

Kenneth Gibson MSP
Convener
Finance and Public Administration Committee

The Scottish Parliament
Edinburgh
EH99 1SP

26 August 2025

Dear Convener,

Today the Scottish Fiscal Commission has published two reports. Our [Fiscal Update](#) has been prepared to assist the Committee with its pre-Budget scrutiny and examination of the upcoming Autumn Budget Revision, Budget 2026-27 and Scottish Spending Review. We discuss the economic and fiscal developments since our last report in June 2025 and how these will affect the Scottish Budget for the remainder of 2025-26 and beyond.

Since June, the UK Government has made a number of policy changes on social security and defence that will affect the Scottish Government's funding. The UK Budget in the autumn should provide more clarity on the exact implications for the Scottish Government and we will provide an update in our forecasts published alongside the Scottish Budget in December.

In our Fiscal Update report, we also discuss how the Scottish Spending Review due this December provides an opportunity for the Scottish Government and the Scottish Parliament to address both the immediate budget pressures and, crucially, long-term fiscal sustainability challenges.

Additionally, the Fiscal Update concludes with an issue you and the Committee have raised around ensuring consistent presentation of budget baselines and budget plans. These are technical points but important for Parliamentary scrutiny. We recommend that the Budget in December should include comparable information for the baseline year and the upcoming budget. Specifically, we recommend that any spending expected at the budget-setting stage to be transferred later should be shown in the portfolio which will incur the spending from the outset.

The Scottish Government's Medium-term Financial Strategy (MTFS) in June set out the scale of the challenge it faces in balancing its budget. Based on current trends, the Scottish Government expects spending to exceed available funding for day-to-day spending by £2.6 billion by 2029-30 and for capital spending by £2.1 billion. This is equal to 4 per cent of planned day-to-day spending in 2029-30, and 23 per cent of capital spending.



Just as importantly, the Scottish Budget also faces long-term pressures beyond the five years covered by the MTFS. For example, an ageing population is expected to increase demand for health-related spending and meeting the new climate change targets set by the Scottish Government will require substantial investment. The Scottish Spending Review needs to be set with a view to improving the long-run sustainability of the public finances.

We welcome the Committee's focus on long-term fiscal pressures in its pre-budget scrutiny. Our Fiscal Update represents our response to the Committee's call for views, alongside our ongoing programme of work on fiscal sustainability. We published our second Fiscal Sustainability Report in April this year, which focused on the impact of demographics and population health on the sustainability of the public finances.

In September, we will publish our Fiscal Sustainability Perspectives: climate change mitigation paper, which will present our latest estimates of the mitigation costs for the Scottish Government.

Finally, the Fiscal Update concludes with an issue you and the Committee have also raised around ensuring consistent presentation of budget baselines and budget plans. These are technical points but important for Parliamentary scrutiny. We recommend that the Budget presented in December should include comparable information for the baseline year and the upcoming budget. Specifically, we recommend that any spending expected at the budget-setting stage to be transferred later should be shown in the portfolio which will incur the spending from the outset.

In our [Forecast Evaluation Report](#), we evaluate our December 2023 forecasts for the economy, fully devolved taxes, and social security expenditure in 2024-25.

Income Tax outturn data for 2023-24 was published by HMRC in July 2025. Following the publication of this data, a final reconciliation has been agreed by the Scottish and UK Governments for 2023-24 of £406 million to be applied in the 2026-27 Scottish Budget. Our forecast error contributes to this reconciliation, and we evaluate our December 2022 Scottish Income Tax revenue forecast for 2023-24 in our Forecast Evaluation Report.



I would be happy to answer any questions you have on these reports and look forward to giving evidence to the Committee on Tuesday 2 September.

Yours sincerely

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Professor Graeme Roy