Clare Haughey
Convener
Finance and Public Administration Committee

The Scottish Parliament
Edinburgh
EH99 1SP

25 August 2026

Dear Convener,

Today the Scottish Fiscal Commission has published three reports. Our Fiscal Update has been prepared to assist the Parliament and its Committees with pre-Budget scrutiny of the upcoming Autumn Budget Revision and Scottish Budget 2027-28. We discuss the economic and fiscal developments since our last forecasts in January 2026 and the potential implications for the Scottish Budget for the remainder of 2026-27 and beyond.

We note that the change in leadership in the UK Government with a new Prime Minister and Cabinet may lead to a change in its fiscal plans. Any changes to UK spending plans, fiscal policy or the balance of spending between devolved and reserved responsibilities will affect the Scottish Government's funding. The effect of any such changes will be confirmed at the UK Budget on 28 October 2026, and we will provide an update in our forecasts for the Scottish Budget.

The global economic outlook has weakened since January. With rising global energy prices and food likely to cost more, inflation is likely to be higher than previously forecast. This could further squeeze household incomes and place added pressure on public spending.

The Scottish Spending Review in January had tight settlements for all parts of the public sector, and this was underpinned by commitments to efficiency savings. The spending plans for 2026-27 relied on delivering £563 million of planned savings, including significant savings from NHS boards. Failure to achieve these savings would present difficulties this year and increase pressure on future budgets.

The Scottish Government has stated that it intends to reduce the size of the public sector workforce as part of its plans for efficiency savings. The public sector workforce has however, grown over the past year. Higher inflation may also increase pressure for larger public sector pay awards than currently planned for.

In our Forecast Evaluation Report, we evaluate our December 2024 forecasts for the economy, fully devolved taxes, social security spending in 2025-26, and our December 2023 forecast for Scottish Income Tax revenue in 2024-25.

Income Tax outturn data for 2024-25 was published by HMRC in July 2026. We saw our smallest ever relative error for income tax of 1.1 per cent, an overestimate of £209 million. Despite this small error, funding for the Scottish Budget will be reduced by a record £720 million through a reconciliation. This is driven by the fact that this year both the Scottish Fiscal Commission and Office for Budget Responsibility forecast errors contribute negatively to funding, leading to reduced funding for the Scottish Budget. The £720 million reconciliation is likely to exceed the Scottish Government's borrowing limit for 2027-28.

We have also published our biennial Statement of Data Needs, setting out the progress on data availability since our last report in 2024, and the areas where further improvement is needed. We commend the Scottish Government on the improvements in the presentation and range of information it provides on the Scottish Budget over the last nine years and identify several areas where the transparency of the budget could be improved.

Included in Annex B of the Fiscal Update is an explanation of why we plan to remove employability services from our social security spending forecasts. Excluding the forecast of Employability Services spending reduces our headline social security spending forecast by £70 million from 2026-27. However, this will have no impact on the overall funding or spending positions of the Scottish Government.

Annex C of the Fiscal Update presents our forecast of Air Departure Tax, which is due to replace Air Passenger Duty from April 2027. Air Departure Tax will be paid by airlines and other aircraft operators in relation to the carriage of passengers on flights departing from Scottish airports. Our forecasts estimate that Air Departure Tax will generate £428 million of revenue in 2027-28, and this revenue will steadily increase over the following five years. This additional tax revenue will have a limited effect on funding in 2027-28 as there will be a corresponding Block Grant Adjustment that removes funding from the Scottish Budget.

I look forward to discussing any aspect of these reports and anything the Commission can do to aid the work of the Committee when we give evidence on 2 September 2026.

Yours sincerely,

GD Roy

Professor Graeme Roy

Scottish Fiscal Commission

Fiscal Update

August 2026

FiscalCommission.scot

This publication is available at www.FiscalCommission.scot.

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Foreword

The Scottish Fiscal Commission (SFC) is the independent fiscal institution for Scotland. We produce Scotland's official, independent economic and fiscal forecasts to accompany the Scottish Government's Budget cycle. We also assess the reasonableness of the Scottish Government's borrowing plans and produce reports on the long-term sustainability of the Scottish Government's public finances. Part of this involves commenting on and analysing the Scottish Government's spending plans.

Our last forecasts were published alongside the 2026-27 Scottish Budget and Spending Review, in January 2026. Since then, there have been economic and political developments, with consequences for funding and spending. The new Scottish Parliament was elected in May 2026, and a new Scottish Government formed. There have also been changes in UK political leadership with the appointment of a new UK Prime Minister and Cabinet. Finally, we have seen outturn data published which affects the Scottish Budget, most significant of which is for Income Tax and confirms the reconciliation that will apply in 2027-28.

This report, alongside the Statement of Data Needs and the Forecast Evaluation Report published today, is our first set of publications for the 7th session of the Scottish Parliament. We aim to support the Parliament's pre-Budget scrutiny and scrutiny of the upcoming 2026-27 Autumn Budget Revision. Our next forecasts will be published alongside the 2027-28 Budget.

We would like to thank once again the hard-working staff of the Commission for their support in the production of our analysis and commentary.

We would like to give special thanks, from ourselves and on behalf of all previous Commissioners, to John Ireland. John has been an outstanding Chief Executive and has worked to establish the organisation since its very early days. He will leave soon for a very well-earned retirement, and we hope he will look back with a lot of pride on what the SFC has achieved under his leadership.

Professor Graeme Roy

Dr Eleanor Ryan

Justine Riccomini

25 August 2026

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Summary

Introduction

1 This report sets out the latest economic developments and changes to the Scottish Government's funding and spending since our last forecasts in January 2026. We explain what the outlook may be for the Scottish Budget and the uncertainties around that outlook. We also call on the Scottish Government to update and be transparent on the progress made towards its planned efficiency savings to identify any new or changing pressures in the 2026-27 and 2027-28 Budgets.

Economic outlook

2 The economic outlook has weakened since our last forecasts in January 2026 and the OBR's last forecasts in March 2026. Inflation is now expected to be higher than previously forecast. Rising global energy prices following the escalation of the conflict in the Middle East have increased energy costs for households and businesses. There is also a risk of higher food prices from high temperatures, wildfires, and drought across the UK and Europe.

3 In January 2026 we expected the outlook for Scottish living standards to remain weak over the next five years, with growth of less than 1 per cent per year. Higher inflation could result in even weaker growth in real household incomes in the future. The impact on living standards will depend on whether earnings increase quickly enough to keep pace with rising prices.

4 Analysis of real disposable incomes across Great Britain shows that growth is not even across income groups. Recent data suggests low-income households have seen real disposable incomes fall since 2021-22, as prices of essentials have risen significantly since then. These households are also likely to be most affected by the food and energy price risks, as they spend a larger share of income on essentials such as energy, food, and housing. Since low-income households have less scope to reduce spending or draw on savings, they are more exposed to rising costs.

5 While the economic outlook appears to be weaker than when we produced our last forecasts, the exact knock-on implications for the Scottish Budget remain uncertain. The OBR will publish updated forecasts alongside the UK Budget on 28 October 2026, and the UK Government's tax and spending decisions will depend on the wider UK fiscal outlook. We will publish updated economic and tax forecasts alongside the 2027-28 Scottish Budget. The effects of the weakening economic conditions on the Scottish Budget will depend on how tax revenues in Scotland are expected to grow compared with those in the rest of the UK.

Funding outlook

6 Our January 2026 report forecast a largely flat funding position for day-to-day spending in 2027-28 and a capital budget that was falling in real terms, this was following real terms growth in funding of 1.1 percent for day-to-day spending and 2.9 per cent for capital in 2026-27. The Scottish Government set its Spending Review based on those funding forecasts. The change in the UK leadership with a new UK Prime Minister and new Cabinet, however, means that the UK Government may change its fiscal plans, and may also change its interpretation of the UK fiscal rules. Any changes to UK spending plans, fiscal policy or the balance of spending between devolved and reserved responsibilities will affect the Scottish Government's funding. Any such changes will be confirmed at the UK Budget on 28 October 2026.

7 Some changes to funding are already known. UK Government spending decisions on Special Educational Needs and Disability (SEND) for England have generated additional funding for the Scottish Government. This includes £533 million in 2026-27 and more than £300 million in 2028-29. However, there is very little new funding in 2027-28. The Scottish Government could choose to carry forward some or all of the additional funding received in 2026-27 through the Scotland Reserve to support future budgets. We show the Scottish Government using this additional funding in 2026-27 as set out in its provisional outturn statement,[1] which means funding for day-to-day spending is now growing by 3.5 per cent in real terms in 2026-27 compared with 2025-26, but in contrast it is expected to fall by 1.2 per cent in real terms in 2027-28.

8 Capital funding is expected to face further pressure. The UK Government has announced higher defence spending through the Defence Investment Plan (DIP). This is being funded, in part, by reducing the capital budgets for all other departments. It is therefore expected to reduce the Scottish Government's capital Block Grant, although the scale of the reduction will not be known until the next UK Budget. In the absence of confirmed Barnett consequentials from the UK Government's DIP, we have assumed a reduction to the capital Block Grant of £70 million in the current year 2026-27, £87 million in the upcoming 2027-28 Budget, and reaching £97 million by 2029-30.

9 In addition, the 2027-28 Scottish Budget will be reduced by £720 million for a negative Income Tax reconciliation. This corrects differences between forecast and outturn Income Tax revenues for 2024-25. Although Scottish Income Tax revenues were £209 million lower than forecast, our smallest ever error for a Budget setting forecast, stronger-than-expected growth in UK Government income tax revenues has resulted in a much larger negative adjustment to the Scottish Budget. While the Scottish Government can borrow to manage the reconciliation, it is likely to exceed available borrowing capacity, reducing funding available for public services in 2027-28.

[1] Paragraph 3 of Scottish Government (2026) Scottish Budget – provisional outturn 2025-2026: briefing note – 18 June 2026.

Spending outlook

10 The Scottish Spending Review and 2026-27 Budget, published in January 2026, included £563 million of planned savings in 2026-27 across portfolios. In 2026-27, 44 per cent of these savings are expected to come from NHS boards. However, Audit Scotland found that in 2024-25 only 15 per cent of territorial boards achieved similar planned savings. If planned savings are not delivered in 2026-27, additional funding will be required, increasing pressure on both current and future budgets.

11 In January 2026, we highlighted that the outlook for 2027-28 was particularly challenging because spending plans assumed pay awards below the rate of inflation. The outlook for higher inflation increases the likelihood of pressure for pay deals to be higher than currently budgeted for. Higher inflation in 2026-27 means several pay deals with inflation protection clauses will be reviewed and increased, increasing workforce costs in 2026-27 and future years.

12 Some of the pressures from workforce costs may be offset by lower employer pension contributions from 2027-28 following the revaluation of public sector pension schemes. This is likely to reduce workforce costs for the Scottish Government. It will also reduce UK Government workforce costs, which could lead to lower UK departmental budgets and a corresponding reduction in Scottish Government funding through the Block Grant. But since the devolved workforce is larger per head of population than the UK average and is relatively higher paid, the saving the Scottish Government gains from lower employer pension contributions may be larger than a corresponding reduction in the Block Grant.

13 The Scottish Government also planned to reduce the size of the public sector workforce, with a target to decrease it by 0.5 per cent a year on average from 2025-26 to 2029-30. There is little sign of progress towards this target in the latest published figures, with the workforce growing over 2025-26. This means larger reductions will be required from 2026-27 onwards if the target is to be met.

14 The overall impact of pay and workforce on the Budget will depend on the balance between funding changes, pay pressures, and progress on workforce reductions, as well as the Scottish Government's approach to pay policy from 2027-28 onwards. This should become clearer following the next UK and Scottish Budgets.

15 Ahead of the Scottish Budget, to support parliamentary committees in carrying out their pre-Budget scrutiny, the Scottish Government should set out progress on the planned efficiencies, developments on public sector pay and workforce, and how the spending pressures it faces have changed since the Spending Review in January 2026.

16 The Autumn Budget Revision presented by the Scottish Government in September 2026 will be the first opportunity for the new government to amend the 2026-27 Budget. It should set out any changes to the funding position, including how much of the additional funding received from the UK Government will be used in 2026-27. It should also explain any changes in spending plans and make clear whether these reflect new policy commitments or because planned efficiencies have not been delivered.

Chapter 1 Introduction

1.1 To support the new Scottish Parliament in its pre-Budget scrutiny, in this report we explain what changed in the economic and fiscal outlook since our last forecasts.

1.2 We did not produce forecasts in the spring because of the May 2026 Scottish election. Therefore, our latest forecasts in January 2026 are now eight months old. We will produce new forecasts in the winter, alongside the 2027-28 Scottish Budget.

1.3 This publication is structured as follows:

- Chapter 2 covers economic developments since our last forecasts in January 2026. We look at the latest picture for inflation, Gross Domestic Product, earnings and the labour market, and the potential impact of external factors like the Middle East conflict.
- Chapter 3 covers the latest outlook for the devolved finances, including the effects of UK Government announcements made since January 2026, the impact of the 2024-25 Income Tax reconciliation, and what options the Scottish Government has within the fiscal framework to manage funding for the 2027-28 Budget.
- Chapter 4 covers developments on the spending outlook. We look at the risk of spending pressures from planned efficiency savings, which underpinned the 2026-27 Budget allocations, not being achieved. We also analyse data on public sector workforce and pay rises to estimate the latest position on paybill pressures.
- Chapter 5 brings together all developments and changes to the funding and spending outlooks, to explain how this will shape two important events in the coming months: the 2026-27 Autumn Budget Revision and the 2027-28 Budget.
- Annex A covers the latest funding positions from 2024-25 to 2026-27, and how they have changed since our last forecasts in January 2026. For latest funding positions since 2020-21 see supplementary figures S3.1 and S3.2 accompanying this report and available on our website.
- Annex B explains why we are removing Employability Services from our social security spending forecasts.
- Annex C sets out our forecast of Air Departure Tax, to be introduced in April 2027.

1.4 This Fiscal Update is part of a group of reports published at the same time. In our Statement of Data Needs (SDN) we set out what data we require to perform our duties and what improvements on its presentation would facilitate our work.[2] In our Forecast Evaluation Report (FER) we compare budget setting forecasts with recently published outturn data, explain the sources of error, and learn lessons to improve our modelling.[3]

1.5 Income Tax is covered in two of our publications. In the FER, we explain the outturn for 2024-25 Scottish Income Tax revenue and how that relates to our budget setting forecast. In this Fiscal Update, we explain the impact on the Budget of the reconciliation between the forecast and outturn.

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[2] Scottish Fiscal Commission (2026) Statement of Data Needs – August 2026.

[3] Scottish Fiscal Commission (2026) Forecast Evaluation Report – August 2026.

Chapter 2
Economy

2.1 Our latest forecast of the Scottish economy, published in January 2026, showed positive but slow growth in Gross Domestic Product (GDP) and living standards, a softening labour market with slightly increasing unemployment in the near term, and continued uncertainty. Since then, several geopolitical and climate-related events have weakened the economic outlook. As well as the ongoing conflict in Ukraine and tariff uncertainty, these include the surge in global energy prices at the end of February 2026 following the escalation of the conflict in the Middle East and risks of higher food prices from high temperatures, wildfires, and drought across the UK and Europe. All these external factors have caused concerns about rising inflation and cost-of-living pressures in the coming months.

2.2 In this chapter, we look at the current picture for inflation, GDP, earnings, and the labour market in Scotland and we consider how emerging events may affect the Scottish economy. However, we cannot say with a meaningful degree of precision what these events will mean for our next forecast, as global economic conditions remain volatile and can still change.

2.3 While the economic outlook appears to be weaker than when we produced our January 2026 forecasts, the exact knock-on implications for the Scottish Budget remain uncertain. Across the UK, rising prices will erode public spending in real terms, meaning higher spending will be required to maintain existing provision of public services, but inflation can also boost tax revenues. For Scotland, the fiscal framework means the Scottish Government's funding from the UK Government will depend on the UK Government's tax and spending decisions, which will be based on the OBR's updated forecasts to be published alongside the UK Budget on 28 October 2026.

2.4 We will publish an updated economic and fiscal outlook alongside the next 2027-28 Scottish Budget. This will incorporate the latest information available at the time and provide our view of the Scottish economy, including the most recent global developments and OBR forecasts.

Developments since our last forecast

Current geopolitical and climate-related events pose risks of higher inflation and slower economic growth

2.5 At the time of our January 2026 forecast, inflation had been falling and we expected it to reach 2.4 per cent in 2026 Q2 before returning to the Bank of England's 2 per cent target by 2027 Q1. Outturn inflation for 2026 Q2 was 2.8 per cent.

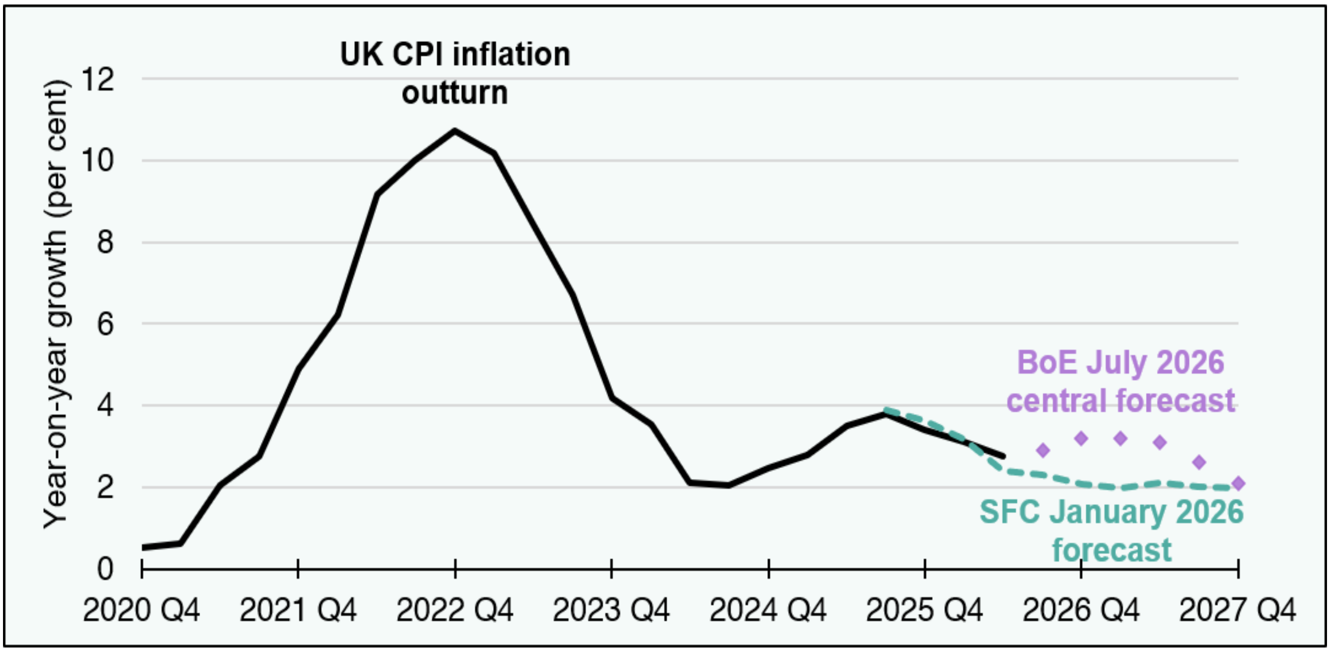
2.6 The surge in global energy prices in early 2026, following the escalation of the conflict in the Middle East, is yet to fully feed through to consumer prices. However, some cost pressures have risen, mainly due to the direct impact of the initial energy price shock on motor and heating fuel prices and on energy bills.

2.7 Figure 2.1 shows that the Bank of England (BoE) currently expects inflation to increase and remain above target in the near term, with its July 2026 central forecast peaking at 3.2 per cent in 2026 Q4 and returning to target by the end of 2027.

2.8 This reflects the 13 per cent rise in the Ofgem Energy Price Cap from July 2026, which includes higher global energy prices between March and May, as well as businesses passing on some of their increased energy costs to consumer prices to retain profit margins. It also takes into account the UK Government's removal of VAT from household electricity bills from October 2026 to March 2027.[4] In addition, there may be inflationary pressures from higher food prices due to extreme weather events. The Ofgem cap will next be updated in October 2026, and then January 2027. While partly dependent on how global energy prices evolve, it is currently predicted to remain elevated through to March 2027.[5]

Figure 2.1: Consumer Price Index (CPI) inflation, UK, year-on-year growth

Inflation now expected to rise, mainly due to recent energy price shock, with BoE's last central forecast peaking at 3.2 per cent in 2026 Q4 and returning to target by end of 2027



Description of Figure 2.1: Line chart of CPI inflation outturn and forecasts. CPI inflation rose from early 2021 up to a peak of 11 per cent at the end of 2022, before returning to target by mid-2024. It increased again to a lower peak of 3.8 per cent in 2025 Q3, then fell to 2.8 per cent in 2026 Q2. The latest SFC forecast published in January 2026 falls to 2 per cent in 2027 Q1 and stays at target. The latest Bank of England central forecast from July 2026 rises to a rate of 3.2 per cent in 2026 Q4 and 2027 Q1, then falls to 2.1 per cent in 2027 Q4.

Source: Scottish Fiscal Commission (2026) Scotland's Economic and Fiscal Forecasts – January 2026, Bank of England (2026) Monetary Policy Report – July 2026, ONS (2026) Consumer price inflation tables.

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[4] UK Government (2026) New PM cuts tax on household electricity bills to give breathing space on cost of living.

[5] Cornwall Insight (2026) Energy Bills Forecast to Hit Three-Year High – 19 August, Cornwall Insight (2026) Household energy costs look set to remain high through winter – 30 June, Ofgem (2026) Energy price cap will rise by 13% from July.

2.9 The Bank of England's latest inflation outlook is higher than our January 2026 forecast but well below the levels of the previous inflation shock in 2022-23. While the early 2026 surge in global energy prices is largely the result of disruptions to energy supplies (supply-side shock), the inflation spike in 2022 was due to a combination of multiple factors (demand and supply) related to both the COVID-19 pandemic and the energy price shock caused by Russia's invasion of Ukraine in February 2022.[6,7] By early 2022, before the conflict in Ukraine started, inflation had already increased to around 6 per cent.

2.10 Turning to GDP, higher energy prices and global supply chain issues following the escalation of the conflict in the Middle East appear to have had little impact on overall economic output so far, although some sectors (such as manufacturing, transport, wholesale) are more exposed than others.[8,9] As Figure 2.2 shows, most of the recent independent forecasts for Scotland and the UK are broadly unchanged compared with those available at the time of our January 2026 forecast publication.

Figure 2.2: Forecast comparison, GDP growth rates in calendar years

GDP growth rate (per cent)	2025 outturn	2026 previous [1]	2026 latest	2027 previous [1]	2027 latest
Scotland: SFC	1.3	1.3	blank	1.3	blank
Scotland: FAI	1.3	1.0	1.0	1.1	1.1
UK: OBR	1.3	1.4	blank	1.5	blank
UK: NIESR	1.3	1.2	1.1	1.2	1.1
UK: BoE	1.3	1.2	1.1	1.6	1.1
UK: HMT average of forecasters	1.3	1.1	1.0	blank	1.0

Source: Scottish Fiscal Commission (2026) Scotland's Economic and Fiscal Forecasts – January 2026, Fraser of Allander Institute (2026) FAI Economic Commentary Q2 2026, OBR (2025) Economic and fiscal outlook – November 2025, NIESR (2026) UK Economic Outlook – Summer 2026, Bank of England (2026) Monetary Policy Report – July 2026, HM Treasury (2026) Forecasts for the UK economy: July 2026, Scottish Government (2026) GDP Quarterly National Accounts: 2026 Quarter 1 (January-March), ONS (2026) GDP quarterly national accounts, UK: January to March 2026.

[6] Since mid-2021, during the post-COVID -19 pandemic recovery period, there had been global cost pressures from excess demand because global demand had been rising at a fast pace (as economies were reopening after the COVID-19 pandemic) while supply was still constrained due to global supply chain disruptions and labour shortages.

[7] In addition, currently, the economy and labour market are weaker than in 2022. This can reduce companies' ability to raise prices and workers' ability to bargain for higher nominal wages in response to higher inflation.

[8] The disruption to shipping through the Strait of Hormuz and other transit routes as well as the damage to key energy infrastructure led to rapidly increasing oil and gas prices in early 2026 and ongoing uncertainty over energy supplies.

[9] Scottish Government (2026) GDP Monthly Estimate: May 2026, Fraser of Allander Institute (2026) Scottish Business Monitor Q2 2026, Fraser of Allander Institute (2026) Almost two-thirds of Scottish businesses now using AI.

[1] As available at the time of our January 2026 forecast.

