Scottish Fiscal Commission

Scotland's Economic and Fiscal Forecasts

January 2026 (revised version 13 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.

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13 January 2026

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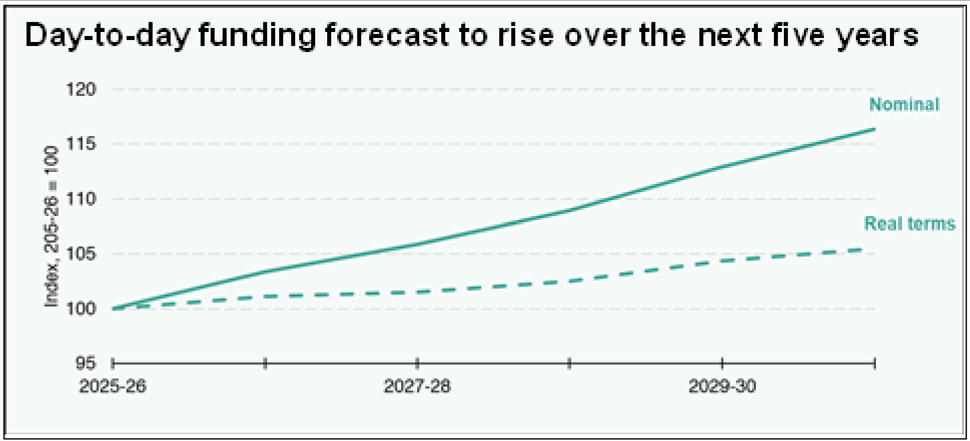
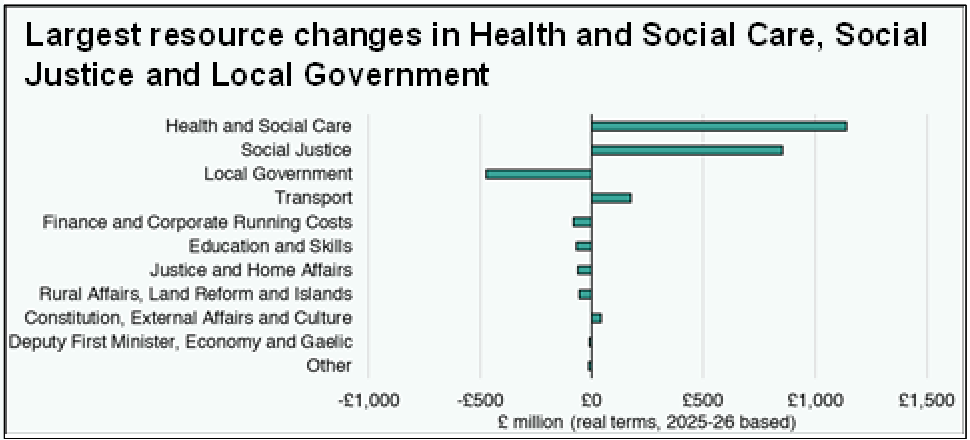
Fiscal overview

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.

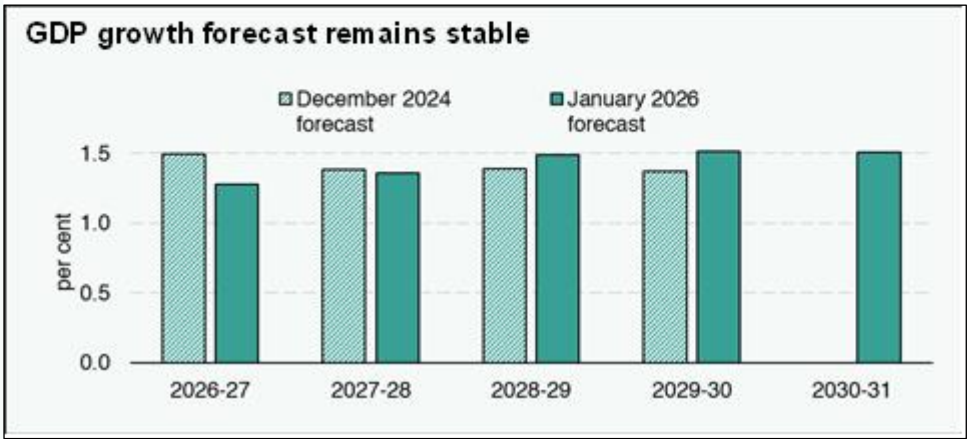


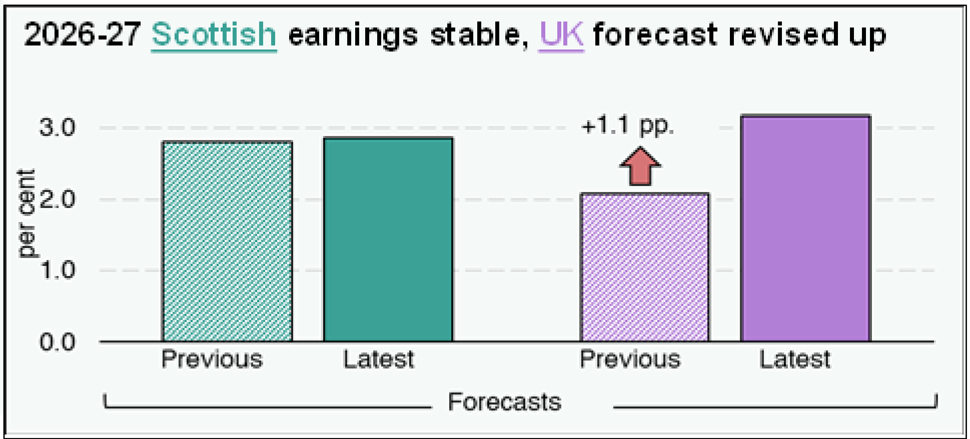


Economy

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.



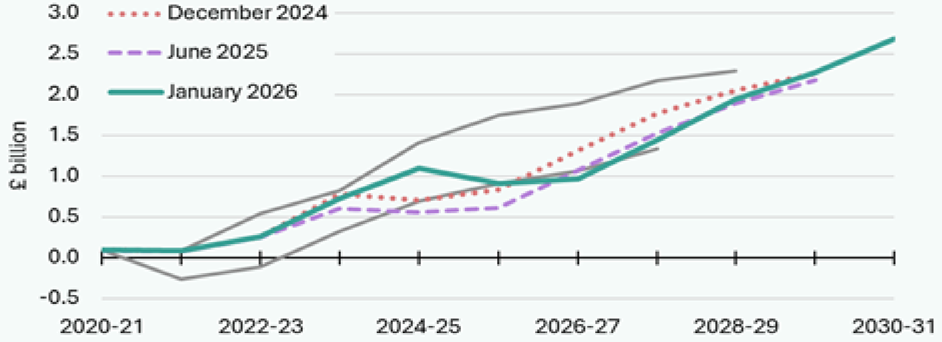


Tax

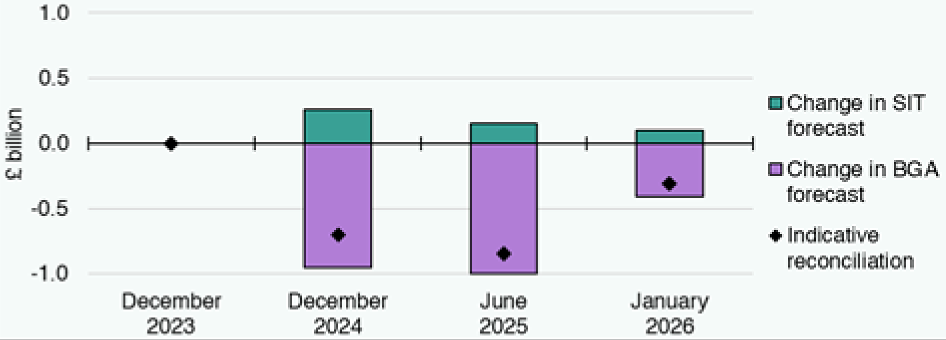
The Income Tax net position (net funding available from Income Tax) remains positive and is expected to rise over time. However, there can be revisions as projections are determined by comparing two large forecasts.

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

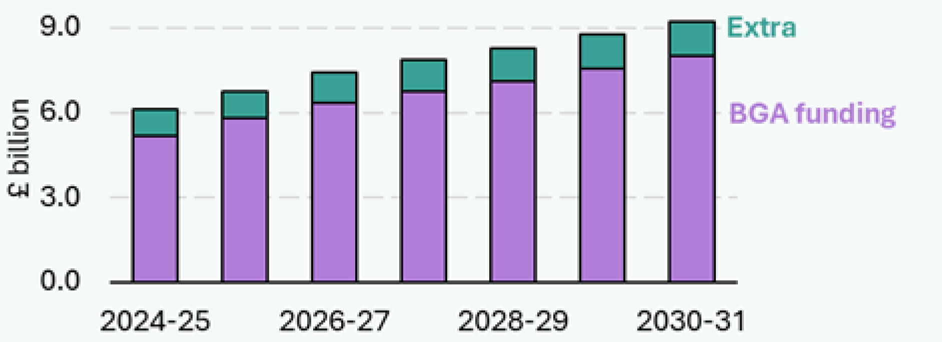


Social security

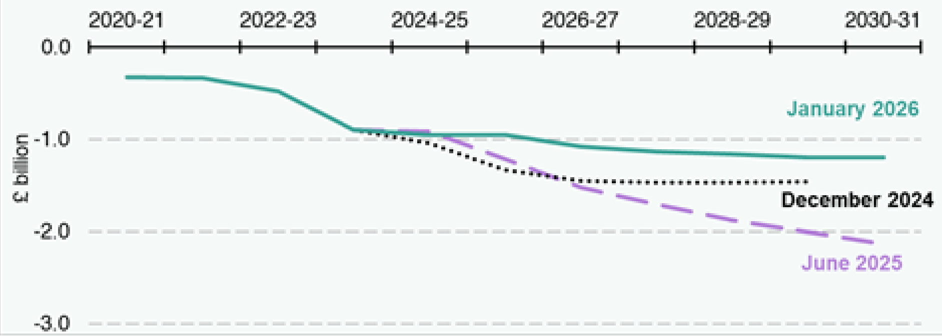
Social security spending is forecast to increase from £7.4 bn in 2026-27 to £9.2 bn in 2030-31, driven by uprating of payments and rising caseloads. Spending exceeds BGA funding by £1.1 bn in 2026-27, with this difference rising to £1.2 bn in 2030-31.

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

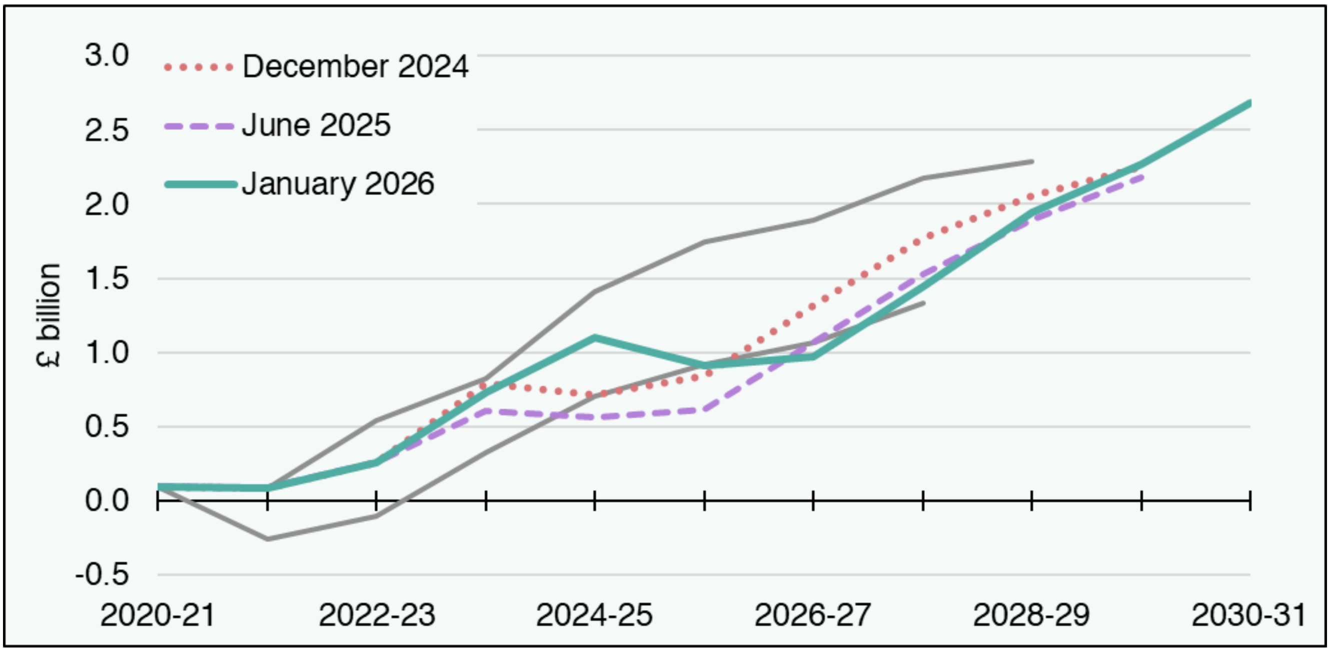
Changes in the Income Tax net position since December 2024

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.

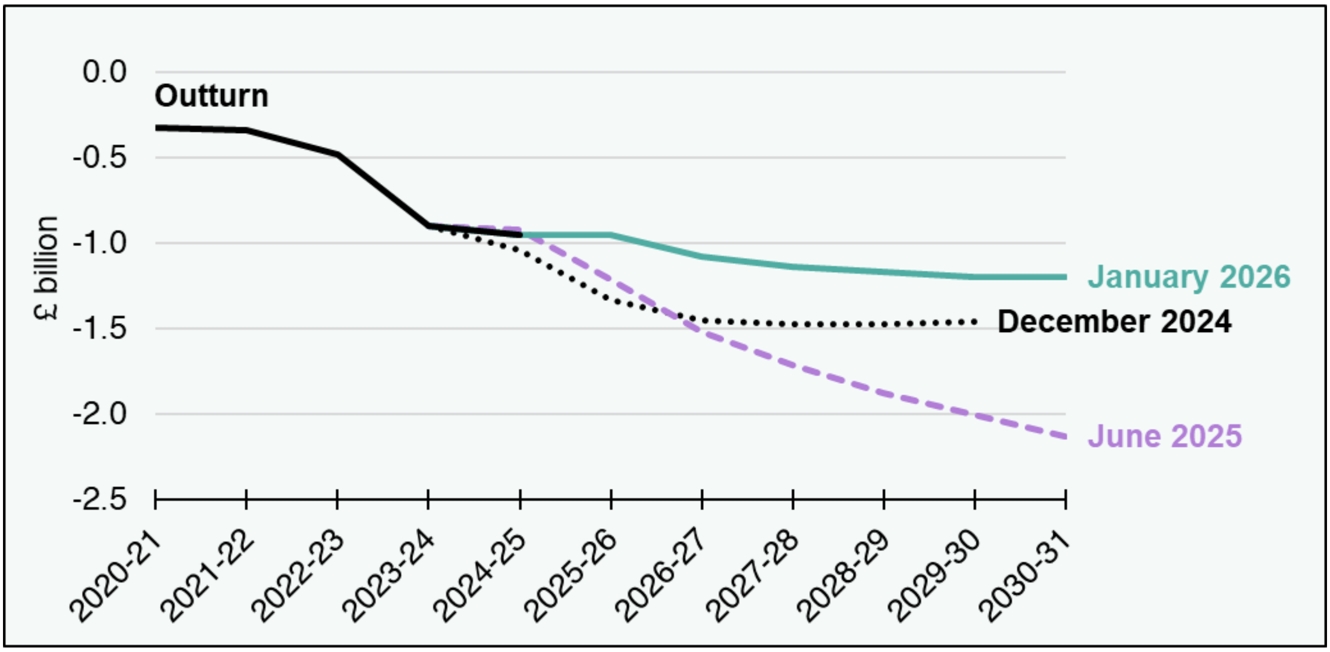
Funding related to social security and the effect on the Budget

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.

[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.

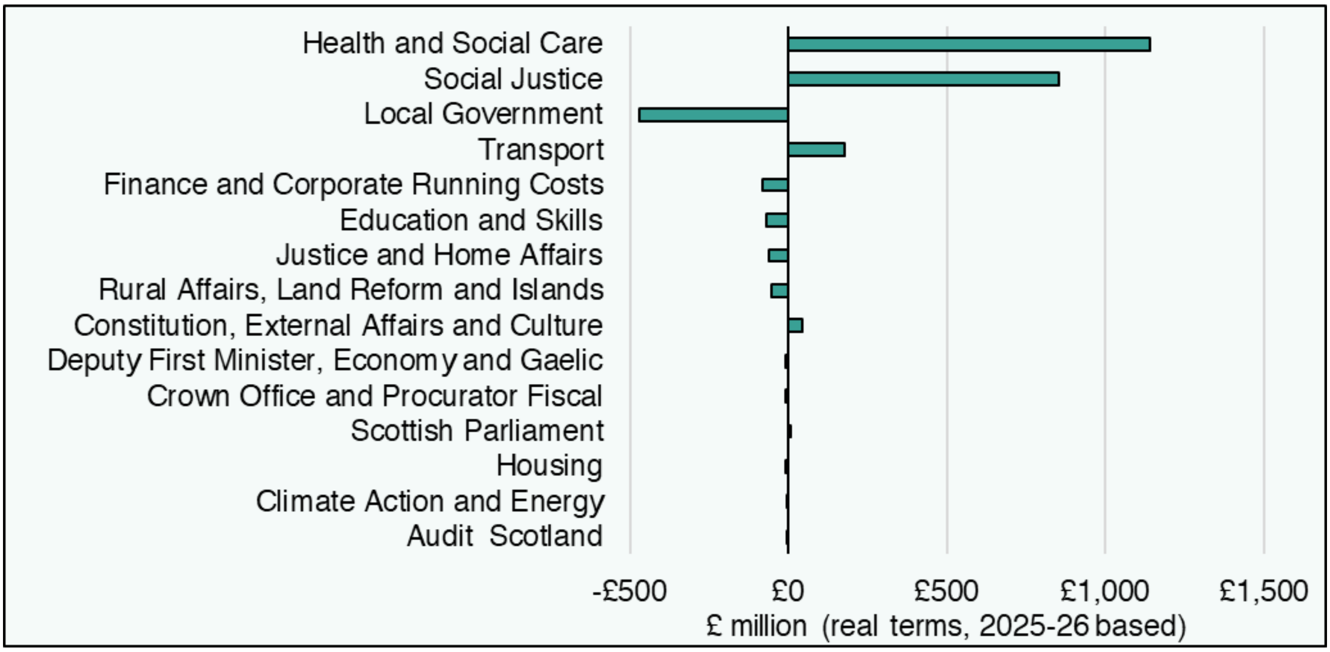
[1] Spending by portfolio 2025-26 is the position at the Autumn Budget Revision adjusted for transfers which have not been baselined.

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.

Chapter 1 Introduction

Content of this report

1.1 In this report, published on 13 January 2026, we present our latest five-year economic and fiscal forecasts. We produce our forecasts independently, representing the collective judgements of our Commissioners.

1.2 In this chapter we explain the process we have followed in the creation of our forecasts and how the different elements of our forecasts relate to the Scottish Government's Budget.

1.3 This report contains the following chapters:

Chapter	Description
Summary	A summary of our economic and fiscal forecasts, the fiscal overview, and the key points from the forecasts.
Chapter 1: Introduction	An outline of the structure and content of the document.
Chapter 2: Fiscal overview	A discussion of the latest funding outlook based on our forecasts and UK Government funding.
Chapter 3: Economy	Our five-year forecasts for the Scottish economy, including the underlying judgements.
Chapter 4: Tax	Our forecasts of devolved tax revenue.
Chapter 5: Social security	Our forecast of devolved social security spending.
Annex A: Policy costings	Our estimates of how much any new policies will cost or raise and explanations of how the SFC has arrived at those estimates.

1.4 Some additional information such as comparisons to our previous forecasts are in our supplementary figures accompanying this report and available on our website. If there is any information you are looking for that is not in this report or the supplementary figures, please get in touch with us at info@FiscalCommission.scot.

The process behind creating these forecasts

1.5 On 6 October 2025 we received notice from the Cabinet Secretary for Finance and Local Government of the publication of the Scottish Government's Budget on 13 January 2026. Throughout the forecasting period our interaction with the Scottish Government has been guided by our protocol for engagement.[4]

1.6 We have had two substantive rounds of meetings with the Scottish Government and Social Security Scotland to discuss our forecasts, supplemented by a number of Director meetings. In accordance with our protocol for engagement we have published details of timings and attendees on our website.[5]

1.7 The headline dates are:

[4] Scottish Fiscal Commission (2023) Protocol for engagement between the Scottish Fiscal Commission and the Scottish Government.

[5] Scottish Fiscal Commission (2026) Scotland's Economic and Fiscal Forecasts – January 2026 (Supporting Documents – log of contact between SFC and Scottish Government).

Date	Description
6 October 2025	Cabinet Secretary for Finance and Local Government wrote to advise that the Scottish Government intended to publish the 2026-27 Scottish Budget on 13 January 2026.
10 December 2025	Deadline for the inclusion of new data in the forecasts, and final deadline for the Scottish Government to provide the SFC with public sector pay and workforce information or policy measures that may affect the economy forecast.
15 December 2025	The SFC provided final pre-measures forecasts to the Scottish Government. Closure of the economy forecasts.
19 December 2025	Deadline for the Scottish Government to provide the SFC with final policy measures to be included in the forecasts.
23 December 2025	The SFC provided its final forecasts to the Scottish Government.
7 January 2026	Deadline for the Scottish Government to provide the SFC with any final policy information on borrowing, funding, spending, and public sector pay and workforce.
7 January 2026	The SFC shared the near-final version of its report with the Cabinet Secretary for Finance and Local Government, and Cabinet Secretary for Social Justice.
12 January 2026	Call between Professor Graeme Roy (Chair of the SFC) and the Cabinet Secretary for Finance and Local Government
12 January 2026	The SFC shared the pre-release version of its report with the Cabinet Secretary for Finance and Local Government, and Cabinet Secretary for Social Justice.
13 January 2026	Scotland's Economic and Fiscal Forecasts – January 2026 published

1.8 Our protocol for engagement with the Government provides for extensions to deadlines if mutually agreed. During the forecasting process we agreed with the Scottish Government to change the final deadline for policy from 18 December 2025, which had been agreed at the start of the process, to 19 December 2025.[6] The Scottish Government gave us one additional policy after this revised deadline. That additional policy was received within an agreed limited extension to the deadline to 22 December 2025 and was included in our forecasts.

[6] Scottish Fiscal Commission (2025) Letter from Professor Graeme Roy to Finance and Public Administration Committee notification of SEFF timetable – 12 November 2025.

How the Scottish Government uses our forecasts

1.9 On 13 January 2026 the Scottish Government published the 2026-27 Scottish Budget, which is informed, in part, by our forecasts. The Budget sets out the Scottish Government's funding position based on our forecasts of tax revenues and social security spending as well as assumptions about future funding and Scottish Government borrowing plans. We discuss these funding plans in Chapter 2. We provide detail on our tax and social security forecasts in Chapter 4 and Chapter 5, respectively.

Chapter 2
Fiscal overview

Introduction

2.1 In this chapter, we bring together our forecasts of devolved taxes and social security spending, as well as UK Government and Scottish Government funding decisions under the fiscal framework. This determines how much is available to spend in 2026-27 and beyond. We then look at our forecasts of the Scottish Government's social security spending, the funding remaining for other areas of public spending, and how the Scottish Government has chosen to allocate spending in its 2026-27 Budget and the Scottish Spending Review (SSR).

2.2 In making our assessment of reasonableness of the Scottish Government's funding decisions, we consider potential risks to both the funding and spending positions.

Total funding

2.3 Figure 2.1 shows the forecast outlook for total funding up to 2030-31. It shows that total funding is expected 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). 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.

2.4 Resource funding, for day-to-day spending like staff pay and procuring goods and services, totals £54,109 million in 2026-27, and £46,704 million after accounting for social security spending. Resource funding is expected to grow in each year of the forecast by an average of 1.1 per cent in real terms, reaching £60,909 million in nominal terms in 2030-31.

