

This publication is available at www.FiscalCommission.scot

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