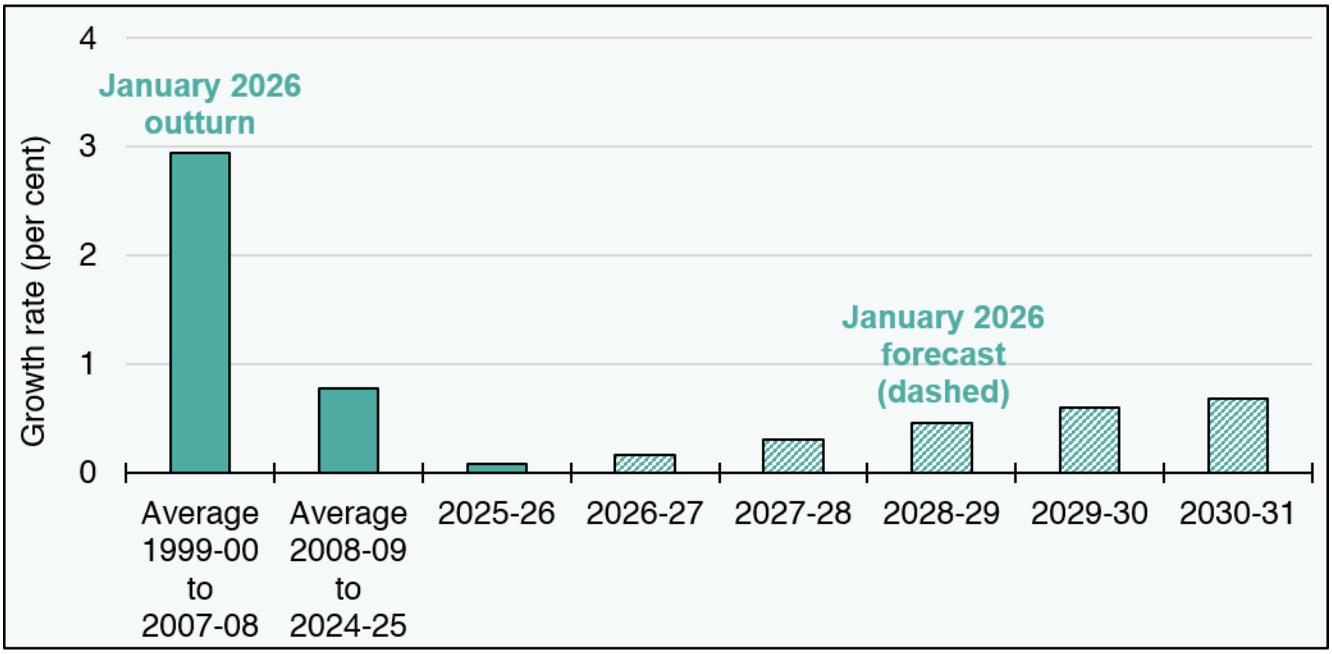
Current cost-of-living pressures could add to an already challenging outlook for living standards

2.11 As we discussed in our February 2026 Fiscal Sustainability Perspectives report, living standards – as measured by real disposable income per person – have grown slowly since the 2008-09 Global Financial Crisis. Real disposable income is a total estimate of how much money, on average, people can spend or save after accounting for tax (including Council Tax), social contributions (such as employee and self-employed NICs), interest payments on mortgages and other loans (net of all interests received), as well as inflation.[10]

2.12 As Figure 2.3 shows, real disposable income per person improved at an average of 3 per cent per year from 1999-00 to 2007-08. Since then, it has grown by less than 1 per cent per year on average. In 2022-23, it fell sharply in Scotland and the UK largely because of rising inflation and interest rates following Russia's invasion of Ukraine but has since recovered to its 2021-22 level.

Figure 2.3: Growth in real disposable income per person, Scotland

In January 2026 we expected Scottish living standards to grow by less than 1 per cent per year over the next five years



Description of Figure 2.3: Column chart showing growth in living standards, both for longer-term averages (1999-00 to 2007-08 and 2008-09 to 2024-25), and for each year of our January 2026 forecast (up to 2030-31). The forecast growth is much lower than the pre-2008 trend, tending towards the post-2008 average only towards the end of the forecast horizon.

[10] We use the National Accounts measure of nominal household disposable income published by the Scottish Government and we adjust this for inflation using the Consumer Expenditure Deflator (CED). Some non-discretionary payments such as rental payments and utilities are not directly included in nominal disposable income but can be considered as being implicitly reflected in real disposable income, because they are part of household final consumption expenditure and disposable income is adjusted for inflation using the CED price index.

Source: Scottish Fiscal Commission (2026) Scotland's Economic and Fiscal Forecasts – January 2026, Scottish Fiscal Commission (2026) Fiscal Sustainability Perspectives: what Scotland's finances mean for the next parliament – February 2026.

Data for 2025-26 includes a short-run forecast as well as outturn.

2.13 In January 2026 we expected the outlook for Scottish living standards to remain weak over the next five years, with growth of less than 1 per cent per year. Higher inflation could result in even weaker growth in real household incomes in the future but the impact on living standards will depend on whether earnings increase quickly enough to keep pace with rising prices.

2.14 In Box 2.1 we discuss living standards growth for households across the income distribution, and the implications for the public finances. We focus on social security spending, but the distribution of income growth can also affect economic growth and tax revenues, as well as having equalities implications.

Box 2.1: Living standards and disability payments

We think the recent cost-of-living pressures have been a factor in the increase over the last five years in the number of people receiving disability payments, in both Scotland and the rest of the UK. The proportion of people reporting having a disability has increased, especially for more deprived households.

We do not think the poor economic conditions are the sole driver for the increase in the number of people receiving disability payments. There has also been an effect from worsening population health, including the effect of the COVID-19 pandemic. This coincided with the launch of new disability payments in Scotland, which also contributed to an initial spike in applications. However, we think the cost-of-living pressures have led to people who are already disabled becoming more likely to apply for disability payments.

Living standards by income groups

Using household disposable income data from the Department for Work and Pensions (DWP) which is broken down by income groups, Figure 2.4 suggests that the lowest-income households tend to be relatively more exposed to cost-of-living pressures.[11] This is because they spend a larger share of income on essentials such as energy, food, and housing for which price levels have increased substantially from 2021-22, and they have less scope to reduce spending or draw on savings to cover rising costs. However, in 2026-27 the rise in Universal Credit standard allowance and removal of the two-child limit could ease some of the pressure on low-income households.[12]

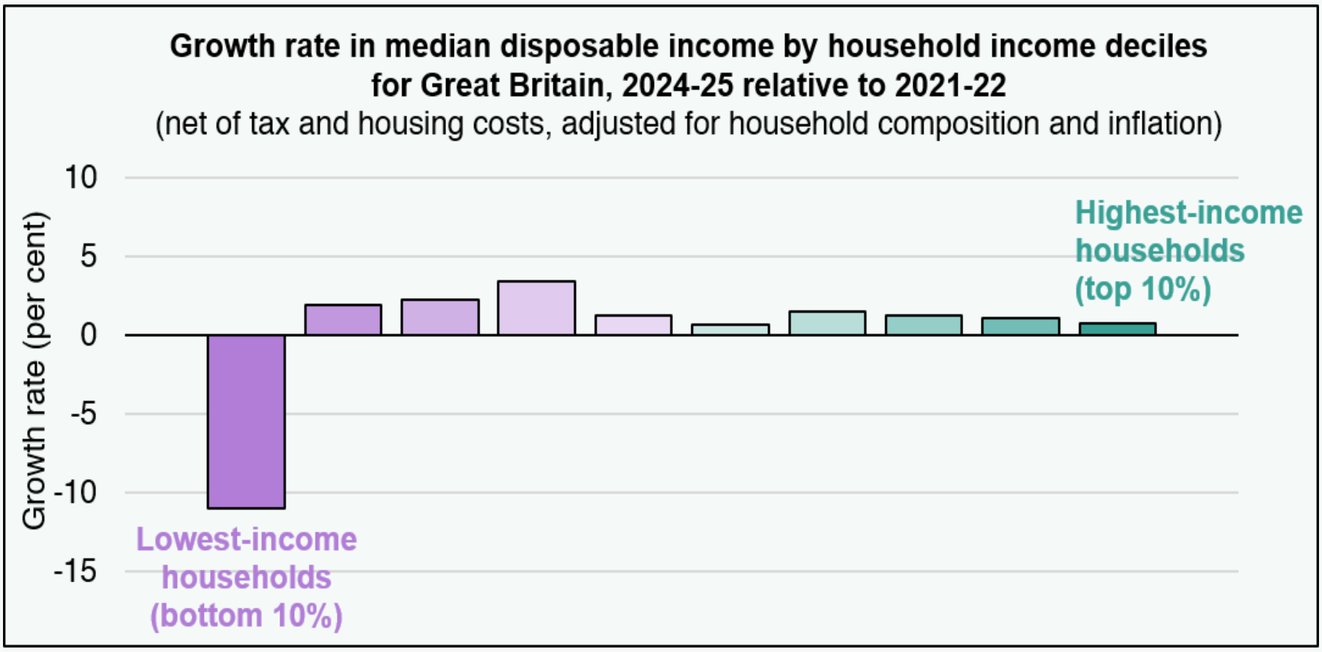
[11] This is a measure of living standards based on Households Below Average Incomes (HBAI) data, which is derived from DWP's Family Resources Survey (FRS), and it can differ from the National Accounts measure used in Figure 2.3. Resolution Foundation (2026) Measuring household income.

[12] Resolution Foundation (2026) Living Standards Outlook 2026.

The growth rates in Figure 2.4 are for illustrative purposes only. They show the change in real average disposable income between two specific points in time, that is between 2021-22 (the year before the inflation shock of 2022-23) and 2024-25 (the latest year for which this data is currently available). They are also based on data for Great Britain because there is insufficient Scottish data at present for this detailed analysis of living standards by income groups. We will aim to explore the available data for Scotland in future.

Figure 2.4: Growth in average disposable income by income groups, Great Britain

In Great Britain, the recent cost-of-living crisis had uneven effects on households across the income distribution



Description of Figure 2.4: Column chart of median disposable income growth by deciles, showing an 11 per cent fall in 2024-25 relative to 2021-22 for the lowest-income households in Great Britain while all other income groups experienced no change or some growth in living standards over that period.

Source: Scottish Fiscal Commission, Department for Work and Pensions (2026) Stat-Xplore: Household Below Average Income – Data from 2021/22 (admin-linked).

Implications for disability payments

People not in the workforce due to ill health may be eligible to receive an out-of-work ill-health benefit (such as Universal Credit with a limited capability for work component). Although eligibility for devolved disability payments is not based on income or employment status, a rise in the number of working-age people in receipt of out-of-work ill-health benefits could lead to an increase in the number of people receiving disability payments. Evidence from DWP suggests that, in some cases, people seeking advice on additional sources of income to meet rising costs also received advice on disability payments.[13] Around two-thirds of people in England and Wales in receipt of an out-of-work ill-health benefit also receives a disability benefit.[14]

[13] Department for Work and Pensions (2026) Timms Review of Personal Independence Payment: interim report – Annex B.

[14] Department for Work and Pensions (2026) Stat-Xplore: Benefit combinations.

What this means for the next Scottish Budget

In our January 2026 forecast, we already expected a weak outlook for living standards over the next five years. The financial impact of this slow growth in living standards will vary for different households, with those on lower incomes struggling the most. There is a risk this could lead to a rise in applications for disability payments from these households, adding further pressure on social security spending. However, if there was a similar effect for disability benefits in England and Wales then there would be little effect on the Scottish Budget, as social security BGA funding would also increase.

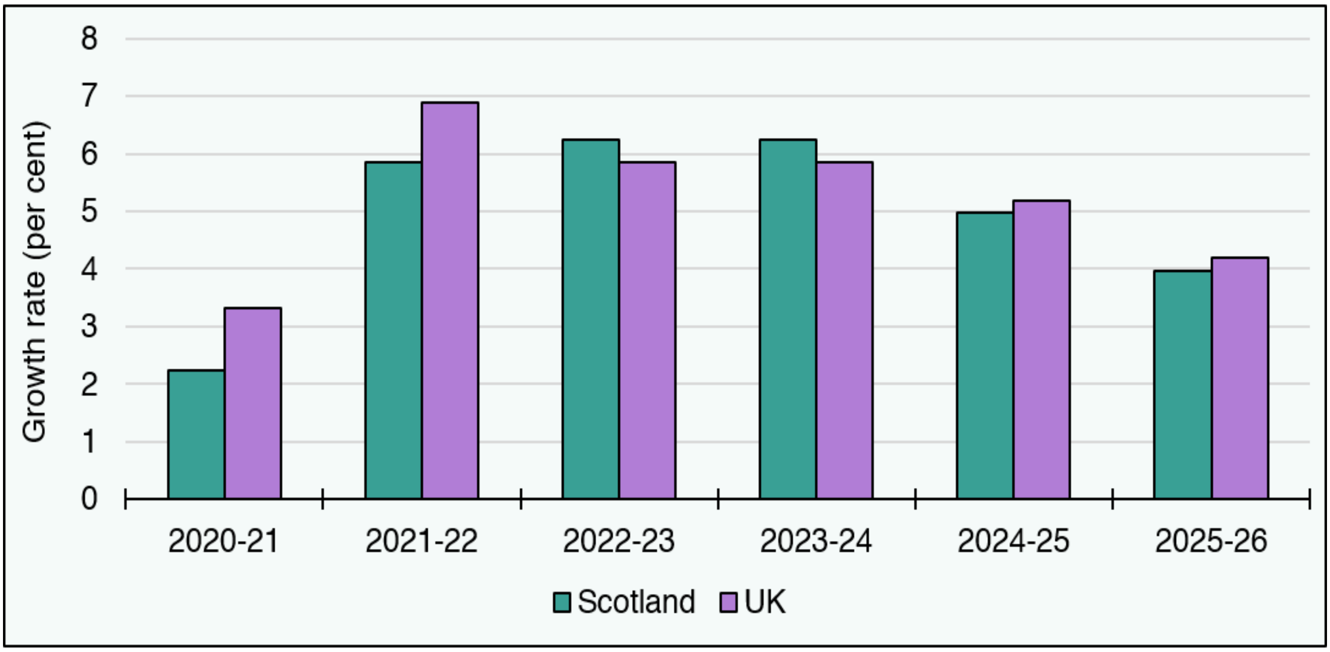
Scotland's average earnings growth has been slightly below UK average, partly due to slower earnings growth in the North East

2.15 Average earnings growth is an important economic indicator. It is one of the most timely indicators of the performance of the Scottish economy, as well as a key input into calculations of living standards. It is also one of the main determinants of the Income Tax net position – that is, the extent to which the Scottish Budget benefits from devolved taxation – when compared with average earnings growth in the UK.

2.16 Over 2024-25 and 2025-26, we have seen average earnings growth in Scotland and the UK gradually slowing from the higher, inflation-driven growth seen from 2021-22 to 2023-24. In our January 2026 forecast, we expected average earnings to grow by 5.2 per cent in 2025-26, before slowing sharply to 2.9 per cent in 2026-27 as inflation also fell towards the Bank of England's 2 per cent target. Based on the latest Real Time Information (RTI) data, Figure 2.5 shows earnings growth slowing sooner than expected, to 4.0 per cent in 2025-26 for Scotland.

Figure 2.5: Scotland and UK nominal average earnings growth (RTI)

Earnings growth over 2024-25 and 2025-26 has slowed across the UK, in line with falling inflation, with Scotland's growth turning slightly below UK average in these two years



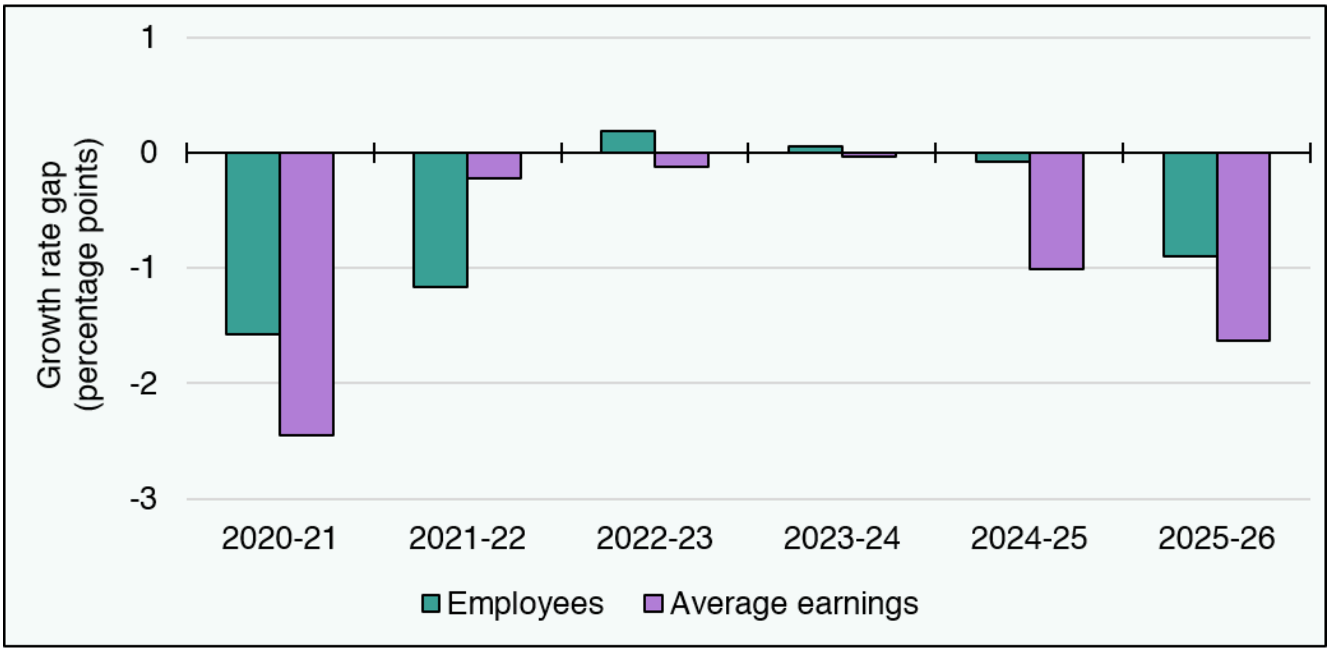
Description of Figure 2.5: Column chart showing nominal average earnings growth in Scotland and UK from 2020-21 to 2025-26. Growth in both economies slowed from around 6 per cent per year from 2021-22 to 2023-24 to 5 per cent in 2024-25 and 4 per cent in 2025-26. In the last two years, Scottish growth was 0.2 percentage points below UK, after two years where it had been slightly faster.

Source: Scottish Fiscal Commission, ONS (2026) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted – July 2026.

2.17 Scotland's earnings growth trailed the UK average by around 0.2 percentage points in 2024-25 and 2025-26. In part, this is because of slower earnings and employment growth in Aberdeen, related to declining oil and gas activity. Figure 2.6 shows the difference in Aberdeen City and Aberdeenshire's earnings and employment growth relative to the Scottish average. In 2024-25 and 2025-26, earnings and employment growth in Aberdeen City and Aberdeenshire has been acting as a drag on growth in Scotland as a whole, and this has contributed to slower earnings growth in Scotland compared with the UK. We saw the same trend in 2020-21 and 2021-22.

Figure 2.6: Gap in Aberdeen City and Aberdeenshire's earnings and employment growth relative to the Scottish average

In 2024-25 and 2025-26, earnings and employment growth in Aberdeen has been a drag on growth in Scotland overall, contributing to Scotland's slower growth relative to UK



Description of Figure 2.6: Column chart showing the gap in Aberdeen City and Aberdeenshire's average earnings and employment growth relative to the respective Scottish averages, from 2020-21 to 2025-26. In 2020-21 and 2021-22, Aberdeen under-performed Scotland on both measures. In 2022-23 and 2023-24, Aberdeen's growth was in line with the Scottish average (gaps around zero). In 2024-25 and 2025-26, it was again below the Scottish average (in 2025-26, negative gaps of 1.6 percentage points for earnings and 0.9 percentage points for employees).

Source: Scottish Fiscal Commission, ONS (2026) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted – July 2026.

2.18 While there will be many factors affecting earnings and employment in Aberdeen City and Aberdeenshire, the long-term decline in North Sea activity is the main driver of slower earnings and employment growth in this region. In the shorter term, fluctuations in oil and gas prices, demand for fossil fuel products, production decisions, and offshore investment are likely to contribute to volatility in earnings and employment.

2.19 As North Sea oil and gas activity continues to decline, its impact on future Scottish earnings and employment growth will lessen. Over the last decade, Aberdeen City and Aberdeenshire have moved from being the region with the highest earnings in Scotland to third place behind the City of Edinburgh and Glasgow City. Aberdeen City and Aberdeenshire's share of total Scottish earnings has fallen by around 25 per cent over this time. In the future, Scotland's economic performance will be driven more by Edinburgh and Glasgow and the sectors dominating these economies including financial and professional services and public administration.

Chapter 3
Funding

3.1 Funding for the Scottish Budget comes from many sources. Some, like the Block Grant and the Block Grant Adjustments (BGAs) are determined or influenced by UK Government decisions. Others, like devolved tax revenues, borrowing or drawdowns from the Scotland Reserve are controlled or at least influenced by the Scottish Government.

3.2 In this chapter we discuss developments since January 2026 that are important for the funding outlook.

The UK Spring Forecast 2026 led to more Block Grant funding

3.3 Shortly after the Scottish Parliament passed the 2026-27 Budget, the UK Spring Forecast confirmed a significant increase in the Block Grant in 2026-27 and 2028-29.[15]

3.4 This largely came from two UK Government decisions related to Special Education Needs and Disability (SEND) announced earlier in February 2026.

- Writing off 90 per cent of the debts English local authorities had accrued in relation to SEND, up to and including 2025-26.[16] This measure, worth £5.6 billion, required an increase in the resource budget for the Ministry of Housing, Communities and Local Government (MHLGC).[17]
- Increasing the Department for Education (DfE) budget by £3.5 billion in 2028-29 so that schools are better equipped for children with SEND.[18]

3.5 Figure 3.1 shows the additional Block Grant funding resulting from these UK Government decisions on devolved spending. Most comes in the current financial year, almost £542 million in 2026-27, with a small addition in 2027-28 and almost £345 million in 2028-29. The level of funding beyond 2028-29 will be confirmed at the next UK Spending Review.

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[15] HM Treasury (2026) Spring Forecast 2026: The right economic plan for Britain. This was the first time an OBR forecast was not accompanied by new welfare or tax policies. Instead, tax policies that had been announced since the last forecasts were included, such as Business Rates reliefs.

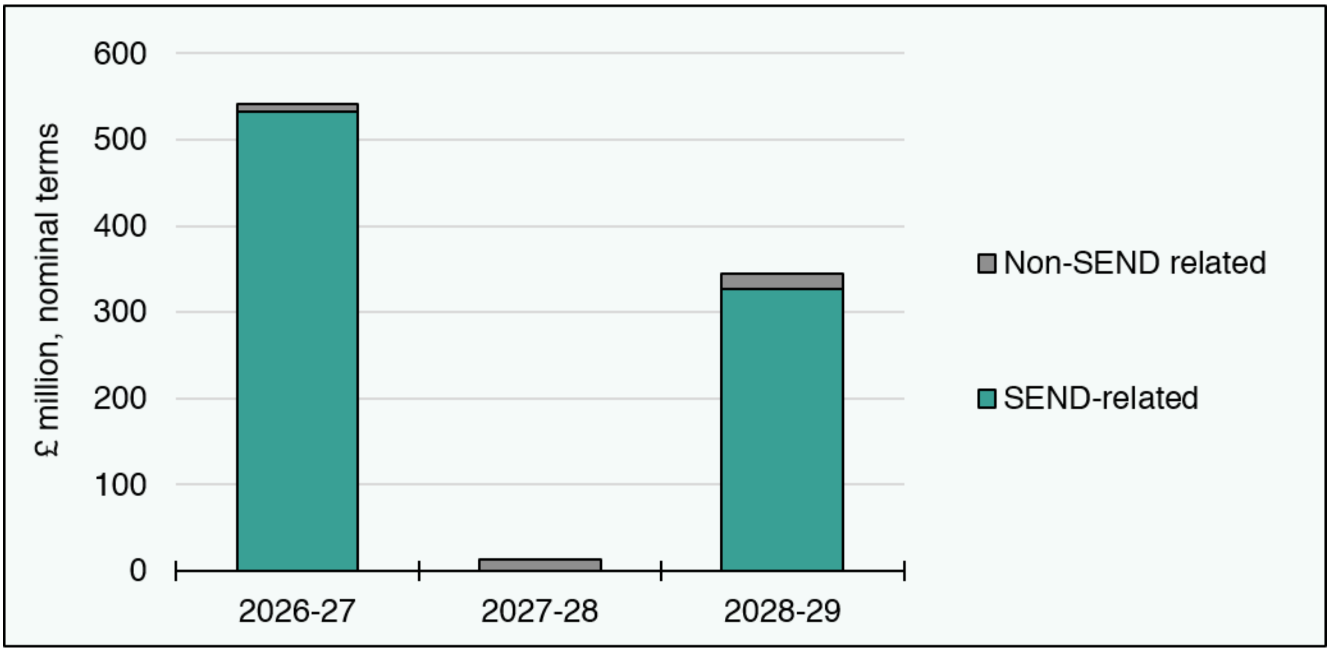
[16] Ministry of Housing, Communities and Local Government (2026) Communities set to benefit from fairer funding.

[17] The deficits had added to annually managed expenditure (AME) as loans were taken out by local authorities. Writing off 90 per cent of that debt was therefore fiscally neutral from a UK-wide perspective (a move from AME to departmental budgets). However, the resulting Barnett consequentials for devolved administrations were new spending.

[18] Department for Education (2026) Specialist SEND support in every school and community.

Figure 3.1: Additional Block Grant funding from the UK Spring Forecast 2026

Large increases to the Block Grant in the current year and 2028-29, but not in 2027-28



Description of Figure 3.1: Column chart showing increases to the Scottish Block Grant from 2026-27 to 2028-29. Most of the new funding is in 2026-27 and 2028-29, with almost nothing in 2027-28. Most of it is related to Special Education Needs and Disability (SEND) policies. There was £38 million of further funding in 2026-27 for the SEND debt write off which is not included in this chart.

Source: Scottish Fiscal Commission, HM Treasury, Scottish Government.

The UK Government is placing greater priority on defence

3.6 In Autumn 2024, the then newly elected UK Government substantially increased overall investment, leading to large increases to the capital Block Grant. However, the uplift was mostly frontloaded. The Spending Review in June 2025 confirmed capital budgets were expected to remain broadly flat in nominal terms after the uplift, leading to real-terms reductions to the capital Block Grant from 2027-28 onwards.

3.7 In June 2026, the UK Government published the Defence Investment Plan (DIP).[19] The DIP had an associated funding package of £15 billion above the Spending Review settlements concluded in June 2025. To partly fund the plan, £6.8 billion worth of reductions to departmental capital budgets were announced. This is one per cent of capital budgets for most departments, but more than that for the Department for Transport (DfT) and the Department for Energy Security and Net Zero.

[19] UK Government (2026) The Defence Investment Plan Funding explainer.

3.8 This reprioritisation from devolved areas to the reserved area of defence will affect the capital Block Grant. The Scottish Government does not get extra Block Grant funding when the UK Government increases defence spending, because the MoD spends it on behalf of the whole of the UK. As devolved UK Government spending will reduce to pay for the DIP, the capital Block Grant is likely to fall further than we had expected before the plan was unveiled.

3.9 There also remains £7 billion of capital spending in the DIP which is unfunded.[20] How this is to be funded is to be confirmed at the next UK Budget on 28 October 2026.

Overall resource funding for the Scottish Budget will depend on how the UK Government deals with recent fiscal pressures

3.10 Since the UK Spring Forecast 2026, there have been other UK Government announcements which will affect both devolved and reserved spending and tax revenues.