2.5 Capital funding grows by nearly 2.9 per cent in real terms in 2026-27 and is forecast to be £7,568 million in nominal terms. It then falls in real terms in each year of the forecast by an average of 2.1 per cent, and is lower in nominal terms at £7,511 million in 2030-31.

Figure 2.1: 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)		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.

Figure 2.2: Funding outlook compared with June 2025, 2025-26 to 2030-31

£ million (nominal terms)	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Total Funding						
January 2026	59,536	61,677	62,968	64,583	66,731	68,420
June 2025 [1]	59,695	60,979	62,141	64,119	66,178	68,020
Change	-159	698	827	464	553	401
Resource Funding [2]						
January 2026	52,340	54,109	55,420	57,018	59,120	60,909
June 2025 [1]	52,273	53,625	54,885	56,750	58,749	60,506
Change	67	484	536	268	371	403
Capital Funding						
January 2026	7,196	7,568	7,548	7,565	7,611	7,511
June 2025 [1]	7,422	7,354	7,256	7,370	7,429	7,513
Change	-226	214	292	196	182	-2

Source: Scottish Fiscal Commission.

[1] To ensure a consistent comparison with the latest figures, we have reduced the previously published June 2025 figures by £350 million in each year to reflect the classification change which switches the cost of police and fire pensions from resource to annually managed expenditure (AME).

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

Figures may not sum because of rounding.

2.6 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.

2.7 The Scottish Government has taken decisions 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. This results in an average increase of £176 million throughout the forecast period, equivalent to 2.3 per cent of the capital budget.

2.8 While there is additional funding available to the Scottish Government for both resource and capital, the additions are 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.

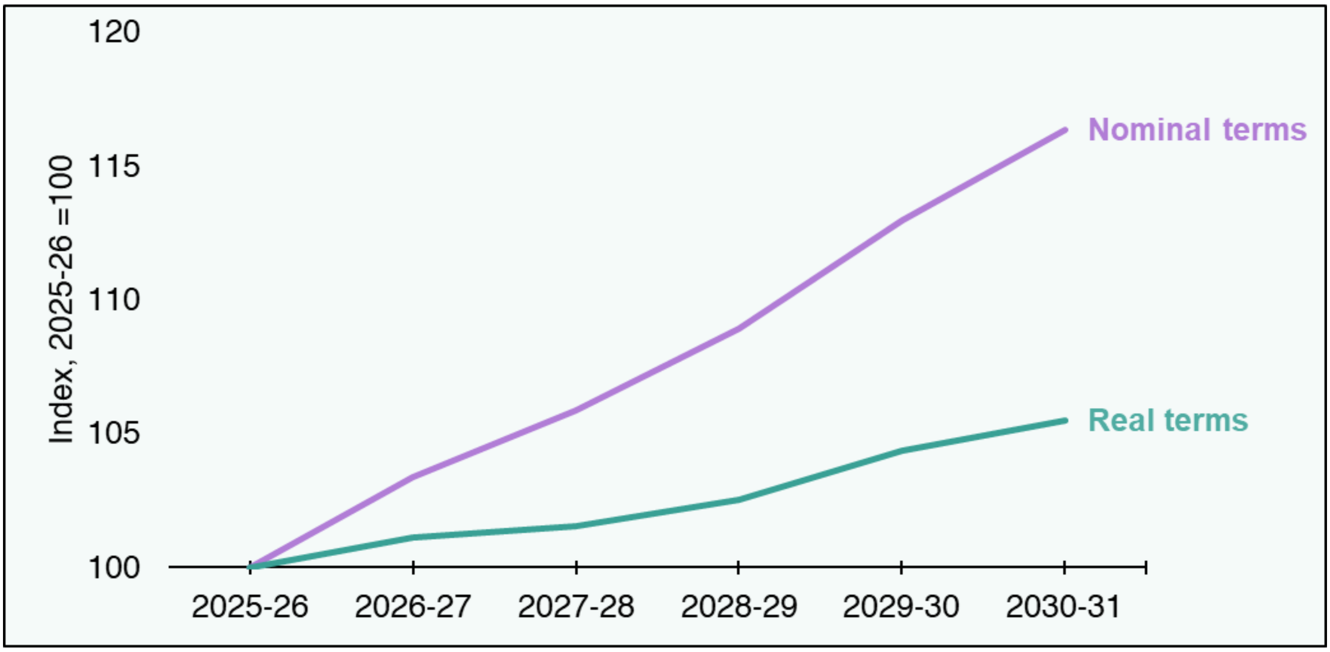
Resource funding

Funding outlook

2.9 Resource funding makes up around 88 per cent of total funding and is the largest part of the Scottish Budget. We expect it to grow by 16 per cent in nominal terms between 2025-26 and 2030-31. However, after adjusting for inflation the growth is equal to 5 per cent, as shown in Figure 2.3.

Figure 2.3 Resource Funding Outlook

Resource funding grows over time, but growth is lower after adjusting for inflation



Description of Figure 2.3: Line chart showing resource funding trend forecast from 2025-26 to 2030-31, indexed so that 2025-26 levels are equal to 100. Resource funding grows in 2026-27 with lower growth in 2027-28, and grows faster again thereafter, reaching 16 per cent above 2025-26 levels by the end of the forecast period. Adjusting for inflation more than halves the growth, with 2030-31 seeing funding 5 per cent above 2025-26 levels.

Source: Scottish Fiscal Commission, Scottish Government.

Real terms amounts have been calculated using the OBR’s November 2025 forecast of the GDP deflator.

Changes since June 2025

2.10 Since June 2025 resource funding has increased in every year. Figure 2.4 sets out the changes to the various components of resource funding since we published our last forecast in June 2025. These include UK Government changes, Scottish Government changes and forecast changes.

Figure 2.4: Latest resource funding position and changes since June 2025

£ million (nominal terms), unless specified	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Block Grant	**41,316**	**42,671**	**43,675**	**44,642**	**45,557**	**46,539**
Real terms growth rate (per cent)		1.0	0.3	0.3	0.2	0.2
Changes since June 2025 (excluding pension)	45	297	175	-35	-318	-564
Police and Fire pensions funding reclassification [1]	-350	-350	-350	-350	-350	-350
Fiscal framework funding [2]	**7,964**	**8,030**	**8,364**	**9,256**	**9,908**	**10,778**
Real terms growth rate (per cent)		-1.4	2.1	8.6	5.1	6.7
Changes since June 2025	35	210	355	514	597	876
Other sources [3]	**3,361**	**3,722**	**3,688**	**3,466**	**4,037**	**3,981**
Real terms growth rate (per cent)		8.3	-2.9	-7.8	14.4	-3.3
Changes since June 2025	-13	-27	13	-243	1	-20
Less: resource borrowing costs [4]	-142	-121	-67	-71	-85	-73
Less: capital borrowing costs [4]	-160	-194	-240	-275	-297	-316
Changes in total borrowing costs since June 2025	0	4	-8	33	91	111
Resource funding available for discretionary spend [5]	**52,340**	**54,109**	**55,420**	**57,018**	**59,120**	**60,909**
Real terms growth rate (per cent)		1.1	0.4	1.0	1.8	1.1
Changes since June 2025 (including pension change)	-283	134	186	-82	21	53
Changes since June 2025 (excluding pension change)	67	484	536	268	371	403

Source: Scottish Fiscal Commission, Scottish Government.

Real terms amounts have been calculated using the OBR's November 2025 forecast of the GDP deflator.

[1] The Scottish Government's police and fire pensions balancing payments have been reclassified from Departmental Expenditure Limit to annually managed expenditure (AME). This change moves funding from the resource budget (which we present here) to the AME budget which is fully funded by the UK Government, and we do not include in our presentation of the Scottish Budget. The change was announced in the UK Autumn Budget 2025 and takes effect from 2025-26.

[2] Includes the net position of devolved taxes (Scottish Income Tax, Land and Buildings Transaction Tax, Scottish Landfill Tax, and Scottish Aggregates Tax) and devolved non-tax revenues (Fines, Forfeitures, and Fixed Penalties, and Proceeds of Crime), the devolved social security Block Grant Adjustments, reconciliations, resource borrowing plans, and Scotland Reserve resource drawdown plans. For more details, see Supplementary Figure S2.1.

[3] Includes the distributable amount of Non-Domestic Rates and other sources such as the UK Government's Migrant Surcharge and Crown Estate revenues and deducts the projected cost of servicing debt. For more details, see Supplementary Figures S2.1 and S2.2.

[4] Borrowing costs are the sum of interest payments and principal repayments.

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

Figures may not sum because of rounding.

UK Government funding changes

2.11 The Block Grant in each year is determined by the previous year's figure for the Block Grant, plus or minus 'Barnett consequentials' amounts, which are calculated based on UK Government changes to departmental spending on devolved areas. The UK Autumn Budget 2025 increased resource funding for the Scottish Government. There were Block Grant increases of £297 million in 2026-27, and £175 million in 2027-28, and there was a reduction of £35 million in 2028-29.

2.12 We have adjusted the presentation of changes in the Block Grant for the change announced in the UK Budget to the classification of the Scottish Government's police and fire pensions balancing payments. These were previously covered by the Scottish Government's resource budget but have now been reclassified as Annually Managed Expenditure (AME). The UK Government cover all AME spending in full, and we do not include this in our presentation of the Scottish Budget. This change means the approach to these pension payments now matches that in the rest of the UK. In effect £350 million is removed from the Block Grant and the resource funding position from 2025-26, but this has no impact on pension eligibility and no impact on Scottish Government spending power in 2026-27. The change removes the risk to the Scottish Government of having to manage this demand-led spending within the resource budget. To ensure we are comparing the funding forecasts on an equivalent basis, we have adjusted our June 2025 forecasts presented in this document to account for the change.

2.13 The UK Government's Spending Review period covers years through to 2028-29 for resource spending. Although the UK Government has set out total departmental spending growth from 2029-30 and 2030-31, the detailed spending plans will be set out in the next UK Spending Review which will confirm how that is allocated between UK departments and devolved administrations. This means the Block Grant must be estimated in 2029-30 and 2030-31.

2.14 We have used Scottish Government assumptions for growing the Block Grant in the last two years of the forecast. We assume the resource Block Grant grows by 0.2 per cent in real terms each year while UK resource spending grows by an average of 0.7 per cent in real terms each year. Over the current UK Spending Review period the Block Grant has grown by a lower annual percentage than UK Government spending. Since our June 2025 forecast, the UK Government has reduced planned growth spending in the later years of the forecast. The Scottish Government's Block Grant assumption can be considered prudent as it assumes slightly lower growth than the last two years of the current UK Spending Review. Overall, the estimated Block Grant position for the years of 2029-30 and 2030-31 is now lower than presented in our June 2025 forecast (minus £318 million in 2029-30 and minus £564 million for 2030-31 after adjusting for the police and fire pensions classification change).

2.15 We consider this approach to be reasonable but note that the size of the Block Grant depends on UK Government spending decisions and how spending in devolved areas changes. The next UK Spending Review, expected in 2028, will confirm Block Grant figures for 2029-30 and beyond.

Scottish Government funding changes

2.16 The Scottish Government has relatively limited capacity to move resource funding between years. It has used four tools to increase and smooth resource funding over the Spending Review period: Crown Estate revenues, the Scotland Reserve, resource borrowing to manage forecast error relating to devolved taxes and social security spending (discussed in the change to forecast section), and the Non-Domestic Rates Distributable amount.[7] 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.

2.17 The Scottish Government cannot overspend and therefore usually has underspends each year. These can be saved in the Scotland Reserve along with any unused funding, subject to an overall limit of £764 million.[8] The 2026-27 Budget has been set with the assumption there is a £150 million underspend from 2025-26 carried over. Underspends of this scale typically occur and, in the past, have been used to increase funding in the next year. Setting the Budget on the basis of a modest underspend occurring is a reasonable approach. The current estimate of the Reserve balance is projected to be zero at the end of 2026-27. However, this will likely change as further underspends in 2025-26 are added to the Reserve.

[7] The largest source of Crown Estate revenue has been ScotWind, a programme of leasing part of the Scottish seabed for the development of offshore windfarms. Energy companies paid Crown Estate Scotland for an option to develop windfarms on the seabed, and they will make regular lease payments once these are operational. The use and balance of Crown Estate revenues can be found in Supplementary Figure S2.11.

[8] The limit increases each year by the GDP deflator. In 2026-27 the limit is £764 million.

2.18 Programmes run by Crown Estate Scotland, the largest being ScotWind, generate revenues which the Scottish Government can use at its discretion and are held separately to the Scotland Reserve. At the end of 2025-26 there are expected to be £537 million of Crown Estate revenues available to the Scottish Government. The Scottish Government plans to use Crown Estate revenues to smooth and manage its resource funding position over the Spending Review period. It plans to use £50 million in 2026-27 and £236 million in 2027-28. Combined with the planned use to support capital funding in 2027-28 and 2029-30 this leaves a balance of £61 million of Crown Estate revenues available to the Scottish Government.

2.19 In practice, the Scottish Government might not use all the Crown Estate revenues as currently planned. Previous Budgets have planned to use Crown Estate revenues and then reduced this in-year as there has been greater certainty on the final funding and spending position. This strategy has reduced the level of underspends which need to be stored in the Reserve. Given the fiscal framework limits on how much can be stored in the Reserve, the Scottish Government has used the Crown Estate revenues to provide additional flexible funding which can be accessed or not used as the in-year position has become clearer.

2.20 The distributable amount of NDR has been set at £3,474 million in 2026-27. The Scottish Government now plans to have a larger deficit in the NDR Pool in 2026-27 than previously stated, with the stated deficit growing from £60 million to £160 million, providing a £100 million benefit to the funding position.[9] The Government has set out the distributable amount for 2027-28 which returns the Pool to the previously planned level of deficit in 2027-28 (£30 million) before returning to balance in 2028-29. From 2029-30 onwards the planned distributable amount matches our latest forecasts of the contributable amount, how much we expect councils to raise in NDR in the forecast period.

2.21 The Scottish Government is using the tools available to it to manage the budget and balance resource and capital funding across years. It aims to reduce the planned use each year as the funding and spending position becomes clearer. We consider the approach by the Scottish Government reasonable. However, we note that the Crown Estate revenues are currently a limited – and largely a one-off – source of revenue. There are risks if a non-recurring source of funding is used to support recurring day-to-day spending.

2.22 The 2025-26 Budget set out how the Government was “now in a position to invest ScotWind revenues in a range of projects for longer term benefits for Scotland”.[10] Although resource spending can provide long term benefits, the statement in the 2025-26 Budget was accompanying a commitment to spend the Crown Estate revenues on capital in 2025-26. Over the period 2025-26 to 2029-30 the Scottish Government is currently planning to use £344 million of Crown Estate revenues for capital spending and £308 million for resource spending.

[9] We provide more details of how the Scottish Government plans to manage the distribution of NDR over time (the NDR pool) in Figure S2.7 in the supplementary figures accompanying this report and available on our website.

[10] Scottish Government (2025) Scottish Budget 2025 to 2026.

Changes to forecasts

2.23 Changes to both our forecasts of devolved taxes and social security spending and changes to the OBR's forecasts, which affect the Block Grant Adjustments (BGAs), have also affected the funding position. These changes include the effect of a number of policy changes by the UK and Scottish Governments.

2.24 Changes in the Income Tax net position since our June 2025 forecast reduce funding in 2026-27 and 2027-28 but increase funding in future years. Weaker than expected Income Tax outturn data for the UK in 2023-24, and weaker than expected UK monthly PAYE receipts for 2024-25 and 2025-26, have led to substantial downward revisions to the OBR's forecast of UK Government NSND Income Tax revenues. This is partially offset by increases in the OBR's forecast of UK average earnings growth, particularly in 2026-27.

2.25 The result is downward revisions to the Income Tax BGA in all years, apart from 2029-30 which has a small upward revision. The effects are smaller in the later years of the forecasts when the UK Government's policies of threshold freezes raise revenues.

2.26 We have revised down our forecasts of Scottish revenues from 2024-25 to 2028-29 since June 2025, largely because of outturn data. The Scottish Government will increase the Scottish 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. From 2029-20 onwards, policy changes mean positive revisions to our income tax forecast.

2.27 The effect of changes in the forecasts of Scottish Income Tax revenues and the BGA on the net position has been positive for 2023-24 to 2025-26, but reduces funding for 2026-27 and 2027-28. The reductions in resource funding from the downward revision to the Income Tax net position in 2026-27 and 2027-28 are largely offset by the improvements in the projected reconciliations in these years.

2.28 The outturn data for 2023-24 showed a more positive net position that we projected in June 2025. This has resulted in the reconciliation applied to the 2026-27 Budget increasing by £126 million from £279 million to £406 million.

2.29 The Income Tax reconciliation applied to the 2027-28 Scottish Budget relating to 2024-25 is now projected to be a negative £310 million reconciliation, compared with a negative £851 million projected in June 2025. The projected negative £851 million would have been larger than the resource borrowing limit in 2027-28, reducing funding in 2027-28. However, the Scottish Government can now borrow in full to cover the negative reconciliation in 2027-28 and intends to do so, which means there is now no effect on funding in that year.[11]

2.30 The Income Tax net position has become slightly more positive in 2028-29 and 2029-30 than we expected in June 2025. In 2028-29 this improvement is combined with the previously projected negative £222 million reconciliation now being projected at a positive £75 million, which further increases forecast resource funding in that year.

2.31 For the fully devolved taxes, forecast revisions are small since our June 2025 forecast. Most notably the positive net position for Land and Buildings Transaction Tax for 2026-27 has narrowed by around £60 million. This is mainly because of downward revisions to our forecast for Additional Dwelling Supplement. This is the first time we have published a Budget forecast for Scottish Aggregates Tax (SAT) which comes into effect from 1 April 2026. We forecast it will raise £42 million in 2026-27. Since the corresponding BGA will be adjusted to equal revenue raised in 2026-27, the introduction of SAT has a negligible effect on the funding position for 2026-27.

2.32 The Scottish Government receives funding from the UK Government for social security spending which has been devolved. Most of this funding is through positive BGAs. Social security spending above the BGA funding can be considered as the effect of social security devolution and policy changes on the Scottish Budget.

2.33 Since our June 2025 forecast the net effect of social security spending on the Scottish Budget has narrowed from £2,008 million to £1,200 million in 2029-30.[12] This means more funding is available for spending on other areas. The UK Government's reversal of Personal Independence Payment (PIP) eligibility restrictions increases forecast funding received by the Scottish Government through the BGAs by £476 million by 2029-30. The UK Government's removal of the two-child limit from Universal Credit and the resulting cancellation of the Scottish Government's Two Child Limit Payment reduce our forecast of Scottish Government spending by £152 million in 2029-30. Additionally, we have reduced our forecast for disability and carer payments with spending £111 million lower in 2029-30.

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[11] The Scottish Government has chosen to defer a negative £10 million reconciliation to 2027-28. This is because the 2024-25 final outturn for social security spending was lower than the provisional outturn used to calculate the BGAs at the UK Autumn Budget 2025. This resulted in a £10 million reduction to the 2024-25 social security BGAs. The fiscal framework allows the Scottish Government to defer late reconciliations to future years. The total negative reconciliation in 2027-28 is currently projected to be £321 million and the Scottish Government plans to borrow this amount to fully offset the negative reconciliation.

[12] The net effect of social security spending on the Scottish Budget is calculated by comparing our forecast of spending on social security each year with the corresponding funding received through the BGAs.

Capital funding

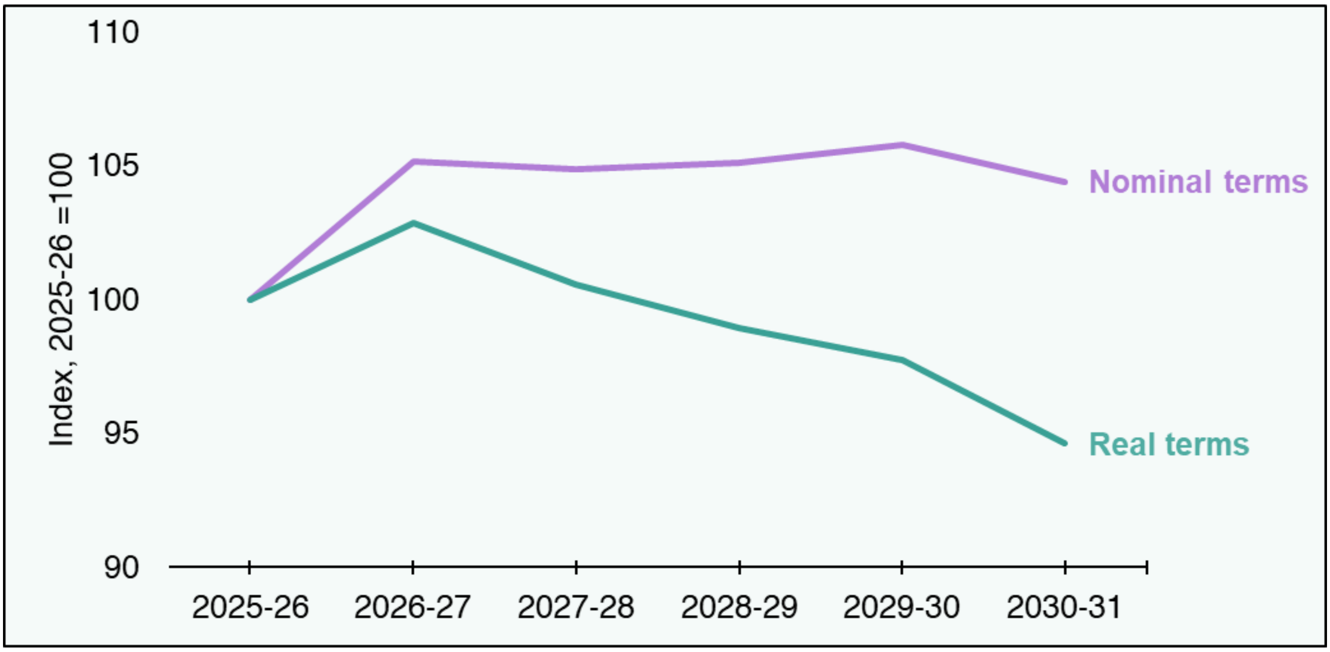
2.34 Capital funding is used to invest in building or creating assets, like roads or hospitals. A subset of capital funding, known financial transactions (FTs), is ringfenced for lending to the private sector, either as loans or as the public purchase of equity.

Funding outlook

2.35 Capital funding makes up around 12 per cent of total funding. We expect it to grow by 4.4 per cent in nominal terms between 2025-26 and 2030-31. However, after adjusting for inflation the growth is equal to minus 5 per cent, as shown in Figure 2.5.

Figure 2.5: Capital funding outlook

Capital funding grows in 2026-27 but remains flat over the forecast and is falling in real terms



Description of Figure 2.5: Line chart showing capital funding trends from 2025-26 to 2030-31, in nominal and real terms, indexed so that 2025-26 levels are equal to 100. Capital funding grows in 2026-27 by 5 per cent and then remains flat over the forecast period. Adjusting for inflation sees a fall in capital funding across the forecast period.

Source: Scottish Fiscal Commission, Scottish Government.

Real terms amounts have been calculated using the OBR’s November 2025 forecast of the GDP deflator.

Changes since June 2025

2.36 Since our June 2025 forecast, capital funding has fallen in 2025-26 because of Scottish Government decisions and increased in all future years. Figure 2.6 shows the changes to the various components of capital funding since our last forecast in June 2025. These include UK Government changes and Scottish Government decisions on capital borrowing, use of the Scotland Reserve, and Crown Estate revenues.

Figure 2.6: Latest capital funding position and changes since June 2025

£ million (nominal terms), unless specified	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Block Grant (general capital)	**6,255**	**6,712**	**6,794**	**6,643**	**6,748**	**6,748**
Real terms growth rate (per cent)		5	-1	-4	0	-2
Changes since June 2025	0	23	200	4	83	57
Block Grant (financial transactions)	**167**	**245**	**252**	**311**	**361**	**361**
Real terms growth rate (per cent)		43	1	21	14	-2
Changes since June 2025	0	0	0	0	0	-60
Fiscal framework funding [1]	**490**	**491**	**300**	**360**	**300**	**300**
Real terms growth rate (per cent)		-2	-40	18	-18	-2
Changes since June 2025	-38	191	0	60	0	0
Other sources [2]	**283**	**120**	**202**	**251**	**201**	**102**
Real terms growth rate (per cent)		-58	64	22	-21	-50
Changes since June 2025	-188	0	92	132	99	0

Source: Scottish Fiscal Commission, Scottish Government.