3.11 There have been changes to reserved taxes. In May 2026, the UK Government announced extra reliefs on fuel duty and road tax in response to rapidly rising fuel costs as the conflict in the Middle East escalated.[21] Following the change in the UK Prime Minister in July 2026, the UK Government announced cuts to VAT on household electricity bills.[22] All those reliefs will reduce UK tax revenues compared with the OBR's March 2026 forecasts.[23]

3.12 We discussed in Chapter 2 how increasing inflation can increase tax receipts. However, it also adds to the spending pressures on the UK Government. Inflation increases the cost of servicing the national debt, because many gilts are inflation-linked. It also increases the cost of borrowing further, as markets demand greater returns. The cost of delivering public services increases, both directly as goods and services are purchased, and through demand for higher pay rises in the public sector. And since the UK Government generally chooses to uprate benefits in line with inflation, it also adds to welfare spending.

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[20] The DIP Funder Explainer states that £4.7 billion is what is currently unfunded. We understand that the £2.4 billion of HM Treasury support, while slightly different to an increase to the MoD's budget, is also unfunded. UK Government (2026) The Defence Investment Plan Funding explainer.

[21] HM Treasury (2026) Chancellor protects drivers and businesses from rising fuel costs.

[22] UK Government (2026) New PM cuts tax on household electricity bills to give breathing space on cost of living.

[23] The VAT relief is to be paid by cancelling the Digital ID programme, but that programme itself was not funded when it was announced in October 2025: it was after the Spending Review had concluded and the subsequent UK Budget 2025 did not allocate new money to it.

3.13 The UK Budget on 28 October 2026 will be important in setting the direction of the new UK Government. The UK Government will have to balance changes in revenue forecasts, new spending commitments, and higher costs of delivery, against achieving its fiscal rules. The UK Government has some headroom against those – in March 2026 this was forecast to be £24 billion by 2029-30. The UK Government could also increase taxes or reduce other spending, or a combination of all of them. Any changes in devolved areas will result in changes to devolved funding.

3.14 If spending cuts or tax rises are in devolved areas, the Scottish Government's resource funding levels will fall through several channels:

- Reductions in departmental budgets would reduce the Block Grant
- Cuts to welfare would reduce the social security BGAs, reducing funding
- UK Government tax rises would increase the tax BGAs, reducing funding

3.15 The overall effect on the Scottish Budget will depend on the extent to which spending cuts or tax rises are in devolved areas. If there is a reduction in resource funding, it is then up to the Scottish Government to decide how to respond. It could choose to reduce spending in some areas, raise more from devolved taxes, or a combination of the two.[24]

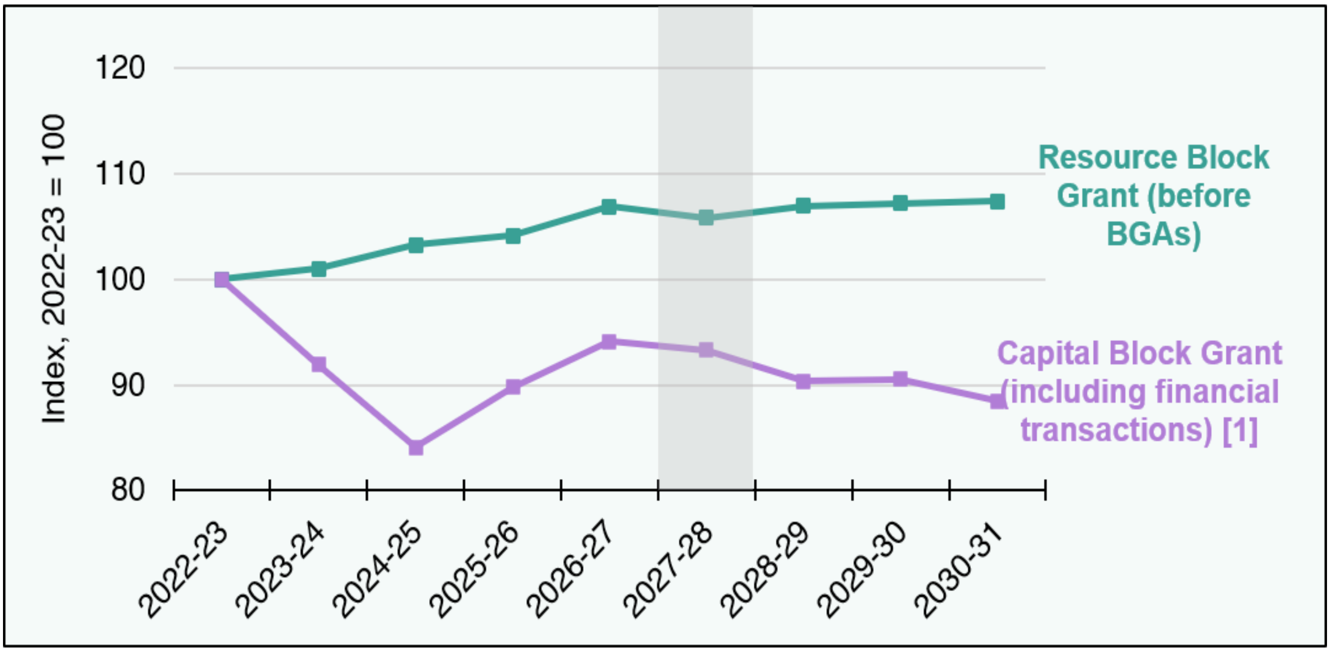
Before these developments, the Block Grant for 2027-28 was already expected to fall in real terms for both resource and capital

3.16 Figure 3.2 shows the latest position for the Block Grant. This shows real terms falls in both the resource and capital Block Grants for the next budget year, 2027-28. While real-terms falls had been seen already for capital in 2023-24 and 2024-25, it is the first time since 2022-23 that the resource Block Grant is expected to fall.

[24] The Scottish Parliament has powers over Non-Domestic Rates, Income Tax for non-savings, non-dividend income, Land and Buildings Transaction Tax, Scottish Landfill Tax, and Scottish Aggregates Tax. Air Departure Tax is to be devolved from April 2027.

Figure 3.2: Resource and capital Block Grant trends since 2022-23

Both the resource and capital block grants are expected to fall in real terms in 2027-28



Description of Figure 3.2: Line chart showing trends for the resource and capital Block Grants since 2022-23. The resource Block Grant grows steadily until 2026-27 but falls in 2027-28 for the first time. It rises again slightly in 2028-29 and then remains broadly flat for the remaining of the period, ending up 7.5 per cent above 2022-23 levels in 2030-31. The capital Block Grant falls rapidly in the first two years, having lost by 2024-25 15 per cent of its value relative to 2022-23 levels. But it recovers rapidly over the following two years. From 2027-28 onwards it falls in real-terms again, more slowly than initially, and by 2030-31 it ends up almost 10 per cent below its 2022-23 level.

Source: Scottish Fiscal Commission, Scottish Government.

Shaded area shows the next Budget year (2027-28).

Real-terms amounts have been calculated applying the latest OBR forecasts of growth in the GDP deflator (March 2026) to the latest funding positions for each year. For more details on those, see supplementary figures S.3.1 and S3.2.

[1] Includes a reduction from the UK Government's Defence Investment Plan, based on SFC assumptions.

3.17 For resource, the Block Grant is forecast to grow again slightly in 2028-29 mainly because of the SEND consequentials. The Scottish Government assumes Block Grant funding will keep growing slightly beyond the Spending Review period. This is both because it has assumed that the increase to DfE's budget in 2028-29 is a permanent uplift, and because it assumes that the overall Block Grant will grow by 0.2 per cent in real terms.[25]

[25] This in line with the Scottish Government methodology, when setting the 2026-27 Budget in January 2026, on how to forecast the Block Grant beyond the current UK Spending Review.

3.18 For capital, the trend of real-terms falls is expected to continue well into the medium term. In the absence of confirmed Barnett consequentials from the UK Government's DIP, we have assumed a reduction to the capital Block Grant from 2026-27 to 2029-30 based on the announced measures that partly fund the plan. This reduces the capital Block Grant by £70 million in the current year 2026-27, by £87 million in the upcoming 2027-28 Budget, and reaching £97 million by 2029-30.

3.19 These forecasts of the Block Grant are likely to change following the UK Budget in October 2026. As the UK Prime Minister and Chancellor have changed in July 2026, it is likely there will be updates to the short-term and long-term fiscal plans for the UK and the relative balance of spending between devolved and reserved areas. The UK Budget on 28 October 2026 will confirm how these changes translate to the Scottish Government's Block Grant.

The Income Tax reconciliation applying to the next budget will reduce resource funding further

3.20 Funding for the Scottish Budget in 2027-28 will be reduced by £720 million as a result of a negative Income Tax reconciliation, which corrects funding for forecast errors in the 2024-25 Budget. This is the largest Income Tax reconciliation to date, despite our forecast for 2024-25 having our smallest ever error for a Budget setting forecast. The large reconciliation occurs because both our and OBR forecast errors mean a reduction in funding for the Scottish Budget, combining to make a large negative reconciliation.

3.21 The Scottish Government can borrow to offset the effect of the £720 million reconciliation in 2027-28, but the reconciliation is likely to exceed the expected borrowing limit.[26] This means there will likely be a reduction to resource funding in 2027-28 even if the Scottish Government borrows the maximum possible. This section explains the reconciliation in more detail.

3.22 The contribution of Income Tax to the Scottish Budget is based on forecasts from both, us and the OBR. When outturn data on tax revenues in Scotland and the rest of the UK becomes available, the forecast error is calculated, and adjustments are made to a later Scottish Budget. This process is known as a reconciliation.[27]

3.23 In the 2024-25 Scottish Budget, Income Tax funding was set by comparing our December 2023 Scottish Income Tax (SIT) forecast to the Income Tax BGA forecast at the time, which was based on the OBR's November 2023 forecast of Non-Saving, Non-Dividend (NSND) revenues in England and Northern Ireland.

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[26] Since 2024-25, the borrowing limit rises in line with inflation. It will be uprated with the OBR's forecast of growth in the GDP deflator in 2027-28, which will be published in October 2026. Based on the latest OBR forecasts in March 2026, we estimate the limit in 2027-28 would be £670 million.

[27] For more details, see Scottish Fiscal Commission (2026) Understanding Scottish Income Tax reconciliations.

3.24 Final Income Tax outturn data for 2024-25 was published by HMRC in July 2026.[28] Figure 3.3 shows that Scottish Income Tax revenues were £209 million lower than the budget setting forecast, while the Income Tax BGA, which reduces funding for the Scottish Budget, has become £512 million more negative. Both errors have a negative effect on Scottish funding and combine to make a larger negative reconciliation.[29]

Figure 3.3: SIT and BGA outturn for 2024-25 compared with budget-setting forecasts

£ million	Scottish Income Tax (SIT)	Block Grant Adjustment (BGA) [1]	Income Tax net position
December 2023 (budget-setting)	18,844	-17,432	1,412
July 2026 outturn	18,635	-17,943	692
Change	-209	-512	-720

Source: Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023, HMRC (2026) Scottish Income Tax Outturn Statistics: 2024 to 2025.

[1] Tax BGAs are negative because they reduce funding for the Scottish Budget.

Figures may not sum because of rounding.

3.25 The resulting negative £720 million reconciliation to be applied in the 2027-28 Scottish Budget is the largest Income Tax reconciliation since it was devolved to the Scottish Parliament. This is despite a record low forecast error for Scottish Income Tax, and a modest forecast error in the BGA.

3.26 Figure 3.4 shows that the Scottish Income Tax and BGA forecast errors in 2024-25 are a lot smaller than in the three preceding years. Between 2021-22 and 2023-24 there was a period of unexpectedly high inflation. This meant that nominal earnings growth in those years was a lot higher than both we and the OBR had forecast. Consequently, Scottish Income Tax and BGA outturn were a lot higher than the budget setting forecasts for those years. However, these errors cancelled each other out, which resulted in reconciliations that were smaller than the underlying errors.

3.27 For 2024-25, even though the errors are smaller than in recent years, they both lead to a reduction in funding. They combine to result in a larger reconciliation than each underlying error. The possibility of this outcome is a feature of the fiscal framework and a risk we have highlighted in recent publications.[30]

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[28] HM Revenue and Customs (2026) Scottish Income Tax Outturn Statistics: 2024 to 2025.

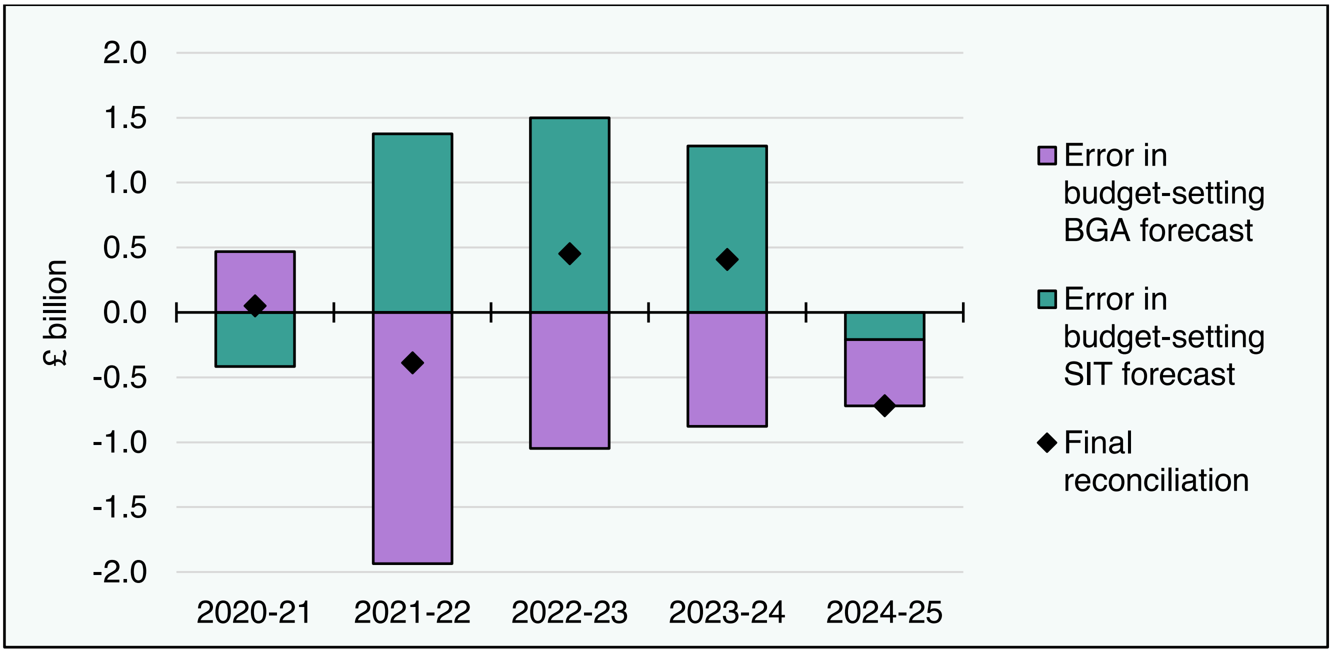
[29] For more details, see Scottish Fiscal Commission (2026) Forecast Evaluation Report – August 2026

[30] See section Probability of Income Tax reconciliation in Scottish Fiscal Commission (2025) Fiscal Update – August 2025.

3.28 Income tax revenues are uncertain and both our and OBR forecast errors can be positive or negative. It will not be unusual to have our and OBR forecast errors that point in opposing directions and combine to make larger reconciliations. Looking back over the last five years of reconciliations in Figure 3.5, the more unusual feature may be having our and OBR forecast errors offsetting each other, leading to smaller reconciliations.

Figure 3.4: Make-up of Income Tax reconciliations since 2020-21

Even though errors for the 2024-25 reconciliation were relatively small, they compounded and led to the largest reconciliation to date



Description of Figure 3.4: A combined stacked column and scatter chart. The stacked columns show how changes in the BGA and SIT forecasts compare with outturn. The scatter markers show the final reconciliation resulting from these changes. From 2020-21 to 2023-24, both errors broadly offset each other, leading to relatively small reconciliations. For 2024-25, both errors were relatively small, but it is the first time they both negatively contribute, resulting in the largest reconciliation to date.

Source: Scottish Fiscal Commission.

3.29 Figure 3.5 shows how the negative £720 million reconciliation compares with previous years. There were negative reconciliations applied to the 2021-22 and 2024-25 Budgets, but these were both within the borrowing limits at the time. In 2021-22, the reconciliation was fully covered by borrowing, so that the impact could be smoothed out over a few years. In 2024-25 no resource borrowing was used, even though it was available, because of the large in-year increase to the Block Grant following the UK Budget 2024.

3.30 Scottish Income Tax revenues have risen by 57 per cent from £11.9 billion in 2020-21 to £18.6 billion in 2024-25 largely because of increased earnings through a period of high inflation, while tax thresholds have remained largely frozen. As revenues increase, Scottish Income Tax and BGA forecast errors also tend to increase, making larger reconciliations more likely. The latest reconciliation at £720 million is almost double the £390 million reconciliation for 2021-22, but it represents a similar share of total revenue.

3.31 Our previous modelling suggests that we are likely to see both positive and negative reconciliations of a similar magnitude to the £720 million reconciliation for 2024-25 fairly frequently. In addition, with Income Tax revenues rising over time, in part simply because of inflation and rising nominal earnings, reconciliations are also likely to get larger over time. This is a feature of the fiscal framework, and the Scottish Government must be prepared for the possibility of similar or larger reconciliations occurring in future. The Scottish Government's borrowing limit rises in line with inflation, but this may be less than the likely trajectory for future reconciliations which will grow with nominal earnings.

Figure 3.5: Outturn Scottish Income Tax reconciliations, 2017-18 to 2024-25

Budget year	Reconciliation (£ million)	Borrowing limit (£ million) [2] [3] [4]	Relates to Income Tax collected in	Reconciliation (percentage of SIT revenue in collection year)
2020-21	-198	300	2017-18 [1]	-1.8
2021-22	-302	600	2018-19 [1]	-2.6
2022-23	-28	600	2019-20 [1]	-0.2
2023-24	50	600	2020-21	0.4
2024-25	-390	610	2021-22	-2.8
2025-26	451	629	2022-23	3.0
2026-27	406	657	2023-24	2.4
2027-28	-720	670	2024-25	-3.9

Source: Scottish Fiscal Commission.

[1] Reconciliations include the corrected outturn as published in HMRC's 2021-22 statistical release. There was a reduction of around £7 million in each year compared with the reconciliation applied in the Budget.

[2] A Scotland-specific economic shock, as defined in the original 2016 fiscal framework, was triggered in January 2021 following our economic and fiscal forecasts, doubling the borrowing limit for the next three financial years (2021-22 to 2023-24).

[3] Following the 2023 fiscal framework review, the higher borrowing limit of £600 million became the standard and from 2024-25 has risen with inflation as measured by growth in the GDP deflator.

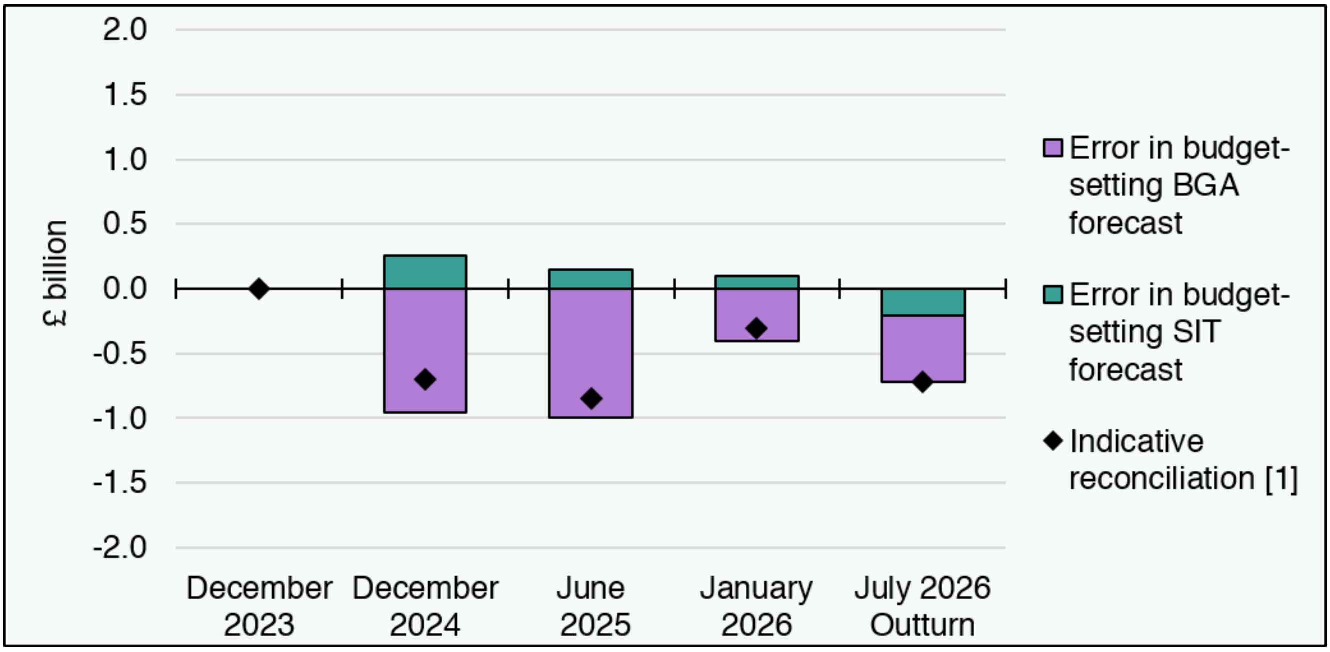
[4] The 2027-28 borrowing limit is indicative, based on the latest OBR's March 2026 forecast of growth in the GDP deflator for 2027 28. It will be uprated in line with the OBR forecast alongside the UK Budget 2026 on 28 October 2026.

Indicative 2024-25 reconciliations

3.32 Since the December 2023 budget setting forecast we have been projecting indicative reconciliations by comparing our more recent forecasts to those of the OBR. These have informed the forecast of resource funding in 2027-28 both in the 2025 Medium-Term Financial Strategy (MTFS) documents and the Scottish Spending Review of January 2026. Figure 3.6 shows how changes to our Scottish Income Tax forecast and changes to the BGA based on the OBR's forecast of Income Tax in England and Northern Ireland have affected the indicative reconciliations for 2024-25. The changes to the BGA have been much larger than changes to Scottish Income Tax.

Figure 3.6: Change in the 2024-25 indicative reconciliations over time

The variation in indicative reconciliations is mostly attributed to changes in the BGA



Description of Figure 3.6: Stacked column chart showing changes in SIT and BGAs, from the budget setting forecasts in December 2023 to outturn in July 2026. It also has a marker showing the indicative reconciliation at each forecast, and at outturn. The indicative reconciliation hovers around negative £500 million at each of the forecasts after December 2023 but always driven more by changes in the forecast BGA. The outturn position of negative £720 million is the first time that the errors on both sides add up rather than offset each other.

Source: Scottish Fiscal Commission.

[1] July 2026 shows the final reconciliation.

In an inflationary environment, past decisions to raise Income Tax rates and freeze thresholds could accelerate fiscal drag

3.33 The Income Tax net position was projected to grow, approximately from £1.0 billion in 2026-27 to £1.4 billion in 2027-28. But this was based on forecasts from both us and the OBR produced in January 2026 and November 2025 respectively.

3.34 Neither us nor the OBR could have included in the forecast the effects of the unexpected global events like the escalation of the conflict in the Middle East. Therefore, there is high uncertainty around the net position for 2027-28.

3.35 Higher inflation tends to increase tax revenues, especially for Income Tax. If higher inflation in 2027-28 is sustained, it is likely to mean somewhat higher nominal earnings growth in both Scotland and the rest of the UK. This would push up both our forecasts of Scottish Income Tax, and those of OBR for England and Northern Ireland, which underpin the Income Tax BGA. As we have discussed in previous reports, higher nominal earnings growth can lead to higher revenue growth in Scotland than the rest of the UK due to lower frozen tax thresholds.[31,32] This could lead to a modest improvement in the tax net position if average earnings growth in Scotland keeps pace with the UK.

3.36 On the other hand, Income Tax outturn data was £300 million less for 2024-25 than we had last forecast in January 2026. In isolation, this data will reduce our forecasts of Scottish Income Tax revenues by a similar amount. In addition, the outturn data showed the Income Tax BGA to be slightly higher than anticipated, further reducing the Income Tax net position, and we may see this effect impacting future forecast years.

3.37 The projected tax net position will become clearer when we and the OBR produce new forecasts towards the end of 2026. These will factor in Scottish Government policies for its 2027-28 Scottish Budget and UK Government policies in its 2026 Budget respectively as well as updated economic forecasts.

Outturn data shows a lower net position than expected, and a larger tax base performance gap between Scotland and the UK

3.38 Under the current fiscal framework, the Income Tax net position can move up and down because of differences in tax policies and the performance of the tax bases in Scotland and the rest of the UK. The tax base performance gap measures how the performance of the tax base in Scotland compares with that of the rest of the UK.

3.39 To calculate this, we look at an illustrative scenario where we assume Scotland's tax base grew in line with the UK, by matching the rest of the UK in earnings and employment growth.

3.40 In this illustrative scenario, which we refer to as 'policy-only', we show how much funding the Scottish Budget could have received purely from the generally higher Scottish tax rates compared with those in place in the rest of the UK. We last updated it in January 2026 and Figure 3.7 shows a policy-only net position of £1,579 million for 2024-25. When compared with the outturn net position, we can calculate a negative tax base performance gap of £888 million in 2024-25. This is £410 million larger than our January 2026 figure because of the lower than projected outturn net position.

3.41 The tax base performance gap occurs because of many factors. The most significant is slower aggregate earnings and employment growth in Scotland than in 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 are important factors.

[31] See Box 4.1 in Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023.

[32] For more detail on fiscal drag, see Scottish Fiscal Commission (2026) Fiscal drag drives revenues – 24 February 2026.

Figure 3.7: Tax base performance gap, 2020-21 to 2024-25

Collection year	Policy-only Income Tax net position (£ million)	Income Tax net position (£ million)	Tax base performance gap (£ million)	Tax base performance gap (percentage of SIT revenue)
2020-21	637	96	-540	4.6
2021-22	747	85	-662	4.9
2022-23	877	260	-617	4.1
2023-24	1,227	730	-497	2.9
2024-25	1,579	692	-888	4.8

Source: Scottish Fiscal Commission (2026) Scotland's Economic and Fiscal Forecasts – January 2026, HMRC (2026) Scottish Income Tax Outturn Statistics: 2024 to 2025.

3.42 The policy-only net position rises by £352 million between 2023-24 and 2024-25. This accounts for the continued cumulative effect of policy differences up to 2023-24 and the effect of new policies introduced in 2024-25. In that year, the Scottish Government introduced the advanced rate for taxpayers with income above £75,000 and increased the top rate from 47 per cent to 48 per cent.

3.43 The actual Income Tax net position decreased by £39 million between 2023-24 and 2024-25. This does not necessarily mean that the policy changes did not raise additional revenue. Our December 2023 policy costings forecast the changes would raise £82 million in 2024-25. The Income Tax net position will have most likely fallen due to the ongoing slower growth in earnings and employment in Scotland (see next section), which widened the tax base performance gap.

3.44 Scottish Income Tax revenues have increased from around £12 billion in 2020-21 to almost £19 billion in 2024-25 following a period of high inflation. It is important to view the tax base performance gap in this context. Figure 3.7 shows that the gap is similar to what it was at the start of the decade when taken as a percentage of Scottish Income Tax revenue.

Slower growth in earnings and employment levels in Scotland still explains most of the tax base performance gap

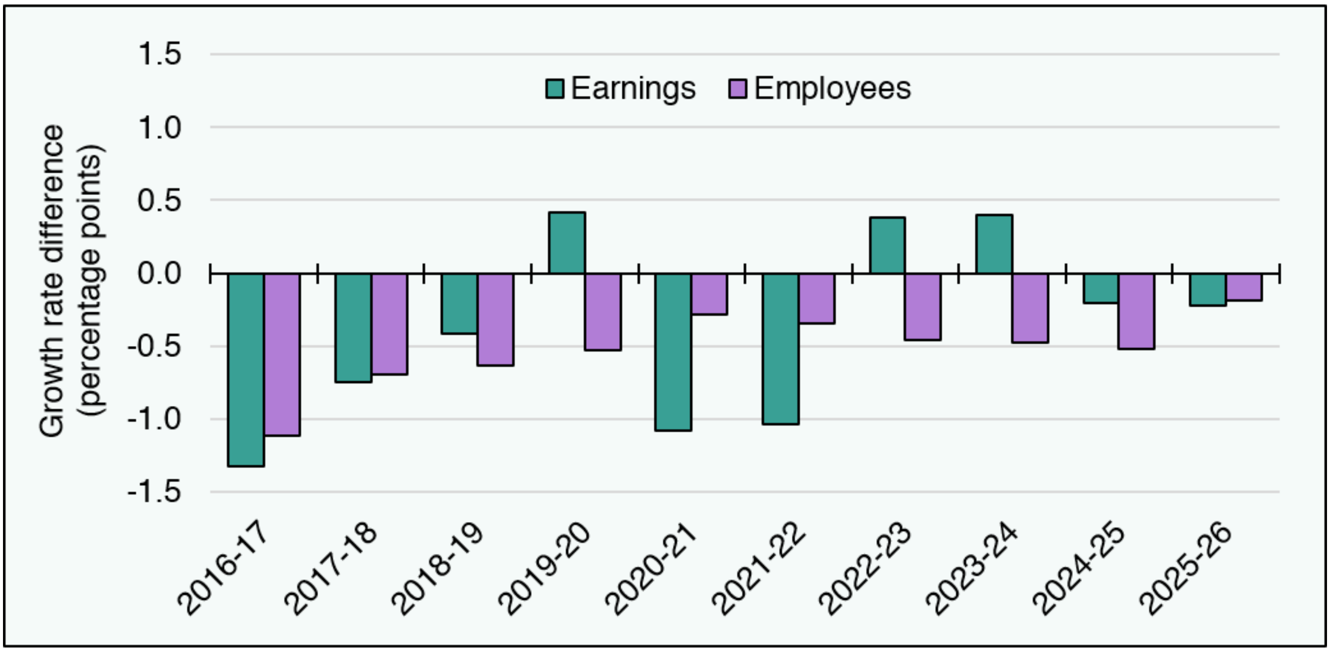
3.45 Growth in average earnings and the number of employees in Scotland lags behind the UK, based on RTI data, as shown in Figure 3.8. We believe these are the main drivers behind the tax base performance gap.

3.46 Over the last ten years, average earnings in Scotland have grown, on average, by 0.4 percentage points less than in the UK year-on-year. The latest data for 2025-26 points to a smaller gap, with Scotland lagging the UK by a more modest 0.2 percentage points. Since 2016-17, average earnings in Scotland have fallen from being over 94 per cent of the average seen across the UK as a whole, to less than 92 per cent in 2025-26. This slower growth in average earnings will have a direct effect on Scottish Income Tax revenues, the Income Tax net position and the tax base performance gap.

3.47 The UK tends to have higher population growth than Scotland, by around 0.2 percentage points on average, and this can be expected to lead to faster growth in the number of employees in the UK. The calculation of the Income Tax BGA takes account of the difference in total population growth. However, even controlling for differences in population growth, the growth in the number of employees in Scotland has also lagged the UK, further contributing to the negative tax base performance gap.

Figure 3.8: Difference between Scottish and UK earnings and employee growth

Scottish average earnings and employee growth has been below the UK as a whole for most of the last decade



Description of Figure 3.8: A column chart showing the difference between annual growth in average earnings and the number of employees in Scotland and the UK as a whole. Employee numbers have since 2016-17 always grown more slowly in Scotland than in the UK. That is also the case for average earning, except for three years (2019-20, 2022-23, 2023-24) when Scottish earnings growth outpaced that of the UK.

Source: Scottish Fiscal Commission, ONS (2026) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted – July 2026.

3.48 This slower growth in average earnings and employees in Scotland is the main contributor to the negative and widening tax base performance gap. To close it, Scotland would need to see a sustained period of earnings and employment growth above the UK, reversing the picture seen in Figure 3.8.

Some Scottish Government decisions could lift funding levels in 2027-28, but come with trade-offs

3.49 While the Block Grant is the most significant source of devolved funding, there are other sources over which the Scottish Government has discretion.

3.50 Since 2022-23, the growth of the resource Block Grant has generally been lower than growth in other resource funding sources. The Block Grant is currently expected to fall by 1 per cent in real terms in 2027-28, with the latest plans and forecasts for the other resource funding sources pointing to a larger real-terms fall by 1.9 per cent. As a result, overall resource funding is currently expected to fall by 1.2 per cent between 2026-27 and 2027-28.

3.51 Many unknowns remain until the UK Budget on 28 October 2026 and subsequent Scottish Government tax decisions for its next 2027-28 Scottish Budget. However, some decisions to be made next month for 2026-27 at the Autumn Budget Revision (ABR), the first opportunity for the new Scottish Government to amend the 2026-27 Budget, could be reviewed in light of the likely challenging funding position for 2027-28.

3.52 For example, the 2026-27 Budget was set based on £150 million being drawn down from the Scotland Reserve for resource spending. Final outturn for 2024-25 and provisional outturn for 2025-26 confirms that more than this balance is available, which is £312 million. Figure 3.9 is based on an assumption the Government will draw down all the money available from all accounts of the Scotland Reserve (resource, capital and financial transactions) in 2026-27 as set out in its provisional outturn statement.[33] The extra Block Grant from the UK 2026 Spring Forecast gives a substantial funding increase in 2026-27, but very little in 2027-28. Alternatively, the Scottish Government could retain some of that extra Block Grant funding in the Reserve to use in 2027-28. Doing so with the full amount would mean that resource funding would no longer fall in real terms in 2027-28.

3.53 However, that would mean lower real-terms growth in 2026-27. In addition, the Scotland Reserve would be near its limit, which in 2026-27 is £782 million.[34] This could restrict the level of underspends in the current year which could be stored for future years and make in-year budget management more difficult. That is because, if underspends exceed the room left in the reserve, those funds will be lost to the Scottish Government.

[33] Paragraph 3 of Scottish Government (2026) Scottish Budget – provisional outturn 2025-2026: briefing note – 18 June 2026.

[34] The reserve limit will be uprated again in 2027-28 based on the OBR's forecast of growth in the GDP deflator at the UK Budget in October 2026. The OBR's forecasts from March 2026 imply a limit of £797 million in 2027-28.

Figure 3.9: Balances in other discretionary sources of funding as of August 2026

£ million, nominal terms	2022-23 outturn	2023-24 outturn	2024-25 outturn	2025-26 outturn [1]	2026-27 plans [2]	2027-28 plans
Scotland Reserve [3]						
Opening balance	699	327	411	598	361	0
Drawdowns	-699	-327	-409	-595	-361	0
Additions	327	411	595	358	0	0
Closing balance	327	411	598	361	0	0
Crown Estate						
Opening balance	755	659	659	713	723	644
Drawdowns	-96	0	0	0	-80	-328
Additions	0	0	54	10	0	0
Closing balance	659	659	713	723	644	316

Source: Scottish Government, Scottish Fiscal Commission.

[1] Provisional outturn. Final outturn will be confirmed when the Scottish Government Consolidated Accounts for 2025-26 are published in late 2026 or early 2027.

[2] Assumes the Scottish Government draws down all available balance from the Scotland Reserve in 2026-27 as set out in its provisional outturn statement.

[3] Resource, general capital, and financial transactions combined.

Figures may not sum because of rounding.

Other Scottish Government choices could make the funding position for 2027-28 less challenging with less financial risk

Crown Estate Scotland

3.54 In our 2025 Fiscal Update, we showed how the Scottish Government has reduced its use of the Scotland Reserve since 2022-23.[35] This coincided with a substantial new stream of revenues from Crown Estate Scotland, ScotWind. The use of Crown Estate revenues is not subject to the same limits as the Scotland Reserve, and it can be used for capital or day-to-day spending. Therefore, the Scottish Crown Estate has been used as a flexible tool that supplements the Scotland Reserve in helping the Scottish Government balance its budget within and between years.

[35] See Figure 3.2 in Scottish Fiscal Commission (2025) Fiscal Update – August 2025.

3.55 As shown in Figure 3.9, the 2026-27 Budget also planned to use almost £80 million of Crown Estate revenues for resource spending. The Scottish Government has generally planned to use revenues from the Crown Estate to support the resource budget and then reduced this planned use towards the end of the year as it became clearer the Budget could be balanced without this funding.

3.56 Using the Crown Estate revenues avoids the issues with the limit of the Scotland Reserve. Therefore, given the increase in resource funding for 2026-27, there is also scope for the Scottish Government to revise its planned use of Crown Estate revenues.

Non-Domestic Rates

3.57 Revenue from Non-Domestic Rates (NDR) is included in the Scottish Budget as the Distributable Amount. These are the revenues redistributed to local authorities. They are different from what is collected (the Contributable Amount). The NDR pool reflects the balance between the two. It does not have to exactly balance each year, but generally the Scottish Government plans to bring the pool into balance in a future year.

3.58 Non-residential properties are revalued every three years, and 2026 is a revaluation year. Following a revaluation there are often many appeals, which can lead to refunds. NDR revenues therefore fall at points of the revaluation cycle, and we expect such a reduction in 2027-28.

3.59 Current plans are for the Distributable Amount to be smaller in 2027-28 than in 2026-27, and for this reduction to be larger than the fall in the Contributable Amount we last forecast in January 2026.

Capital borrowing

3.60 The Scottish Government's ability to offset future real-terms falls in the capital Block Grant through borrowing is now more limited. Under current plans to borrow around £300 million each year from 2027-28, debt will reach 91 per cent of the limit by the end of our last forecast horizon in 2030-31. While the Government could borrow more in any one year, it would mean reaching the overall capital borrowing limit sooner.

3.61 In its last Infrastructure Delivery Pipeline (IDP), the Scottish Government said it is actively exploring the use of private financing structures to overcome constraints to capital funding.[36] Previous private finance options did increase capital funding levels in the short term, but we note that they reduced resource funding in later years and have been proven to be more expensive than investment through direct borrowing.[37]

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[36] Scottish Government (2026) Infrastructure Delivery Pipeline 2026.

[37] "The Scottish Futures Trust calculated in April 2019 that lifetime costs of NPD and hub private finance projects signed under the pipeline approach were on average 2.9 times the construction cost of the assets. This compares with lifetime costs of 1.5 times the construction cost when using capital grants and between 1.9 and 2.6 times the construction cost when using public sector borrowing. The Scottish Government accepted these additional costs to allow additional infrastructure investment to be funded." Audit Scotland (2020) Privately financed infrastructure investment: the Non-Profit Distributing (NPD) and hub models.

Chapter 4
Spending

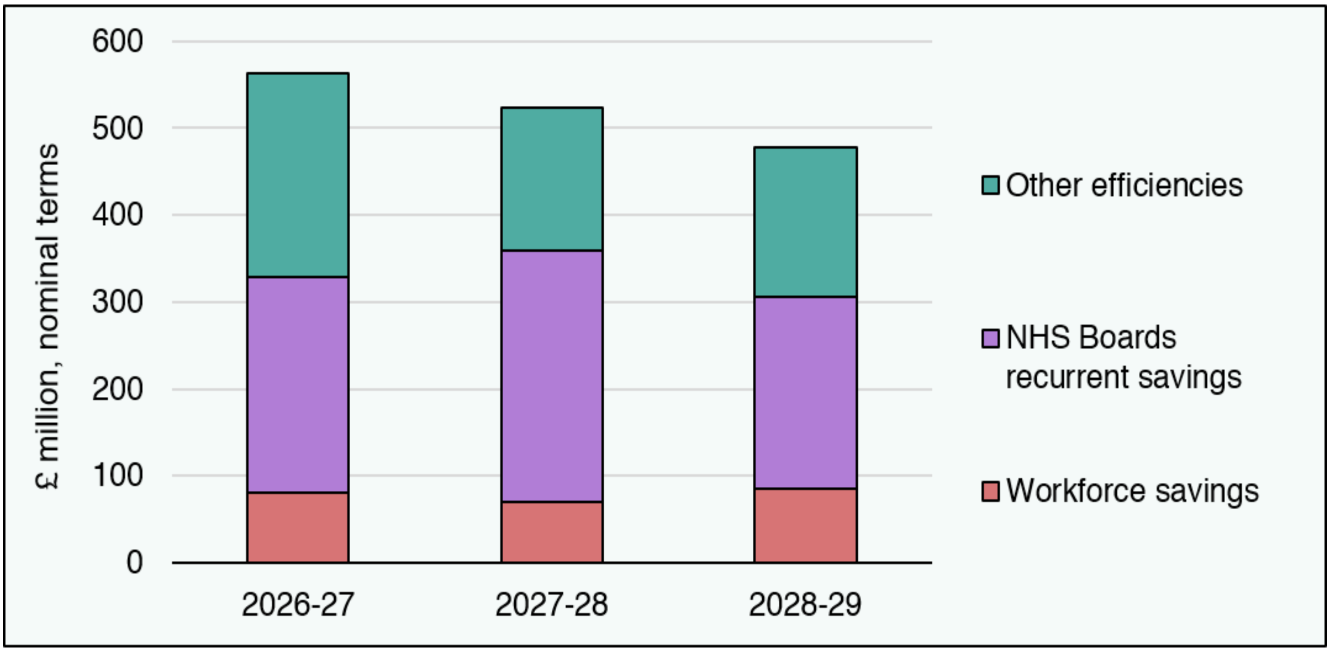
4.1 In this chapter we discuss developments since January 2026 that are important for the Scottish Budget's spending outlook.

Portfolios might need some of the extra funding in 2026-27 if not enough progress has been made to achieve planned savings

4.2 In January 2026, alongside the Scottish Spending Review (SSR), the Scottish Government published saving measures for each portfolio with varying level of detail.[38] Some measures had been outlined six months before in the Fiscal Sustainability Delivery Plan (FSDP) and in the Public Service Reform Strategy, but the SSR translated them into spending allocations.[39] Figure 4.1 shows that these were largest in the current financial year, 2026-27.

Figure 4.1: Efficiency savings factored into spending plans

Efficiencies built into Spending Review plans were an important part of how the Scottish Government balanced the budgets



Description of Figure 4.1: Stacked column chart showing the efficiency savings built into the spending plans for the years 2026-27 to 2028-29 at the Scottish Spending Review. The efficiencies are largest in 2026-27 and then decrease gradually. NHS Boards recurrent savings are the largest component in all cases, and they are greatest in 2027-28. Workforce savings also stand out as a concrete measure of savings in all three years.

Source: Scottish Fiscal Commission, Scottish Government.

For a breakdown of these planned efficiency savings by Scottish Government portfolio, see supplementary figure S4.1.

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[38] See 'Annex B: Portfolio Efficiency and Reform Plans' in Scottish Government (2026) Scottish Spending Review 2026.

[39] Scottish Government (2025) Fiscal sustainability delivery plan, Scottish Government (2025) Scotland's Public Service Reform Strategy: Delivering for Scotland.

4.3 Of the more than £1.5 billion efficiencies built into the spending allocations over the three years, almost half is expected to come from NHS boards finding recurrent savings of 3 per cent a year, which they can retain to fund other spending. These are planned to be largest next year, 2027-28.

4.4 The Institute for Fiscal Studies set out in a report before the recent Scottish election that NHS Scotland faces productivity challenges. It noted that, despite having 14 per cent more staff than before the COVID-19 pandemic, NHS Scotland was delivering fewer outpatient appointments than pre-pandemic.[40] And in its last thematic report, Audit Scotland stated that only 15 per cent of territorial boards and 37.5 per cent of special boards had achieved such levels of recurrent savings in 2024-25. Boards had required the highest level to date of in-year financial support from the Scottish Government of £230 million to balance its budgets.

4.5 The 2026-27 Budget was set in March 2026 with £563 million of efficiencies built into its spending plans. If not enough progress is being made on achieving them, there is a risk that portfolios will experience pressures and will need more funding to keep operating.

4.6 The Scottish Government has not yet reported on progress towards achieving these savings. But if there are spending pressures arising from this, the 2026-27 Autumn Budget Revision in September 2026 provides an earlier opportunity for the Government has to change its spending plans in 2026-27. As outlined in Chapter 3, even though more funding is available in 2026-27, using it all in-year would likely mean bigger challenges and more difficult decisions needed to balance the next Budget.

4.7 Figure 4.1 shows that another significant portion of those efficiencies of 15 per cent were to come specifically from workforce savings. Publicly available data shows there has been little progress reducing the size of the public sector workforce.

Little sign of progress towards reducing the size of the workforce

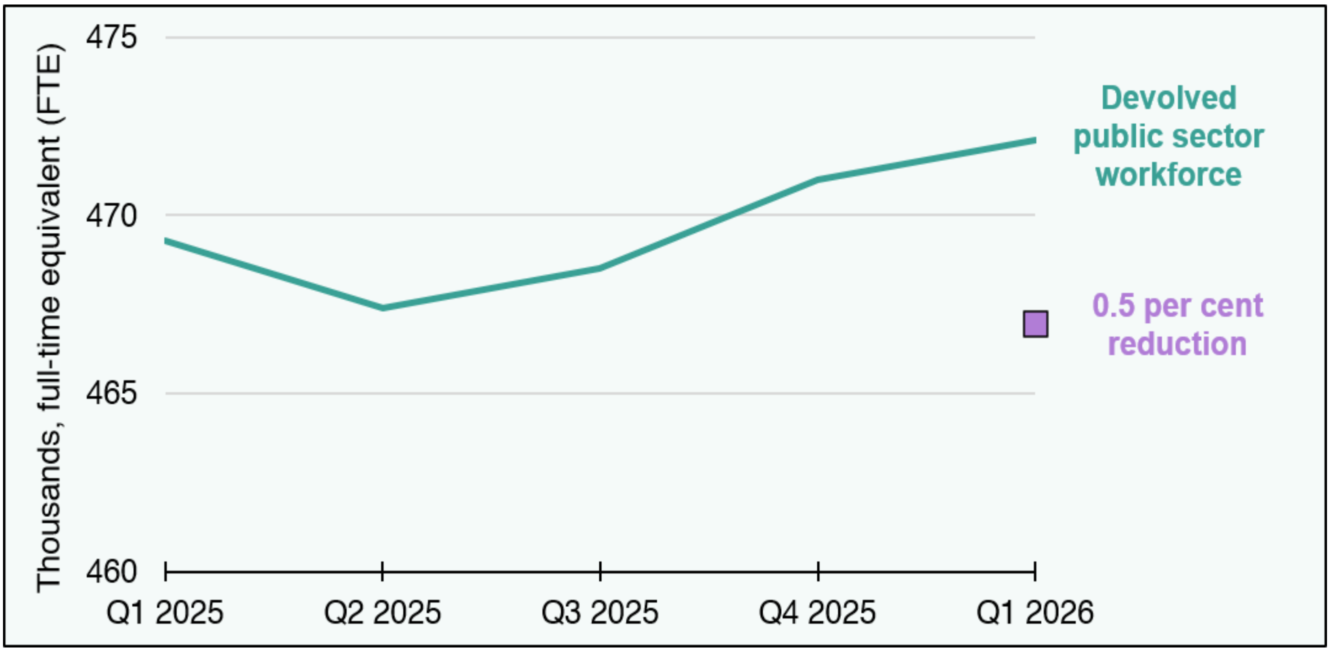
4.8 The Fiscal Sustainability Delivery Plan (FSDP) set out measures to close the fiscal gap projected in the 2025 Medium-Term Financial Strategy (MTFS). One of the most concrete measures was to reduce the public sector workforce by 0.5 per cent a year on average from 2025-26 to 2029-30.

4.9 Public sector employment statistics currently cover all of 2025-26, the first year for which the FSDP set out workforce reduction goals. Figure 4.2 shows that the devolved public sector workforce was higher at the end of 2025-26 than at the start.

[40] Institute for Fiscal Studies (2026) Public service spending and performance in Scotland.

Figure 4.2: Changes in devolved workforce size, quarter-to-quarter

In 2025-26 workforce size has not evolved in line with the FSDP targets



Description of Figure 4.2: Line chart showing the evolution of the devolved public sector workforce (in full time equivalent) from the end of the first quarter of 2025 to the end of the first quarter of 2026 (the 2025-26 financial year), with the vertical axis starting at 460,000 to zoom into the trend. The workforce shrank slightly in the second quarter of 2025, consistent with the goal in the Fiscal Sustainability Delivery Plan (FSDP) but grew in all subsequent quarters. It ended 2025-26 with around 5,100 more staff than the FSDP goal.

Source: Scottish Fiscal Commission, Scottish Government (2026) Public sector employment in Scotland.

4.10 The largest devolved public sector employer, NHS Scotland, ended 2025-26 with around 2,600 more staff. Public corporations also saw their workforce growingly rapidly, ending 2025-26 with around 1,000 more staff. [41] And although the Scottish Government has had for some years recruitment controls in place for its core workforce, the devolved civil service as a whole also finished the financial year with around 400 more staff.[42]

4.11 To meet the 2029-30 target set out in the FSDP, reductions of more than a 0.5 per cent a year are required in 2026-27 and beyond. This target was also based on the Scottish Government's pay policy at the time, and as we discuss next the latest inflation outlook means pay assumptions made in the FSDP and in the SSR may have been too low, meaning larger workforce reductions will be required.

[41] Public corporations are independent legal entities (normally limited companies) that cover more than 50 per cent of their operating costs from business revenues but are controlled by the government. Scottish Government's public corporations include Scottish Water, Prestwick Airport Limited, and Crown Estate Scotland.

[42] Scottish Government (2024) Progress on Scottish Government workforce reform.

Inflation protection clauses are likely to lead to higher pay rises than budgeted for

4.12 Pay deals in 2026-27 for the NHS Agenda for Change (the largest group of devolved public sector workers), Police Scotland, Scotrail, and the Scottish Prison Services all included inflation protection clauses. Figure 4.3 shows the number of staff covered, the inflation protection clause and the current value of the relevant inflation measure.

Figure 4.3: Devolved pay deals in 2026-27 and inflation protection clauses

Workforce	Staff headcount	Inflation protection	Reference measure	Current value (per cent)
NHS Agenda for Change [1]	Almost 170,000	Highest of 3.75 per cent or CPI + 1 per cent	Average of monthly CPI during 2026	4.1 [2]
Police Scotland	Around 22,000	Highest of 3.5 per cent or CPI + 1 per cent	Average of monthly CPI during 2026	4.1 [2]
Scotrail and Caledonian Sleeper	Around 5,300	Highest of 3 per cent or RPI	Jan 2026 RPI	3.8
Scottish Prison Service	Around 5,000	Highest of 3.5 per cent or CPI + 1 per cent	Average of monthly CPI during 2026	4.1 [2]

Source: Scottish Fiscal Commission, Scottish Government (2025) NHS pay deal agreed and Police Negotiating Board for Scotland – Circular 2025-09 Pay Agreement, Unite (2025) Scotrail workers accept two-year pay offer, Scottish Police Authority (2025) Multi-year pay deal agreed for officers, Office for National Statistics (2026) RPI percentage change over 12 months, Bank of England (2026) Monetary Policy Report – July 2026.

[1] Covers most NHS Scotland staff other than doctors and senior executives.

[2] Scottish Government central scenario is that average of monthly CPI will be 3.1 per cent. The measure in the pay deal was CPI + 1 per cent, therefore 4.1 per cent.

4.13 The latest inflation forecasts indicate that all four pay deals would see the clauses triggered. The Scottish Government estimates that this will cost £43 million more than the 2026-27 Budget had allocated to staff pay across all workforces. As we explained in Chapter 2, average CPI during 2026 could rise further as the effects of fuel price rises fully feed through to consumer prices.

This makes the pay policy for 2027-28 more challenging to deliver

4.14 In January 2026 we reported that, with pay deals agreed for 2025-26 and 2026-27, adhering to the existing Public Sector Pay Policy (PSPP) overall ceiling of 9 per cent over three years would imply real-terms pay cuts for most workforce groups in 2027-28. For the purposes of our economy and Scottish Income Tax forecasts, we assumed that public sector wages in 2027-28 would rise in line with CPI.[43]

4.15 Inflation protection clauses already pushed pay higher in 2025-26 and seem likely to do so too in 2026-27. That leaves even less scope for pay rises in 2027-28 that would meet the PSPP's overall ceiling. In January 2026 the Scottish Government committed to reviewing the PSPP for 2027-28 as part of that year's Budget process.[44]

Changes in employer pension contributions could mean lower staffing costs for the Scottish Government in 2027-28

4.16 We have outlined pressures on the devolved public sector paybill. Inflation protection clauses are pointing towards greater-than-budgeted-for pay deals, and planned reductions to the workforce are not yet being achieved. However, another element of staffing costs – employer pension contributions – could offset part of the pressure. Employer pension contributions are a staffing cost to the Scottish Government, directly and indirectly, when staff are employed in the devolved public sector.