[1] Includes capital borrowing and planned use of the Scotland Reserve, both for general capital and for financial transactions. For more detail, see Supplementary Figure S2.8.

[2] Consists of City Deals, Resource to Capital switch and Crown Estate revenues. For 2026-27 consists entirely of City Deals. For more details, see Supplementary Figure S2.9.

Figures may not sum because of rounding.

UK Government funding changes

2.37 The UK Autumn Budget 2025 increased capital funding for the Scottish Government. The Block Grant increased by £23 million in 2026-27, the largest increase is £200 million in 2027-28, and an increase of £83 million in 2029-30. There were no changes in Block Grant funding relating to FTs in the UK Budget.

2.38 The UK Spending Review provided capital Block Grant numbers up to and including 2029-30. For the final year of the forecast the Scottish Government has assumed the Block Grant in 2030-31 to be equal to that for 2029-30 in cash terms. In June 2025 the FTs Block Grant in 2030-31 was assumed to grow as in previous years, so now assuming it is flat in cash terms has reduced funding in 2030-31. This is a more prudent assumption than was used in the June 2025 forecasts. The actual size of the Block Grant will depend on UK Government spending.

Scottish Government funding changes

2.39 The Scottish Government is using Crown Estate revenues to smooth capital funding across the Spending Review. It has allocated £92 million in 2027-28 and £99 million in 2029-30.

2.40 The Scottish Government is planning on the basis that less capital funding is required in 2025-26 than was previously allocated. It has reduced its planned use of Crown Estate revenues in 2025-26 by £188 million. Combined with a £42 million reduction in planned borrowing, this has reduced the 2025-26 capital funding position by £226 million. This will reduce the size of any capital underspends in 2025-26 and therefore the Budget and Spending Review have been set on the basis that no capital underspends from 2025-26 will be carried forward in the Scotland Reserve.

2.41 The capital Block Grant is forecast to fall in cash terms between 2027-28 and 2028-29. To smooth capital funding between years the Scottish Government has decided to switch £132 million of resource funding to capital in 2028-29.

Borrowing

2.42 The fiscal framework allows the Scottish Government to borrow to top up its capital spending plans. The overall capital debt stock was previously limited to £3,000 million with borrowing each year limited to £450 million. Since 2023 these amounts have risen in line with inflation. In 2026-27, the Scottish Government can have a total capital debt stock of £3,275 million and can borrow up to £491 million.

2.43 Borrowing increases capital funding in any one year, but reduces resource funding in later years as the debts need to be repaid with interest. Capital borrowing can be accessed through the UK Government from the National Loans Fund (NLF), as a commercial loan (directly from a bank or other lender) or through the issue of bonds. To date, the Scottish Government has only borrowed through the UK Government's NLF. However, in November 2025 the Scottish Government announced it had received two credit ratings which matched the UK credit rating and that it plans to issue its first bonds in 2026-27.[13]

2.44 Issuing capital bonds does not change the amount the Scottish Government can borrow in a given year. However, it does change the loan structures available to the Scottish Government. Borrowing through the NLF requires regular repayments of both interest and the amount borrowed. Bonds can be structured flexibly including the option of making regular interest payments but only repaying the amount borrowed when the bond matures, known as a 'bullet repayment'.[14]

[13] Scottish Government (2025) Scottish Government credit rating matches UK, Scottish Government (2025) Scottish Government bonds launch planned.

[14] Scottish Government (2025) Scottish Government bonds programme: outline business case summary.

2.45 The 2026-27 Budget and Spending Review have been set based on the Scottish Government only borrowing through the NLF. If the Scottish Government does issue bonds under a bullet repayment structure, the largest effect on the level of funding available over the next five years would likely be through smaller repayments of the amounts borrowed. This would increase the resource funding available to the Scottish Government relative to the position we show in Figure 2.4. Funding in the future would be lower in the years when any bonds issued must be repaid in full. The interest rate paid on a bond would be determined by the market.

2.46 As the independent fiscal institution for Scotland, we are required to assess the reasonableness of the borrowing plans presented by the Scottish Government. The Scottish Government's borrowing plans are based on borrowing through the NLF and will continue to be until the first Scottish Government bond issuance. For the purposes of considering the five-year funding forecasts, we consider this approach to planning reasonable.

2.47 Since June 2025 the Scottish Government now plans to borrow less in 2025-26 than previously stated. It now expects to borrow £430 million compared with a previously planned £472 million. Borrowing in 2026-27 has increased from £300 million to £491 million. Borrowing in each of the remaining years is still planned at £300 million with the exception of 2028-29 where the Scottish Government plans to borrow £360 million because of the lower Block Grant funding in that year.

Figure 2.7: Capital borrowing plans

£ million (nominal terms), unless specified	2024-25 outturn	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Borrowing	139	430	491	300	360	300	300
Annual limit	458	472	491	501	510	520	530
Total limit	3,050	3,145	3,275	3,340	3,403	3,466	3,534
Repayment period (years)	10	15	15	15	15	15	15
Interest rate (per cent)	4.5	4.7	4.8	4.9	5.0	5.1	5.2
Repayments [1] [2]	155	160	194	240	275	297	316
Debt stock [1]	2,245	2,534	2,866	2,981	3,134	3,219	3,295
Share of the debt cap (per cent)	73.6	80.6	87.5	89.3	92.1	92.9	93.2

Source: Scottish Fiscal Commission, Scottish Government.

[1] This includes £616 million of loans notionally taken out in 2015-16 and 2016-17, repayable within 30 years. This borrowing is to bring into the Scottish Government's balance sheet several non-profit distributing projects, such as the Aberdeen Western Peripheral Route. They add around £20 million a year in repayments until the loans mature but carry no interest and have no cash impact on the Scottish Budget.

[2] Repayments match those projected by the Scottish Government, the Scottish Government include a discretionary premium in its interest rate assumptions which is not reflected in the interest rates presented in this table.

Spending

2.48 We have published our forecast of the Scottish Government's funding position alongside the Scottish Government's 2026-27 Budget and Spending Review. In this section we discuss the Scottish Government's spending plans and outline risks to those plans.

The spending baseline for comparison with 2026-27 and beyond

2.49 Before the 2025-26 Budget, the Scottish Government compared spending plans for the year ahead with the plans presented in the previous Budget ('Budget to Budget'). Therefore, the comparisons were not to the latest position and any in-year changes were not reflected.

2.50 In its 2025-26 Budget, the Scottish Government presented spending plans compared with the 2024-25 Autumn Budget Revision (ABR). Autumn and Spring Budget Revisions are in-year opportunities for the Government to move money between areas according to in-year spending demands. This change was a welcome improvement as it was a more up-to-date comparison but there remained issues. Unusually because of the timing of the UK election there was a £1.3 billion increase in funding from the UK Government in 2024-25 which had been confirmed after the ABR meaning spending in 2024-25 appeared lower than it would turn out to be. While this was a material limitation in scrutiny of the 2025-26 Budget, it is less of an issue this year.[15]

2.51 The other issue with the 2025-26 Budget comparisons was that the ABR figures for 2024-25 included routine in-year transfers that take place every year (from the area with budget responsibility to the area with delivery responsibility). For example, from health to local government for social care. However, these routine transfers were not reflected in spending plans presented at the 2025-26 Budget, which meant changes in spending between 2024-25 and 2025-26 appeared too high in some areas and too low in others.

2.52 In its 2026-27 Budget, the Scottish Government has again used the latest in-year position as presented in the 2025-26 ABR as its baseline comparator. In an improvement from last year the Scottish Government has now baselined into the 2026-27 Budget some further areas of resource spending that had previously been transferred via the ABR. For example, several areas of social care spending are now being shown at the outset in the Local Government Budget (within the Finance and Local Government portfolio) for 2026-27. These include ‘Care at Home’ (£124 million in 2025-26) and ‘Health and Social Care’ (£257 million in 2025-26). In total, the Scottish Government has now baselined £786 million in resource spending which was transferred between portfolios in-year at the 2025-26 ABR.

2.53 However, there is still a remaining £606 million of internal transfers between portfolios contained in the 2025-26 ABR which have not been reflected in the 2026-27 Budget. This will have implications for comparing some Budget changes between 2025-26 and 2026-27 for certain key portfolios, in particular Local Government, Education and Skills, and Health and Social Care. Although there are improvements with the social care transfers now baselined into 2026-27 plans, Local Government still had net £476 million added to the 2025-26 ABR baseline, but then these spending lines are shown in different portfolios in 2026-27 plans. This means that any comparisons of spending in the Local Government portfolio for 2026-27 relative to the 2025-26 ABR should be avoided. Our presentation of resource spending in the Finance Local Government portfolio 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.

[15] In 2025-26 the difference between the spending position presented at the ABR and the latest funding position is an additional £150 million for resource and a reduction of £226 million for capital. The Scottish Government plans to add the £150 million of resource funding to the Scotland Reserve. These funding changes are included in our presentation of the latest funding position, but are excluded from our spending analysis as the Scottish Government has not set out how the changes will be allocated between portfolios.

2.54 While the Scottish Government has continued to improve the presentation of spending in the Budget including publishing the data showing which transfers have not been baselined, there are still further improvements to be made. We continue to recommend that all routine Budget transfers should be contained from the outset in the spending portfolio to which they will ultimately move.

2026-27 Scottish Budget spending plans

2.55 Spending lines and portfolio totals for 2026-27 in the Budget document are presented compared with the 2025-26 ABR, which for resource spending includes £606 million of in-year transfers not reflected in the 2026-27 Budget. Figure 2.8 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. While this has no effect on portfolios not subject to in-year Budget revisions, it affects most portfolios.

2.56 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.

2.57 All our analysis has been based on comparing the Government's spending plans to 2025-26 spending adjusted for transfers which have not been baselined.

2.58 Comparing spending plans to the adjusted 2025-26 position shows spending on Social Justice increasing by 4.5 per cent in 2026-27, reflecting the priority given to social security. In contrast there are reductions in resource spending for three portfolios between 2025-26 and 2026-27: Rural Affairs, Land Reform and Islands by 1.8 per cent; Finance and Corporate Running Costs by 5.0 per cent; and Housing resource by 3.9 per cent (Housing Capital is a much more substantial part of the Housing portfolio and increases by nearly 10 per cent in real terms).

Figure 2.8: 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.

Spending Review

2.59 The UK Spending Review in June 2025 was a welcome development, providing multi-year funding confirmation for the Scottish Government. The Scottish Government has now presented its own multi-year spending plans following many years of single year Budgets. The last full Scottish Spending Review (covering resource and capital) was in 2011, although there was a capital Spending Review in 2021 and a resource Spending Review in 2022.[16]

2.60 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. However, there is room for improving the transparency of the presentation.

2.61 The Scottish Budget document is structured according to different 'levels' of budget detail. This helps Parliament, analysts, and the public understand how the Budget breaks down from broad categories of spend to specific spending commitments. There are three levels of Budget lines presented in the document, and level 4 is published separately from the document in spreadsheet form.

- Level 1 Budgets are at the highest level, portfolio totals, and the most aggregated category of spending, for example, Education and Skills.
- Level 2 Budgets show the top-level budget lines within portfolios, and break down portfolio spending lines into sub-categories of spending, for example 'Education reform' within Education and Skills.
- Level 3 Budgets show a more detailed breakdown under a level 2 heading, for example, 'Curriculum' within 'Education reform'.
- Level 4 Budgets are at the most detailed category of spending line, breaking down level 3 budget lines into individual projects or categories.

2.62 The Spending Review provides resource and capital spending plans at the portfolio level (level 1). Level 2 information is provided, but this is combined information on resource and capital spending. Only for the largest areas of spending is information provided at level 3. For example, total health board funding has been published as well as some level 3 local government funding. However, overall there is less detail than the 2011 Scottish Spending Review which went down to level 3 across all areas. Given that many public body budgets are at level 3, it is not possible to look at the document and see the funding outlook for key public bodies like Skills Development Scotland and SEPA, or to see how level 2 budgets are split between resource and capital.

[16] Scottish Government (2021) Investing for jobs: Capital Spending Review 2021-2022 to 2025-2026, Scottish Government (2022) Investing in Scotland's Future: Resource Spending Review.

Spending Review: resource spending

2.63 Considering how the Budget is changing between last year and next will be the focus of Parliamentary scrutiny when the 2026-27 Budget Bill is considered in the coming weeks. But the Spending Review allows for greater scrutiny of Scottish Government plans over the medium term. How the share of resource spending on each portfolio changes over time helps identify areas where spending is growing faster and slower than overall resource funding. This is a helpful indicator of Scottish Government's priorities over the Spending Review period, relative to the baseline of 2025-26.

2.64 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 2.9: 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.

2.65 Spending on Health and Social Care is increasing in both nominal and real terms between 2025-26 and 2026-27. Despite this increase, Health and Social Care as a share of total resource spending falls slightly in 2026-27. The share of spending on Health and Social Care then increases over the Spending Review period, reaching 40 per cent of total resource spending by 2028-29.

2.66 The Social Justice portfolio, which includes spending on social security payments, increases from 14.3 per cent of resource spending in 2025-26 to 15.5 per cent by 2028-29.

2.67 The Local Government (including NDR) part of the Finance and Local Government portfolio sees spending increasing between 2025-26 and 2026-27. However, the allocation is then broadly flat in cash terms which means the share of the resource budget allocated to Local Government is falling from 26.4 per cent in 2025-26 to 24.8 per cent in 2028-29.

2.68 Justice and Home Affairs portfolio falls as a share of resource spending from 6.3 per cent in 2025-26 to 6.0 per cent by 2028-29.

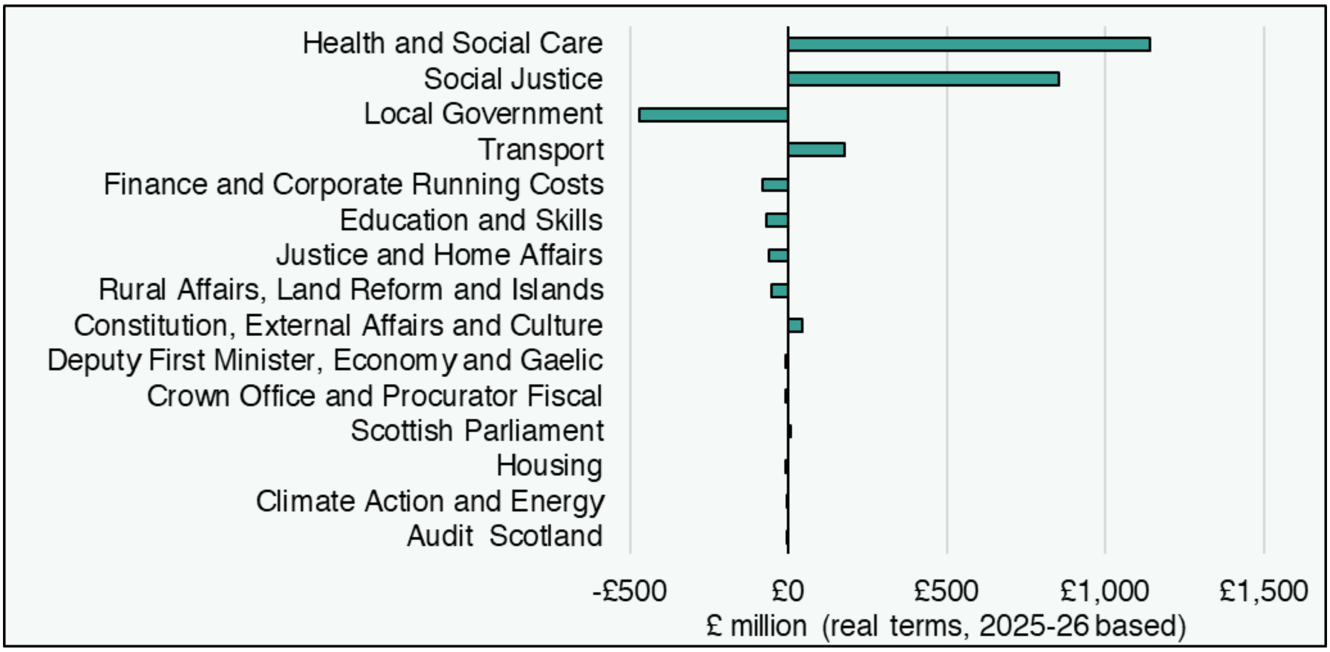
2.69 The Education and Skills portfolio also falls as a share of resource spending from 5.8 per cent of resource spending in 2025-26 to 5.5 per cent by 2028-29. However, as the Spending Review notes, this fall in spending reflects the support to universities and colleges in 2025-26 and 2026-27 to become more financially sustainable. This specific spending is not expected to continue.

2.70 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.

2.71 Our analysis in this report focuses on the portfolio allocations set out by the Scottish Government in the 2026-27 Budget and Spending Review. As the portfolios are consistent for the Spending Review it is possible to see how the spending plans are changing over time. However, limited comparisons can be made to previous years when different portfolios were presented. Comparisons made using the UN's Classification of the Functions of Government (COFOG) allow for spending trends to be analysed over several years. The Scottish Government has not published COFOG data alongside the Spending Review, and the data published alongside the 2026-27 Budget was not available in sufficient time for us to analyse and incorporate into this report. We will consider that data in a future publication.

Figure 2.10: 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 2.10: 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 the 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.

Spending Review: capital spending

2.72 Following the same approach as the UK Spending Review, the Scottish Spending Review presents capital spending plans up to 2029-30, one year more than is set out for resource. Figure 2.11 shows capital spending by portfolios as a share of total capital spending.

Figure 2.11 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.

2.73 The nature of capital spending means it is likely to vary more year to year than resource spending, as major projects commence and complete. Key points to note on capital spending are:

- 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.
- The least capital-intensive Scottish Government portfolio is Crown Office and Procurator Fiscal Service (COPFS) at 0.2 per cent of total capital spending.

2.74 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.

2.75 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 delivered or begin to be delivered through the Spending Review period if business cases are developed and signed off, but the funding allocated to these projects is unclear.

Portfolio efficiency and reform plans

2.76 The Scottish Government's Medium-Term Financial Strategy (MTFS) in June 2025 set out projections for funding and spending over the next four years. The Government expected spending to outpace available funding for both resource and capital. The resource gap was £963 million in 2026-27 rising to £2,624 million in 2029-30. The capital gap was £1,071 million in 2026-27 rising to £2,146 million in 2029-30. The Fiscal Sustainability Delivery Plan (FSDP) published alongside the MTFS set out some actions to close the gap in resource spending.

2.77 The FSDP included efficiency and reform actions to make savings across the public sector. The most concrete proposal was a workforce reduction target of 0.5 per cent on average each year. The Government estimated this will save £100 million in 2026-27, rising to £700 million by 2029-30. The Government expected wider public sector efficiencies and reform, and revenue raising, to save a further £600 million in 2026-27 to £1,500 million in 2029-30. Finally, the Government has set targets to increase public value that would save between £300 million and £700 million a year. These savings include the Public Service Reform Strategy target of a £1 billion reduction in Scottish Government and public body corporate costs, equivalent to 20 per cent of public body corporate costs and core Scottish Government operating costs.[17]

2.78 As part of the Spending Review, the Scottish Government has published an efficiency and reform plan indicating 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 do not materialise, then this will create challenges for the Scottish Government to deliver public services as planned while also balancing its Budget.

2.79 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 funding allocated to Health and Social Care is based on an expectation these savings will be delivered.

[17] Scottish Government (2025) Scotland's Public Service Reform Strategy: Delivering for Scotland.

2.80 The recent Audit Scotland Report on the NHS noted that progress has been made and NHS boards have achieved more recurring savings in 2024-25 relative to previous years. However, just two territorial boards and three national boards achieved the 3 per cent recurring savings target.[18] 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 to achieve 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.

2.81 The portfolio efficiency and reform plans also identify the scale of workforce savings by portfolio. As the Scottish Government has committed to protecting frontline workers, these savings are not equally distributed across portfolios.

2.82 The publication of these plans is welcome, building on the commitments set out in the FSDP. The on-going monitoring of progress against these plans will be important in ensuring the required savings are on track to be delivered.

Public sector pay and workforce

2.83 The Scottish Government's public sector pay policy remains unchanged from last year with a 9 per cent limit on pay awards over the three years from 2025-26 to 2027-28. In addition, the Scottish Government has stated a target in its FSDP to reduce the overall devolved public sector workforce by an average of 0.5 per cent per year from 2025-26 to 2029-30, with protection for frontline services.[19] This is a part of a wider Public Service Reform (PSR) Strategy published in June 2025.[20]

2.84 The Scottish Government's spending plans and budget allocations have been made on the basis of these policies and targets. We have identified five risks to the Scottish Government's spending plans which emerge from the outlook for the total paybill. Taken together, we think there is a risk the paybill in the coming years will be higher than currently used as the basis for the Spending Review.

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

[19] Scottish Government (2025) Fiscal Sustainability Delivery Plan.

[20] Scottish Government (2025) Scotland's Public Service Reform Strategy: Delivering for Scotland.

2.85 The first risk relates to pay awards. The Scottish Government's public sector pay policy of 9 per cent pay awards over three years implies a pay award of around 3 per cent per year. However, all the agreed pay awards for 2025-26 and 2026-27 have exceeded 3 per cent each year. Taken together, for devolved public sector pay awards to remain within the 9 per cent envelope, there would need to be an average pay award of 1.1 per cent in 2027-28. Given historic trends, we think there is a risk that pay awards will exceed 1.1 per cent in 2027-28. The Cabinet Secretary for Finance and Local Government has committed to review the pay policy as part of the 2027-28 Budget process given the number of two-year pay settlements.[21]

2.86 As an example, the Agenda for Change pay award covers over 140,000 healthcare workers, and includes most NHS staff other than doctors. Based on the pay awards for 2025-26 and 2026-27 the public sector pay policy implies a pay award of 0.78 per cent in 2027-28 for the Agenda for Change group. A pay award above 0.78 per cent would place further pressure on health spending and suggest that either the funding allocated to Health and Social Care would need to increase, health boards would need to reduce spending on non-staff costs, or staff numbers would have to be reduced beyond current plans.

2.87 The second risk, which is related to pay awards, stems from the inflation protection clauses that have been put in place as part of the existing pay awards. Health staff covered by Agenda for Change, the Scottish Prison Service, Police Scotland, and ScotRail have inflation protections in their agreed pay awards for 2025-26 and 2026-27. Some of the inflation guarantees are linked to the inflation data due to be published later in January 2026. Given the latest inflation data and forecasts, some of these inflation guarantees are likely to be triggered, increasing paybill costs. Further inflation guarantees may be triggered with January 2027 inflation data.

2.88 The third risk is from the increase in Employer National Insurance Contributions (NICs) from 2025-26. The Scottish Government estimates that the £339 million funding received from the UK Government will not fully cover increased costs to the Scottish public sector.

[21] Scottish Government (2026) 2026-27 Integrated Pay and Workforce Policy.

2.89 The fourth risk is from the Scottish Government's FSDP target to reduce the overall devolved public sector workforce, as measured by full-time equivalent, by an average of 0.5 per cent per year from 2025-26 to 2029-30. Based on our projection of devolved public sector employment, this is equivalent to a cumulative headcount reduction relative to 2024-25 of 13,600 in 2029-30. We calculate that headcount in the devolved public sector has grown by around 1.5 per cent per year over the last six years. That period covers COVID-19 pandemic and the UK's exit from the EU. Despite this the target implies a substantial change from recent trends.[22] If the devolved public sector is larger than implied by the 0.5 per cent annual reduction, it will add to paybill costs and spending pressures. The latest data for 2025 Q3 shows the devolved public sector headcount in Scotland rising by 0.4 per cent over the year.[23]

2.90 In addition, the FSDP included protection for frontline staff. Achieving a 0.5 per cent reduction in the overall devolved public sector workforce from only those staff not identified as frontline increases the challenge of achieving the target and increases the risk the target will be missed. As part of the Budget, the Scottish Government has said it will publish a Workforce Management Governance Framework in spring 2026 to set out an approach to deliver these workforce changes.