4.17 The level of employer contributions for public sector pensions is regularly reviewed.[45] The last revaluation means that, from 2027-28, employer pension contributions for the civil service pension scheme and for other public sector pension schemes will fall.

4.18 In the past, when the opposite happened – that is, when employer pension contributions rose – UK Government departments received more budget from HM Treasury. The Scottish Government then received extra Block Grant funding through the Barnett formula. With the lower employer pension contributions, UK departments could have their budgets reduced, resulting in a reduction to the Block Grant.

4.19 The Scottish Government has more highly paid and more public sector workers per head of population than in the rest of the UK. Therefore, the saving the Scottish Government will get from lower employer pension contributions is likely to be larger than the reduction in the Block Grant. This may ease some pressures created by rising wages and a workforce that is not yet shrinking.

[43] Scottish Fiscal Commission (2026) Scotland's Economic and Fiscal Forecasts – January 2026.

[44] Scottish Government (2026) Scottish Budget 2026 to 2027: integrated public sector pay and workforce policy.

[45] These reviews are based on actuarial calculations of a discount factor known as SCAPE ('Superannuation Contributions Adjusted for Past Experience'). It is linked to inflation (as measured by CPI) and long-term GDP growth prospects (OBR projections).

4.20 While lower employer pension contributions from 2027-28 may reduce overall workforce costs, the Scottish Government needs to consider that any decisions on pay are locked into future budgets. These make it harder to manage the paybill over time, especially if the workforce cannot be reduced as much as planned.

In an inflationary environment, devolved social security takes up more resource funding

4.21 In Scotland, nearly all devolved social security is uprated in line with inflation. The fiscal framework is designed to insulate the Scottish Budget from UK-wide fiscal pressures on devolved taxes and social security. We would expect funding from social security Block Grant Adjustments (BGA) to rise as the UK Government also uprates its own payments.

4.22 However, because of Scottish Government choices, uprating of social security payments in Scotland is more expensive than in the rest of the UK. There are several reasons for this:

- The delivery of some replacement payments has led to relatively higher caseloads than their UK Government equivalents in England and Wales. For example, Adult Disability Payment, which replaced Personal Independence Payment, has seen more applications given the Scottish Government's policy to maximise take-up, and fewer people exiting through award reviews.
- Two payments in Scotland (Winter Heating Payment and Pension Age Winter Heating Payment) are uprated with inflation, but their UK Government equivalents (Cold Weather Payments and Winter Fuel Payments) are not.
- Some payments, like the Scottish Child Payment, have no UK Government equivalent. As such, the cost of uprating falls wholly on the Scottish Budget.

3.62 For these reasons, in a recent Insights short article we estimated that only around 85 per cent of the costs of social security uprating are matched by a corresponding increase in BGA funding.[46]

3.63 As we explained in Chapter 2, the latest Bank of England forecasts suggest an increase in inflation because of the escalation of the conflict in the Middle East, but far less acute than the peak seen in 2022, and one that would not last into the medium term. But if inflation remained higher for a longer period, social security would account for a larger share of the Budget, reducing funding for other devolved public services like health or education.

46 Scottish Fiscal Commission (2026) Insight: Social security uprating.

Chapter 5
Implications for upcoming fiscal events

5.1 In previous chapters we explained the economic and fiscal developments since January 2026 and gave broad indications of what they mean for the Scottish Government's funding and spending outlooks.

5.2 In this chapter we outline how these will affect the 2026-27 Autumn Budget Revision (ABR) and the 2027-28 Scottish Budget, both of which are due to be presented to the Scottish Parliament before the end of 2026.

5.3 The Scottish Spending Review (SSR) allocations presented in January 2026 were underpinned by commitments to efficiency savings. We have highlighted how failure to achieve these savings would present difficulties this year and increase pressure on future budgets. The Scottish Government should provide a clear update on progress towards these planned efficiency savings and identify any new or changing pressures in the 2026-27 and 2027-28 Budgets.

2026-27 Autumn Budget Revision

5.4 A new Scottish Government was formed following the general election in May 2026. The ABR will be the first opportunity the new government has to amend the 2026-27 Budget. It is normally presented to the Scottish Parliament around September.

5.5 In Chapter 3 we discussed how there has been significant unanticipated extra Block Grant funding from UK Government spending decisions made in early 2026. In Chapter 4 we discussed how the Scottish Government balanced the 2026-27 Budget assuming that around £0.6 billion of efficiencies would be achieved across all portfolios. The inability in previous years of most NHS boards to achieve 3 per cent of recurrent savings, the latest public sector workforce statistics, and the latest inflation forecasts point to in-year spending pressures.

5.6 Even with an assumed reduction of the capital Block Grant in 2026-27 because of the Defence Investment Plan (DIP), in Annex A we estimate that overall funding in this year has increased by £859 million. The Scottish Government may choose to use all or part of this in 2026-27 and set that out in the ABR.

5.7 In January 2026 we expected a largely flat resource funding position for 2027-28 and a capital budget that was falling in real terms. The Scottish Government set its Spending Review based on those funding forecasts. However, the change of the UK Prime Minister and Cabinet means that the UK Government may change its fiscal plans or its interpretation of the fiscal rules. Changes to departmental budgets, tax policy or the balance of spending between devolved and reserved responsibilities will affect the Scottish Government's funding. Any such changes will be confirmed at the UK Budget on 28 October 2026. One change expected for 2027-28 is a reduction in the capital Block Grant, following the UK Government's announcement that departmental capital budgets will be reduced to partially fund the Defence Investment Plan.

5.8 The 2026-27 Budget was set with a £150 million assumed resource drawdown from the Scotland Reserve. Provisional outturn for 2025-26 confirms more than this is available.[47] The Scottish Government also planned to use almost £80 million of Crown Estate revenues to increase resource spending levels. Because funding in 2026-27 overall has increased, the Government may choose to use less funding from these sources to instead use that money to support spending in 2027-28 or beyond.

2027-28 Scottish Budget

5.9 The 2027-28 Scottish Budget is expected before the end of 2026, typically a few weeks after the UK Budget.

5.10 In Chapter 3 we have outlined how the funding position, especially for resource, is very challenging in 2027-28, although the Block Grant funding position is uncertain until the UK Budget in October 2026. Moreover, the escalation of the conflict in the Middle East may exacerbate spending pressures if it results in sustained higher inflation. Costs of delivering public services increase as energy costs increase, it is likely there will be greater pressure for public sector pay increases and devolved social security payments are uprated by inflation.

5.11 The additional Block Grant funding in 2026-27 from UK Government spending decisions on Special Educational Needs and Disability (SEND) does not recur in 2027-28. While some extra funding has been confirmed for 2028-29, there is no guarantee that it will all be made permanent for the next UK Spending Review. Therefore, the Scottish Government may choose to carry some of this additional funding forward to 2027-28 through the Scotland Reserve, subject its size limits, although that would come with budget management risks for 2026-27.

5.12 In addition to tax policy decisions, there are other decisions the Scottish Government can make to have more funding next year. It can change the timings for bringing the Non-Domestic Rates (NDR) pool back into balance, smoothing changes in NDR revenues across years. It can also defer plans to use revenues from the Crown Estate which, as things stand, are to be used in 2026-27.

[47] Scottish Government (2026) Scottish Budget – provisional outturn 2025-2026: briefing note.

5.13 On spending, given historical trends and the evidence available to date, we see limited progress in managing the paybill either through workforce reductions or pay restraint. In January 2026 the Scottish Government committed to reviewing the Public Sector Pay Policy (PSPP) for 2027-28 as part of that year's Budget process.[48] Any decisions on pay rises are locked into future budgets and make it harder for the Government to manage pay costs over time.

[48] Scottish Government (2026) Scottish Budget 2026 to 2027: integrated public sector pay and workforce policy.

Annex A
Changes to funding levels

A.1 In this annex we show the changes to funding levels for the last three years: 2024-25 to 2026-27. We last reported on the funding positions in January 2026.[49]

2024-25

A.2 We previously reported the position for 2024-25 based on provisional outturn. There have been small changes as final outturn was confirmed, shown in Figure A.1. This position is consistent with the Scottish Government Consolidated Accounts and is final.[50]

A.3 Final funding levels for 2024-25 decreased by £47 million for resource and £17 million for capital compared with provisional outturn. This was because:

- For resource, the underspend was £49 million larger than calculated at provisional outturn in June 2025. This increased how much was added to the reserve to draw down in later years, but reduced funding in 2024-25. This was partly offset by fully devolved tax revenues being £2 million higher in Revenue Scotland's final accounts for 2024-25 than had been previously estimated.
- For capital, the underspend, which again adds to the reserve for use in later years but reduces funding in 2024-25, was £9 million larger than as calculated at provisional outturn. We have also reduced our estimate of the in-year drawdown from the Reserve by £2 million to align with Scottish Government outturn. For financial transactions, there was a repayment to HM Treasury of £25 million, agreed between both parties as the final outturn position became clearer.

[49] The most recent funding position for all years we have tracked is summarised in supplementary figures accompanying this report and available on our website: supplementary figures S3.1 for resource and S3.2 for capital.

[50] Scottish Government (2025) Consolidated Accounts for the year ended 31 March 2025. Numbers presented here are consistent with the accounts but are on a different basis. The accounts measure underspends against the Spring Budget Revision (SBR), which still had some funding sources, like reserve drawdowns and borrowing, based on plans. Accounts also measure underspends against areas that are classed as annually managed expenditure (AME) and therefore outside the budget limits applying to the Scottish Government.

Figure A.1: Latest 2024-25 resource funding position

Source of funding (£ million)	January 2026	Changes since June 2025	Latest position
Block Grant	**39,626**	**blank**	**39,626**
Spending Review 2021 settlement	35,576	blank	35,576
Non-Barnett funding	715	blank	715
Barnett consequentials	3,336	blank	3,336
Post-2016 fiscal framework	**6,299**	**-47**	**6,252**
Devolved revenues [1]	19,802	+4	19,803
Tax and non-tax BGAs [2]	-18,110	blank	-18,110
Social security BGAs [2]	5,182	blank	5,182
Adjustment for forecast error, of which:	-338	blank	-338
Reconciliations	-338	blank	-338
Resource borrowing	0	blank	0
Net Scotland Reserve drawdown, of which:	-236	-49	-285
In-year drawdowns	265	blank	265
Underspends added after year-end	-501	-49	-550
Other sources	**3,367**	**blank**	**3,367**
Other funding [3]	299	blank	299
Non-Domestic Rates distributable amount	3,068	blank	3,068
Less: resource borrowing costs	-132	blank	-132
Less: capital borrowing costs	-135	blank	-135
Resource funding available for discretionary spend	**49,026**	**-47**	**48,979**

Source: Scottish Fiscal Commission, Scottish Government.

[1] Budget-setting forecasts for Income Tax, but outturn amounts for LBTT and SLfT. No non-tax revenues from Fines, Forfeitures and Fixed Penalties (FFFPs) were used in this year.

[2] Budget-setting forecasts for Income Tax, but adjusted in-year for everything else based on OBR Autumn 2024 forecasts.

[3] For a breakdown of the latest amount for other funding, see supplementary figure S3.3.

Figures may not sum because of rounding.

Figure A.2: Latest 2024-25 capital funding position

Source of funding (£ million)	June 2025	Changes since June 2025	Latest position
General capital	**6,048**	**+7**	**6,055**
Block Grant, of which:	5,696	-38	5,658
Spending Review 2021 settlement	4,690	blank	4,690
Non-Barnett funding [1]	670	-38	632
Barnett consequentials	336	blank	336
Capital borrowing	139	blank	139
Net Scotland Reserve drawdown, of which:	112	+7	119
In-year drawdowns	143	-2	140
Underspends added after year-end	-31	+9	-22
Other funding [1] [2]	101	+38	139
Financial transactions (FTs)	**102**	**-24**	**78**
Block Grant, of which:	123	+53	176
Spending Review 2021 baseline	176	blank	176
Barnett consequentials [1]	-53	+53	0
Net Scotland Reserve drawdown, of which:	-21	+1	-20
In-year drawdowns	4	-0	4
Underspends added after year-end	-25	+1	-24
Other funding [1]	blank	-53	-53
Less: repayments to HM Treasury	blank	-25	-25
Capital funding available for discretionary spend	**6,150**	**-17**	**6,133**

Source: Scottish Fiscal Commission, Scottish Government.

[1] Neutral reclassification between Non-Barnett funding and 'Other funding' to align with how changes are reflected in memoranda of Supply Estimates for the Scotland Office.

[2] For a breakdown of the latest position by UK fiscal event, see supplementary figure S3.4.

Figures may not sum because of rounding.

2025-26

A.4 In January 2026 we reported funding in 2025-26 based on the latest position. There have been several changes since then:

- The Spring Budget Revision (SBR), presented in February 2026, implemented the £510 million funding reduction we reported in January 2026 (£283 million for resource, £227 million for general capital).[51] It also included an assumption on funding from the UK Supplementary Estimates 2025-26. These, presented to the UK Parliament a few weeks later, confirmed the assumed extra Barnett funding as the UK Government topped up departmental budgets from unallocated reserves. They also confirmed Budget Cover Transfers (BCTs), some of which had not been assumed.[52]

- Scottish Government's year-end funding decisions made in March 2026 on reserve drawdowns and borrowing, following the confirmation of funding from the UK Supplementary Estimates, to manage the size of the projected underspend.

- The compilation of provisional outturn in June 2026, which gave a first indication of underspends that will flow into the Scotland Reserve.[53]

A.5 Figure A.3 shows all the changes for resource. We estimate that resource funding levels in 2025-26 fell by £336 million compared with January 2026. The drivers were:

- An increase of £13 million to the resource Block Grant. This is the result of two movements in opposite directions. On the one hand, there were consequentials confirmed at Supplementary Estimates (£21 million). On the other hand, there was an £8 million reduction because of resource City Deals and Debt Advice Levy funding had been included by mistake also in the settlement from the Spending Review. The Scottish Government rectified this at the SBR.

- A fall of £59 million in fully devolved tax revenues, in line with Revenue Scotland's provisional outturn, which we have used for our August 2026 Forecast Evaluation Report.[54]

- A net fall of £273 million in the use of the Scotland Reserve. This is the result of drawing down £39 million more at the SBR, but having a provisional underspend of £312 million added to the reserve for drawdown in later years. Part of it was a managed underspend to be able to fund the £150 million drawdown assumption with which the 2026-27 Budget was set in January 2026.

- A fall of £17 million in other resource funding, which was mostly a year-end Scottish Government decision at the to not use the £23 million of Crown Estate

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[51] Scottish Government (2026) Spring Budget Revision 2025-26 – Supporting document.

[52] HM Treasury (2026) Supplementary Estimates 2025-26. For a definition of Budget Cover Transfers, see our Explainers.

[53] Scottish Government (2026) Scottish Budget – Provisional outturn 2025-26 briefing note.

[54] Scottish Fiscal Commission (2026) Forecast Evaluation Report – August 2026.

revenues it had planned to at the SBR, partly offset by £6 million more BCTs from the UK Government than anticipated at the SBR.

Figure A.3: Latest 2025-26 resource funding position

Source of funding (£ million)	January 2026	Changes since January 2026	Latest position
Block Grant	**41,325**	**+13**	**41,337**
Spending Review 2025 settlement [1]	40,791	+342	41,133
Barnett consequentials [1]	534	-329	205
Post-2016 fiscal framework	**7,964**	**-332**	**7,632**
Devolved revenues [2]	21,566	-59	21,507
Tax and non-tax BGAs [3]	-20,415	blank	-20,415
Social security BGAs [3]	5,803	blank	5,803
Adjustment for forecast error, of which:	500	blank	500
Reconciliations	500	blank	500
Resource borrowing	0	blank	0
Net Scotland Reserve drawdown, of which:	511	-273	238
In-year drawdowns	511	+39	550
Underspends added after year-end	0	-312	-312
Other sources	**3,371**	**-17**	**3,354**
Other funding [4]	257	-17	240
Non-Domestic Rates distributable amount	3,114	blank	3,114
Less: resource borrowing costs	-142	blank	-142
Less: capital borrowing costs	-160	blank	-160
Resource funding available for discretionary spend	**52,358**	**-336**	**52,022**

Source: Scottish Fiscal Commission, Scottish Government.

[1] Funding-neutral reclassification of the £350 million deduction to the Block Grant for the move to UK-funded annually managed expenditure (AME) of police and fire services employer pension costs. The deduction has been reversed from the Spending Review settlement line and is instead made to the Barnett consequentials line. This is because agreement was reached at the UK Budget 2025 – after the conclusion of the current Spending Review.

[2] Budget-setting forecasts for Income Tax, but provisional outturn amounts for LBTT, SLfT, and non-tax revenues from Fines, Forfeitures and Fixed Penalties (FFFPs).

[3] Budget-setting forecasts for Income Tax but adjusted in-year for everything else (except FFFPs) based on OBR November 2025 forecasts.

[4] For a breakdown of the latest amount for other funding, see supplementary figure S3.3.

Figures may not sum because of rounding.

A.6 Figure A.4 shows the changes to capital funding since January 2026. Overall, levels fell by £220 million (£179 million for general capital, £41 million for FTs).

A.7 The main causes were:

- The Block Grant rose by £36 million for general capital, but fell by £10 million for FTs, both because of the UK Government's Supplementary Estimates 2025-26. Unlike previous years, this position was close to the assumption made for the SBR. Therefore, the Scottish Government dealt with these changes in funding in-year rather than deferring them to the next financial year.

- The net use of the Scotland Reserve fell by £60 million (£55 million for general capital, £5 million for FTs). This is the combination of year-end Scottish Government decisions to draw down £14 million less than it had planned in January 2026, and a provisional underspend of £46 million being added to the reserve to support spending in later years.

- Other capital funding fell by £161 million, mostly because of a year-end decision to not use any Crown Estate revenues to support capital spending – plans at the SBR had been to use £153 million. Although confirmed City Deals funding was £48 million less than assumed at the SBR, the shortfall was broadly offset by £46 million of unanticipated BCTs.

- Finally, the Scottish Government anticipates a repayment of gross FTs to HM Treasury of around £25 million, based on the year-end's budget monitoring. This number will be reviewed as provisional outturn position becomes clearer.

A.8 At this point, the outstanding funding decision is how much FTs funding to repay to HM Treasury. Funding levels will only change as that is decided and we move to final outturn when fully devolved tax revenue is published in Revenue Scotland's accounts.

A.9 Provisional outturn for 2025-26 has given us an initial estimate of underspends. These, to be confirmed at final outturn, will support the funding position in 2026-27 onwards through the Scotland Reserve.

Figure A.4: Latest 2025-26 capital funding position

Source of funding (£ million)	January 2026	Changes since January 2026	Latest position
General capital	**7,003**	**-179**	**6,824**
Block Grant, of which:	6,255	+36	6,291
Spending Review 2025 settlement	6,255	blank	6,255
Barnett consequentials	0	+36	36
Capital borrowing [1]	430	+0	430
Net Scotland Reserve drawdown, of which:	35	-55	-20
In-year drawdowns	35	-13	22
Underspends added after year-end	blank	-42	-42
Other funding [2]	284	-161	123
Financial transactions (FTs)	**192**	**-41**	**151**
Block Grant, of which:	167	-10	157
Spending Review 2025 settlement	167	blank	167
Barnett consequentials	0	-10	-10
Net Scotland Reserve drawdown, of which:	25	-5	20
In-year drawdowns	25	-1	24
Underspends added after year-end	blank	-4	-4
Other funding [2]	0	blank	0
Less: repayments to HM Treasury	0	-25	-25
Capital funding available for discretionary spend	**7,195**	**-220**	**6,975**

Source: Scottish Fiscal Commission, Scottish Government.

[1] Changes since January 2026 are £0.3 million but they round down to zero.

[2] For a breakdown of the latest amount for other funding, see supplementary figure S3.4.

Figures may not sum because of rounding.

2026-27

A.10 When we last reported on 2026-27 it was when the budget for this year was being presented to the Scottish Parliament in January 2026.

A.11 As the Budget Bill moved through Stages 2 and 3, some changes to discretionary funding sources were made to ensure the bill's passing. Since then, there have also been Barnett consequentials from new UK Government spending decisions at the Spring Forecast 2026 and Main Estimates 2026-27.[55,56]

A.12 Figures A.5 and A.6 show the changes in resource and capital funding, respectively, since January 2026. Overall, we estimate funding levels have increased by £863 million (£831 million for resource, £32 million for capital).

A.13 The main drivers were:

- On the Block Grant, extra Barnett consequentials of £625 million for resource, but negative £63 million for capital. It is the combination of new funding arising mostly from the Spring Forecast 2026, the UK's 2026-27 Main Estimates, and our assumed Barnett impact of the UK Government's Defence Investment Plan.

- A net £9 million increase in the Block Grant Adjustments (BGAs), based on the OBR's March 2026 forecasts. These are indicative only – the actual in-year adjustment will be based on the OBR's October 2026 forecasts.

- An increase of £210 million in Scotland Reserve drawdowns (£162 million for resource, £44 million for general capital, £4 million for FTs). Provisional outturn for 2025-26 confirms such balances are available. We assume the Scottish Government draws down all the available balances from the Scotland Reserve in 2026-27 as set out in its provisional outturn statement.

- An increase of £84 million in 'Other funding', (£41 million for resource, £43 million for capital) because of unanticipated BCTs confirmed at Main Estimates 2026-27.

- A rise of £7 million in the cost of capital borrowing. The loan taken out at the end of 2025-26 is to be repaid in ten years, rather than the fifteen originally planned.

[55] HM Treasury (2026) Spring Forecast 2026: The right economic plan for Britain

[56] HM Treasury (2026) Main Supply Estimates 2026 to 2027

Figure A.5: Latest 2026-27 resource funding position

Source of funding (£ million)	January 2026	Changes since January 2026	Latest position
Block Grant	**42,671**	**+625**	**43,296**
Spending Review 2025 settlement	42,671	blank	42,714
Barnett consequentials [1]	0	+625	582
Post-2016 fiscal framework	**8,030**	**+171**	**8,201**
Devolved revenues [2]	22,651	blank	22,651
Tax and non-tax BGAs [3]	-21,449	-25	-21,474
Social security BGAs [3]	6,323	+34	6,358
Adjustment for forecast error, of which:	354	blank	354
Reconciliations	354	blank	354
Resource borrowing	0	blank	0
Net Scotland Reserve drawdown, of which:	150	+162	312
In-year drawdowns	150	+162	312
Underspends added after year-end	0	blank	0
Other sources	**3,729**	**+41**	**3,770**
Other funding [4]	255	+41	296
Non-Domestic Rates distributable amount	3,474	blank	3,474
Less: resource borrowing costs	-121	blank	-121
Less: capital borrowing costs	-194	-7	-201
Resource funding available for discretionary spend	**54,115**	**+831**	**54,946**

Source: Scottish Fiscal Commission, Scottish Government.

[1] Different breakdown in January 2026 from the numbers published then, but adding to the same amount. The Spending Review 2025 settlement included a change in Barnett funding from the UK Budget 2025. These are now reflected as a Barnett consequential instead.

[2] Including £25 million of Scottish Government forecast of revenue from Fines, Forfeitures and Fixed Penalties (FFFPs).

[3] Based on the OBR's forecasts in March 2026. Indicative only. The forecasts that will determine the in-year funding adjustment will be the OBR's October 2026 ones.

[4] For a breakdown of the latest amount for other funding, see supplementary figure S3.3.

Figures may not sum because of rounding.

Figure A.6: Latest 2026-27 capital funding position

Source of funding (£ million)	January 2026	Changes since Jan 2026	Latest position
General capital	**7,324**	**+24**	**7,184**
Block Grant, of which:	6,712	-63	6,649
Spending Review 2025 settlement [1]	6,689	blank	6,689
Barnett consequentials [1]	23	-63	-40
Capital borrowing	491	blank	491
Net Scotland Reserve drawdown, of which:	blank	+44	44
In-year drawdowns	blank	+44	44
Underspends added after year-end	blank	blank	0
Other funding [2]	120	+43	163
Financial transactions (FTs)	**245**	**+4**	**249**
Block Grant, of which:	245	blank	245
Spending Review 2025 settlement [1]	245	blank	245
Barnett consequentials [1]	blank	+0	0
Net Scotland Reserve drawdown, of which:	0	+4	4
In-year drawdowns	0	+4	4
Underspends added after year-end	blank	blank	0
Other funding [2]	0	blank	0
Less: repayments to HM Treasury	0	blank	0
Capital funding available for discretionary spend	**7,568**	**+28**	**7,433**

Source: Scottish Fiscal Commission, Scottish Government.

[1] Different breakdown in January 2026 from the numbers published then, but adding to the same amount. The Spending Review 2025 settlement included a change in Barnett funding from the UK Budget 2025. These are now reflected as a Barnett consequential instead.

[2] For a breakdown of the latest amount for other funding, see supplementary figure S3.4.

Figures may not sum because of rounding.

Annex B
Employability Services

Background

B.1 In this annex we explain our decision to remove Employability Services from our forecasts of social security spending. We set out the reasons for our decision and show the effect of removing Employability Services from the spending forecast and funding position. Figures B.1 presents our current social security forecasts after excluding the spending in Employability Services.

B.2 Since December 2024, our Employability Services forecast had consisted of the combined spending on Fair Start Scotland, up to its conclusion in 2026-27, and an indicative forecast of the elements of No One Left Behind that fall under our remit. Removing Employability Services from our social security spending forecast means excluding non-material spending in Fair Start Scotland in 2026-27, and all No One Left Behind spending.[57]

B.3 Most of our social security spending forecasts are based on demand-led principles, where we forecast based on the total number of eligible people who apply for and receive each social security payment. However, the current employability support services provided by the Scottish Government are based on the Government's spending allocation and are not demand-led social security spending.