2.91 The fifth and final risk relates to pay drift. Pay drift is the growth in average public sector pay not explained by pay awards. Several factors can affect average pay growth including pay progression, workforce composition changes, overtime and allowances. Over the summer 2025, we have reviewed our assumption on pay drift, including a review of the available data. We have also had discussions with the Scottish Government. We expect that the PSR strategy and workforce reduction targets could dampen pay drift. Taking these factors together, we have reduced our assumption of annual pay drift from 1.5 per cent to 1.0 per cent. The Scottish Government has assumed pay drift of 0.5 per cent as part of its workforce modelling.[24]

2.92 Pay drift is uncertain and hard to measure in practice. If pay drift is higher in the coming years than the modelling assumptions that we and the Government make, this will also add further pressure to spending plans.

[22] Scottish Government (2025) Public Sector Employment in Scotland Statistics for 3rd Quarter 2025.

[23] Scottish Government (2025) Public Sector Employment in Scotland Statistics for 3rd Quarter 2025.

[24] Scottish Government (2026) 2026-27 Integrated Pay and Workforce Policy.

2.93 In our economy forecasts, we align our workforce projection with the FSDP target of a 0.5 per cent reduction in workforce per year from 2025-26. On pay awards, we base our forecasts for 2025-26 and 2026-27 on the Scottish Government's three-year pay policy, including all the agreed pay awards up to our deadline of 10 December 2025 for inclusion of new data in our forecasts. However, for 2027-28, the final year of the three-year pay policy, we use our baseline assumption of pay awards equal to inflation, rather than the implied average 1.1 per cent pay award described above. We think using our baseline assumption for 2027-28 is more in line with historical trends. We also assume 1.0 per cent pay drift in all years, previously we assumed pay drift of 1.5 per cent. Variation between these assumptions and outcomes would only have a marginal effect on our economy forecasts.

Assessment of funding and spending plans

2.94 The Scottish Government's Medium-Term Financial Strategy (MTFS) 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.

2.95 The Scottish Government is using the tools available to it to manage its budget and balance resource and capital funding across the next four years of the Spending Review. This includes borrowing, using the Scotland Reserve, transferring some funding from day-to-day spending to capital investment, and using Crown Estate revenues, which mostly come from the ScotWind leasing programme, to support both capital and day-to-day spending.

2.96 This planned use of capital and resource funding are 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.

2.97 We do however note that the Crown Estate revenues are currently a limited – and largely a one-off – source of revenue. 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.

2.98 Overall resource spending is forecast to 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.

2.99 The Scottish Government's MTFS in June 2025 expected spending to outpace available funding for both resource and capital. While there is additional funding available to the Scottish Government for both resource and capital compared to the position in the MTFS in June, the additions are small compared to the size of the Budget and the scale of the fiscal challenges identified by the Scottish Government in its MTFS.

2.100 The Spending Review shows how the Scottish Government plans to allocate funding between portfolios. The efficiency and reform plan 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. 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 do not materialise, then this will create challenges for the Scottish Government to deliver public services as planned while also balancing its Budget.

2.101 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, for pay 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. 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.

2.102 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.

2.103 In our economy forecasts we have assumed pay awards in 2027-28 equal inflation, rather than the real terms cuts in pay implied by the Scottish Government's current policy. If pay awards are higher than the Scottish Government has assumed, and the paybill is to remain at similar levels to those used as the basis for the Spending Review, this would require larger workforce reductions than those already planned to keep the paybill at the levels intended by 2029-30. 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. 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.

Chapter 3
Economy

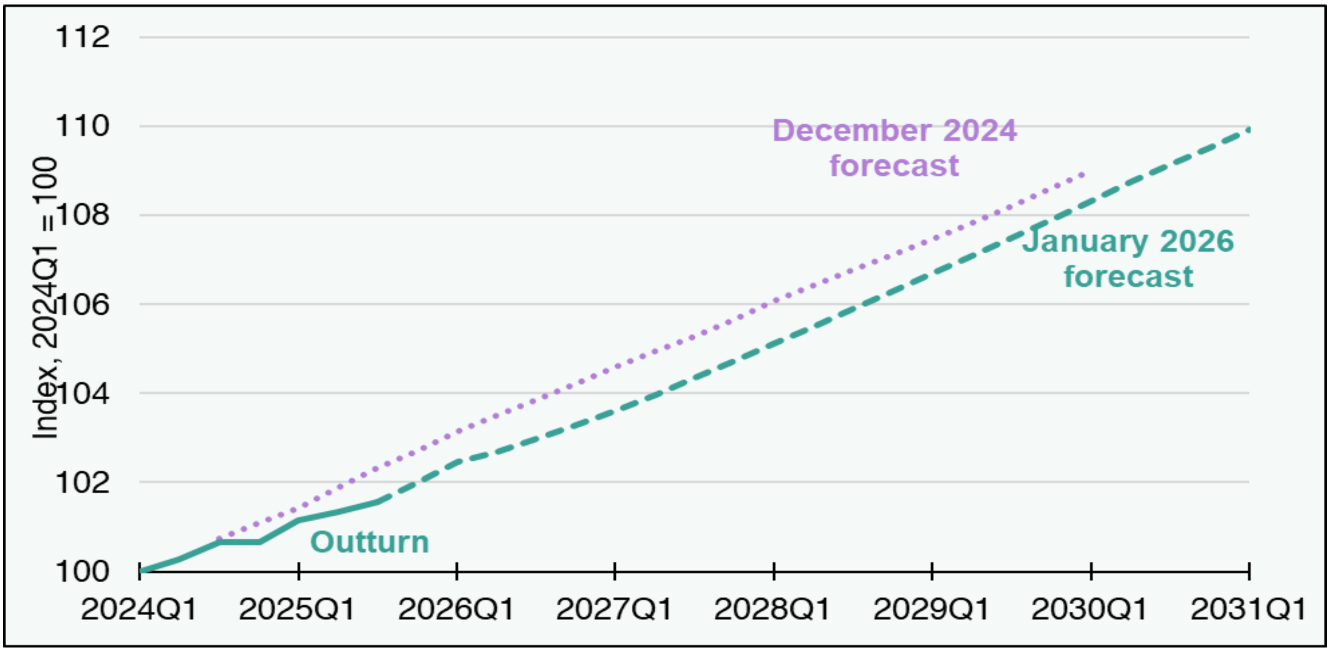
3.1 Our view of economic conditions remains largely unchanged compared with our expectations in December 2024. We continue to see a picture of global instability and uncertainty, which is weighing on household and business confidence. This includes the US Government introducing a range of new import tariffs and, more recently, events in Venezuela. Domestically, the labour market has continued to slow across the UK. We have made 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.

3.2 Some of the changes we have made since our December 2024 forecast are to our projections of trend economic growth. This includes 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. Box 3.1 provides details on the productivity revisions.

3.3 As Figure 3.1 shows, the level of our GDP forecast is revised down slightly, in line with outturn data since the end of 2024. The lower outturn GDP data we now observe relative to our December 2024 forecast was because factors such as global instability and higher consumer and business costs had a greater impact on outturn data towards the end of 2024 than we anticipated. In the coming years, GDP growth is consistent with our previous forecast.

Figure 3.1: Gross Domestic Product (GDP) index, Scotland

GDP forecast starts from lower level but growth is consistent with forecast a year ago



Description of Figure 3.1: Line chart showing outturn GDP below our December 2024 forecast. Level of GDP forecast is lower than expected a year ago. Growth outlook is largely unchanged.

Source: Scottish Fiscal Commission – [Scotland's Economic and Fiscal Forecasts](#).

Amounts are indexed so that 2024 Q1 is equal to 100.

Box 3.1: Trend productivity growth

Productivity is a measure of how much output (goods or services) is produced for a given amount of input, such as labour or capital. Higher productivity means producing more output with the same resources and is therefore a key determinant of economic growth.

Productivity growth in the UK and other advanced economies has slowed since the mid-2000s, with the Global Financial Crisis (GFC) of 2008-09 exacerbating this trend. Initially, the expectation among economists was that productivity growth would recover, at least in part, to its pre-GFC average. Contrary to this, it has been broadly flat over the last decade. The shocks from Brexit, the COVID-19 pandemic, and the energy price crisis are also likely to have contributed to slow or flat productivity growth.

Our forecasting approach starts by looking at Scotland's trend productivity (GDP per hour worked) over the last twenty years, updating this trend as new data becomes available. We take the latest outturn estimate as the starting point for our forecast. We then assume a gradual pathway thereafter, such that we broadly align productivity growth in the final year of the forecast period with the OBR's assumption for the UK. This alignment is based on our judgement that Scottish and UK productivity growth converge over time. It also ensures coherence between our and the OBR's forecasts in the respective underlying assumptions, which is important for relative earnings growth and the projected Income Tax net position.

In November 2025, the OBR downgraded its productivity growth assumption in 2029-30 by 0.3 percentage points. As Figure 3.2 shows, we have revised our forecast of trend productivity growth from between 1.0 per cent and 1.2 per cent in our December 2024 forecast down to 0.9 per cent, with the reduction in 2029-30 mirroring the OBR's downgrade. In the outturn years, there are upward revisions as we have updated recent trend productivity growth to account for the latest data.

Figure 3.2: Trend productivity growth, Scotland

Per cent	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
December 2024	0.3	0.5	0.7	0.9	1.0	1.1	1.2	1.2	
January 2026	0.4	0.6	0.9	0.9	0.9	0.9	0.9	0.9	0.9

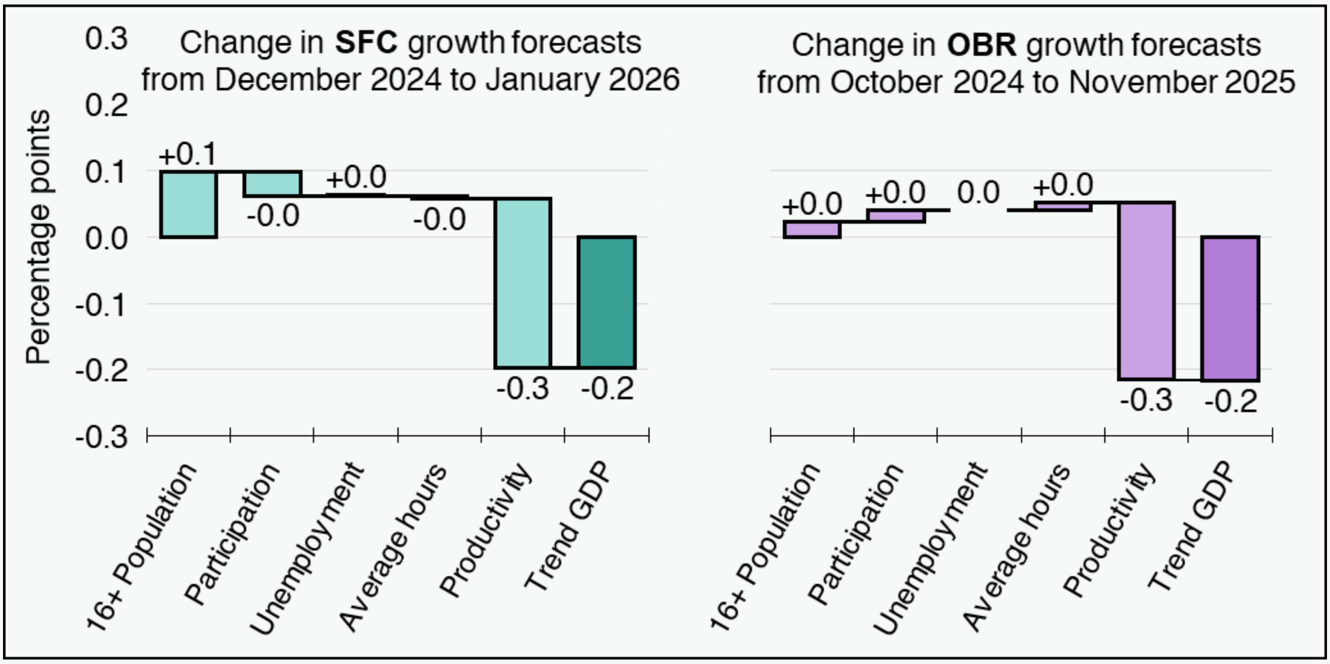
Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts.

In 2029-30, as Figure 3.3 shows, our and the OBR's forecasts of trend GDP growth are both 0.2 percentage points lower than the respective forecasts a year ago. This is mostly because of the downward revision to productivity growth.

Overall, the revisions to trend productivity growth combined with other updates we have made since December 2024 have led to small changes to our GDP growth forecast. As Figure 3.6 shows, on average over the next five years, we are still forecasting GDP growth of 1.4 per cent per year as in our December 2024 forecast.

Figure 3.3: Contributions to change in trend GDP growth in 2029-30, Scotland and UK

In 2029-30, productivity downgrade is main factor for lower trend GDP growth forecast



Description of Figure 3.3: Waterfall chart showing that the latest SFC and OBR forecasts of trend GDP growth in 2029-30 are both 0.2 percentage points lower than those from a year ago, with the main contribution from productivity and smaller changes in labour supply.

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts, OBR (2024) Economic and fiscal outlook – October 2024, OBR (2025) Economic and fiscal outlook – November 2025.

The OBR's productivity growth forecast includes an assumption that artificial intelligence (AI) will start to have a positive effect on UK productivity growth within the forecast period as adoption grows. Given our alignment with the OBR's productivity growth judgement at the end of the forecast period, we implicitly assume that AI will have similar positive effects on Scottish productivity. We will monitor this and consider whether there are any potentially uneven effects of AI on the Scottish and UK economies we need to capture in our forecast.

Inflation

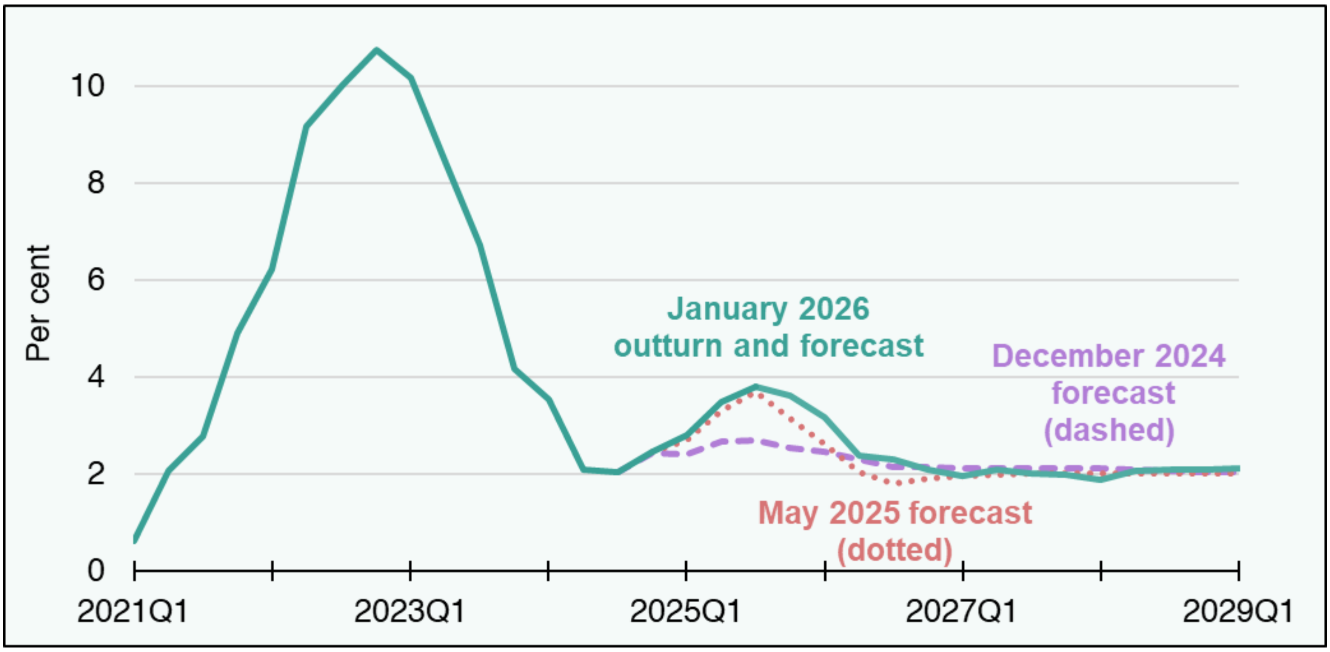
3.4 Figure 3.4 shows that Consumer Prices Index (CPI) inflation during 2025-26 has been higher than we expected in December 2024 and May 2025. This was mostly because of higher food and services price inflation. The latest outturn data shows inflation has been falling from its recent peak of 3.8 per cent in 2025 Q3.

3.5 In the years ahead, the latest outlook for inflation is in line with our December 2024 forecast, and slightly higher over 2026-27 than our May 2025 forecast.[25]

[25] The latest inflation forecast incorporates the impact of the UK Government policy measures announced since the UK Spring Statement 2025 that are expected to reduce UK household energy bills.

Figure 3.4: Consumer Prices Index (CPI) inflation, UK

Inflation to be above target in the near term, higher than previously expected



Description of Figure 3.4: Line chart showing inflation recently peaking at 3.8 per cent in 2025 Q3 and returning to the Bank of England's 2 per cent target by 2027 Q1. This is slightly higher than our May 2025 forecast. Over 2025-26, it is also higher than our December 2024 forecast.

Source: Scottish Fiscal Commission – [Scotland's Economic and Fiscal Forecasts](#).

Outturn data is up to and including 2025 Q3.

Public sector workforce and pay

3.6 As part of our forecasts of Scottish employment and earnings, we also model workforce and average pay in the devolved and reserved public sector in Scotland. Average pay includes two components, pay awards and pay drift. The pay drift is the growth in public sector average pay not explained by pay awards and is driven by factors such as pay progression, workforce composition, overtime, and allowances. For the economy forecast in this report, we have updated our assumptions on devolved public sector workforce, pay awards, and pay drift.

3.7 On workforce, we align our projection with the Scottish Government's stated target in its Fiscal Sustainability Delivery Plan (FSDP) to reduce the overall devolved public sector workforce by an average of 0.5 per cent per year over the five years to 2029-30.[26] We assume this continues in 2030-31, the final year of our forecast.

[26] Scottish Government (2025) Fiscal sustainability delivery plan.

3.8 On pay awards, we base our forecasts for 2025-26 and 2026-27 on the Scottish Government's three-year pay policy, including all the agreed pay awards up to our deadline for inclusion of new data in our forecasts.[27] From 2027-28 onwards, however, we use our baseline assumption of 2 per cent.[28] For 2027-28, the final year of the Scottish Government's three-year pay policy, this means that our assumption is different to the pay award implied by the policy.

3.9 On pay drift, we have revised down our assumption from 1.5 per cent to 1.0 per cent, based on taking a broader view of available data. In line with the Scottish Government's efforts to reduce the overall workforce costs of the public sector, we have reduced our assumption of pay drift to reflect what we think will be additional constraints in the years ahead on pay.

3.10 Our pay assumptions taken together mean we now expect devolved public sector average earnings to grow by around 3 per cent per year from 2027-28 onwards, consistent with our forecast of average earnings growth for the whole economy.

3.11 We discuss public sector workforce and pay in more detail in Chapter 2.

Labour market

3.12 Our view of the labour market over the next five years is in line with our December 2024 forecast, but with a slightly weaker outlook in the near term as economic uncertainty and higher labour costs continue to weigh for longer on business confidence and labour demand.[29]

3.13 Economic inactivity, meaning people neither working nor looking for work, is now back close to its pre-COVID-19 pandemic rate in both Scotland and the UK. This is because rising inactivity due to long-term sickness has been broadly offset by falling inactivity for other reasons such as looking after family or home.

[27] Scottish Government (2024) Scottish Budget 2025 to 2026: public sector pay policy.

[28] Scottish Fiscal Commission (2024) How we set policy baselines.

[29] Fraser of Allander Institute (2025) Scottish Business Monitor Q3 2025, Scottish Government (2025) Scottish economic bulletin: November 2025.

3.14 As Figure 3.6 shows, we have slightly revised down employment growth in the near term, in line with recent outturn data.[30] For the period from 2026-27 onwards, we forecast employment to grow by 0.4 per cent per year on average, broadly in line with population growth and consistent with our December 2024 forecast.

3.15 We also forecast the unemployment rate to rise in the near term, revised up slightly compared with our December 2024 forecast, but to remain close to its assumed structural trend of 4.1 per cent over the next five years.

3.16 As Figure 3.5 shows, our forecast of nominal earnings growth has remained broadly stable, as lower productivity growth is partly offset by higher inflation in the near term. With the devolved public sector accounting for around 20 per cent of Scotland's total employment, the downward revision of 0.5 percentage points to our pay drift assumption has reduced our forecast of earnings growth for the whole economy by around 0.1 percentage points per year.

3.17 For 2026-27, we are forecasting Scottish earnings growth of 2.9 per cent, a small increase from 2.8 per cent in our December 2024 forecast. The OBR has made a larger upward revision to UK earnings growth for 2026-27, to 3.2 per cent in its November 2025 forecast from 2.1 per cent in its October 2024 forecast. We are interested in relative earnings growth between Scotland and the UK because it is an important factor in the projected Income Tax net position and, therefore, funding for the Scottish Budget. All else equal, larger upward revisions to the OBR's forecast reduce the net position.

3.18 The difference between the two forecasts in 2026-27 is broadly in line with Real Time Information (RTI) data up to October 2025. This shows that annual mean pay growth in Scotland is slightly below the UK, partly because of slower earnings growth in the North East of Scotland relative to the Scottish average.[31]

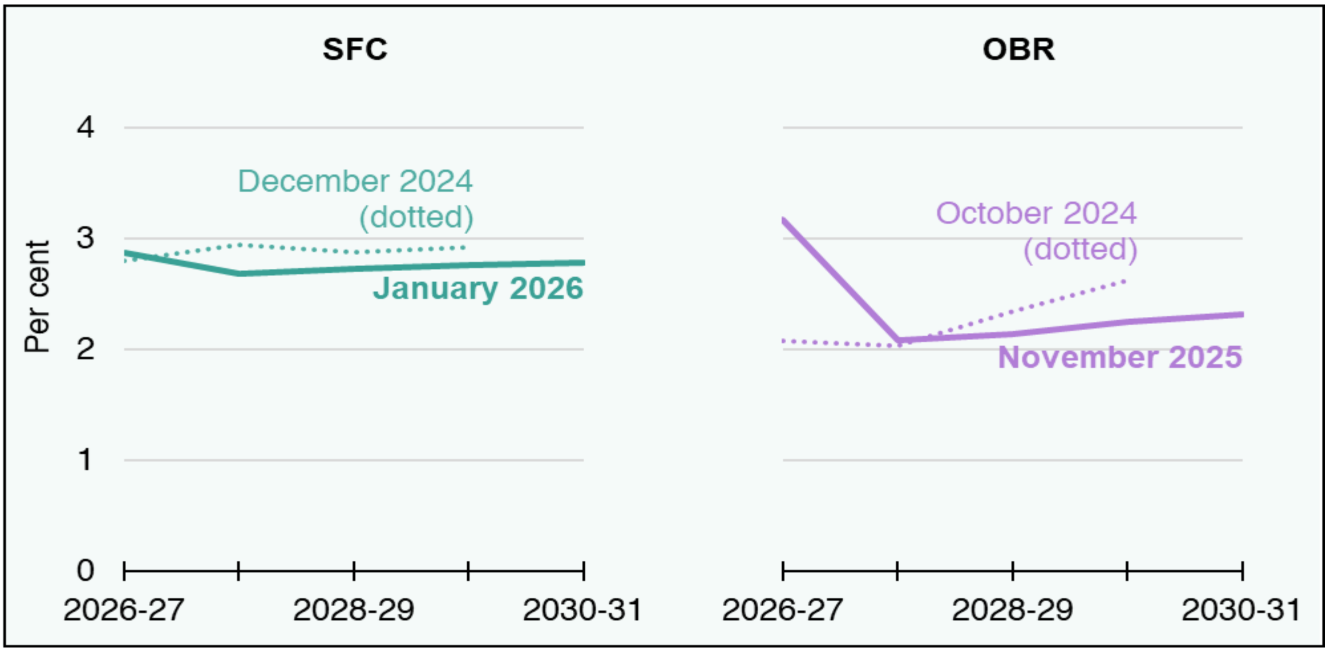
3.19 As Figure 3.5 shows, from 2027-28 onwards, the OBR's forecast of earnings growth for the UK is notably lower than our forecast for Scotland. This does not reflect a judgement on our part that earnings growth in Scotland will be greater than in the UK, but it is the result of comparing two independently produced forecasts.