B.4 No One Left Behind provides support to a wide range of people. However, the elements of No One Left Behind under our remit only include spending intended to assist specific types of clients. These are clients with disabilities and those claiming reserved benefits who are at risk of long-term unemployment to select, obtain, and retain employment. We cannot identify with certainty the spending allocated specifically to those under our remit because the available data does not include this detail. For all these reasons, we believe our forecast at present does not inform the Scottish Budget and has limited value for users.

User engagement

B.5 We have engaged with selected stakeholders on the proposal of not including Employability Services in our social security forecasts.

[57] We have set materiality thresholds under which policies will not be costed. The threshold for negligible policies is £5 million. For more details, see Scottish Fiscal Commission (2025) Statement of Voluntary Application of the Code of Practice for Statistics and Error Policy.

B.6 All stakeholders expressed support for the proposal. Comments highlighted that the change was sensible because employability spending is not demand-led and largely reflects the Scottish Government's budget decisions. It was also noted that it could lead to misleading comparisons within social security spending and Block Grant Adjustments (BGAs) funding transfer.

B.7 Stakeholders also emphasised that removing Employability Services from our social security forecasts would improve clarity and transparency in reporting. Overall, there were no objections, and feedback described the proposal as logical and helpful, and that the change would improve the presentation of social security spending.

B.8 We plan to continue to monitor the Scottish Government's approach to employability support services. We will review our approach if changes arise that might require forecasts to inform the Scottish Budget. We will consider Employability as a Level 4 spending line in the Budget as part of our future work on non-social security spending.

Effect on spending forecast

B.9 Excluding the No One Left Behind and the non-material spending in Fair Start Scotland, reduces our headline social security spending forecast by £70 million from 2026-27. This change does not reflect a decrease in spend on employability support services provided by the Scottish Government but a change in our forecasting scope.

B.10 Figure B.1 shows the effect of removing Employability Services forecast from the headline figures for social security spending.

Figure B.1: Effect of excluding Employability Services on social security spending forecast

£ million	2026-27	2027-28	2028-29	2029-30	2030-31
January 2026	7,405	7,888	8,300	8,758	9,226
Employability Services	-70	-70	-70	-70	-70
August 2026	7,335	7,818	8,230	8,688	9,156

Source: Scottish Fiscal Commission.

Figures may not sum because of rounding.

Effect on funding position

B.11 We estimate the effect of social security spending on the Scottish Budget by looking at the difference between social security BGA funding and our social security forecast. Social security spending exceeds the BGA funding each year, with a net cost of over £1 billion to the Scottish Budget. Excluding the forecast of Employability Services spending narrows this estimate by £70 million. This only changes our measure, it does not affect the overall funding or spending positions of the Scottish Government, as it continues to fund employability support services through Fair Start Scotland and No One Left Behind.

Figure B.2: Effect of social security spending forecast on the Scottish Budget

£ million	2026-27	2027-28	2028-29	2029-30	2030-31
January 2026	-1,082	-1,137	-1,167	-1,200	-1,202
August 2026 [1]	-1,011	-1,067	-1,097	-1,130	-1,132
Change [2]	70	70	70	70	70

Source: Scottish Fiscal Commission.

[1] Based on the 2026-27 budget setting forecasts using OBR November 2025 forecasts.

[2] Change appears as positive because the reported spending has decreased and the funding has not changed.

Figures may not sum because of rounding.

Annex C
Air Departure Tax forecast

C.1 In this annex we present our forecast for Air Departure Tax (ADT). Following the devolution of Air Passenger Duty (APD), the Scottish Government plans to introduce ADT from 1 April 2027. We forecast 14 million tax liable passengers and total revenue of £428 million in 2027-28.

Figure C.1: Air Departure Tax forecast summary

	2027-28	2028-29	2029-30	2030-31	2031-32
Tax liable passengers (thousands)	13,822	13,963	14,265	14,360	14,690
Forecast revenue (Ã million)	428	447	470	487	509

Source: Scottish Fiscal Commission.

C.2 ADT will replace UK APD for the carriage of passengers on any flight that begins at an airport in Scotland and will be administered by Revenue Scotland. In the Scottish Budget 2026-27, the Scottish Government stated that, in its first year of operation, ADT will have the same tax rates as APD in the rest of the UK.

C.3 ADT will be paid by airlines and other aircraft operators in relation to the carriage of passengers on flights departing from Scottish airports. The amount paid for each passenger is based on the distance to the final destination, which determines the band, and type of seat, which determines the rate. Figure C.2 presents bands and rates for 2027-28. From 2028-29 we assume that ADT rates will be increased in line with forecasts for Retail Prices Index (RPI) inflation. This is consistent with the approach the OBR uses to forecast UK APD rates.

Figure C.2: ADT tax rates from April 2027

Distance and band	Reduced Rate (Economy)	Premium Rate (Premium Cabins)	Special Rate
Domestic	Ã8.26	Ã16.52	Ã146.63
Band A (less than 2,000 miles)	Ã15.49	Ã33.04	Ã146.63
Band B (2,001-5,500 miles)	Ã105.33	Ã251.95	Ã1,132.76
Band C (more than 5,500 miles)	Ã109.46	Ã261.25	Ã1,178.20

Source: Scottish Fiscal Commission, Scottish Government (2026) Ministerial Foreword – Delivering Scotland's Air Departure Tax, HMRC (2018) Rates for Air Passenger Duty.

C.4 To account for the revenue the Scottish Government will receive from the introduction of ADT, there will be a corresponding tax Block Grant Adjustment (BGA) that removes funding from the Scottish Budget. As Scottish ADT rates will match UK APD rates in the first year of operation, the overall effect of the introduction of ADT on the Scottish Budget will be limited in 2027-28. The Scottish and UK Governments have not finalised the approach to calculating the BGA for ADT.

Forecast approach

Introduction

C.5 To forecast the ADT revenue, we first forecast the number of tax liable passengers by band and rate, and then apply the tax rates. As there is no Scotland-level breakdown of UK APD revenue available from HMRC APD statistics, we used a variety of data sources to inform the Scottish ADT forecast.

C.6 We will review our forecasting approach once the tax has been introduced and outturn data is available from Revenue Scotland. We outline our data requirements in our August 2026 Statement of Data Needs.[58]

Air passenger forecasts

C.7 We have reliable data on the number of air passengers in Scotland up to 2025-26 from Civil Aviation Authority (CAA) data.

C.8 To forecast the number of passengers we apply a growth rate based on forecasts from the Department for Transport (DfT).[59] These incorporate a wide range of inputs, including UK GDP, foreign GDP, fuel prices, exchange rates, and a geographic split which factors in airport capacity.

Child and connecting flights exemptions

C.9 Children under two years old without a seat and children under 16 and in the lowest class of travel are exempt from ADT. We use HMRC statistics on the cost of the exemption in UK APD to give an exemption rate of 1.9 per cent, which we apply to passenger forecasts to remove exempt children from tax liable passengers.[60]

C.10 Passengers on connecting flights are exempt on the second or next flight of their journey. We exclude these from our forecast of tax liable passengers using proportions from 2018 CAA survey data for Scottish airports. This gives us an estimate of 1.7 per cent of departing passengers being on connecting flights.[61]

[58] Scottish Fiscal Commission (2026) Statement of Data Needs – August 2026.

[59] Department for Transport (2026) UK aviation forecast 2026.

[60] HM Revenue and Customs (2024) Non-structural tax reliefs.

[61] UK Civil Aviation Authority (2018) Passenger survey report 2018.

Allocation to bands and rates

C.11 There is limited recent data on the split of passengers across bands and rates for APD in Scotland. We use a combination of sources and assumptions for this part of the forecast.

C.12 To allocate passengers into bands we use outputs from the 2018 CAA survey. This is a large-scale survey of people at airports that provides detailed information on the routes that people were travelling on. Although there have not been updates to this survey since 2018, we think it is appropriate to use in this forecast because HMRC APD data at UK level shows there has been limited movement between band groupings between 2018-19 and 2024-25.

C.13 Within the destination bands we allocate passengers to rates using HMRC UK-level data on APD.

Highlands and Islands exemption

C.14 The tax rates for ADT in Scotland will match those for APD in the UK for the first year of operation, but the exemptions for Highlands and Islands airports will change at the point of introduction. Under APD, passengers on flights leaving Highlands and Islands airports are exempt from the tax. This includes passengers travelling via direct and connecting flights for non-UK airports. ADT retains the exemption for passengers on flights leaving Highlands and Islands airports to other UK airports, and extends the exemption to passengers travelling on flights from all Scottish airports to Highlands and Islands airports. However, the exemption for passengers carried on flights leaving Highlands and Islands airports where the final destination is outside the UK, including passengers travelling via connecting flights, is being removed in ADT. To illustrate this with an example, a passenger flying from Inverness to Dubai via a connecting flight through Heathrow would have been exempt from APD but will not be exempt from ADT.

C.15 We use the 2018 CAA survey data to estimate the proportion of passengers travelling from non-Highlands and Islands airports on flights to Highlands and Islands airports, for example from Edinburgh to Kirkwall, allowing us to capture that aspect of the exemption.

C.16 We also use this data to estimate the proportion of passengers departing Inverness airport for other airports in the UK. However, the same data is not available for passengers departing from other Highlands and Islands airports. Therefore, we have assumed that the volume of passengers travelling from other Scottish airports to Highlands and Islands airports will match the number of passengers travelling in the opposite direction. This gives us an estimate of exempt passengers travelling to other Scottish airports.

C.17 For the remainder of passengers from other Highlands and Islands airports (who are travelling within the Highlands and Islands, to the rest of the UK, or internationally), we have allocated passengers to rates and bands based on the breakdown for Inverness airport. Figure C.3 shows that the estimated cost of the Highlands and Islands exemption is £7 million in 2027-28.

Figure C.3: Effect of the Highlands and Islands exemption

£ million	2027-28	2028-29	2029-30	2030-31	2031-32
Revenue pre-exemption	436	454	478	495	518
Effect of Highlands and Islands exemption	-7	-8	-8	-8	-9
Forecast revenue	428	447	470	487	509

Source: Scottish Fiscal Commission, Civil Aviation Authority.

Figures may not sum because of rounding.

Forecast uncertainty

C.18 There is a general uncertainty for the forecast in relation to future economic growth. For ADT we think this aspect of uncertainty is consistent with the level of uncertainty that exists for our forecasts of other taxes. In addition, as we highlighted in Chapter 2, there are a range of external factors that have emerged since our January 2026 forecast and could affect the economic outlook, including the conflict in the Middle East. We have not factored in any potential jet fuel shortages resulting from events in the Middle East and disruption to shipping in the Strait of Hormuz in 2026. The risk of large-scale cancellations of flights that was highlighted in spring 2026 has not materialised, but this is something we will continue to monitor in our preparation of forecasts for the Scottish Budget 2027-28.

C.19 There is a specific risk for our forecast of ADT from the lack of data, with the largest area of uncertainty is around the allocation of passengers into bands. This is because there is a lack of up-to-date Scotland-level data on the split across bands and the lack of HMRC data on APD revenue from Scottish airports. The large difference in the tax rate between bands A and B mean that a small variation in our assumption for allocation to bands would lead to a material change in the forecast. For example, a one percentage point switch of passengers from band A to band B would lead to around a £10 million increase in annual revenue.

Additional information

Abbreviations

ABR	Autumn Budget Revision
ADT	Air Departure Tax
AME	Annually managed expenditure
APD	Air Passenger Duty
BCTs	Budget Cover Transfers
BGA	Block Grant Adjustment
BoE	Bank of England
CAA	Civil Aviation Authority
COVID-19	Coronavirus disease 2019
CPI	Consumer Prices Index
DWP	Department for Work and Pensions
EfW	Energy from Waste
EIA	Employment Injuries Assistance
FAI	Fraser of Allander Institute
FER	Forecast Evaluation Report
FFFPs	Fines, Forfeitures, and Fixed Penalties
FSDP	Fiscal Sustainability Delivery Plan
FTs	Financial transactions
GDP	Gross domestic product
HMRC	His Majesty's Revenue and Customs
HMT	His Majesty's Treasury
LBTT	Land and Buildings Transaction Tax
MoD	Ministry of Defence
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
NSND	Non-savings, non-dividend
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
PSPP	Public Sector Pay Policy
RPI	Retail Prices Index
RTI	Real Time Information
SBR	Spring Budget Revision
SCAPE	Superannuation Contributions Adjusted for Past Experience
SDN	Statement of Data Needs

SFC	Scottish Fiscal Commission
SIT	Scottish Income Tax
SLfT	Scottish Landfill Tax
SSR	Scottish Spending Review
UK	United Kingdom
VAT	Value Added Tax

A full glossary of terms is available on our website: Glossary.

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).[62] [63]

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.[64]

Correspondence and enquiries

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

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

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62 OECD (2014) Recommendation of the Council on Principles for Independent Fiscal Institutions.

63 OECD (2025) OECD Review of the Scottish Fiscal Commission 2025.

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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 play a central role in setting the Scottish Government's Budget. It is therefore important to ensure our forecasts are as reliable as possible. To do this we routinely evaluate our previous forecasts to identify improvements we can make for future forecasts. In this report we have evaluated our December 2024 forecasts for the economy, fully devolved taxes, and social security expenditure in 2025-26, and our December 2023 forecast for Scottish Income Tax revenue in 2024-25.

We would like to thank everyone who has contributed to this report, and in particular those data providers who have worked hard to ensure we have the information we need. This includes the Scottish Government, Revenue Scotland, Social Security Scotland, the Department for Work and Pensions, HM Revenue and Customs, and the Office for Budget Responsibility.

We would like to thank the hard-working staff of the Scottish Fiscal Commission for their support in the production of this report.

We would like to give special thanks, from ourselves and on behalf of all previous Commissioners, to John Ireland. John has been an outstanding Chief Executive and has worked to establish the organisation since its very early days. He will leave soon for a very well-earned retirement, and we hope he will look back with a lot of pride on what the SFC has achieved under his leadership.

Professor Graeme Roy

Dr Eleanor Ryan

Justine Riccomini

25 August 2026

Contents

Summary

Introduction

1 In this report we evaluate our December 2024 forecasts for the economy, fully devolved taxes, and social security in 2025-26. We also evaluate our December 2023 Income Tax forecast for 2024-25.

2 Given the ongoing uncertainties at the time we produced our forecasts, we are satisfied with the performance of our forecasts. We've seen a particularly small income tax budget setting forecast error with an overestimate of £209 million or 1 per cent, our smallest ever relative error for income tax. Despite this small error, funding for the Scottish Budget will be reduced by a record £720 million through a reconciliation to account for income tax forecasting errors. Alongside this report, we've published a Fiscal Update which provides commentary about the effects of outturn data on the Scottish Government's funding along with other recent developments in funding and spending, and also discusses this record reconciliation in detail.

Figure 1: Summary of headline evaluations

Topic	Forecast	Outturn	Error	Relative error (per cent)
Economy: GDP Growth (per cent)	1.6	1.0	-0.6	N/A
Taxes: Income Tax (£ million)	18,844	18,635	-209	-1
Taxes: Devolved Taxes (£ million)	4,111	4,087	-23	-1
Devolved social security (£ million)	6,930	6,751	-179	-3

Source: Scottish Fiscal Commission, Scottish Government, HMRC, Revenue Scotland, Social Security Scotland.

Income Tax forecast for 2024-25

3 We overestimated Income Tax revenues by £209 million. While average earnings growth and full year RTI data were higher than expected, the largest source of error is most likely because of lower-than-expected revenues from individuals with high incomes. Growth in income among the highest paid continues to be the greatest source of uncertainty in our Income Tax forecasts.

Economy, fully devolved taxes and social security for 2025-26

Economy

4 Since producing our December 2024 forecast, a number of factors have meant that Scottish GDP growth in 2025-26 of 1.0 per cent was lower than our forecast of 1.6 per cent. These include the US Government's announcement in early 2025 of a range of new import tariffs, which created volatility, and higher global energy and food prices than expected.

5 As a result, we over-forecast GDP growth by 0.6 percentage points. We judge this to be a reasonable forecast error, that is in line with to our historical average absolute error, excluding the COVID-19 period.

6 Overall, the latest outturn shows the Scottish and UK economies continue to experience low growth by historical standards, consistent with the economic outlook in our forecasts. This low growth, below the pre-2008 annual average of 2 per cent, is due to demographic challenges, weak productivity growth, and ongoing uncertainty. In recent forecasts, we expect annual growth to average around 1.4 per cent over the five-year forecast horizon, although GDP growth in a single year can be above or below this rate.

Fully devolved taxes

7 Total revenue from fully devolved taxes was £4,087 million in 2025-26, £23 million less than our forecast of £4,111 million.

8 Overall, Land and Buildings Transaction Tax (LBTT) revenue was £66 million lower than we forecast, a relative error of 7 per cent. The largest source of this error was from the Additional Dwelling Supplement (ADS) component of LBTT. We forecast revenue of £258 million, but outturn was only £199 million. This was mainly due to not accounting for reliefs in our forecast and more repayments than expected.

9 Our more recent ADS forecasts do account for reliefs, but the value of reliefs claimed has been increasing and we are working with Revenue Scotland to understand this further. There are several factors that may have affected the level of repayments. These include the increase in the ADS rate from 6 per cent to 8 per cent, the increase of the repayment timeline from 18 to 36 months, mortgage and interest-rate conditions, and Scottish Government policies affecting second homes and the rental market.

10 Non-Domestic Rates (NDR) revenue for 2025-26 was £3,079 million, £27 million higher than our forecast, giving a relative error of less than one per cent. The overall forecast error was made up of larger offsetting errors from less revenue being lost through the proposals and appeals process than forecast and higher cost of reliefs, including backdated reliefs.

11 Scottish Landfill Tax (SLfT) had a relative forecast error of 39 per cent, with outturn of £56 million being £16 million higher than we forecast. This was because we over-estimated incineration capacity and because the Biodegradable Municipal Waste ban was not enforced at the start of 2026. Both these factors led to more waste than expected entering landfill.

Social security

12 Total spending on devolved social security in 2025-26 was £6.8 billion. This was £179 million (3 per cent) below our £6.9 billion forecast.

13 This was mainly because of lower spending than we had expected on Adult Disability Payment and Child Disability Payment. The number of people receiving disability payments did continue to rise, but for the first time this growth was not as fast as we had forecast.

14 This lower spending on disability payments was partly offset by in-year policy changes, which added £98 million to spending, mainly because of the changes to Pension Age Winter Heating Payment that were announced in June 2025.

Chapter 1
Introduction

Background

1.1 This report provides an evaluation of our recent forecasts. We publish our forecast evaluation report to

- provide transparency about our forecasts
- help users to understand the limitations and likely degree of accuracy of our forecasts
- learn lessons to improve our forecasts
- aid understanding of the effect of our forecast errors on the Scottish Budget, including reconciliations

1.2 Forecast error is the difference between the outturn and the forecast for a particular variable. Relative forecast error is the forecast error as a fraction of the forecast value.

Definition of forecast error	Definition of relative forecast error
Error = Outturn – Forecast	Relative error = (Outturn – Forecast) ÷ Forecast

1.3 Forecast errors are inevitable and do not necessarily mean that the forecasting method was flawed. The future cannot be known with certainty and sometimes a sound method can produce a large forecast error because of unexpected changes.

1.4 To help users understand what represents a reasonable forecast error we may provide comparisons with forecasters who produce forecasts of a similar range of variables.

1.5 Our aim is to reduce our average forecast error by learning lessons from previous forecasts.

1.6 Forecasts can differ from outturn for many reasons, including:

- **Data revisions:** Sometimes, the data on which we base our forecasts is revised, or new data is released that was not previously available. This can change our understanding of historical data and our judgement on future trends.
- **Modelling errors:** We use a large number of models to create our forecasts. These generally rely on identifying trends in historical data and use a combination of the historical patterns and theory to predict how these trends will change over time. Sometimes, we may incorrectly identify historical trends, or misjudge how a trend might change in the future.
- **Unexpected events:** Some events cannot be predicted in advance, such as the COVID-19 pandemic, or the Russian invasion of Ukraine.

- **Incorrect judgements:** Forecasting relies on a number of judgements. This is often done when there is limited evidence on which to base a forecasting decision and can mean misjudgements are made.

- **Analytical mistakes and human error:** While we see simplicity as an asset in our models, some are necessarily large and complex. For example, our Income Tax model projects the tax records of thousands of individual taxpayers. Within this model some relationships can be incorrectly specified which we call analytical error. But there can also be coding mistakes and spreadsheet errors which are human error.

- **Changes in policy:** The Scottish or UK Government may make changes to policies or funding after we have produced our forecasts. We cannot predict government policy in advance.

1.7 Where possible, we have tried to understand which categories have contributed to our forecast errors. However, in many cases, errors will be a result of several overlapping reasons. We may not always be able to disentangle how different factors have contributed to our overall forecast error. Nevertheless, attempting to identify the sources of forecast error is an important first step in making improvements and understanding what actions to take. For example, if we see modelling errors, we work to develop a better model. If the error was because of analytical mistakes, we would review our internal quality assurance processes.

1.8 We also compare some of our errors to measures of our historical performance. In some areas, we do not have a long forecasting record, particularly in social security where several payments are still relatively new and have changed substantially in recent years.

1.9 Our use of the terms ‘average error’ and ‘average absolute error’ can be illustrated with an example: a forecast with errors of positive 1 per cent and negative 1 per cent over the last two years would have an average error of 0 per cent, but average absolute error of 1 per cent.

1.10 We have published comprehensive forecast performance charts providing the full forecast history of the main forecasts included in this publication compared with the outturn data. We have made these charts available in the supplementary figures published on our website to accompany each chapter.

Chapter 2 Economy

Introduction

2.1 Since producing our December 2024 forecast, a number of factors have meant that Scottish GDP growth in 2025-26 of 1.0 per cent was lower than our forecast of 1.6 per cent. These include the US Government's announcement in early 2025 of a range of new import tariffs, which created volatility, and higher global energy and food prices than expected.

2.2 As a result, we over-forecast GDP growth by 0.6 percentage points. We judge this to be a reasonable forecast error, that is in line with to our historical average absolute error, excluding the COVID-19 period.

2.3 Overall, the latest outturn shows the Scottish and UK economies continue to experience low growth by historical standards, consistent with the economic outlook in our forecasts. This low growth, below the pre-2008 annual average of 2 per cent, is due to demographic challenges, weak productivity growth, and ongoing uncertainty. In recent forecasts, we expect annual growth to average around 1.4 per cent over the five-year forecast horizon, although GDP growth in a single year can be above or below this rate.

Gross Domestic Product

Headline forecast error

2.4 In December 2024, we forecast Scottish GDP to grow by 1.6 per cent in 2025-26 compared with the previous year. As Figure 2.1 shows, the latest outturn estimate of GDP growth is 1.0 per cent, giving a forecast error of 0.6 percentage points.

Figure 2.1: Evaluation of December 2024 forecast of GDP growth in 2025-26

Forecast (per cent)	Outturn (per cent)	Error (percentage points)	SFC historical average absolute error (percentage points) [1]	SFC historical average absolute error excluding COVID-19 (percentage points) [2]
1.6	1.0	-0.6	2.3	0.6

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Fiscal Commission – Forecast Evaluation Reports, Scottish Government (2026) GDP Quarterly National Accounts: 2026 Quarter 1 (January-March).

[1] Average absolute error since 2017. It summarises our latest forecast error and all the errors reported in our previous Forecast Evaluation Reports.

[2] This excludes the two years most affected by the COVID-19 pandemic (2020 and 2021).

Figures may not sum because of rounding.

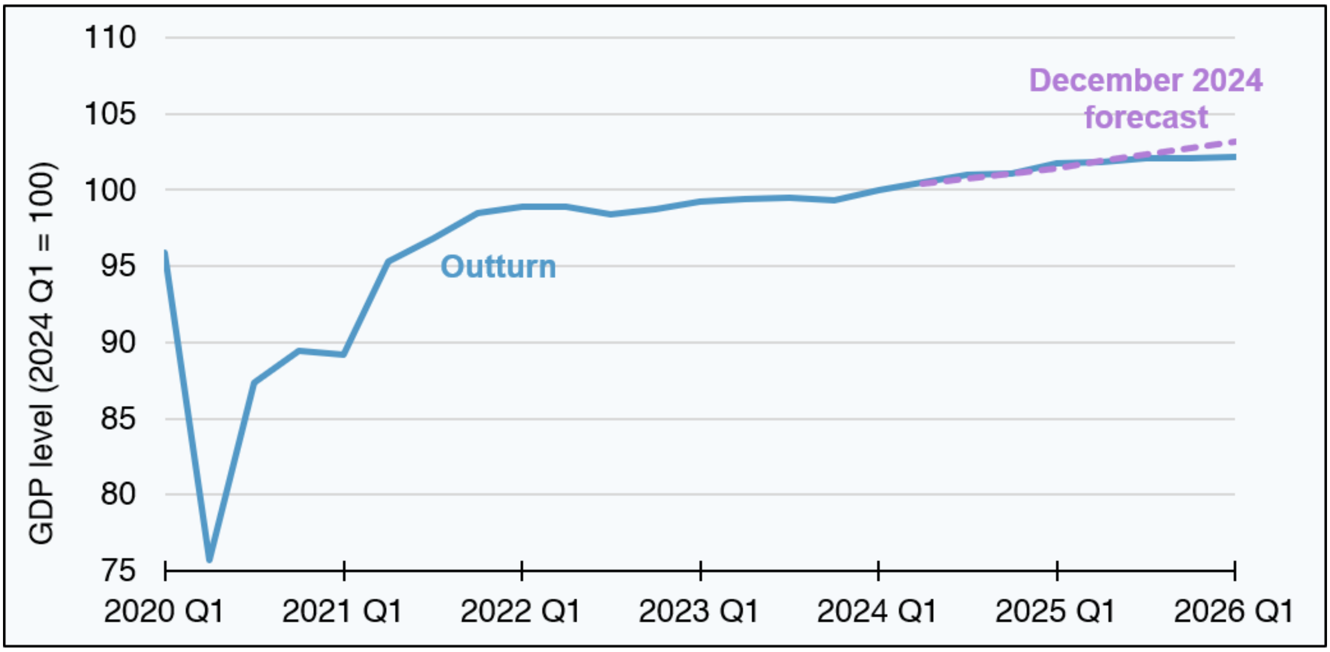
2.5 At the time of producing the December 2024 forecast, we were still seeing global uncertainty and instability including the ongoing conflict in Ukraine. However, there was evidence of improving economic conditions. For example, inflation had fallen back to the Bank of England's 2 per cent target in May 2024, mainly due to falling global energy prices. This allowed the Bank of England to cut interest rates in August 2024. Moreover, the UK Autumn Budget 2024 included a large increase in public spending which was expected to boost UK GDP in 2025-26, as reflected in the OBR's October 2024 forecast, with the effects on Scotland likely to broadly mirror those on the UK overall. Our GDP growth forecast for 2025-26 of 1.6 per cent was consistent with this evidence.