[30] For 2025-26, our in-year forecast of employment growth for Scotland is a fall of 0.3 per cent whereas the OBR's forecast for the UK is a rise of 1.4 per cent. This issue is due to different outturn data sources being used, respectively Real Time Information (RTI) and Labour Force Survey (LFS), with employment growth estimates from these sources diverging in recent years. It does not represent a judgement on our part about the relative performance of the Scottish and UK labour markets. The RTI, which does not cover self-employment, is administrative data based on employers' payroll returns, whereas the LFS is based on householders' self-reported survey data. As we have discussed before, since the COVID-19 pandemic we have put more weight on the RTI data which has been more reliable than the LFS, while the OBR aligns to outturn data from the LFS.
Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts – August 2021, Scottish Fiscal Commission (2024) Forecast Evaluation Report – August 2024, Scottish Fiscal Commission (2025) Forecast Evaluation Report – August 2025.

[31] December 2025 release of ONS (2025) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted.

Figure 3.5: Comparison of SFC and OBR forecasts of nominal average earnings growth

Forecasts are now closer for 2026-27 while the SFC's is above the OBR's afterwards



Description of Figure 3.5: Line charts showing the latest SFC and OBR forecasts of nominal earnings growth, alongside the previous forecasts published in December 2024 and October 2024 respectively. The latest forecasts are both around 3 per cent in 2026-27, with the OBR's revised up from 2.1 per cent while the SFC's is stable.

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts, OBR (2024) Economic and fiscal outlook – October 2024, OBR (2025) Economic and fiscal outlook – November 2025.

3.20 A similar gap between our and the OBR's forecasts has existed since December 2022. As we have cautioned before, it represents a downside risk to the projected Income Tax net position. If the gap turns out to be smaller, either because Scottish earnings growth is slower than our forecast or because UK earnings growth is faster than the OBR's forecast, then the net position would be lower.

3.21 Since December 2022, we have seen the OBR's forecast being revised up closer to ours for 2025-26, as we discussed in our December 2024 and May 2025 reports. We also saw a similar pattern for forecasts of 2024-25. The OBR's larger upward revision to its latest forecast for 2026-27 is, again, a crystallisation of the risk we had highlighted, contributing to a downward shift in the projected Income Tax net position. We discuss this in more detail in Chapter 4.

3.22 Figure 3.6 shows our latest economy forecast and compares it with our December 2024 forecast.

Figure 3.6: Headline economy forecasts, growth rates unless otherwise specified

Per cent	2024-25 [1]	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
GDP							
December 2024	1.2	1.6	1.5	1.4	1.4	1.4	
January 2026	1.2	1.2	1.3	1.4	1.5	1.5	1.5
CPI inflation							
December 2024	2.3	2.6	2.2	2.1	2.1	2.0	
January 2026	2.4	3.5	2.2	2.0	2.1	2.0	2.0
Average nominal earnings							
December 2024	4.3	3.7	2.8	2.9	2.9	2.9	
January 2026	5.8	5.2	2.9	2.7	2.7	2.8	2.8
Average real earnings							
December 2024	2.0	1.5	0.6	0.8	0.8	0.9	
January 2026	3.1	1.9	0.6	0.7	0.7	0.7	0.8
Employment							
December 2024	0.2	0.1	0.3	0.3	0.3	0.2	
January 2026	0.2	-0.3	0.1	0.4	0.5	0.5	0.5
Unemployment rate							
December 2024	3.9	3.9	3.9	4.0	4.0	4.1	
January 2026	3.7	4.0	4.2	4.2	4.2	4.1	4.1

Source: Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecasts.

Nominal earnings are adjusted for inflation using the Consumer Expenditure Deflator.

Given the ongoing concerns with the quality of the official labour market statistics from the Labour Force Survey and the Annual Population Survey, our view of employment growth and the unemployment rate is based on a range of indicators including Real Time Information payroll data.

[1] The 2024-25 column represents outturn in the January 2026 rows.

Forecast comparisons

3.23 Figure 3.7 shows how our January 2026 forecast of GDP growth in each calendar year compares with a range of other forecasts for Scotland and the UK.

Figure 3.7: Forecast comparison, GDP growth rates in calendar years

Per cent	2024 outturn	2025	2026	2027	2028	2029	2030
Scotland: SFC January 2026	1.0	1.1	1.3	1.3	1.5	1.5	1.5
Scotland: FAI October 2025	1.0	1.0	1.0	1.1			
UK: OBR November 2025	1.1	1.5	1.4	1.5	1.5	1.5	1.5
UK: NIESR November 2025	1.1	1.5	1.2	1.2	1.3	1.3	1.3
UK: BoE November 2025	1.1	1.5	1.2	1.6	1.8		
UK: HMT average of forecasters December 2025	1.1	1.4	1.1				

Source: Scottish Fiscal Commission, Fraser of Allander Institute (2025) FAI Economic Commentary Q3 2025, OBR (2025) Economic and fiscal outlook – November 2025, NIESR (2025) UK Economic Outlook – Autumn 2025, Bank of England (2025) Monetary Policy Report – November 2025, HM Treasury (2025) Forecasts for the UK economy: December 2025, Scottish Government (2025) GDP Quarterly National Accounts: 2025 Quarter 2 (April to June), ONS (2025) GDP quarterly national accounts, UK: April to June 2025.

Chapter 4
Tax

Overview

4.1 In this chapter, we present our forecasts of tax revenues and explain how they affect the Scottish Budget. We discuss the latest projections of tax net positions and provide indicative projections of reconciliations that will apply in future Scottish Budgets. We have also updated our analysis showing the tax base performance gap, which shows how the performance of the tax base in Scotland compares with the rest of the UK since tax devolution.

4.2 Figure 4.1 provides a summary of our forecasts for Scottish Income Tax (SIT), Non-Domestic Rates (NDR), Land and Buildings Transaction Tax (LBTT), Scottish Landfill Tax (SLfT), and Scottish Aggregates Tax (SAT). Figure 4.2 shows how these forecasts have changed since December 2024. We forecast that devolved Scottish taxes will raise a total of £26 billion in 2026-27, which is £0.4 billion lower than our December 2024 forecast. We provide a detailed breakdown of changes to each forecast since December 2024 and June 2025 in our supplementary figures accompanying this report and available on our website.

Figure 4.1: Summary of tax forecasts

£ million	2024-25 [1]	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Scottish Income Tax	18,941	20,280	21,508	22,828	24,051	25,398	26,769
Non-Domestic Rates	3,146	3,097	3,387	3,396	3,464	3,867	3,811
Land and Buildings Transaction Tax	899	1,014	1,049	1,090	1,141	1,195	1,251
Scottish Landfill Tax	56	50	27	21	23	24	26
Scottish Aggregates Tax			42	43	45	46	48
Total	23,042	24,440	26,013	27,378	28,724	30,531	31,904

Source: Scottish Fiscal Commission, Revenue Scotland (2025) Annual Report and Accounts 2024-25 – Devolved Taxes Accounts, Scottish Government (2025) Non-domestic rates income statistics.

Land and Buildings Transaction Tax, Scottish Landfill Tax, and Scottish Aggregates Tax revenues are net of repayments and exclude penalties, interest, and revenue losses.

[1] The 2024-25 column shows a forecast for Scottish Income Tax, and outturn for Non-Domestic Rates, Land and Buildings Transaction Tax, and Scottish Landfill Tax.

Figures may not sum because of rounding.

Figure 4.2: Changes to tax forecasts since December 2024

£ million	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Scottish Income Tax	-158	-198	-274	-152	138	468
Non-Domestic Rates	-29	45	-148	-104	-103	-11
Land and Buildings Transaction Tax	-12	-5	-9	-12	-17	-28
Scottish Landfill Tax	2	10	3	-4	-2	-1
Scottish Aggregates Tax [1]			5	6	7	8
Total	-198	-148	-424	-266	22	436

Source: Scottish Fiscal Commission, Revenue Scotland (2025) Annual Report and Accounts 2024-25 – Devolved Taxes Accounts, Scottish Government (2025) Non-domestic rates income statistics.

[1] For Scottish Aggregates Tax, the change is relative to our first published forecast, in June 2025.

Figures may not sum because of rounding.

Scottish Income Tax

4.3 Overall, our forecast is similar to December 2024, with downwards changes mostly because of updated data, partially offset by upwards revisions to our earnings forecast. Lower than expected Scottish Income Tax outturn for 2023-24 reduces our forecast by around £300 million per year. As we discussed in our August 2025 Forecast Evaluation Report, outturn was lower largely because of low growth in Income Tax paid through Self Assessment, which we had already adjusted for in our June 2025 forecast.[32]

4.4 We have made upwards revisions to our earnings and employment forecasts, but this is offset by lower-than-expected Pay As You Earn (PAYE) Real Time Information (RTI). Combined, these two factors increase our forecast by around £140 million per year from 2026-27. This partially offsets the effect of lower outturn data and the effect of the above inflation increases to the basic rate and intermediate rate thresholds. Our forecast for 2026-27 is reduced by £274 million compared with December 2024.

4.5 In the UK Autumn Budget 2025, the UK Government announced that the Personal Allowance freeze will be extended from 2028-29 to 2030-31. As the Personal Allowance is set uniformly across the UK, we expect this will increase Scottish Income Tax revenues by around an additional £200 million each year, due to fiscal drag.

[32] Scottish Fiscal Commission (2025) Forecast Evaluation Report – August 2025.

Non-Domestic Rates

4.6 We expect NDR to raise £3,387 million in 2026-27. The new valuation roll will come into effect on 1 April 2026, and so there have not yet been any proposals or appeals which change this new roll. Therefore, this is a large increase in revenue expected between 2025-26 and 2026-27. As appeals are resolved, we expect successful ones to lead to refunds in subsequent years of the forecast, reducing revenue.

4.7 The revaluation, on average, will increase properties' rateable values. Therefore, in our baseline assumption, we apply a reduction to rates to compensate for this, ensuring the revaluation has a broadly neutral effect on revenue. We then apply an annual inflationary increase to rates. Taking the two changes together, our baseline rates for 2026-27 are lower than those for 2025-26. We use September CPI to increase the rates in line with inflation. Outturn CPI inflation for September 2025 was higher than we expected in December 2024, which increases our baseline forecast of revenue in 2026-27.

4.8 We have revised up our forecasts of costs of the Small Business Bonus Scheme (SBBS) and Rural Relief, because we identified them as a source of forecast error in our 2025 Forecast Evaluation Report.[33] Due to the way we cost reliefs in a revaluation year, this has no effect on our forecast of 2026-27 revenue. However, it does reduce forecast revenue from 2027-28 onwards by between £17 million and £38 million.

Land and Buildings Transaction Tax

4.9 We forecast total LBTT revenue in 2026-27 will be £1,049 million, which is £9 million lower than we forecast in December 2024.

4.10 For residential LBTT revenue, including the Additional Dwelling Supplement (ADS), we have revised down our 2026-27 forecast by £26 million. This is because of a reduction in our forecast of net ADS, which is partly offset by an increase in our forecast of main-rate residential LBTT.

4.11 We have amended our forecast for repayments of the ADS, because recent outturn on repayments has been higher than our previous assumption. We show this recent outturn, alongside our previous and current assumptions in Figure S4.41 in the supplementary figures accompanying this report and available on our website. We now anticipate that ADS repayments will be £12 million higher than we forecast in December 2024. Since repayments reduce net revenue, we have revised down our forecast net ADS revenue to £205 million in 2026-27.

4.12 Non-residential LBTT is susceptible to in-year volatility, mostly because a small number of high value transactions often have disproportionate effects. We forecast non-residential LBTT will raise £260 million in 2026-27.

[33] Scottish Fiscal Commission (2025) Forecast Evaluation Report – August 2025.

Scottish Landfill Tax

4.13 We expect a decrease in SLfT revenues from 2026-27 as incineration capacity increases, diverting waste away from landfill. This decrease 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).[34]

4.14 Despite increases in overall incineration capacity from 2026-27, less incineration capacity than we expected has been available in 2025-26 due to delays and unplanned closures at Energy from Waste (EfW) facilities. This explains the increase in revenue in 2025-26 compared with our December 2024 forecast.

4.15 Our forecast includes an estimation of waste that would not be suitable for incineration and would not be classed as BMW, which therefore can continue to be landfilled even after the ban. We believe our December 2024 estimate of this type of waste was too high. As a result, we now forecast reduced SLfT revenues past the enforcement of the BMW ban in January 2028.

Scottish Aggregates Tax

4.16 SAT is a new tax that will come into effect from 1 April 2026.[35] We forecast that it will raise £42 million in 2026-27.

4.17 This is the first time we have published a forecast of SAT accompanying a Scottish Budget. In previous publications, we had provided an illustrative forecast for the Scottish share of UK-wide Aggregates Levy, with an initial Scottish-specific forecast of SAT in June 2025.[36]

4.18 Our illustrative forecast divided revenues between Scotland and the rest of the UK based on a share of quarrying. However, in practice, SAT will be charged on the commercial exploitation of aggregate. This means that liability will depend on the location of the customer, not the quarry. Taking account of imports and exports reduces our forecast by around £15 million per year.

Tax policy changes

4.19 Figure 4.3 shows our cost estimates for several policy changes that have been introduced in the 2026-27 Scottish Budget. We present a more detailed breakdown of these policy changes in Annex A.

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

[35] Revenue Scotland – Scottish Aggregates Tax (SAT).

[36] Scottish Fiscal Commission (2025) Scotland’s Economic and Fiscal Forecasts Update – June 2025.

Figure 4.3: Summary of 2026-27 Scottish Budget tax policy changes

£ million	2026-27	2027-28	2028-29	2029-30	2030-31
Scottish Income Tax	-50	72	194	205	216
Non-Domestic Rates	-153	-101	-68	0	0
Scottish Landfill Tax	4	5	6	7	9
Total	-199	-24	131	212	225

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

4.20 For Scottish Income Tax, the Scottish Government has confirmed its policy to freeze in the higher rate, advanced rate, and top rate thresholds in 2026-27, as announced in 2025-26 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 separate policy change.

4.21 The Scottish Government will increase the 2025-26 basic and intermediate rate thresholds by 7.4 per cent 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.

4.22 There are several NDR policy changes included in the 2026-27 Budget. Overall, these measures reduce revenue by £153 million in 2026-27, with a lower effect in later years as the scale of the transitional reliefs falls.

4.23 There will be reliefs for retail, hospitality, and leisure (RHL) properties, to apply until 31 March 2029. The RHL relief on islands and in specified remote areas will cover 100 per cent of gross bills. In the rest of Scotland, the RHL relief will only apply to properties liable for the Basic and Intermediate Property Rates, and will be 15 per cent. Across both RHL reliefs, each business will only be eligible to receive £110,000 in relief per year.

4.24 There are also two transitional relief schemes associated with the 2026 revaluation, both of which will apply until 31 March 2029 (that is, for all three years that the 2026 roll will be in force).

- Revaluation Transitional Relief (RTR) applies a cap to the percentage increase in a property's gross bill, with all properties that would otherwise see an increase above the cap being eligible. The cap varies depending on the new 2026 rateable value of the property, and on the year of the scheme. For higher-value properties, and for later years of the scheme, the cap is higher, so a larger increase is required to qualify. This is a similar approach to the one taken in 2023, but with amended values for the caps.

- Small Business Transitional Relief (SBTR) applies to properties with reduced percentage eligibility for the SBBS, Rural Relief, or Hospitality Relief.[37] It also applies to properties that, in 2025-26, are still receiving SBTR from the 2023 revaluation. SBTR will apply after all other reliefs, and will apply a percentage discount to what would otherwise be a property's increase in its net bill. This is a different approach from the one taken in 2023, when bill increases were limited in absolute terms.

4.25 For SLfT, our baseline assumption is that the Scottish Government will increase the lower rate and standard rate in line with the Retail Prices Index (RPI). The Scottish Government has announced that the lower rate will increase by the same cash amount as the standard rate and will now be £8.65 per tonne in 2026-27. Our forecast assumes that the lower rate will then increase by the same cash amount as the standard rate increase in future years.

4.26 This will maintain the gap between the two rates at £122.10 throughout the forecast period and is consistent with UK Landfill tax rates. The Scottish Government has also announced that it will legislate to close the Scottish Landfill Communities Fund (SLCF) to new contributions from 31 March 2026. Combined these policies are expected to raise £4 million in 2026-27.

Tax forecasts and the Scottish Budget

4.27 This section discusses our forecasts for Income Tax, LBTT, SLfT, and SAT alongside the corresponding Block Grant Adjustments (BGAs), which are based on the OBR's forecasts. Figure 4.4 shows the projected tax net positions. Tax BGAs remove funding from the Scottish Budget to account for tax devolution. Non-Domestic Rates are excluded as they have a separate funding process.[38]

[37] For this purpose the RHL reliefs are considered successors to the two existing reliefs for hospitality.

[38] Scottish Fiscal Commission (2021) Funding for the Scottish Budget – May 2021.

Figure 4.4: Projected tax net positions

£ million	2024-25 [1]	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Scottish Income Tax							
BGA	-17,839	-19,367	-20,539	-21,386	-22,110	-23,128	-24,082
Scottish revenue	18,941	20,280	21,508	22,828	24,051	25,398	26,769
Net position	1,102	913	969	1,442	1,941	2,270	2,687
LBTT							
BGA	-625	-668	-788	-886	-988	-1,074	-1,140
Scottish revenue	899	1,014	1,049	1,090	1,141	1,195	1,251
Net position	274	346	261	204	153	121	111
SLfT							
BGA	-73	-78	-55	-55	-69	-65	-70
Scottish revenue	56	50	27	21	23	24	26
Net position	-18	-28	-28	-34	-46	-41	-44
SAT							
BGA			-37	-39	-41	-43	-43
Scottish revenue			42	43	45	46	48
Net position			5	4	4	4	4
Total net position	**1,358**	**1,230**	**1,207**	**1,617**	**2,053**	**2,354**	**2,758**

Source: Scottish Fiscal Commission, Scottish Government.

Negative figures for the net position represent a negative funding effect on the Scottish Budget, where the BGA reduces funding by more than the tax revenue raised.

[1] The 2024-25 column shows a forecast for Income Tax, and outturn for LBTT and SLfT.

Figures may not sum because of rounding.

4.28 The projected LBTT net position is positive, though narrowing, over the forecast period. The reduction over time is because of expected higher Stamp Duty Land Tax (SDLT) revenues over the forecast period, largely due to planning reforms in England.

4.29 The projected SLfT net position is negative and widens towards the end of the forecast period. The BGA has increased since December 2024, largely because of increases to the lower rate of Landfill Tax in England and Northern Ireland.

4.30 For SAT, 2026-27 is being used as the baseline for setting the BGA in future years. For this Budget, the BGA for 2026-27 for SAT was set to match our June 2025 forecast for SAT revenue. Since then, our forecast for SAT revenue has increased, largely because of updated outturn data for UK Aggregates Levy, which leads to the positive net position. However, the 2026-27 net position will ultimately be reconciled to zero, because it will be the baseline year. The BGA in future years will then be adjusted.

Income Tax net position and reconciliations

Income Tax net position

4.31 The Income Tax net position summarises the net effect on funding for the Scottish Budget of Income Tax, as determined by the Fiscal Framework. The Income Tax net position is calculated by subtracting the Income Tax BGA from Scottish Income Tax revenues. Figure 4.5 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 2026-27 Scottish Budget will be set, is £969 million. This compares with £838 million on which the 2025-26 Scottish Budget was set, based on the latest available forecasts in December 2024.[39]

4.32 Consistent with previous projections, the net position is expected to rise over time, largely driven by Scottish Government policy decisions to increase tax rates and freeze tax thresholds. Using the latest forecasts, the Income Tax net position is expected to increase from £913 million in 2025-26 to £969 million in 2026-27. As we have discussed in previous reports, if current Scottish and UK tax policies remain the same in future years, this will mean the net position continues to rise over time, as Scotland will experience greater fiscal drag than in the UK because of lower tax thresholds. However, the net position is not as high as it might otherwise be, given relatively slower growth in Scottish earnings. We discuss this in the 'Tax base performance gap' section of this chapter (paragraphs 4.48 to 4.51).

4.33 Figure 4.5 also shows that the Income Tax net position can be subject to substantial revisions. Projections of the net position are determined by the difference in forecasts of growth in Scottish and rest of UK Income Tax revenues, which can change a lot from year to year, leading to reconciliations.

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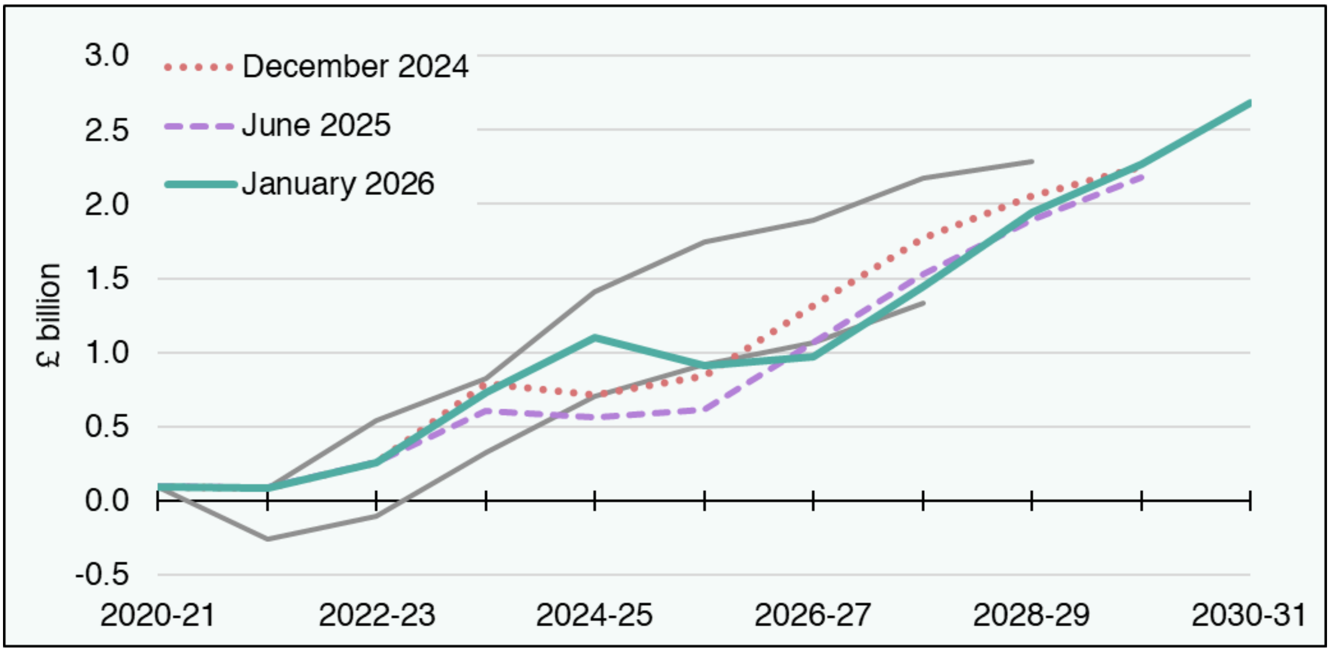
[39] To note, there are three bases of comparison for discussing changes in the Income Tax net position.

- Revisions to the net position – this compares estimates of the net position for a given year, but based on different forecasts.
- Growth in the net position over time – this compares estimates of the net position in different years, but using the same forecasts.
- Changes in budget funding – this compares the budget setting net position for the current budget year to the budget setting net position for the previous budget year. For example, the 2026-27 net position in January 2026 compared with the 2025-26 net position in December 2024.

All three bases of comparison are important for fully understanding changes in the net position, and we consider all three in this chapter.

Figure 4.5: 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 4.4: 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 projection from 2026-27 to 2028-29.

Source: Scottish Fiscal Commission, OBR.

4.34 We continue to highlight a particular downside risk to the Income Tax net position. As discussed in Chapter 3, from 2027-28 onwards the OBR's forecast of average earnings growth in the UK is substantially lower than our forecast of average earnings growth in Scotland. This is the product of comparing two independently produced forecasts and does not reflect a judgement on our part that earnings growth in Scotland will be greater than in the UK. Forecast higher average earnings growth in Scotland compared with the UK contributes to an increasing projected Income Tax net position.

4.35 If Scottish and UK earnings growth are closer than the current comparison of our and the OBR's forecasts suggests, then the Income Tax net position will be lower. This is a downside risk to the Income Tax net position from 2027-28 onwards.

4.36 We highlighted a similar risk in December 2024, discussing the downside risk to the Income Tax net position from 2025-26 onwards. With large upwards revisions to the OBR's earnings forecast for 2025-26 and 2026-27 contributing to downwards revisions to the Income Tax net position, this risk has now materialised.

Changes in the Income Tax net position since December 2024

4.37 The Income Tax net position for 2026-27 has been revised down from £1,314 million to £969 million. Figure 4.6 provides a more detailed breakdown of this change in the Income Tax net position (ITNP), showing individual movements in the BGA and Scottish Income Tax.

4.38 Lower than expected UK NSND outturn data for 2023-24, and lower than expected UK PAYE receipts data for 2024-25 and 2025-26, led to downwards revisions to the BGA in these years. These downwards revisions to the BGA contribute positively to the Income Tax net position for Scotland. We have also revised down our Scottish Income Tax forecast in light of lower Scottish outturn data for 2023-24, but with smaller revisions to 2024-25 and 2025-26. As the revisions to the BGA are larger than to Scottish Income Tax, the net position has been revised up in these years, by £391 million in 2024-25 and by £75 million in 2025-26.

4.39 Compared with its October 2024 report, the OBR has made upwards revisions of around 1 percentage point to its forecasts of UK average earnings growth in 2025-26 and 2026-27. This increases forecasts of UK Income Tax revenue, increasing the BGA and reducing the Income Tax net position. This offsets the impact of the lower-than-expected data for earlier years. Combined these two offsetting effects mean the BGA has been revised up by £71 million in 2026-27, reducing the Income Tax net position.

4.40 We have made smaller revisions to our average earnings forecast for 2026-27, decreasing it by 0.1 per cent. Overall, the increase in the BGA and the reduction in our Scottish Income Tax forecast means a lower Income Tax net position is projected for 2026-27 compared with December 2024.

4.41 UK policies extending the freeze in tax thresholds and the Personal Allowance to 2030-31, raise additional UK NSND revenues. This increases the BGA in the later years of the forecast. However, the frozen Personal Allowance also applies in Scotland, raising additional Scottish Income Tax revenues. The Scottish Government policy changes also decrease the net position by £50 million in 2026-27 but add around £200 million per year from 2028-29 with the threshold freezes increasing revenue.

Figure 4.6: Change in SIT, the Income Tax BGA, and the ITNP since December 2024

£ million	2024-25 [1]	2025-26	2026-27	2027-28	2028-29	2029-30
Scottish Income Tax						
December 2024	19,099	20,477	21,782	22,980	23,913	24,930
January 2026	18,941	20,280	21,508	22,828	24,051	25,398
Change	-158	-198	-274	-152	138	468
Income Tax BGA						
December 2024	-18,389	-19,639	-20,468	-21,207	-21,862	-22,675
January 2026	-17,839	-19,367	-20,539	-21,386	-22,110	-23,128
Change	549	273	-71	-179	-247	-453
Net position						
December 2024	711	838	1,314	1,774	2,051	2,255
January 2026	1,102	913	969	1,442	1,941	2,270
Change	391	75	-345	-331	-110	15

Source: Scottish Fiscal Commission, OBR.

Negative figures for the net position represent a negative funding effect on the Scottish Budget, where the BGA reduces funding by more than the tax revenue raised.

[1] The 2024-25 column shows a forecast for Scottish Income Tax, and outturn for Land and Buildings Transaction Tax and Scottish Landfill Tax.

Figures may not sum because of rounding.

Indicative reconciliations

4.42 Reconciliations are applied in the Scottish Budget following the publication of outturn information on Income Tax revenues. They are calculated by comparing the Budget-setting net position to the final outturn net position. Before outturn data is published, we can use the latest projection of the Income Tax net position to provide an indicative projection of reconciliations. Figure 4.7 summarises outturn and indicative reconciliation estimates.

Figure 4.7: Outturn and indicative estimates of Income Tax reconciliations

Collection year	Applies in Budget for	Status	Reconciliation (£ million) [1]
2020-21	2023-24	Outturn	50
2021-22	2024-25	Outturn	-390
2022-23	2025-26	Outturn	451
2023-24	2026-27	Outturn	406
2024-25	2027-28	Indicative	-310
2025-26	2028-29	Indicative	75

Source: Scottish Fiscal Commission.

[1] For 2024-25 and 2025-26 these are indicative reconciliations.

Figures may not sum because of rounding.

4.43 The latest projection of the Income Tax net position suggests that there will be a negative £310 million reconciliation to be applied in the 2027-28 Scottish Budget. This is a large change from the negative £851 million indicative reconciliation projected in June 2025. This is largely because the BGA has decreased substantially because of lower-than-expected Income Tax receipts for the UK in 2024-25.

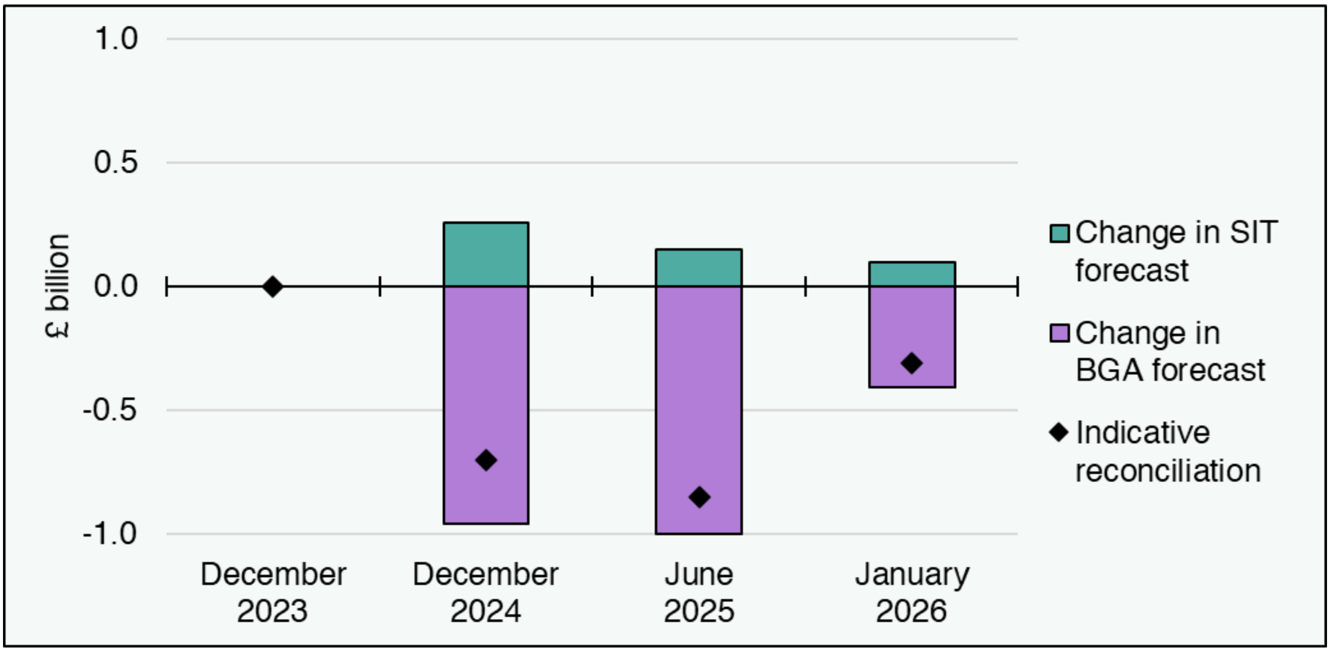
4.44 In Figure 4.8 we show how changes to our Scottish Income Tax forecast and the BGA based on the OBR's forecast of UK Income Tax have affected the indicative reconciliation estimate for 2024-25 since the December 2023 Budget-setting forecast. Our forecast of Scottish Income Tax revenues has remained fairly consistent but we have seen large changes in the forecast of the BGA.

4.45 In our December 2024 report we have explained how a large upwards revision to the indicative BGA was caused by outturn data for 2022-23 and the OBR revising up its earnings forecast. These revisions led to a large negative indicative reconciliation for 2024-25.

4.46 We expect both sets of forecasts and the indicative reconciliation estimates to become more accurate as we get closer to outturn data. This is because we receive more up-to-date data which informs our forecasts, particularly on tax collected through PAYE. However, there is still no reliable data for 2024-25 on tax paid through Self Assessment and we would not expect to receive any until at least March 2026.

Figure 4.8: Change in 2024-25 indicative reconciliations since December 2023

The variation in indicative reconciliation estimates can mostly be attributed to changes in the BGA



Description of Figure 4.8: Stacked bar chart showing changes in Scottish Income Tax (SIT) and BGA since budget-setting forecast in December 2023. It also has a marker showing the indicative reconciliation estimate at each forecast.

Source: Scottish Fiscal Commission

4.47 For our current estimate of the indicative reconciliation in 2025-26, when the Scottish Government has set its 2025-26 Budget, Income Tax was projected to add a net £838 million to the Scottish Budget. Since then, the forecast of the BGA has decreased by more than our Scottish Income Tax forecast and so we are projecting a positive £75 million reconciliation to be applied in the 2028-29 Scottish Budget.

Tax base performance gap

4.48 With the tax base performance gap we aim to measure how the performance of the tax base in Scotland compares with that of the rest of the UK. To calculate this, we look at the difference between the Income Tax net position and an illustrative one where we assume Scotland matches the rest of the UK in earnings and employment growth.

4.49 In this illustrative net position, which we refer to as 'policy-only', we show how much more funding the Budget could have received purely from the more progressive Scottish rates and thresholds compared with those in place in the rest of the UK. We estimate that the policy-only net position for 2026-27 is £1.8 billion, which compared with the £1.0 billion Income Tax net position, gives a tax base performance gap of negative £0.8 billion in 2026-27.

4.50 The tax base performance gap arises because of many factors. The most substantial of these are slower aggregate earnings and employment growth in Scotland compared with the rest of the UK, behavioural responses from taxpayers to policy changes, differences in the sectoral make up of the Scottish economy, and the different distribution of incomes in Scotland and in the rest of the UK.

4.51 Figure 4.9 shows the tax base performance gap as a percentage of Scottish Income Tax revenues. With large increases in earnings and therefore Scottish Income Tax revenues since the start of the decade, this comparison shows how the performance gap has changed in relative terms. The percentage is currently lower in 2026-27 than it was in 2020-21.

Figure 4.9: Tax base performance gap, 2020-21 to 2026-27

Collection year	Policy differences only Income Tax net position (£ million)	Income Tax net position (£ million)	Tax base performance gap (£ million)	Tax base performance gap (percentage of SIT revenue)	Income Tax net position status
2020-21	637	96	-540	4.6	Outturn
2021-22	747	85	-661	4.9	Outturn
2022-23	877	260	-616	4.1	Outturn
2023-24	1,227	730	-497	2.9	Outturn
2024-25	1,579	1,102	-478	2.5	Projected
2025-26	1,690	913	-778	3.8	Projected
2026-27	1,754	969	-785	3.6	Projected

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Scottish median incomes

4.52 Given the latest policy changes, taxpayers in Scotland earning less than £33,500 will pay less Income Tax in 2026-27 than they would in the rest of the UK, though this can vary with individual circumstances. We estimate median non-savings, non-dividend (NSND) gross income in Scotland in 2026-27 will be £31,150 and the median income net of deductions will be £30,350.

4.53 We have discussed the measurement of Scottish median incomes in our fact sheet published in November 2025.[40] We have now published our updated estimates for 2024-25, 2025-26, and 2026-27 in our supplementary figures accompanying this report and available on our website.

[40] Scottish Fiscal Commission (2025) Scottish median incomes fact sheet: Scottish Fiscal Commission estimates update – November 2025.

4.54 In our fact sheet we have explained how estimates of median income for Scotland varied depending on the data source used, the definition of income used, and the population covered. For example, the Annual Survey of Hours and Earnings (ASHE), which is a survey of employee earnings, shows the median earnings of all employees in Scotland to be £33,050 in the 2025 survey results, and £39,900 for those in full-time employment.[41]

Materiality

4.55 Some policies announced by the Scottish Government will have a very small effect relative to the size of the total Scottish Budget. We include detailed information on policies which have a material effect on the Scottish Budget in Annex A. This section covers the new policies which do not have a detailed costing because they have an effect under our materiality threshold of £10 million or our £5 million threshold for negligible policies, some of which are still included in our forecasts.

4.56 The Scottish Government intends to introduce new Council Tax bands for high-value properties. This policy would affect properties with a 2026 market value above £1 million and is planned to be introduced in April 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 we consider that it will fall below our materiality threshold, and so we have not made any adjustments to our LBTT forecast.

4.57 The Scottish Government will also bring forward a Scottish Statutory Instrument giving effect to an exemption for transactions in units within Co-ownership Authorised Contractual Schemes (CoACS). Given the overall intended effect is tax neutrality, we judge this policy to have a negligible effect on LBTT revenues. In addition, the Scottish Government is planning to introduce LBTT relief for properties within a designated Investment Zone. We judge the effect of this to fall below our materiality threshold.

4.58 For Non-Domestic Rates, self-catering properties without a short-term let licence will lose SBBS relief, and will also not be allowed to claim SBTR. There is limited data on the rate of non-compliance, but we assume the level of non-compliance among those that claim the SBBS to be sufficiently low that this policy falls below our materiality threshold.

4.59 We also judge that the removal of some shootings and deer forests from eligibility for the SBBS and the introduction of 100 per cent relief for electric vehicle charging points will fall below our materiality threshold.

[41] ONS (2025) Employee earnings in the UK: 2025. We are using figures on a residency basis as this is the basis for Income Tax, whereas ASHE figures are often presented on a workplace basis.

Illustrative tax forecasts

4.60 The Scottish Government intends to introduce Air Departure Tax (ADT) from April 2027, to replace the UK-wide Air Passenger Duty (APD). We expect that ADT rates will match APD rates for the first year, which is the same approach that was taken for Scottish Aggregates Tax. We will include ADT as part of our main tax forecasts accompanying the 2027-28 Scottish Budget. We provide an illustrative forecast for a Scottish share of UK Air Passenger Duty in our supplementary figures accompanying this report and available on our website.

4.61 Scottish Building Safety Levy is a further planned tax, which will now be introduced from April 2028. As this does not replace a currently existing tax, we do not provide an illustrative forecast.

Uncertainties

4.62 While each set of forecasts we produce will have uncertainties, this section focuses on the specific uncertainties that affect our January 2026 tax forecast.

Scottish Income Tax

4.63 RTI PAYE growth has been lower in the first six months of 2025-26 than in 2024-25 and 2023-24. This lower growth reflects slowing earnings growth and decreasing employment in 2025-26. RTI is an early indicator tax collected through PAYE but does not contain information on tax paid through Self Assessment. For these reasons there is more uncertainty than usual in this data.

4.64 The UK Government announced that the rate of Income Tax on property income would be increased by 2 percentage points from 6 April 2027.[42] Amendments to the Scotland Act allow for the Scottish Parliament to set a separate rate on property income and the process for devolving this power is currently underway.[43] [44] The earliest these powers could come into effect would be 2027. This leads to uncertainty for our forecasts from 2027-28 until the Scottish Government confirms its plans.

Non-Domestic Rates

4.65 As of our deadline for inclusion of new data in our forecasts, we have a near-complete draft of the 2026 valuation roll included in our modelling. However, changes in the valuations on this roll could still occur before it enters into force on 1 April 2026. Any changes in the valuations could affect our forecast of NDR revenues.

[42] HM Treasury (2025) Budget 2025.

[43] UK Parliament (2026) Finance (No. 2) Bill.

[44] Scottish Government (2025) Letter from the Cabinet Secretary for Finance and Local Government to Finance and Public Administration Committee on Legislative consent for income tax on property – 9 December 2025.

4.66 As we have discussed in our May 2025 report, there is still uncertainty about the scale of losses from the new system for proposals and appeals, introduced in 2023.[45] In addition, pending appeals at the Upper Tribunal for Scotland could, if successful, set a precedent for other properties valued using the same method. Such appeals therefore have the potential to lead to a large reduction in revenue.

Land and Buildings Transaction Tax

4.67 In our 2025 Forecast Evaluation Report, we have described that our December 2023 forecast of LBTT revenue in 2024-25 had an error of £169 million, or 23 per cent.[46] Our LBTT forecast is sensitive to errors in forecasts of price and transaction growth, and this sensitivity is compounded by the two often being related to one another. Given the challenges in accurately forecasting the housing market, we continually review our forecasting approach.

Scottish Landfill Tax

4.68 SLfT is forecast to be the smallest devolved tax and, although the effects of any forecast errors on the Scottish Budget are small, it can be subject to higher percentage errors. This is because it is mostly influenced by waste infrastructure both existing and scheduled as opposed to economic determinants. The three main areas of uncertainty are incineration capacity, waste quantity, and waste composition.

4.69 Furthermore, if any new EfW facility is delayed or any single EfW site stops accepting waste (even temporarily), SLfT revenues will be much higher than forecast. Similarly, if EfW facilities burn more waste than expected SLfT revenues could also be substantially lower. Our SLfT forecast is sensitive to waste levels in Scotland because any differences in waste quantity are expected to affect landfill before any other waste disposal method. Waste composition is also an important factor as it dictates what is landfilled at what rate as well as what can be burnt and at what quantities.

Scottish Aggregates Tax

4.70 HMRC does not currently collect data on the amount of the current UK-wide Aggregates Levy that is attributable to Scotland. We have therefore used other data sources to estimate the share of quarrying and cross-border movement of aggregate. Once SAT is introduced in April 2026, we will be able to obtain outturn data from Revenue Scotland. We expect to have SAT outturn data available to inform our forecast published alongside the 2027-28 Budget.

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[45] Scottish Fiscal Commission (2025) Scotland's Economic and Fiscal Forecasts – May 2025.

[46] Scottish Fiscal Commission (2025) Forecast Evaluation Report – August 2025.

Chapter 5
Social security

Overview

5.1 We forecast spending on social security will increase from £7.4 billion in 2026-27 to £9.2 billion in 2030-31. This growth is driven partly by annual increases in payment rates in line with inflation, which contributes £0.7 billion to the increase, and partly by an expected increase in the number of people receiving disability and carer payments, which adds another £1.1 billion.

5.2 Compared with our December 2024 forecast, spending is forecast to be £66 million lower in 2026-27, and £4 million higher in 2029-30.

Figure 5.1: Change in total social security spending forecast since December 2024

£ million	2024-25 outturn	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
December 2024	6,224	6,930	7,471	7,922	8,321	8,754	
January 2026, of which:	6,141	6,759	7,405	7,888	8,300	8,758	9,226
Social Justice portfolio	6,081	6,685	7,335	7,818	8,230	8,688	9,156
Deputy First Minister, Economy and Gaelic portfolio	60	73	70	70	70	70	70
Change since December 2024	-83	-171	-66	-33	-22	4	

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Changes since December 2024

5.3 This section outlines the main reasons for changes in our forecast since December 2024. 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), and higher uprating of payments. Figure 5.2 shows a breakdown of the changes in our forecast since December 2024.

Figure 5.2: Components of change in social security forecast since December 2024

£ million	2024-25 outturn	2025-26	2026-27	2027-28	2028-29	2029-30
December 2024	6,224	6,930	7,471	7,922	8,321	8,754
Disability and carer payments	-67	-241	-218	-208	-202	-181
Change in PAWHP	-3	86	92	96	101	107
Inflation			73	84	79	82
Scottish Government policy		8	0	3	7	7
Other	-14	-25	-14	-9	-7	-10
January 2026	6,141	6,759	7,405	7,888	8,300	8,758
Change since December 2024	-83	-171	-66	-33	-22	4

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Disability and carer payments spending

5.4 We have reduced our forecasts for disability and carer payments since December 2024. After excluding the effect of the inflation on payment amounts, which we discuss in the 'Inflation' section of this chapter (paragraphs 5.21 and 5.22), the combined spending on disability and carer payments is around £0.2 billion lower from 2025-26 onwards. The following are the main reasons for this decrease.

5.5 **Adult Disability Payment**. We have reduced our spending forecast for Adult Disability Payment (ADP) because there have been fewer approved applications than we expected in December 2024. The main reason for this was that authorisation rate decreased over the last year, below our previous forecast. The latest data also shows that more people are exiting the payment than we forecast which reduces spending.

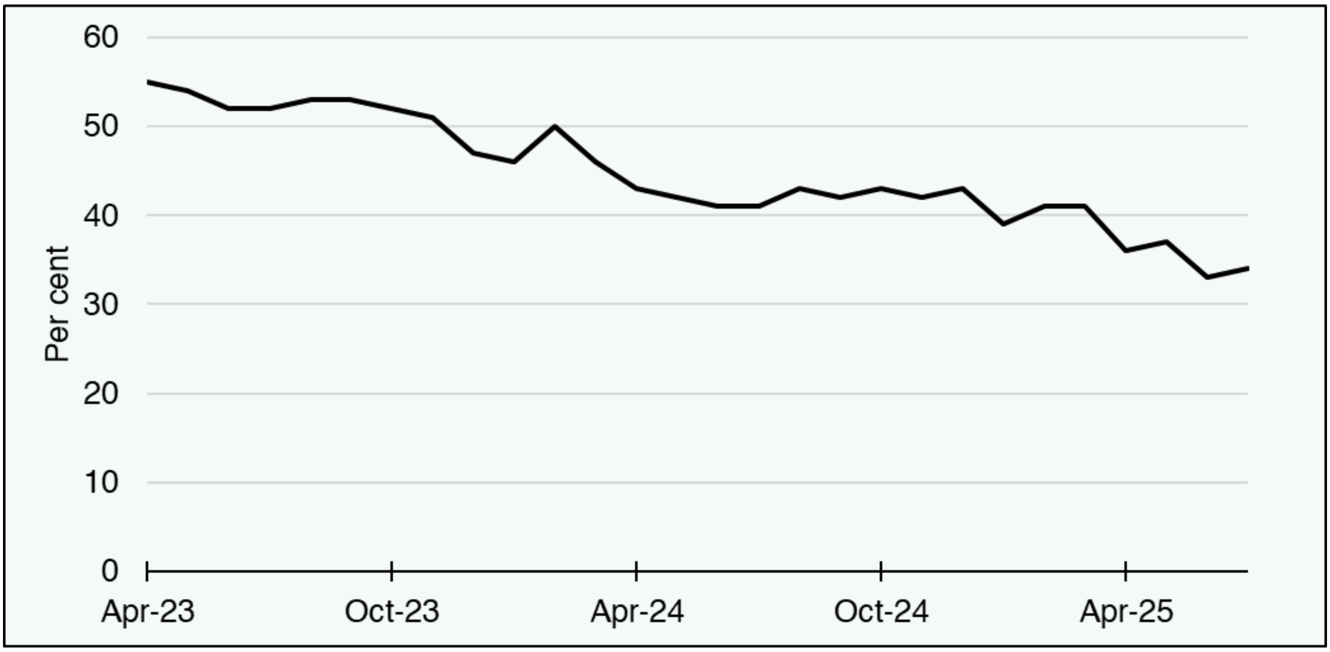
5.6 We continue to expect the number of people receiving payments and spending on ADP to exceed what would have occurred had Personal Independence Payment (PIP) remained in Scotland. Between March 2022 and July 2025, the number of people receiving PIP in England and Wales increased by 45 per cent, while the number of people receiving ADP and PIP in Scotland increased by 57 per cent. If growth rates had been the same, we estimate that around 35,000 fewer people would be receiving ADP at present. However, the latest caseload data suggests the scale of the difference between ADP and the counterfactual of the continuation of PIP is narrower than our previous forecast suggested.