2.6 Since our December 2024 forecast, global energy and food prices have risen by more than expected, contributing to higher inflation and interest rates in the UK over 2025-26 than would otherwise have been the case. Global uncertainty rose sharply in early 2025 because of new trade tariffs in the United States and elsewhere, and remained elevated into 2026 following events in Venezuela and the escalation of the conflict in the Middle East. All of these challenges affected consumer and business confidence.[1] Despite this, GDP growth in 2025-26 remained positive and close to our forecast.

2.7 This is illustrated in Figure 2.2, which shows that our forecast of the level of GDP over 2025-26 is largely in line with outturn.

Figure 2.2: Scottish GDP index, December 2024 forecast and outturn

GDP grew in 2025-26 despite higher global uncertainty, broadly in line with our forecast



Description of Figure 2.2: Line graph showing our December 2024 forecast of GDP compared with the latest outturn, with data indexed so that 2024 Q1 equals 100. Outturn is slightly below our forecast for 2025-26.

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Government (2026) GDP Quarterly National Accounts: 2026 Quarter 1 (January-March).

[1] Fraser of Allander Institute (2026) Scottish Business Monitor Q1 2026.

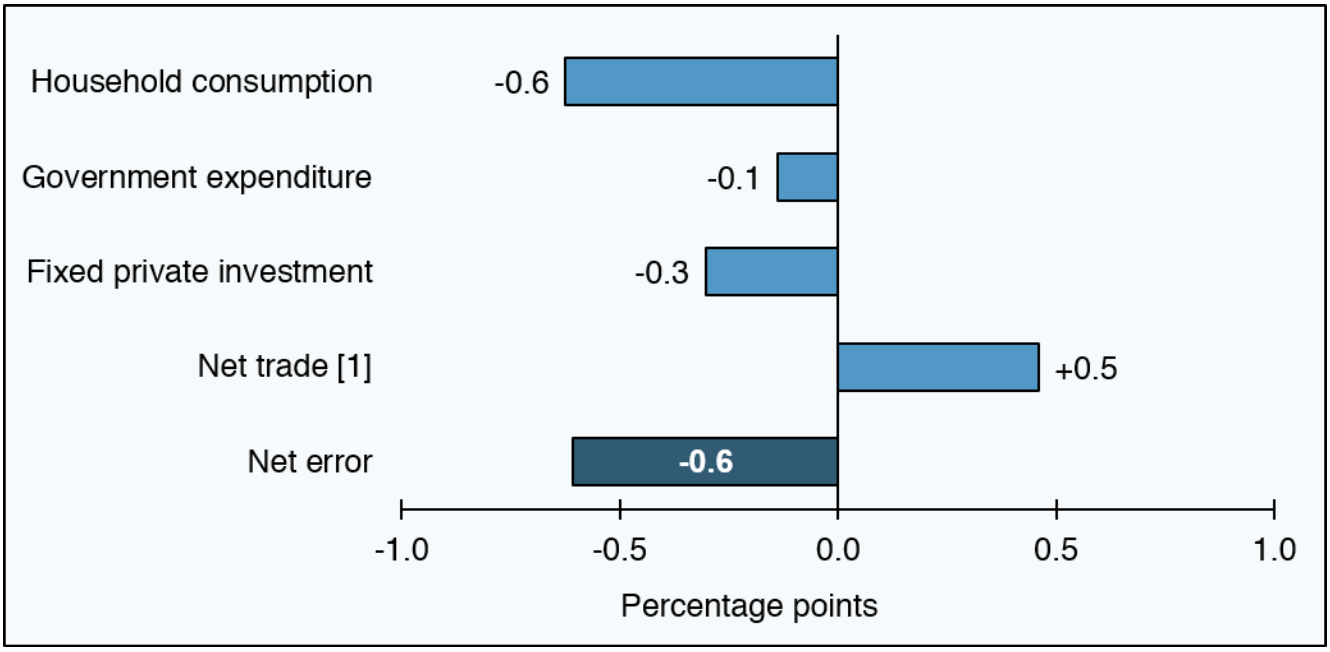
Understanding our forecast error

2.8 Figure 2.3 shows the decomposition of our December 2024 GDP forecast error for 2025-26 by components of expenditure. Household consumption and, to a smaller extent, private sector investment and government expenditure underperformed our expectations in December 2024 resulting in over-forecasts by 0.6 percentage points, 0.3 percentage points, and 0.1 percentage points respectively. These are partly offset by an under-forecast of net trade, which is a relatively volatile component of GDP.

2.9 Household consumption accounts for almost two thirds of Scottish GDP. The main reason for our household consumption forecast error is that in December 2024 we expected real disposable household income (RDHI) in 2025-26 to grow modestly (at 0.8 per cent), after two years of strong growth in average earnings and RDHI, whereas the latest outturn shows it remained flat. This is because, while nominal disposable income growth was higher than our forecast (mainly reflecting higher-than-expected growth in nominal average earnings), this was offset by higher inflation.

Figure 2.3: Decomposition of December 2024 GDP forecast error for 2025-26

Consumption and investment over-forecasts partly offset by net trade under-forecast



Description of Figure 2.3: Bar chart showing contributions in percentage points to the GDP error from household consumption (over-forecast by 0.6 percentage points), government expenditure (over-forecast by 0.1 percentage points), fixed private investment (over-forecast by 0.3 percentage points), and net trade including residual (under-forecast by 0.5 percentage points).

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Government (2026) GDP Quarterly National Accounts: 2026 Quarter 1 (January-March).

The net error is calculated as the sum of the components and so, to several decimal places, it may not exactly match the forecast error which is calculated as the difference between outturn and forecast.

[1] 'Net trade' category includes residual factors which are: changes in inventories, including balancing adjustments; and statistical discrepancy.

Figures may not sum because of rounding.

Labour market

Headline forecast error

2.10 Figure 2.4 shows the error in our December 2024 forecasts of employment and nominal earnings growth for 2025-26. Employment and earnings are the most important outputs from our economy forecast as they feed into our forecast of Scottish Income Tax. We expect Income Tax outturn data for 2025-26 to be published in summer 2027.

Figure 2.4: December 2024 forecast error in employment and nominal earnings growth for 2025-26

Per cent, unless specified	Determinant	Forecast	Outturn [1]	Error (percentage points)
SFC December 2024	Employment	0.1	-0.5	-0.5
SFC December 2024	Average earnings	3.7	5.1	1.4
SFC December 2024	Total earnings	3.8	4.6	0.8

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Government (2026) GDP Quarterly National Accounts: 2026 Quarter 1 (January-March), ONS (2026) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted – July 2026.

Our source for total earnings (wages and salaries) is the Quarterly National Accounts for Scotland (QNAS).

Our measure of the number of employees is based on Real Time Information (RTI). This, together with an assumption about self-employment based on the Annual Population Survey, gives our measure of employment.

Average earnings are equal to QNAS total earnings divided by the number of employees. Earnings growth rates based on QNAS may differ from those based on RTI pay data.

[1] Outturn is as available at time of this publication and published in the supplementary figure S2.4.

Figures may not sum because of rounding.

Understanding our forecast error for employment

2.11 Figure 2.4 shows that in December 2024 we over-forecast employment growth for 2025-26 by 0.5 percentage points, as our forecast was 0.1 per cent while outturn shows a fall of 0.5 per cent.[2,3,4]

2.12 At the time of producing the forecast, unemployment had been low and steady since the end of 2021-22 (at just below its assumed trend rate of 4 per cent over most of the period), consistent with tight labour market conditions.[5] Payrolled employment growth had slowed over 2024-25 in line with slower growth of the labour force. In December 2024 we expected these trends to continue into 2025-26, with employment remaining broadly flat.

2.13 Outturn based on RTI shows a small fall in employment. This slightly weaker labour market reflects a greater impact on business confidence and hiring intentions of the employer cost increases introduced in the UK Autumn Budget 2024, compared to what we assumed in our forecast. These include increases in employer National Insurance Contributions (NICs) and the National Minimum Wage, which resulted in headcount reductions or recruitment freezes. The weaker-than-expected labour market is also likely to reflect higher uncertainty following developments in international trade policy since our forecast.

Understanding our forecast error for nominal average earnings

2.14 Figure 2.4 shows that in December 2024 we under-forecast nominal average earnings growth for 2025-26 by 1.4 percentage points, as our forecast was 3.7 per cent while outturn shows 5.1 per cent.

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[2] Since the COVID-19 pandemic, because of quality issues with the Labour Force Survey (LFS), we have put more weight on Real Time Information (RTI) administrative data which has been more reliable than LFS estimates. The LFS (the official source of labour market data for the UK) is based on householders' self-reported survey data whereas RTI, which does not cover self-employment, is administrative data based on employers' payroll returns.

[3] In recent years, trends in LFS employment have diverged from trends in RTI payrolled employment. While this gap has now closed, partly reflecting improvements in the quality of the LFS, growth rates are still affected. For 2025-26, employment growth rates based on the LFS are 1.3 per cent for Scotland and 1.5 per cent for the UK, whereas those based on the RTI are -0.5 per cent for Scotland and -0.3 per cent for the UK. ONS (2026) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted – July 2026, ONS (2026) HI11 Regional labour market: headline indicators for Scotland – July 2026, ONS (2026) A01: Summary of labour market statistics – July 2026.

[4] The divergence in LFS and RTI employment growth rates has implications for productivity growth rates, with ONS data for the UK showing output per hour growth in 2025-26 of 0.1 per cent based on the LFS and 2.1 per cent based on the RTI. ONS (2026) Productivity flash estimate and overview, UK: April to June 2026 and January to March 2026.

[5] A labour market is 'tight' if workers' supply of labour is low relative to firms' demand for labour. The tightness in the UK since 2021-22 has been due to factors such as: bottlenecks and mismatches in the wake of the COVID-19 pandemic following the rapid reopening of the economy; an ageing workforce, with more people leaving jobs than could be replaced in the short term; fewer EU migrants.

2.15 At the time of producing the forecast, nominal average earnings growth had been historically high since 2021-22 (above the annual average of around 3 per cent). This reflected higher inflation and labour market tightness.[6] In December 2024 we expected earnings growth to remain relatively strong in 2025-26. This is, in line with our view of the labour market remaining relatively tight, and of inflation being above the 2 per cent target (2.6 per cent in 2025-26), mainly due to persistent upward pressures from domestic factors. These factors included some ongoing labour market tightness, and also higher labour costs such as the rise in employer NICs being partly passed on to consumer prices.

2.16 Outturn shows that earnings growth was stronger than our forecast. One reason is that inflation in 2025-26 (3.4 per cent) was higher than we anticipated in December 2024, resulting in higher pay settlements. Higher inflation was triggered mainly by larger increases than expected from April 2025 in the Ofgem energy price cap and in water bills, as well as higher food prices.[7]

2.17 Another explanation relates to higher devolved public sector pay awards than expected. In our December 2024 forecast we assumed an average pay award of 3 per cent based on the Scottish Government's stated policy at the time. In its Public Sector Pay Policy as part of the 2025-26 Budget, the Scottish Government set out a 9 per cent pay increase over the three years to 2027-28, with 3 per cent allocated for the 2025-26 Budget.[8] However, the pay awards for 2025-26 proved to be higher than 3 per cent, as we reported in our January 2026 forecast publication.[9]

Conclusions

2.18 In this report, as in recent ones, the forecast being evaluated was produced during a period of significant global uncertainty. Despite this, the performance of the Scottish economy has been broadly in line with our forecasts.

2.19 We continue to regularly review and develop our models and judgements, as well as learn lessons from our errors to improve our forecast accuracy. Given the ongoing global instability, it is also important we clearly communicate the uncertainties around our central forecast and the range of possible effects that shocks can have on the economy and public finances. This helps ensure that forecast errors are better understood, and that our forecast remains relevant and valuable in the face of rapidly changing economic conditions.

[6] When prices are higher after an inflation shock and the labour market is tight, firms are more likely to raise wages because they face greater competition in attracting or retaining workers, while workers bargain for higher nominal wages to retain real earnings. Higher labour costs can then cause firms to raise prices to retain profit margins, leading to inflation persistence.

[7] Food prices in 2025-26 rose by more than expected because of global factors such as higher commodity prices as well as domestic factors including higher labour and packaging costs in the UK. Box E in Bank of England (2025) Monetary Policy Report – August 2025.

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

[9] Paragraph 2.85 in Scottish Fiscal Commission (2026) Scotland's Economic and Fiscal Forecasts – January 2026.

Chapter 3
Tax

Introduction

3.1 In this chapter we evaluate our December 2023 forecast of Scottish Income Tax (SIT) for 2024-25. We also evaluate our December 2024 forecasts of the devolved taxes for 2025-26 covering Non-Domestic Rates (NDR), Land and Buildings Transaction Tax (LBTT), and Scottish Landfill Tax (SLfT).

3.2 Figure 3.1 compares our forecasts against outturn. SIT outturn for 2024-25 was £18.6 billion which is £0.2 billion less than our forecast of £18.8 billion. For the devolved taxes, total revenue was £4.1 billion with a very small relative error.

3.3 Following publication of outturn data, we know that a negative £720 million Income Tax reconciliation will be applied in the 2027-28 Scottish Budget.[10] We discuss this reconciliation and provide further analysis on the Income Tax net position in our Fiscal update published alongside this report.[11] We will discuss the total reconciliation from all devolved taxes to be applied in the 2026-27 Scottish Budget in our next Scotland's Economic and Fiscal Forecasts publication.

Figure 3.1: Summary of tax forecast errors

£ million, unless specified	Forecast	Outturn	Error	Relative error (per cent)
Scottish Income Tax [1]	18,844	18,635	-209	-1
Other devolved taxes, of which: [2]	4,111	4,087	-23	-1
Non-Domestic Rates	3,052	3,079	27	1
Land and Buildings Transaction Tax [3]	1,019	952	-67	-7
Scottish Landfill Tax [4]	40	56	16	39

Source: Scottish Fiscal Commission Scotland's Economic and Fiscal Forecasts, HMRC (2026) Scottish Income Tax Outturn Statistics: 2024 to 2025, Scottish Government – Non-domestic rates income statistics, Revenue Scotland (2026) Provisional Outturn Data 2025/26

[1] The Scottish Income Tax average only covers forecasts for 2018-19 to 2024-25.

[2] The 'Other devolved taxes' category shows an unweighted average of the historical average error for each individual tax.

[3] LBTT revenue is net of Additional Dwelling Supplement (ADS) repayments, and excludes penalties, interest, and revenue losses.

[4] SLfT revenue excludes penalties, interest, and revenue losses.

Figures may not sum because of rounding.

[10] This figure is provisional and may be revised before the 2027-28 Scottish Budget.

[11] Scottish Fiscal Commission (2025) Fiscal Update – August 2026.

Figure 3.2: Average forecast error, 2018-19 to 2025-26

Per cent	Historical average error	Historical average absolute error
Scottish Income Tax [1]	2	6
Other devolved taxes, of which: [2]	2	13
Non-Domestic Rates	-5	5
Land and Buildings Transaction Tax	2	13
Scottish Landfill Tax	18	24

Source: Scottish Fiscal Commission Scotland's Economic and Fiscal Forecasts, HMRC (2026) Scottish Income Tax Outturn Statistics: 2024 to 2025, Scottish Government – Non-domestic rates income statistics, Scottish Government (2026) Fiscal framework data annex: March 2026

[1] The Scottish Income Tax average only covers forecasts for 2018-19 to 2024-25.

[2] The 'Other devolved taxes' category shows an unweighted average of the historical average error for each individual tax.

Figures may not sum because of rounding.

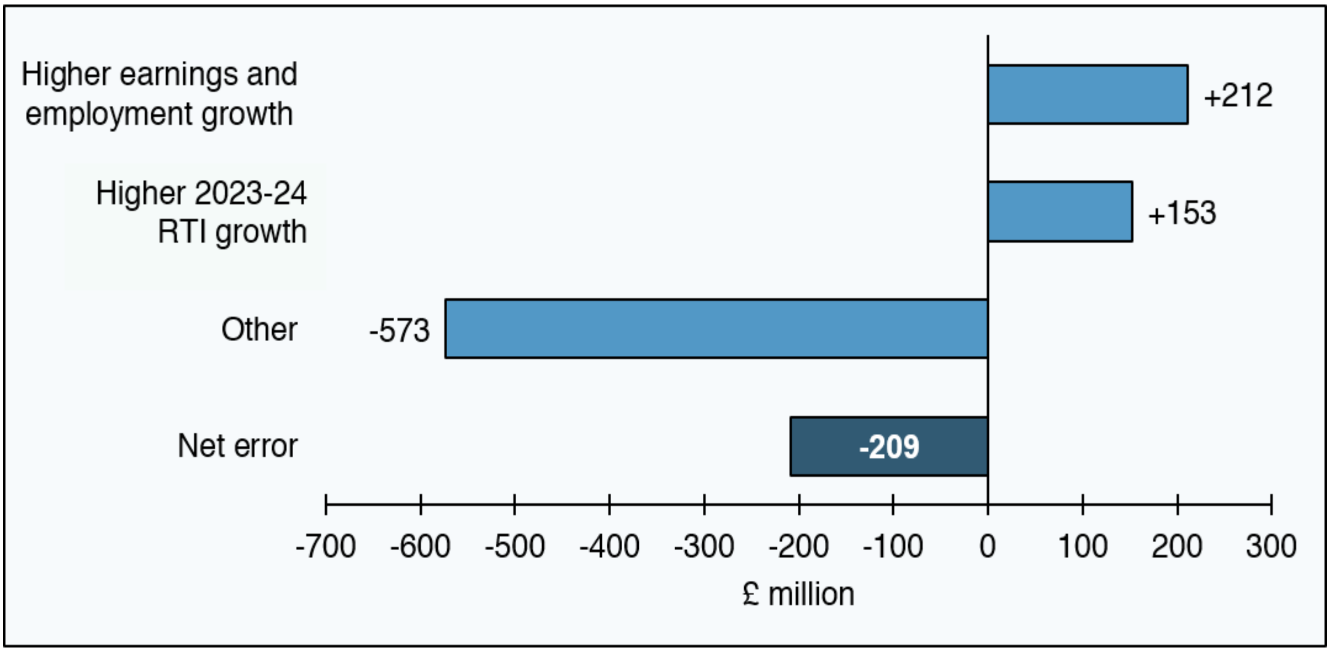
Scottish Income Tax

3.4 In July 2026, HM Revenue and Customs (HMRC) published Scottish Income Tax outturn statistics for 2024-25.[12] In this section we evaluate the forecast we published in December 2023 which was used to set the 2024-25 Budget. Most of the error is explained by changes in the group of taxpayers that includes high earning individuals and Self Assessment taxpayers.

[12] HMRC (2026) Scottish Income Tax Outturn Statistics: 2024 to 2025.

Figure 3.3: Decomposition of the December 2023 SIT forecast error for 2024-25

The largest component of our error is Other, which is mainly caused by lower than expected income from higher earners



Description of Figure 3.3: A bar chart showing the main factors contributing to our Scottish Income Tax forecast error. Outturn was lower than forecast with a large negative 'Other' error being partly offset by positive Economy and RTI errors.

Source: Scottish Fiscal Commission (2023) Scotlands Economic and Fiscal Forecasts - December 2023, HMRC (2026) Scottish Income Tax Outturn Statistics: 2024 to 2025.

Figures may not sum because of rounding.

3.5 With a relative forecast error of 1.1 per cent, this is our smallest ever error for a budget setting Income Tax forecast. Our second smallest budget setting forecast error was for 2019-20. At the time of our evaluation of 2019-20 in August 2021, we found the forecast error to be 1.3 per cent. It is worth noting that more recent data revisions to Income Tax outturn data by HMRC has made our 2019-20 forecast error even smaller at 0.6 per cent. However, given these revisions also change the base data the forecasts were built on, our standard approach is not to re-evaluate forecasts based on revised data.

Understanding the December 2023 forecast error

3.6 Our relative forecast error is small but negative showing that we over-estimated Scottish Income Tax. The error in the BGA is larger and also contributes towards a negative reconciliation. This means that a large negative reconciliation will be applied in the 2027-28 Scottish Budget. We discuss this in our Fiscal Update publication.[13]

[13] Scottish Fiscal Commission (2026) Fiscal Update – August 2026.

3.7 Figure 3.3 shows how different parts of our Income Tax forecast contributed to the overall forecast error. We calculate these figures by re-running our forecasts using more recent data. This allows us to identify the share of our error driven by these identifiable components. 'Other' is the remainder which captures non-identifiable components of our error such as changes in the income distribution and taxpayer behavioural response.

3.8 Our December 2023 forecasts were made at a time when both the UK and Scottish economies were affected by high inflation. As discussed in our August 2025 Forecast Evaluation Report, we underestimated inflation and nominal earnings in 2024-25, which has also affected our income tax forecast for 2024-25.[14] Using our latest economic determinants, based on outturn data, would have increased our forecasts by £212 million.

3.9 In December 2023 we forecast growth in 2023-24 RTI using partial data for the year. We used this estimate to inform the growth rate applied in our SIT forecast. Using the full year 2023-24 RTI data would have indicatively increased our forecast by £153 million.

Other error, high income taxpayers and Self Assessment

3.10 We do not currently have sufficient data to provide a detailed breakdown of the 'Other' category. In this section we discuss some factors that may have contributed.

3.11 Given the higher tax rates applied to taxpayers with higher incomes, Income Tax revenues will rise by more when growth is concentrated at the top end of the income distribution, and conversely tax revenues will grow more slowly if growth is concentrated at the lower end of the income distribution. For 2024-25, we believe slower income growth among taxpayers with higher incomes than implied by our forecast, has contributed to lower overall revenue growth. However, we do not yet have taxpayer distribution data for 2024-25, so cannot yet explore this in detail.

3.12 We receive information on the taxpayer income distribution from the Public Use Tape (PUT). In our December 2023 forecast we used PUT data for 2021-22 which we had adjusted to match the Income Tax outturn for 2022-23. This adjusted data may not have matched the actual distribution of taxpayers in 2024-25. For example, as shown in Figure 3.4, outturn tax revenues for top rate taxpayers were nearly £400 million lower than in our forecast. Tax revenues were also lower for advanced rate taxpayers. This suggests lower than expected growth in earnings among higher earners, which will have contributed to lower overall tax revenue growth.

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

Figure 3.4: Scottish Income Tax forecast and outturn by band

£ million	Forecast	Outturn	Difference
Starter	59	53	-6
Basic	1,750	1,442	-309
Intermediate	4,046	4,486	439
Higher	5,399	5,536	137
Advanced	3,241	3,166	-75
Top	4,348	3,953	-395
Total	18,844	18,635	-209

Source: Scottish Fiscal Commission (2023) Scotlands Economic and Fiscal Forecasts – December 2023, HMRC (2026) Scottish Income Tax Outturn Statistics: 2024 to 2025.

Figures may not sum because of rounding.

3.13 In Figure 3.5 we compare forecast Scottish Income Tax taxpayer numbers with outturn by band. Increasing earnings for taxpayers in starter and basic rate bands can move them into bands which pay higher rates. This resulted in higher-than-expected revenue in the intermediate and higher bands and offsets the impact of lower-than-expected revenues in starter and basic bands. We can also see the number of advanced and top rate taxpayers was higher than expected, despite the lower-than-expected revenues. This suggests lower tax revenues are explained by lower-than-expected average incomes in this group.

Figure 3.5: Number of Scottish Income Tax taxpayers forecast and outturn by band

Number of taxpayers	Forecast	Outturn	Difference
Starter	266,100	258,100	-8,000
Basic	1,156,700	1,059,200	-97,500
Intermediate	917,900	1,045,700	127,800
Higher	493,600	516,800	23,100
Advanced	113,800	115,300	1,500
Top	40,200	41,400	1,200
Total	2,988,300	3,036,400	48,100

Source: Scottish Fiscal Commission (2023) Scotlands Economic and Fiscal Forecasts - December 2023, HMRC (2026) Scottish Income Tax Outturn Statistics: 2024 to 2025.

Figures may not sum because of rounding.

3.14 Income Tax paid through Self Assessment is a volatile component of our forecasts. We assume Self Assessment income increases in line with private sector earnings. Self Assessment income growth can vary markedly from private and public sector earnings for which we have regularly updated data. Tax revenues paid through Self Assessment also appear to have grown more slowly than might have been expected given our forecasts.

3.15 HMRC are phasing in Making Tax Digital (MTD) across UK taxes. From April 2026 some taxpayers will be required to report quarterly income and submit an online return, which may improve the quality and frequency of data on Self Assessment. This is because taxpayers will be required to report quarterly income and expenditure and then submit an annual online return.

Policy changes introduced in 2024-25

3.16 In the 2024-25 Scottish Budget, the Scottish Government made two changes to Income Tax policy. It introduced a new advanced tax rate of 45 per cent for taxpayers with taxable incomes between £75,000 and £125,140. Also, the top rate was increased to 48 per cent from 47 per cent.

3.17 At the time we forecast the two policies would raise £82 million. This is net of a £118 million forecast behavioural effect which is highly uncertain. Behavioural change covers a wide range of responses to tax policy, which may include:

- greater use of tax planning
- economic responses, such as increasing or reducing hours worked
- migration, both into and out of Scotland
- tax avoidance
- tax evasion

3.18 Even with the publication of outturn data for 2024-25, it is not possible to know with any certainty the scale of these behavioural responses. Income Tax revenues can rise and fall for many reasons, particularly among those with high incomes, and it is not possible to directly isolate the impact of the policy change in these outturn figures.

3.19 Our latest estimate of the revenue raised by the 2024-25 income tax policies is £78 million.[15] While behaviour responses are highly uncertain, we remain satisfied that our estimates of such effects are reasonable and robust.[16] HMRC has published studies which attempt to estimate the behavioural response to previous income tax policy changes in Scotland using the detailed taxpayer data they hold, and even these estimates are highly uncertain. We'll continue to work with HMRC to better understand taxpayer behaviour responses.