5.7 While the number of new applications for ADP has remained consistent with previous years and above our forecast, authorisation rates for those applications have continued to decline. The reason for the decrease in the authorisation rate for new applicants is unclear. Figure 5.3 shows how the authorisation rate has fallen from over 50 per cent in 2023 to below 35 per cent in July 2025. During the same period, the average authorisation rate for PIP in England and Wales has aligned with historical trends and remained around 45 per cent.

5.8 Given the uncertainty over the reason for the fall in authorisation rates, we assume this decrease will not continue. Instead, we expect that the authorisation rate for new applications to ADP will rise slightly and stabilise at a level equal to its average from the last year. This level is lower than we assumed in December 2024, so there are fewer successful applications over the forecast. Having a lower authorised application forecast reduces our spending forecast by £88 million in 2026-27 and by £46 million in 2029-30.

Figure 5.3: ADP authorisation rate

ADP authorisation rate continues to decrease



Description of Figure 5.3: Line chart showing ADP authorisation rate gradually decreasing from 55 per cent in April 2023 to 34 per cent in July 2025.

Source: Scottish Fiscal Commission, Social Security Scotland (2025) – Adult Disability Payment statistics to 31 July 2025.

5.9 People receiving ADP have their awards reviewed regularly by Social Security Scotland to ensure they remain eligible and are still receiving the appropriate level of award. Before we had data on award review outcomes for ADP, we assumed the proportion of ADP awards decreased or ended at review would be around 20 per cent. This was approximately 10 percentage points lower than historical levels for PIP. Initial data on the outcome of award reviews, which was used for our December 2024 forecast, showed the percentage of awards decreased or ended at review was 2 per cent in July 2024.

5.10 The latest data from Social Security Scotland on award reviews has allowed us to refine our assumptions on how many people are exiting the payment. In the latest estimates, the percentage of awards decreased or ended at review has risen to 5 per cent in July 2025. We expect that the percentage of case transfers and new applications cases ended at award review will stabilise around the current level. With more exits, the number of people receiving ADP falls, so this change reduces spending by £41 million in 2026-27 and by £78 million in 2029-30, compared with our December 2024 forecast.

5.11 Recent data has shown a rise in the percentage of award reviews for ADP resulting in an award level reduced or ended. However, the percentage for ADP in Scotland remains lower than the percentage for PIP in England and Wales, and previous assumptions on the ADP launch. The percentage of PIP award reviews in England and Wales which result in a decrease or disallowance fell from 30 per cent in April 2023 to 13 per cent in July 2025. Latest data is also consistent with our assumption that Social Security Scotland's approach to reviews leads to fewer people having their ADP awards ended at review than would have been the case had PIP continued in Scotland.

5.12 **Child Disability Payment**. We revised down spending on Child Disability Payment (CDP) after reviewing our forecast for the number of young people exiting the payment. This leads to lower spending through fewer 17- and 18-year-olds receiving payments than we forecast in December 2024.

5.13 In 2022 and 2023, young people who were transferred from Disability Living Allowance to CDP were entitled to remain in CDP up to the age of 19 to allow time to apply for Adult Disability Payment (ADP), thus increasing the CDP caseload aged 17 and 18. In November 2023, amendments were introduced to limit this to those individuals who turned 18 soon after their case transferred. We did not correctly account for this amendment in our December 2024 forecast. These changes have contributed to the reduction in the spending forecast by £28 million in 2026-27 and by £55 million in 2029-30.

5.14 **Average amounts.** We have reduced forecasts for average payment amounts of CDP and ADP to reflect updated data on payment award rate combinations. The real term average awards have decreased since the launch of CDP and ADP in Scotland, while those for Disability Living Allowance for Children and PIP in England and Wales increased. We think this is because with the rise in the number of people receiving the payments in Scotland, there is a higher proportion of recipients with less severe conditions who receive lower awards. Changes to the average payment amounts for CDP and ADP decrease our spending forecast by £53 million in 2026-27 and by £26 million in 2029-30.

5.15 **Financial data and back payments.** Statistical and financial data on the number of payments can differ because of back payments after an initial application or after an award review. Our ADP and CDP forecasts have been adjusted to better reflect processing times and back payments. These adjustments reduce our spending forecast by £14 million in 2026-27 and by £18 million in 2029-30.

5.16 **Pension Age Disability Payment**. We have updated our Pension Age Disability Payment (PADP) forecast to reflect a higher-than-expected demand for pension-age disability payments across the UK since COVID-19 pandemic. We also expect that some people who might have applied after the national PADP launch in April 2025 were already receiving Attendance Allowance (the payment replaced by PADP) As a result, we now assume future increases in the number of people receiving payments to be lower. In addition, we have reduced our assumption on the number of people exiting PADP, as the data shows a decrease in the exit rate, which increases our spending forecast. Overall, these changes increase PADP spending by £39 million in 2026-27 and by £58 million in 2029-30.

5.17 **Carer Support**. We have revised down our forecast on Carer Support by approximately £20 million across the forecast period to reflect the latest disability and carers data and disability payment forecast. Compared with our December 2024 forecast, we expect fewer people to receive disability payments, and a lower percentage of those people to have a carer receiving Carer Support.

Pension Age Winter Heating Payment

5.18 In December 2024, the Scottish Government's policy for Pension Age Winter Heating Payment (PAWHP) from 2025-26 onwards was that most people over State Pension age would receive the payment, with those in receipt of qualifying benefits receiving higher amounts.

5.19 In June 2025 the Scottish Government revised its policy, increasing amounts for households without qualifying benefits so that payment amounts are no longer based on qualifying benefits. There will be subsequent payment recovery from those with annual incomes above £35,000. As the payment recovery is being administered by HMRC through the tax system it is not part of our forecast.

5.20 Compared with our December 2024 forecast, these changes mean that our forecast for PAWHP spending is £92 million higher in 2026-27, and £107 million higher in 2029-30.

Inflation

5.21 Most payments are uprated each year by inflation. In April 2026, the Scottish Government will increase payment rates using the ONS September 2025 outturn CPI of 3.8 per cent. This is higher than the 2.7 per cent uprating that we assumed last December. Uprating assumptions for 2027-28 onwards are consistent with inflation forecasts in the OBR's November 2025 forecast and are broadly aligned with our previous forecast.

5.22 Compared with our December 2024 forecast, a higher-than-expected inflation during 2025 has increased the spending forecast by approximately £80 million a year from 2026-27 onwards.

Scottish Government policy

5.23 Our forecast includes several changes in policy announced since June 2025:

- A new higher rate of Scottish Child Payment for children aged under one to be launched during 2027-28. We estimate this will have annual costs of around £7 million from 2028-29. We discuss this in more detail in Annex A.

- An additional £5 million for the Scottish Welfare Fund and an additional £3 million for Discretionary Housing Payments in 2025-26.

Other

5.24 Recent spending on the Five Family Payments (FFP) has been lower than we forecast in December 2024, with lower eligibility partly offset by higher take-up of Scottish Child Payment.[47] This reduces our forecast by £18 million in 2025-26. From 2026-27, reductions are largely offset by the removal of the two-child limit from Universal Credit by the UK Government. We expect this to increase eligibility for the FFP, and to lead to more spending on Discretionary Housing Payments to mitigate the Benefit Cap. We provide further details on this in the 'Removal of Universal Credit two-child limit' section of this chapter (paragraphs 5.43 to 5.48).

Funding related to social security

5.25 The Scottish Government receives funding from the UK Government for social security spending which has been devolved. Most of this funding is through Block Grant Adjustments (BGAs). Social security spending above the BGA funding can be considered to be the effect on the Scottish Budget of social security devolution and policy changes. This is expected to increase from £1.0 billion in 2024-25 to £1.2 billion by 2030-31.

5.26 To understand the difference between social security spending and BGA funding, payments can be separated into three groups, as shown in Figure 5.4:

- Payments replacing UK Government benefits which have corresponding BGA funding. These are mostly disability and carer payments. For this group of payments, we refer to the difference between spending and funding as the social security net position. We think spending will be higher than BGA funding because of the delivery and operational changes made to the payments by the Scottish Government.

- Payments unique to Scotland introduced since 2018 with no UK Government equivalent or funding. This group accounts for £680 million of the effect of social security on the Budget in 2026-27.

- Other social security payments replacing UK Government payments where funding is within the wider Block Grant.

[47] Five Family Payments includes the Scottish Child Payment, Best Start Foods, and the three Best Start Grant payments.

5.27 Since December 2024, our forecast for spending on payments with a BGA has decreased by £68 million for 2026-27, while the corresponding BGA funding transfer has increased by £305 million, narrowing the net position by £374 million, from £619 million to £245 million for 2026-27. This is mainly because of the narrowing of the net position for the disability and carer payments. Since December 2024, the change in the net position has reduced the effect of social security spending on the Scottish Budget in 2026-27 from £1.5 billion to £1.1 billion. This represents an increase in funding available for other spending.

Figure 5.4: Effect of social security spending on the Scottish Budget

£ million	2024-25 outturn	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Social security net position [1]	-186	-165	-245	-266	-275	-291	-277
Spending on payments without a BGA, of which:	-768	-791	-836	-871	-892	-909	-925
Payments unique to Scotland [2] [3]	-609	-629	-680	-713	-732	-748	-764
Other social security spending [4]	-159	-162	-157	-159	-160	-161	-162
Effect on the Scottish Budget	-954	-956	-1,082	-1,137	-1,167	-1,200	-1,202

Source: Scottish Fiscal Commission.

[1] This includes the disability payments, Carer's Allowance, the Carer Support Payment component of Carer Support, winter heating payments for adults, and Employment Injury Assistance.

[2] 'Payments unique to Scotland' includes Scottish Child Payment, Carer's Allowance Supplement, components of Carer Support (Scottish Carer Supplement and Carer Additional Person Payment), Child Winter Heating Payment, Best Start Grant Early Learning Payment and Best Start Grant School Age Payment. We also include spending through Discretionary Housing Payments on bedroom tax mitigation and the extra costs of the commitment to mitigating Benefit Cap deductions.

[3] In December 2024, Carer Additional Person Payment was treated as part of Carer Support Payment and was included as part of the Carer's Allowance net position. Carer Additional Person Payment is now treated as a payment unique to Scotland.

[4] 'Other social security spending' includes Best Start Grant Pregnancy and Baby Payment, Best Start Foods, some Discretionary Housing Payments, Funeral Support Payment, Employability Services, and the Scottish Welfare Fund. Funding for these payments comes through the general Block Grant. It is not possible to provide an estimate of funding received for individual payments because the different elements of the Block Grant are not disaggregated.

Figures may not sum because of rounding.

Changes to the social security net position since May 2022

5.28 The difference between the funding the Scottish Government receives through BGAs and the spending on the corresponding payments in Scotland, also known as the net position, is regularly revised. We expect variations in the funding and spending as policies implemented by either the Scottish Government or the UK Government can have an effect, alongside changes in trends or forecasting assumptions.

5.29 Our May 2022 forecast was the first time we included estimates for all future policy measures planned by the Scottish Government, such as the launch of Adult Disability Payment, Child Disability Payment, Pension Age Disability Payment, and Carer Support. These forecasts of the new payments were developed just after the COVID-19 pandemic, with the expectation that disability prevalence and people's behaviour would be consistent with what was observed before the pandemic. However, we have observed a marked rise in reported disability prevalence and increased demand for disability payments across the UK.

5.30 Our May 2022 forecasts provide us with a baseline to compare against the current forecast as it contains our forecast for most of the additional spending on devolved social security. At that point, we forecast that spending on the replacement payments would be £5.8 billion, and the spending on these payments would exceed the BGA funding by £0.7 billion in 2026-27.

5.31 Since May 2022, our combined disability and carer payments spending forecast has progressively risen due to higher disability prevalence and cost-of-living pressures leading to more people receiving the payments. Over the same period, the OBR's forecast for equivalent payments in England and Wales has increased at a faster rate, narrowing the net position. Overall, our forecast increases were lower than the OBR's because we assumed that the UK-wide growth in demand for disability payments and the impact of the cost of living would offset some of the effect of introducing replacement Scottish disability and carer payments. For example, we anticipated higher demand following the launch of ADP, but this coincided with a broader UK-wide surge in demand for disability payments. As a result, we downgraded our assumption about the impact of ADP's launch.

5.32 We now forecast spending on the Scottish replacement payments will be £6.6 billion, £0.2 billion higher than their corresponding BGAs in 2026-27. While our spending forecast has increased compared with the baseline forecast we presented in May 2022, the increases in the OBR's spending forecasts for payments in England and Wales mean BGA funding has risen by more, narrowing the net position.

Changes to the funding position since December 2024

5.33 In June 2025, we published our forecast to accompany the Scottish Government's Medium-Term Financial Strategy. There were substantial revisions in that forecast compared with our December 2024 forecast, mainly as result of policy changes.

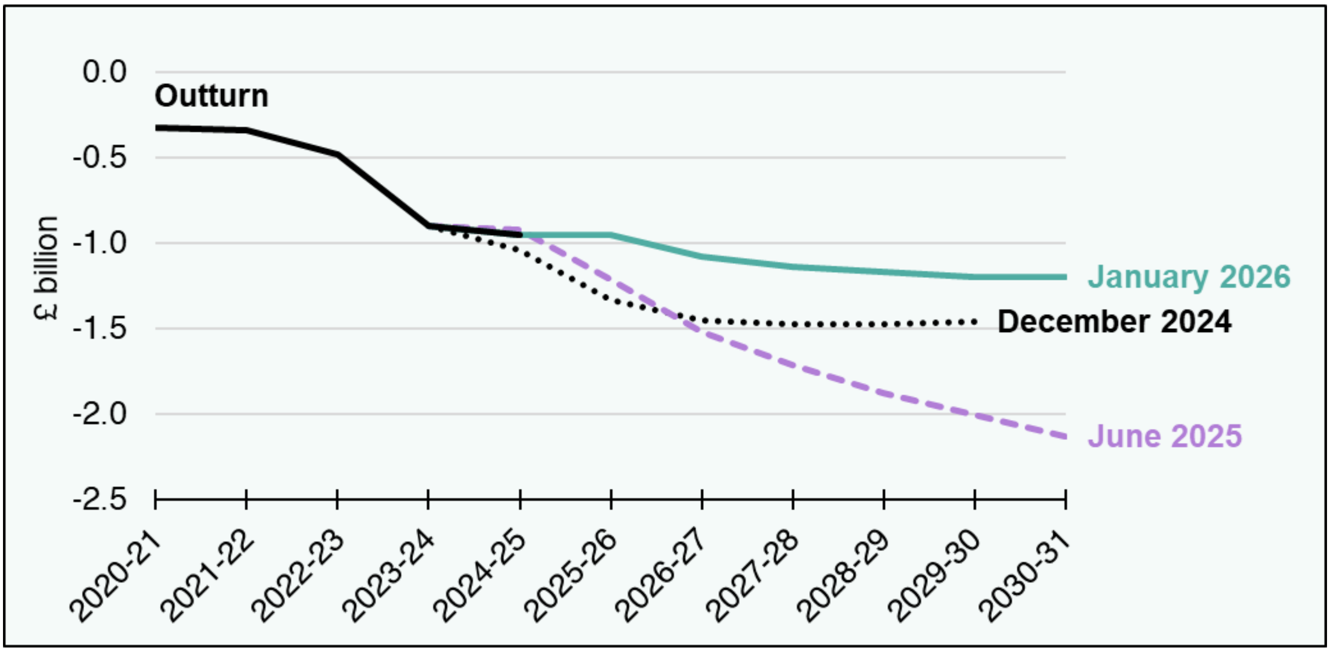
5.34 Our June 2025 forecast included the Scottish Government's Two Child Limit Payment. This policy was initially noted as an addendum in December 2024 and was not in our headline figure due to late receipt of details. In June 2025, we forecast this payment to cost £155 million in 2026-27, rising to £204 million in 2030-31. As this payment would have been unique to Scotland, no corresponding funding would have been received. It has now been removed from our forecast for spending following the UK Government's policy to remove the two-child limit from April 2026, reducing the effect of social security on the Budget compared with our June 2025 forecast.

5.35 In June 2025, we also reflected the changes in Scottish and UK policies on Pension Age Winter Heating Payment (PAWHP) and Winter Fuel Payment (WFP) respectively. These changes reduced, but did not eliminate, the negative net position in our June 2025 and January 2026 forecasts. This is because PAWHP payment rates remained higher than WFP rates due to uprating of PAWHP. There have not been substantial changes to this net position since June 2025.

5.36 In March 2025, the UK Government announced reforms to incapacity and disability benefits aimed at reducing spending and supporting employment. These included changes to Universal Credit and to eligibility for Personal Independence Payment (PIP). We expected this to reduce spending on PIP in England and Wales and subsequently the BGA funding for the Scottish Government by £440 million by 2029-30. However, the proposed PIP eligibility restrictions were later withdrawn in summer 2025. This reversal of the policy was accounted for in the UK Government Autumn Budget 2025, increasing the social security BGA by a similar amount.

Figure 5.5: 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 5.5: 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.

5.37 Figure 5.5 presents the changes in the effect of social security spending on the Budget – the difference between spending on devolved social security spending and the BGA funding received – since the December 2024 position. For 2029-30, this widened from £1.5 billion in our December 2024 forecast to £2.0 billion in the June 2025 forecast because of the following factors:

- The Scottish Government's new Two Child Limit Payment, which widened the effect by £0.2 billion, including the knock-on effect on the Five Family Payments.
- UK Government plans to restrict PIP eligibility and other changes to the incapacity and disability system were expected to decrease the disability and carer payments BGAs and widen the funding position by around £0.4 billion.
- Partly aligning PAWHP and WFP narrowed the net position by £50 million, increasing the funding received by the Scottish Government.

5.38 Between our June 2025 and January 2026 forecasts, the 2029-30 effect of social security on the Budget has narrowed from £2.0 billion to £1.2 billion, mainly driven by an increase in the BGA funding from £7.0 billion to £7.6 billion:

- Excluding the UK Government decision to not take forward changes to PIP eligibility, there has been a narrowing of over £150 million in the disability and carer payments net position because of forecast revisions. The OBR increased its forecast for spending in England and Wales, reflecting the latest data which showed higher caseloads and average amounts than was expected. This led to an increase of £41 million in disability and carer payment BGA funding in 2029-30. Combining the effect of inflation and the changes described in the 'Disability and carer payments spending' section of this chapter (paragraphs 5.4 to 5.17), our forecast for disability and carer payment spending is £111 million lower in 2029-30.
- Reversal of PIP eligibility changes increases funding received by the Scottish Government through the BGAs by £476 million. This is larger than the estimate of the reduction in the BGA applied in June 2025 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. The impact of these policy changes is smaller than our previous forecast of the costs of two-child limit mitigation. This is because we now think the Two Child Limit Payment would have cost less than we forecast in June 2025. And also because the changes to Universal Credit will cause higher spending on the Five Family Payments and Discretionary Housing Payments.

5.39 The changes described above have led to the difference between social security spending and BGA funding narrowing compared with our December 2024 and June 2025 forecasts. The effect of this reduces the pressure on the Scottish Budget from social security spending and increases funding available for other spending. Despite these revisions, we still forecast spending on devolved social security to exceed BGA funding by £1.2 billion in 2029-30.

5.40 We highlight two main risks to this assessment of the effect of social security spending on the Budget, which could lead to further forecast movements.

5.41 First, future policy changes by the Scottish or UK Governments:

- The Independent Review of Adult Disability Payment published its report in July 2025. It made 58 recommendations aimed at improving the client experience and ensuring disabled people can access support. In early 2026, after the Scottish Budget and Spending Review, the Scottish Government is expected to respond to those recommendations. If this leads to the Scottish Government making changes to ADP policy it could lead to changes in spending, which are not reflected in this report.

- The UK Government is currently undertaking a review of PIP in England and Wales which is expected to report in autumn 2026. If the review leads to policy changes which affect spending on PIP in England and Wales, there would be a knock-on effect on the social security BGA funding the Scottish Government receives.

5.42 Second, as in previous publications, we have discussed the underlying uncertainties within social security forecasts, in particular for disability forecasts as the new system was being implemented. With the main disability payments now in operation and Social Security Scotland processes established, a more stable picture is emerging. We still think there is a risk to the Scottish Budget from social security spending, but the current scale of the risk is lower now than in previous forecasts. Key remaining uncertainties include authorisation rates and award review outcomes for disability payments.

Removal of Universal Credit two-child limit

5.43 The forecast comparisons earlier in this chapter are against our December 2024 forecast, which did not include the Scottish Government's commitment to mitigating the Universal Credit (UC) two-child limit. This is because we were notified after the final policy deadline, when it was too late for us to include it in our forecasts. Since the original Scottish Government's announcement in December 2024, there have been several forecast updates and policy announcements.

Date	Description
December 2024	We produced an illustrative estimate of the potential costs of mitigation, but this was not included in our main forecast.
January 2025	We published our forecast of the costs of the mitigation policy.
May 2025	Our SEFF included an updated forecast.
June 2025	Our SEFF update accompanying the Medium-Term Financial Strategy added costs in 2025-26 following the Scottish Government's announcement that it would launch the Two Child Limit Payment (TCLP) in March 2026.
November 2025	The UK Government announced that it would remove the two-child limit from UC from April 2026.
December 2025	The Scottish Government confirmed that it would not launch its planned TCLP and reiterated that it intended to allocate any savings to measures to reduce child poverty.

5.44 This means that, when comparing against our December 2024 forecast, there is no effect on forecast social security spending because of the Two Child Limit Payment (TCLP). We need to compare against our June 2025 forecast to see the effect of recent policy announcements.

5.45 In the absence of any policy changes, we would have reduced our forecast for the TCLP in response to the latest data, which showed fewer children affected by the two-child limit in April 2025 than we had expected. This would have reduced our forecast to £141 million in 2026-27 and £185 million in 2030-31, before we removed the TCLP from the forecast altogether.

5.46 We have then made four changes to account for the removal of the two-child limit and cancellation of the TCLP, as follows:

- We have removed the behavioural response to the TCLP from the Scottish Child Payment (SCP) forecast. This reduces spending by £1 million in 2026-27 and by £5 million in 2030-31.
- We have increased the Five Family Payments forecast to allow for higher UC eligibility. Some families whose income is slightly too high to qualify for UC will become eligible once their assessment includes an additional child element. By 2030-31 this adds around £10 million to the forecast.
- We have made a behavioural adjustment, in line with the OBR's costing, to anticipate a higher take-up of UC in response to higher entitlements and increased publicity. This adds £7 million by 2030-31.

- We have increased the Discretionary Housing Payments forecast by £8 million in 2026-27 and by £15 million in 2030-31 to allow for higher spending on Benefit Cap mitigation. The overall Benefit Cap remains in place, so some families will lose some or all of the increase in their UC through a new or larger benefit cap deduction. The Scottish Government aims to mitigate these deductions through Discretionary Housing Payments.

5.47 Figure 5.6 shows the changes to the TCLP forecast since June 2025 and the effects of removing the two-child limit from UC. The net effect of the changes in UK and Scottish policy reduces the devolved social security forecast by £126 million in 2026-27 and by £159 million in 2030-31.

5.48 The net effect on the SCP caseload is an increase of 7,000 children by 2030-31. The forecast of additional Discretionary Housing Payments spending is equivalent to the value of around 2,000 UC child elements in 2026-27 rising to 4,000 by 2030-31.

Figure 5.6: Effect of changes to the two-child limit since June 2025 forecast

£ million	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
June 2025 TCLP forecast	11	155	170	182	194	204
January 2026 – Updated TCLP forecast before UK policy change [A]	10	141	154	165	176	185
Net effect of two-child limit removal on devolved payments [B]	0	14	22	23	25	26
Net effect of policy change on devolved social security forecast [B]-[A]	-10	-126	-132	-142	-152	-159

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Forecast of individual payments

5.49 This section summarises our social security forecasts, including 2024-25 outturn spending and forecasts for each payment up to 2030-31.

5.50 The forecast also incorporates employability support services under the Deputy First Minister, Economy and Gaelic portfolio, which are expected to remain around £70 million annually from 2025-26 onwards.

Figure 5.7: Social security spending forecast

£ million	2024-25 outturn	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Social Justice portfolio							
Adult Disability Payment [1]	3,131	3,393	3,845	4,218	4,558	4,927	5,308
Best Start Foods	16	17	19	20	21	21	21
Best Start Grant	20	19	20	21	21	22	22
Carer Support [2]	445	499	555	583	604	637	670
Child Disability Payment	514	583	629	659	676	696	712
Child Winter Heating Payment	10	12	13	13	14	14	15
Discretionary Housing Payments	86	95	106	115	122	128	135
Employment Injury Assistance [3]	82	82	81	79	78	77	75
Funeral Support Payment	12	13	14	14	15	15	15
Pension Age Disability Payment [4]	762	853	927	972	1,009	1,050	1,091
Pension Age Winter Heating Payment [5]	29	187	195	199	206	216	226
Scottish Adult Disability Living Allowance [6]	430	401	375	349	321	296	271
Scottish Child Payment	456	458	485	504	514	518	522
Scottish Welfare Fund	53	41	36	36	36	36	36
Severe Disablement Allowance	5	5	4	4	3	3	2
Winter Heating Payment	29	29	30	31	32	33	34
Deputy First Minister, Economy and Gaelic portfolio							
Employability Services [7]	60	73	70	70	70	70	70
Total spending	6,141	6,759	7,405	7,888	8,300	8,758	9,226

Source: Scottish Fiscal Commission, Scottish Government.

[1] Adult Disability Payment is replacing Personal Independence Payment. Figures include spending on Personal Independence Payment until case transfer is complete.

[2] Carer Support contains spending on its three payment components: Carer Support Payment, which replaced Carer's Allowance, Scottish Carer Supplement, which replaces Carer's Allowance Supplement, and Carer Additional Person Payment.

[3] The forecast of Employment Injury Assistance is an indicative forecast and includes our estimate of the change in the baseline Industrial Injuries Disablement Scheme and changes arising from the introduction of Employment Injury Assistance.

[4] Pension Age Disability Payment replaces Attendance Allowance. Figures include spending on Attendance Allowance until case transfer is complete.

[5] Pension Age Winter Heating Payment replaced Winter Fuel Payment in winter 2024-25.

[6] Scottish Adult Disability Living Allowance includes our estimate of Disability Living Allowance and changes arising from the introduction of Scottish Adult Disability Living Allowance.

[7] The forecast of Employability Services is an indicative forecast and includes spending on Fair Start Scotland and elements of No One Left Behind.

Figures may not sum because of rounding.

Annex A
Policy costings

Summary

Introduction

A.1 This annex sets out the steps and judgements taken to arrive at our costings of changes in Scottish Government policy since our December 2024 forecasts were published.

New policy costings

A.2 Figure A.1 shows a summary of new policy costings included in our forecasts. Negative values represent lower tax revenues or higher social security spending. Positive values represent higher tax revenues or lower social security spending. In the later sections covering the individual policy measures, social security changes are shown as positive if they increase spending.

Figure A.1: Policy costings summary, 2026-27 to 2030-31

£ million	2026-27	2027-28	2028-29	2029-30	2030-31
Scottish Income Tax					
Increase basic rate threshold by 7.4 per cent in 2026-27	-27	-28	-30	-31	-32
Increase intermediate rate threshold by 7.4 per cent in 2026-27	-23	-24	-25	-26	-27
Freeze higher rate threshold in 2027-28 and 2028-29		116	232	245	258
Freeze advanced rate threshold in 2027-28 and 2028-29		7	13	14	14
Freeze top rate threshold in 2027-28 and 2028-29		1	3	3	3
Non-Domestic Rates					
Mainland RHL relief	-38	-39	-40		
Islands RHL relief	-9	-9	-9		
Revaluation Transitional Relief	-70	-25	-4		
Small Business Transitional Relief	-36	-28	-16		
Scottish Landfill Tax					
Increase lower rate from 2026-27	4	5	6	7	9
Social Security					
Scottish Child Payment child under one premium		-3	-7	-7	-7

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Taxes

Income Tax – increase basic rate threshold by 7.4 per cent

Measure description

A.3 The threshold for the basic rate is increased by 7.4 per cent in 2026-27. From 2027-28 the starter rate band will increase in line with CPI inflation. We discussed how our baseline assumption is to adjust all Scottish tax bands in line with CPI inflation in our occasional paper on how we set policy baselines.[48]

Cost base

A.4 This measure applies to taxpayers whose non-savings, non-dividend (NSND) taxable income is less than £15,504. These taxpayers will pay Income Tax at 19 per cent on the first £2,924 of their income above the Personal Allowance.

Costing

A.5 Figure A.2 shows how much we expect the policy to raise, including our estimates of the behavioural response to the tax costing. Compared with our baseline, taxpayers in these bands will pay less tax and so our forecast costing is negative. We expect the policy to raise less tax then if our baseline assumption was implemented.

Figure A.2: Costing of increasing basic rate threshold by 7.4 per cent in 2026-27

£ million	2026-27	2027-28	2028-29	2029-30	2030-31
Static forecast	-28	-29	-30	-31	-33
Behavioural change	1	1	1	1	1
Forecast after behavioural change	-27	-28	-30	-31	-32

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Uncertainties about the costing

A.6 Changes to thresholds may cause taxpayers to change their behaviours. We have modelled these changes, but this policy could induce behavioural effects we have not anticipated.

[48] Scottish Fiscal Commission (2024) How we set policy baselines.

Income Tax – increase intermediate rate threshold by 7.4 per cent

Measure description

A.7 The threshold for the intermediate rate is increased by 7.4 per cent in 2026-27. From 2027-28 the starter rate and basic rate bands will increase in line with CPI inflation. We discussed how our baseline assumption is to adjust all Scottish tax bands in line with CPI inflation in our occasional paper on how we set policy baselines.[49]

Cost base

A.8 This measure applies to taxpayers whose NSND taxable income is less than £28,056. These taxpayers will pay Income Tax at 19 per cent on the first £2,924 of their income above the Personal Allowance, and then 20 per cent on the next £12,552 of their income.

Costing

A.9 Figure A.3 shows how much we expect the policy to raise, including our estimates of the behavioural response to the tax costing. Compared with our baseline, taxpayers in these bands will pay less tax and so our forecast costing is negative. We expect the policy to raise less tax than if our baseline assumption was implemented.

Figure A.3: Costing of increasing intermediate rate threshold by 7.4 per cent in 2026-27

£ million	2026-27	2027-28	2028-29	2029-30	2030-31
Static forecast	-24	-25	-26	-27	-28
Behavioural change	1	1	1	1	1
Forecast after behavioural change	-23	-24	-25	-26	-27

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Uncertainties about the costing

A.10 Changes to thresholds may cause taxpayers to change their behaviours. We have modelled these changes, but this policy could induce behavioural effects we have not anticipated.

[49] Scottish Fiscal Commission (2024) How we set policy baselines.

Income Tax – freeze higher rate threshold in 2027-28 and 2028-29

Measure description

A.11 The higher rate threshold remains at the 2026-27 level of £43,662 in the years 2027-28 and 2028-29.

Cost base

A.12 This measure applies to taxpayers whose NSND taxable income is greater than the higher rate threshold of £43,662.

Costing

A.13 Figure A.4 shows the breakdown of our forecast policy costing, including our estimates of the behavioural response to the tax costing. We expect this policy to be revenue-raising.

Figure A.4: Costing of freezing higher rate threshold in 2027-28 and 2028-29

£ million	2026-27	2027-28	2028-29	2029-30	2030-31
Static forecast		126	252	266	280
Behavioural change, of which:		-10	-20	-21	-22
METR effect		-2	-3	-3	-3
AETR effect		-9	-17	-18	-19
Forecast after behavioural change		116	232	245	258

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Uncertainties about the costing

A.14 When tax rates and thresholds change, taxpayers may change their behaviour. We model these changes, but taxpayers' behaviour could change in ways that we have not anticipated. Our forecast of the revenues raised by the policy also depend on how earnings change. If earnings are lower than expected in our forecast then revenues will be lower.

Income Tax – freeze advanced rate threshold in 2027-28 and 2028-29

Measure description

A.15 The advanced rate threshold remains at the 2026-27 level of £75,000 in the years 2027-28 and 2028-29.

Cost base

A.16 This measure applies to taxpayers whose NSND taxable income is greater than the advanced rate threshold of £75,000.

Costing

A.17 Figure A.5 shows the breakdown of our forecast policy costing, including our estimates of the behavioural response to the tax costing. We expect this policy to be revenue-raising.

Figure A.5: Costing of freezing advanced rate threshold in 2027-28 and 2028-29

£ million	2026-27	2027-28	2028-29	2029-30	2030-31
Static forecast		9	18	19	20
Behavioural change, of which:		-2	-5	-5	-6
METR effect		-2	-3	-3	-4
AETR effect		-1	-2	-2	-2
Forecast after behavioural change		7	13	14	14

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Uncertainties about the costing

A.18 When tax rates and thresholds change, taxpayers may change their behaviour. We model these changes, but taxpayers' behaviour could change in ways that we have not anticipated. Our forecast of the revenues raised by the policy also depend on how earnings change. If earnings are lower than expected in our forecast then revenues will be lower.

Income Tax – freeze top rate threshold in 2027-28 and 2028-29

Measure description

A.19 The top rate threshold remains at the 2026-27 level of £125,140 in the years 2027-28 and 2028-29.

Cost base

A.20 This measure applies to taxpayers whose NSND taxable income is greater than the top rate threshold of £125,140.

Costing

A.21 Figure A.6 shows the breakdown of the forecast policy costing, including our estimates of the behavioural response to the tax costing. We expect this policy to be revenue-raising.

Figure A.6: Costing of freezing top rate threshold in 2027-28 and 2028-29

£ million	2026-27	2027-28	2028-29	2029-30	2030-31
Static forecast		4	9	9	9
Behavioural change, of which:		-3	-6	-6	-7
METR effect		-2	-5	-5	-5
AETR effect		-1	-2	-2	-2
Forecast after behavioural change		1	3	3	3

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Uncertainties about the costing

A.22 When tax rates and thresholds changes, taxpayers may change their behaviour. We model these changes, but taxpayers' behaviour could change in ways that we have not anticipated. Our forecast of the revenues raised by the policy also depend on how earnings change. If earnings are lower than expected in our forecast then revenues will be lower.

Non-Domestic Rates – 15 per cent relief to the mainland retail, hospitality and leisure (RHL) properties liable for the Basic and Intermediate Property Rates for three years, capped at £110,000 per year.

Measure description

A.23 The Scottish Government has announced that retail, hospitality and leisure (RHL) properties on the mainland that are liable for the Basic Property Rate (BPR) or Intermediate Property Rate (IPR) will receive a 15 per cent relief in 2026-27, 2027-28, and 2028-29. The total cash value of the relief is capped at £110,000 for each ratepayer, with the cap applying across both this relief and the 100 per cent relief for islands and remote areas (described in a separate costing).

Figure A.7: Costing of 15 per cent RHL relief for mainland properties liable for BPR and IPR, capped at £110,000 per year

£ million	2026-27	2027-28	2028-29	2029-30	2030-31
Costing	-38	-39	-40		

Source: Scottish Fiscal Commission.

Cost base

A.24 The cost base is all RHL properties in the Scottish mainland with a rateable value up to and including £100,000. The 'Scottish mainland' is defined as anywhere that is not any of the following:

- on a Scottish island, as defined by the Islands (Scotland) Act 2018,[50]
- in one of the specified remote areas for the current (2025-26) Islands and Remote Areas Hospitality Relief, which are defined in the legislation for that relief.[51]

Costing

A.25 We have used the NDR valuation roll to identify properties in the RHL sectors on the Scottish mainland. For such properties, we have used billing system data to estimate what other reliefs they are likely to receive in 2026-27 in the absence of this and other policies. We have then assumed an award of 15 per cent of their gross bill, unless that would entitle a property to more than 100 per cent relief overall. In such cases, we have assumed an award of as much relief as possible without going over 100 per cent overall relief.

[50] The National Archives (2018) Islands (Scotland) Act 2018 (Section 1).

[51] The National Archives (2024) The Non-Domestic Rates (Islands and Remote Areas Hospitality Relief) (Scotland) Regulations 2024 (Schedule 1).

A.26 To model the award cap of £110,000 per business per year, we have used billing system and Proprietor, Tenant, and Occupier Address (PTOA) data to identify which properties belong to the same business. When a business would receive £110,000 from this relief and the islands relief combined, we scale down the relief awarded uniformly across all properties so that the cap is not exceeded.

A.27 We then further scale down the costing to reflect our assumption that not every eligible property will apply for the relief.

Uncertainties about the costing

A.28 The main uncertainty around the costing is the number of claims of the relief. We have assumed there will be a 70 per cent take-up rate, which is consistent with our assumptions for the current (2025-26) hospitality reliefs.

Non-Domestic Rates – 100 per cent relief to the retail, hospitality and leisure (RHL) properties in the Scottish islands for three years, capped at £110,000 per year.

Measure description

A.29 The Scottish Government has announced that the retail, hospitality and leisure (RHL) properties in the Scottish islands and specified remote areas will receive 100 per cent relief in 2026-27, 2027-28, and 2028-29. The total cash value of the relief is capped at £110,000 for each ratepayer.

Figure A.8: Costing of 100 per cent RHL relief for properties in islands and remote areas, capped at £110,000 per year

£ million	2026-27	2027-28	2028-29	2029-30	2030-31
Costing	-9	-9	-9		

Source: Scottish Fiscal Commission.

Cost base

A.30 The cost base is all RHL properties in the Scottish islands, or in three specified remote areas. We consider Scottish islands to be as defined in the Islands (Scotland) Act 2018.[52] The three specified remote areas are Cape Wrath, Knoydart, and Scoraig, the boundaries of which are set out in the legislation for the current (2025-26) Islands and Remote Areas Hospitality Relief.[53]

Costing

A.31 We have used the NDR valuation roll to identify properties in the RHL sectors on islands and in the specified remote areas. For such properties, we have used billing system data to estimate what other reliefs they are likely to receive in 2026-27 in the absence of this and other policies. We have then assumed an award of as much relief as possible without going over 100 per cent overall relief (so that, if a property would otherwise receive no relief, it receives 100 per cent RHL relief).

A.32 To model the award cap of £110,000 per business per year, we have used billing system and Proprietor, Tenant, and Occupier Address (PTOA) data to identify which properties belong to the same business. When a business would receive £110,000 from this relief and the mainland relief combined, we scale down the relief awarded uniformly across all properties so that the cap is not exceeded.

A.33 We then further scale down the costing to reflect our assumption that not every eligible property will apply for the relief.

[52] The National Archives (2018) Islands (Scotland) Act 2018 (Section 1).

[53] The National Archives (2024) The Non-Domestic Rates (Islands and Remote Areas Hospitality Relief) (Scotland) Regulations 2024 (Schedule 1).

Uncertainties about the costing

A.34 The main uncertainty around the costing is the number of claims of the relief. We have assumed there will be a 70 per cent take-up rate, which is consistent with our assumptions for the current (2025-26) hospitality reliefs.

Non-Domestic Rates – Revaluation Transitional Relief (RTR)

Measure description

A.35 The policy is a three-year transitional scheme for properties that have large increases in gross bills because of the 2026 revaluation.

A.36 If a property's gross bill, before any reliefs are applied, is greater than the relevant cap, the relief will be awarded to reduce the gross bill to that cap. Any other reliefs, if applicable, are then applied to the lower amount as if that were the gross bill.

A.37 The relevant cap is the gross bill in 2025-26, multiplied by the relevant factor, which depends on the post-revaluation rateable value of the property and which year of the scheme it is. Figure A.9 shows the relevant factors.

Figure A.9: Maximum increase factors for RTR

Post-revaluation rateable value	2026-27	2027-28	2028-29
Up to £20,000	1.15	1.403	1.936
£20,001 to £100,000	1.3	1.872	3.276
Over £100,000	1.5	2.625	5.591

Source: Scottish Government.

These factors are the cumulative factors which will apply relative to 2025-26, not the caps that apply year-on-year.

A.38 The relief will be applied automatically.

Figure A.10: Costing of RTR

£ million	2026-27	2027-28	2028-29	2029-30	2030-31
Costing	-70	-25	-4		

Source: Scottish Fiscal Commission.

Cost base

A.39 This measure affects properties that have an increase in their gross bill greater than the cap to be applied.

Costing

A.40 We start by using the draft values from the 2026 valuation roll, as well as the current valuation roll, to identify properties that have an increase in rates to a value above the relevant cap. We then calculate the cost of RTR itself as the difference between gross NDR without RTR, and the cap.

A.41 However, because RTR is applied before all other reliefs, it will displace some of them. That is, since (for properties receiving RTR) other reliefs are applied to the cap as if it were the gross bill, the cost of those reliefs is lower. We therefore calculate this displacement, which offsets the cost of RTR itself to produce the overall cost of the policy.

Uncertainties about the costing

A.42 We had draft 2026 values available for almost all properties, which limited how much we needed to make assumptions about the effect of the revaluation. However, these values could still change prior to entry into force of the roll on 1 April 2026.

Non-Domestic Rates – Small Business Transitional Relief (SBTR)

Measure description

A.43 The policy is a three-year transitional scheme for properties that have a lower percentage eligibility for any of Small Business Bonus Scheme (SBBS) relief, Rural Relief, Hospitality Relief, or 2023 SBTR after revaluation. It applies to any eligible properties that have an increase in bills in 2026-27, 2027-28, or 2028-29 relative to 2025-26.

A.44 SBTR will limit bill increases to 25 per cent, 50 per cent, and 75 per cent, respectively, in each year of the scheme. Specifically, SBTR will operate in each year as follows:

- In 2026-27, the relief awarded is 75 per cent of the difference between the 2026-27 bill and the 2025-26 bill, in both cases after all other reliefs have been applied.
- In 2027-28, the relief awarded is 50 per cent of the difference between the 2027-28 bill and the 2025-26 bill, in both cases after all other reliefs have been applied.
- In 2028-29, the relief awarded is 25 per cent of the difference between the 2028-29 bill and the 2025-26 bill, in both cases after all other reliefs have been applied.

A.45 From 2026-27, some shootings and deer forests will no longer be eligible for the SBBS. Such properties, if they meet the other criteria, will be eligible for SBTR. We have considered the effect of this policy to be below our materiality threshold, and so it is not reflected in our costing of SBTR.

A.46 From 2026-27, properties that are operating as short-term lets without a licence, will no longer be eligible for the SBBS. Unlike the case of shootings and deer forests, such properties will not be eligible be SBTR. We have considered the effect of this policy to be below our materiality threshold, and so it is not reflected in our costing of SBTR.

Figure A.11: Costing of SBTR

£ million	2026-27	2027-28	2028-29	2029-30	2030-31
Costing	-36	-28	-16		

Source: Scottish Fiscal Commission.

Cost base

A.47 This measure affects properties that:

- receive one of the qualifying reliefs in 2025-26,
- have a lower percentage eligibility for that relief in 2026-27,
- have an increase in bills between 2025-26 and any given year of the scheme (2026-27, 2027-28, and 2028-29).

A.48 The ‘qualifying reliefs’ are the SBBS, Rural Relief, (mainland) Hospitality Relief, Islands and Remote Areas Hospitality Relief, and 2023 SBTR.

A.49 'Percentage eligibility' is defined to be the ratio between:

- the monetary amount of the award of the relevant relief,
- the bill for the property after RTR is applied, but before any other reliefs.

A.50 Because 2025-26 is the last year for 2023 SBTR, all properties receiving 2023 SBTR in 2025-26 that have an increase in bills will be eligible for the relief.

A.51 On the other hand, although Hospitality Relief is being replaced with the RHL relief, these are treated as different implementations of the same relief for the purposes of SBTR eligibility. That is, a property is only eligible for SBTR if the percentage RHL relief it receives post-revaluation is lower than the percentage hospitality relief it received pre-revaluation, and also if its net bill increases.

Costing

A.52 We start by using billing system data, and our other costings, to estimate which properties would be eligible for the relief based on a reduction in percentage eligibility. We calculate what the current net bill is for those properties, and the forecast net bill for each year of the scheme. We then apply the appropriate percentage relief if there is an increase.

A.53 We then scale down the costing to reflect that not every eligible property will apply for the relief.

Uncertainties about the costing

A.54 The main uncertainty around the costing is the number of claims of the relief. We have assumed there will be around a 63 per cent take-up rate, which is based on observed take-up for 2023 SBTR.

Scottish Landfill Tax – Increase lower rate by same cash amount as standard rate and discontinue new operator contributions to the Scottish Landfill Communities Fund (SLCF)

Measure description

A.55 The lower rate will increase by the same cash amount as the standard rate and will now be £8.65 per tonne in 2026-27. The lower rate will then increase by the same cash amount as standard rate in future years.

A.56 This will maintain the gap between the two rates at £122.10 throughout the forecast period and is consistent with UK Landfill tax rates.

A.57 The Scottish Government has also announced that it will introduce legislation so that no further contributions can be made to the SLCF from 1 April 2026.

Cost base

A.58 The cost base is every tonne of waste that is landfilled in Scotland that is liable for lower rated SLfT.

Costing

A.59 Figure A.12 shows the combined costing of these policies.

A.60 Our baseline assumption is that the Scottish Government will increase the standard rate and lower rate in line with the Retail Prices Index (RPI). Our costing shows the cost of increasing the lower rate above our baseline assumption.

A.61 We have included a small behavioural response to the increase in the rate using the same elasticities used in the UK Landfill Tax forecast.

A.62 There is no current disparity between UK Landfill Tax and SLfT rates, so we assume no cross border behavioural response as there is no cost advantage to diverting waste.

A.63 Combined these policies are expected to raise £4 million in 2026-27.

Figure A.12: Costing of increasing SLfT lower rate and discontinuation of SLFC

£ million	2026-27	2027-28	2028-29	2029-30	2030-31
Static costing	4	5	6	8	9
Behavioural response	0	0	0	0	-1
Post-behavioural costing	4	5	6	7	9

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Scottish Child Payment – child under one premium

Measure description

A.64 Social Security Scotland will pay a higher rate of Scottish Child Payment (SCP) for children aged under one, taking the total weekly payment for each child to £40.

Cost base

A.65 The cost base will be children aged under one who are receiving SCP, which we forecast will be around 12,000. Recent statistics from Social Security Scotland show 11,000 children in receipt. Our forecast allows for slightly higher numbers following the removal of the Universal Credit two-child limit, and for small numbers of children not appearing in the statistics while an application is being processed.[54]

Costing

A.66 The Scottish Government expects implementation to take at least eighteen months, and we assume that the higher rate will be paid from the mid-point of 2027-28.

A.67 Under our current inflation forecast, the weekly rate of SCP in 2027-28 will be £28.85, so we assume that the new premium will initially be set at £11.15 per = week, and then will be uprated in the same way as SCP.

Figure A.13: Forecast weekly payment rates for Scottish Child Payment

£ per week	2026-27	2027-28	2028-29	2029-30	2030-31
Scottish Child Payment	28.20	28.85	29.45	30.05	30.65
New child under one premium		11.15	11.35	11.60	11.85
Total payment for child under one	28.20	40.00	40.80	41.65	42.50

Source: Scottish Fiscal Commission.

A.68 The costing is then based on the caseload forecast of 12,000 children and the forecast weekly value of the premium, giving estimated costs of £3.5 million in 2027-28 and around £7 million in 2028-29 onwards.

Figure A.14: Costing of Scottish Child Payment child under one premium

£ million	2026-27	2027-28	2028-29	2029-30	2030-31
Estimated cost of SCP child under one premium		3.5	7.1	7.3	7.4

Source: Scottish Fiscal Commission.

[54] Social Security Scotland (2025) Scottish Child Payment statistics to 30 September 2025.

A.69 We have not made any adjustment for behavioural responses. It is possible that the higher payment could encourage more births, greater receipt of Universal Credit, or higher take-up of SCP, but we do not think this will lead to material extra costs. We also note that our pre-measures forecast already allows for similar behavioural responses to the UK Government's removal of the Universal Credit two-child limit.

Uncertainties about the costing

A.70 This measure is small enough that it is unlikely that actual costs will differ materially from our costing. The relative uncertainty is still high, as we do not know the start date, and costs will be sensitive to the number of births, changes in inflation, and changes in eligibility and take-up rates.

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
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
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).[55]

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 Code of Practice for Statistics. Further details and our statement of voluntary application can be found on our website.[56]

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

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

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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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