Non-Domestic Rates

3.20 In this section we evaluate our December 2024 forecast of Non-Domestic Rates (NDR) revenue in 2025-26 against provisional outturn data from notified returns.

3.21 NDR revenue for 2025-26 was £3,079 million, £27 million higher than our forecast. This is a relative error of less than one per cent. Box 3.1 provides more detailed information on the Non-Domestic Rating Account and how forecast and outturn differences affect the balance of the NDR pool.

Understanding our forecast error

3.22 Figure 3.6 shows the forecast error is made up of errors in both directions that mostly offset one another. The outturn showed less revenue was lost through the proposals and appeals process than forecast, increasing revenue relative to the forecast[17]. This was largely offset by a higher cost of reliefs, and bad debts and bad debts collected.

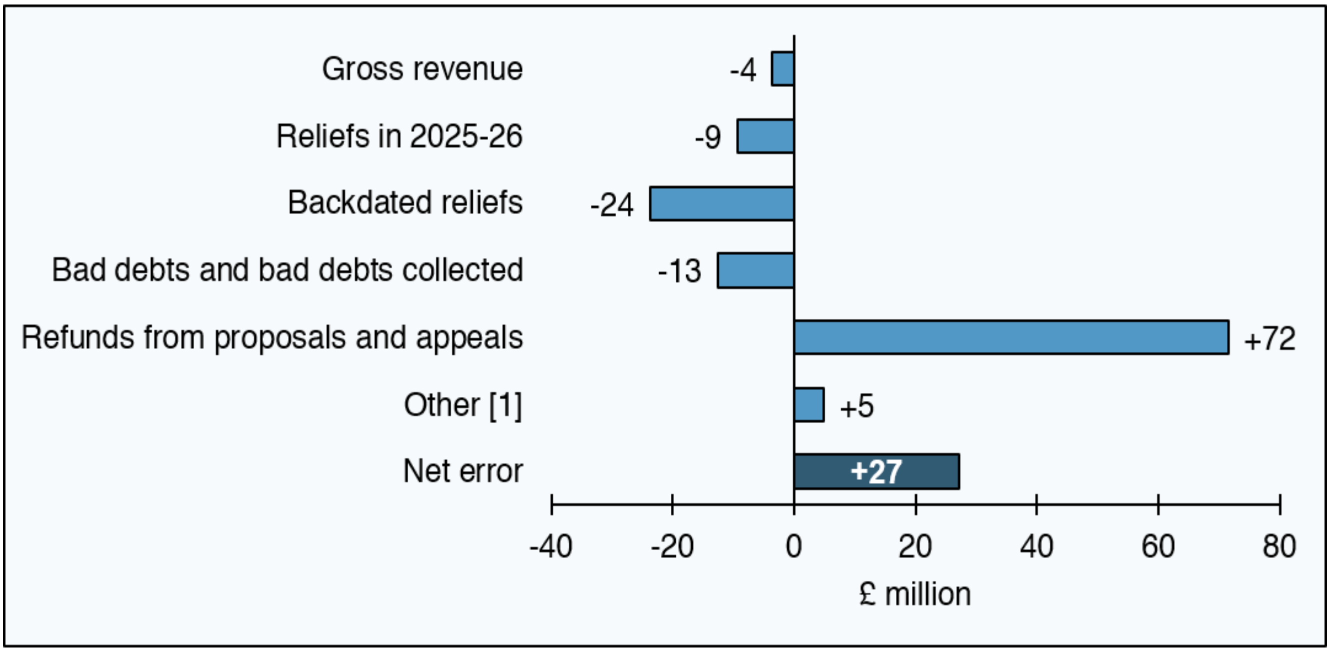
[15] Scottish Fiscal Commission (2026): Scotland's Economic and Fiscal Forecasts – January 2026.

[16] See Box 4.2 in Scottish Fiscal Commission (2023): Scotland's Economic and Fiscal Forecasts – December 2023.

[17] Taxpayers can formally challenge the rateable value of a property through the proposals and appeals process. If a challenge is successful, the rateable value of the property is reduced. Where the reduction applies to previous years, the local authority must refund rates that should not have been paid.

Figure 3.6: Decomposition of the December 2024 NDR forecast error for 2025-26

The overall forecast error was small at £27 million (0.9 per cent of forecast revenue)



Description of figure 3.6: Bar chart showing the main factors contributing to the NDR forecast error. The components present largely offset each other. The largest positive contribution was from lower-than-expected refunds arising from proposals and appeals, while higher than expected costs of reliefs and backdated reliefs reduced revenue.

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Government – Non-domestic rates income statistics.

[1] 'Other' category includes write-offs, late deductions and additions to the role and interest of refunds of overpayments, along with other small adjustments to NDR revenue.

Figures may not sum because of rounding.

Refunds from proposals and appeals

3.23 Proposals and appeals are challenges to the rateable value assigned to a property at revaluation. Successful proposals and appeals can reduce the rateable value of a property. Where the reduction applies to previous years, local authorities are required to refund rates that should not have been paid. The 2023 revaluation introduced a new two-stage proposals and appeals process, replacing the previous appeals system.

3.24 The December 2024 forecast was produced during the first valuation cycle operating under the new proposal and appeals process, when there was limited evidence on how losses would emerge under the new proposals and appeals process. At that point, only limited information was available on the volume, timing and value of successful challenges under the new system.

3.25 The largest component of the forecast error was from refunds arising from the proposals and appeals process. In December 2024, we forecast that refunds from successful proposals and appeals would reduce revenue by £216 million, but the notified outturn contained a reduction of £145 million.

3.26 The forecast error shows that the level of refunds arising from successful proposals and appeals was lower than expected. Refunds from proposals and appeals are a relatively small but volatile component of the forecast, as outcomes depend on the timing, value, and resolution of individual cases.

3.27 Experience from the 2023 cycle will provide a stronger evidence base for future forecasts under the same process, although uncertainty remains around the scale of losses that may ultimately arise under the new system.

Reliefs

3.28 Our forecast of the cost of reliefs and backdated reliefs was £33 million lower than the outturn data shows. Reliefs in 2025-26 were £9 million higher than forecast, while backdated reliefs were £24 million higher than forecast.[18]

3.29 The largest error within reliefs was in our costing of the Small Business Bonus Scheme (SBBS). This relief resulted in £14 million more in NDR revenue being foregone than we forecast. In December 2024 we expected the cost of SBBS to decrease slightly in 2025-26. However, outturn data showed that the cost of the scheme continued to increase which contributed to the error. As the most expensive relief, relatively small errors in the SBBS can have a noticeable impact on the overall reliefs forecast.

3.30 The error in SBBS was partly offset by an over-forecast of Small Business Transitional Relief (SBTR), which ended up costing £12 million less in NDR revenue foregone than forecast. As this relief is designed to ease the transition for properties that lose some or all of their SBBS entitlement following revaluation, the two errors are likely related. Evidence from the first two years of the valuation cycle suggested that our methodology was overestimating the cost of SBTR. In the 2025 Medium-Term Financial Strategy, we revised the methodology to better align our forecast with observed outturn data.

3.31 Bad debts and bad debts collected reduced revenue by around £13 million more than forecast. Bad debts are amounts that local authorities consider unlikely to be collected, while bad debts collected are amounts that are recovered after previously being written off. We forecast these components using recent outturn trends, but they can be volatile year to year, making them difficult to predict accurately.

Box 3.1: Non-Domestic Rating Account

We forecast the amount notionally contributed by local authorities to the NDR pool, known as the Contributable Amount of NDR. This is pooled at a national level before being redistributed to local authorities as part of the Local Government Finance Settlement. The amount redistributed to local authorities is known as the Distributable Amount.

In December 2024, we provided an illustrative projection of the cumulative balance of the Non-Domestic Rating Account (also known as the NDR pool) showing a deficit of £89 million in 2025-26. This was based on our forecast of the Contributable Amount, the Distributable Amount set by the Scottish Government for the 2025-26 Budget, and our

[18] Backdated reliefs arise when a taxpayer is subsequently found to have been eligible for relief in an earlier year and receives a refund.

estimate of adjustments from current and previous years that affect the cumulative balance. Figure 3.7 shows the difference between our forecast and the final balance. The provisional balance is based on the most recent figures.

Figure 3.7: Provisional balance of the Non-Domestic Rating Account in 2025-26

£ million	SFC illustrative projection	Provisional outturn	Difference
Distributable amount (A)	3,114	3,114	0
Provisional contributable amount (B)	3,052	3,271	219
Forecast contributable amount (C)	3,052	3,079	27
In-year adjustment (D = B – A)	-62	157	219
Prior year adjustment (E = prior year's C – prior year's B)	-106	-132	-27
Total adjustment (F = D + E)	-168	25	193
Cumulative balance (G = prior year's G + F)	-89	102	190

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Government – Non-domestic rates income statistics.

Figures may not sum because of rounding.

The provisional balance is affected by several factors. Contributions are determined by local authorities' own estimates of the contributable amount for the year ahead, which are submitted to the Scottish Government early in the financial year. The Distributable Amount (A) is set at each Scottish Budget and is unchanged. The prior year adjustment (E) for 2025-26 reflects the difference between the previous year's forecast Contributable Amount (C) and Provisional Contributable Amount (B). For years where notified or audited outturn data is available, this is reflected in the Forecast Contributable Amount (C).

In the provisional outturn for 2025-26 the cumulative balance is in surplus by £102 million, compared with our projection of a deficit of £89 million. This is largely because the provisional contributable amount was £219 million higher than projected for 2025-26. The difference reflects a combination of factors affecting the NDR pool, including revisions to local authorities' estimates of NDR income and subsequent adjustments made to the amounts paid into the pool.

Land and Buildings Transaction Tax

3.32 This section evaluates our December 2024 Budget-setting forecast of Land and Buildings Transaction Tax (LBTT) revenue in 2025-26 using provisional outturn data and management information from Revenue Scotland. We forecast three components of LBTT: residential LBTT, the Additional Dwelling Supplement (ADS), and non-residential LBTT.

3.33 Figure 3.8 shows that in December 2024 we forecast total revenue for 2025-26 of £1,019 million. The provisional outturn is £952 million, which is £67 million lower than we forecast, giving a relative error of negative 7 per cent. Outturn fell short of our forecast by 1 per cent for residential LBTT, 23 per cent for net ADS, and 2 per cent for non-residential LBTT.

3.34 The largest source of error was ADS, where outturn was £59 million lower than forecast. Residential and non-residential LBTT were both close to forecast in aggregate, although there were offsetting errors within each component. The following sections consider these errors in more detail.

Figure 3.8: Headline evaluation – December 2024 forecast of 2025-26 LBTT revenue

£ million, unless specified	Forecast	Outturn	Error	Relative error (per cent)
Residential LBTT	525	522	-3	-1
Additional Dwelling Supplement (ADS)	258	199	-59	-23
Non-residential LBTT	235	231	-4	-2
Total	1,019	952	-67	-7

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Revenue Scotland (2026) Provisional Outturn Data 2025/26.

LBTT revenue is net of ADS repayments and excludes penalties, interest, and revenue losses.

Outturn is provisional and may change once audited figures are available.

Figures may not sum because of rounding.

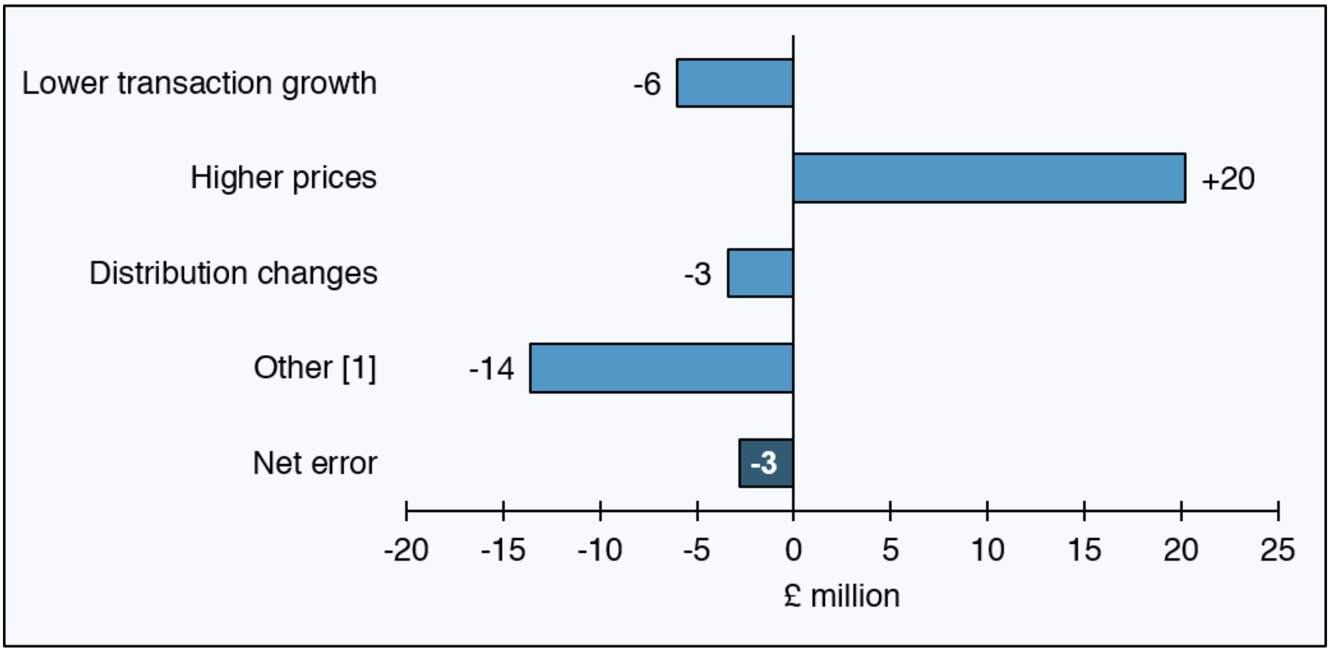
3.35 This year's forecast error was smaller in both relative and absolute terms than the error reported in the August 2025 Forecast Evaluation Report. Our December 2024 forecasts error was also smaller than our long-term average in absolute terms.

Residential LBTT

3.36 Revenue from residential LBTT was £522 million, 1 per cent lower than our forecast of £525 million. Figure 3.9 shows the decomposition of this error. Higher-than-expected price growth increased revenue relative to forecast. However, this was more than offset by fewer transactions and a shift in the distribution of transactions towards lower-priced properties. Other sources of error include the profile of transactions through the year, which affected our in-year adjustment, and greater use of reliefs than expected.

Figure 3.9: Decomposition of the December 2024 Residential LBTT forecast error for 2025-26

Lower transaction growth, and a greater share of less expensive house transactions offset the positive error caused by higher price growth



Description of Figure 3.9: Bar chart showing the main contributions to the net LBTT forecast error. The largest negative contributions are the distribution of transactions, lower overall transactions, and other errors; Stronger than expected price growth partly offsets these effects.

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Revenue Scotland – Provisional LBTT Outturn Data 2025/26, Revenue Scotland (2026) Forecasting Data – July 2026.

[1] 'Other' category includes the effect of reliefs and the residual forecast error.

Figures may not sum because of rounding.

3.37 Our residential LBTT forecast applies forecasts for growth in prices and transactions across the distribution of property sales in Scotland. In broad terms, this means the forecast changes the overall scale of the tax base while retaining assumptions about how transactions are distributed across price bands.

3.38 Our key determinants are growth in residential property prices and in the number of transactions. Errors in these determinants can interact. For example, stronger prices may affect transaction volumes, and can also move transactions into higher tax bands. We continually review our approach in forecasting the housing market and compare our assumptions with the OBR and independent forecasters, including those reported in HM Treasury's forecasts for the UK economy.

3.39 Figure 3.10 compares our December 2024 forecasts for Scottish residential price and transaction growth with the OBR's forecasts and provisional outturn from Registers of Scotland. We forecast price growth of 2.3 per cent, compared with outturn growth of 4.2 per cent, and transaction growth of 5.8 per cent, compared with outturn growth of 4.6 per cent.

Figure 3.10: Residential LBTT Determinants – December 2024 forecast of 2025-26 LBTT revenue

Per cent	SFC	OBR	Outturn
Price forecast	2.3	1.1	4.2
Transactions forecast	5.8	5.7	4.6

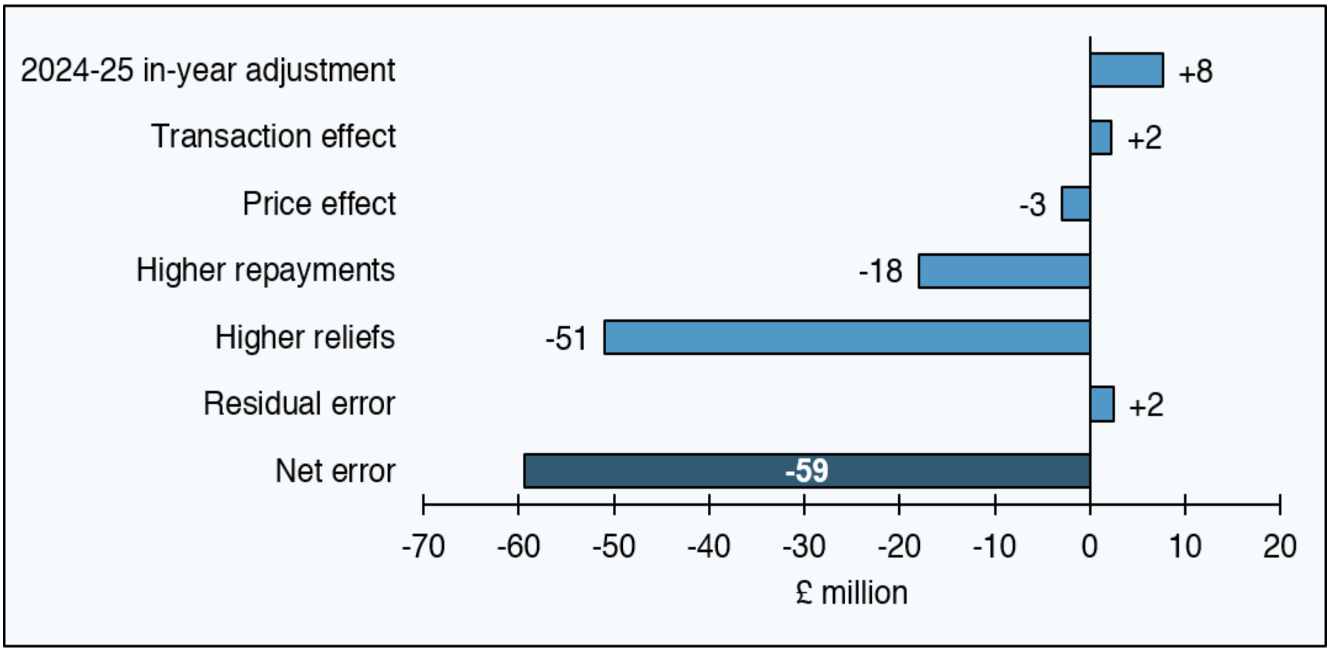
Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts - December 2024; Office for Budget Responsibility (2024) October 2024 Economic and Fiscal Outlook; Registers of Scotland (2026) Property Market Report 2025-26.

Additional Dwelling Supplement (ADS)

3.40 Revenue from net ADS, which is revenue after reliefs and repayments, was £199 million in 2025-26. This was £59 million, or 23 per cent, lower than our forecast of £258 million. Figure 3.11 shows the decomposition of this error. The main source was reliefs not being accounted for in our forecast, followed by higher-than-expected repayments. Errors in transaction volumes and prices broadly offset one another.

Figure 3.11: Decomposition of the December 2024 ADS forecast error for 2025-26

Higher than forecast ADS reliefs and repayments are the main sources of error



Description of Figure 3.11: Bar chart showing the main contributions to the net ADS forecast error. The largest negative contributions are the reliefs and repayments; a positive in year adjustment and residual error partly offsets these effects.

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Revenue Scotland Provisional LBTT Outturn Data.

Figures may not sum because of rounding.

3.41 In December 2024, we did not have data on the value of reliefs claimed on ADS transactions. Instead, we assumed that our figure for gross ADS included was net of reliefs. We have since identified this is not the case and we now receive data on gross ADS from Revenue Scotland that is presented as both net and gross of reliefs. However, this was not included in December 2024 and has led to a substantial forecast error.

3.42 Figure 3.12 shows how ADS reliefs have risen from £2 million in 2021-22 to £51 million in 2025-26. We are not clear exactly why reliefs have risen this much over the past few years and are working with Revenue Scotland to gain a greater understanding ahead of our next set of forecasts.

3.43 Our January 2026 forecast of ADS included a reliefs adjustment based on the value of relief claimed in 2024-25. This is something we will review in our forecast accompanying the 2027-28 Scottish Budget.

Figure 3.12: Value of reliefs claimed on ADS transactions, 2021-22 to 2024-25

Year	ADS relief claimed (£ million)
2021-22	2
2022-23	8
2023-24	20
2024-25	36
2025-26	51

Source: Scottish Fiscal Commission, Revenue Scotland (2026) LBTT Forecasting Data – July 2026.

3.44 Repayments were the second-largest source of error. In April 2024 the ADS repayment window was extended from 18 to 36 months. The policy was in place when we produced our 2025-26 forecasts in December 2024. However, we only had limited data at that point to assess the effect of the change. Therefore, our profile for ADS repayments was informed by data for repayments in Welsh Land Transaction Tax Higher Rate for owners of more than one property, where a 36-month repayment window was already in operation.

3.45 In our January 2026 Scottish Economic and Fiscal Forecasts publication, we highlighted that provisional outturn data from December 2024 had suggested that ADS repayments were £12 million higher than forecast for the 2024-25 financial year. This has suggested that our previous methodology for forecasting ADS repayments was insufficient following the ADS repayment window extension. Following this, we have amended our ADS repayment assumptions, so that ADS repayments start at a higher initial reclaiming rate, before following a repayment trajectory informed by Welsh Land Transaction Tax Higher Rate repayment data.

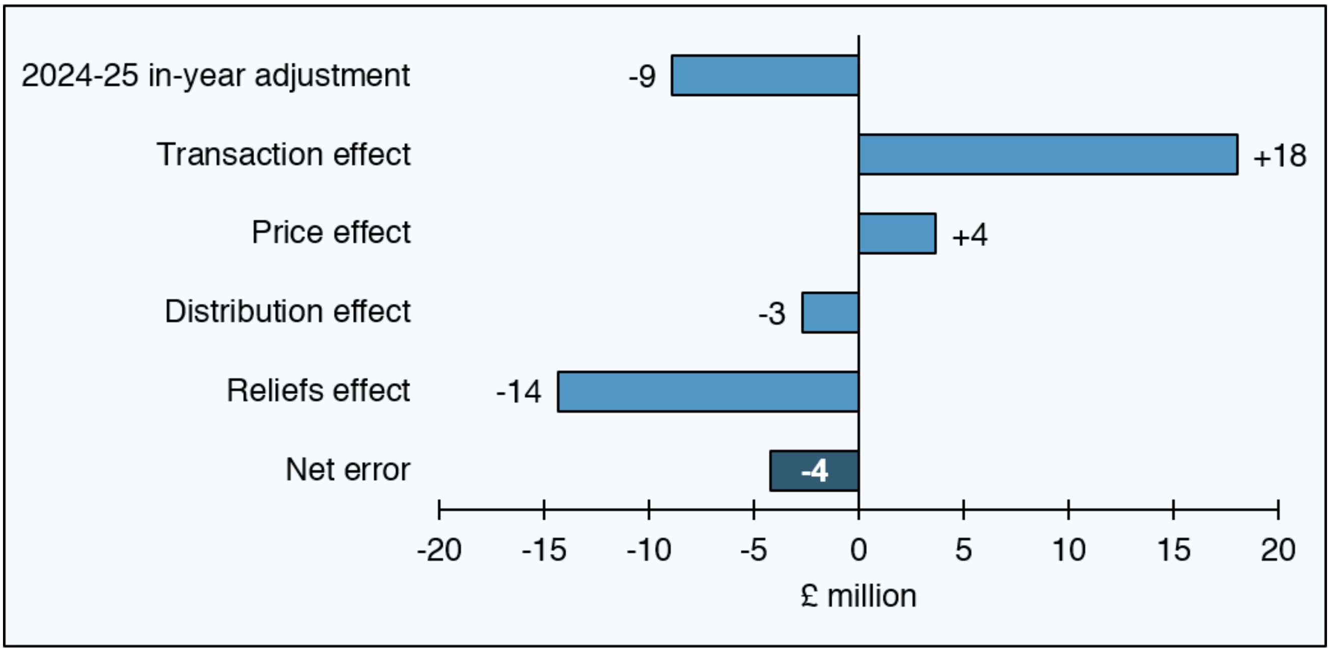
3.46 The effect of the change in the ADS repayment window from 18 to 36 months is likely to be a factor in the £18 million negative ADS repayment error. However, there are several other factors that may have affected the level of repayments. These include the increase in the ADS rate from 6 per cent to 8 per cent, mortgage and interest-rate conditions, and the Scottish Government policies affecting second homes and the rental market. The available data does not allow us to identify the contribution of each factor with confidence.

Non-Residential LBTT

3.47 Non-residential LBTT revenue was £231 million, which is £4 million, or 2 per cent, lower than our forecast of £235 million. Figure 3.13 shows the decomposition of this forecast error.

Figure 3.13: Decomposition of the December 2024 Non-residential LBTT forecast error for 2025-26

Errors in transactions and reliefs largely offset one another, leaving a small net error



Description of Figure 3.13: Bar chart showing the main factors contributing to the non-residential LBTT error. The largest error is a positive transaction effect error which is mostly offset by a negative reliefs error.

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024; Revenue Scotland (2026) Provisional LBTT Outturn Data 2025/26; Revenue Scotland (2026) LBTT Forecasting Data – 2026.

Figures may not sum because of rounding.

3.48 The relatively small net error is made up of larger errors in non-residential transactions and reliefs, which largely offset one another. In December 2024, we forecast around 7,000 non-residential conveyances in 2025-26. Outturn data shows that there were around 7,300 conveyances, resulting in an £18 million positive transactions error in our forecast.

3.49 Non-residential reliefs grew by more than expected. We forecast £91 million reliefs, but outturn data shows reliefs were £105 million in 2025-26, leading to a negative error of £14 million. There was also a notable negative error from reliefs in our 2024-25 forecast so we will continue to review our forecasting approach and monitor data on non-residential LBTT reliefs.

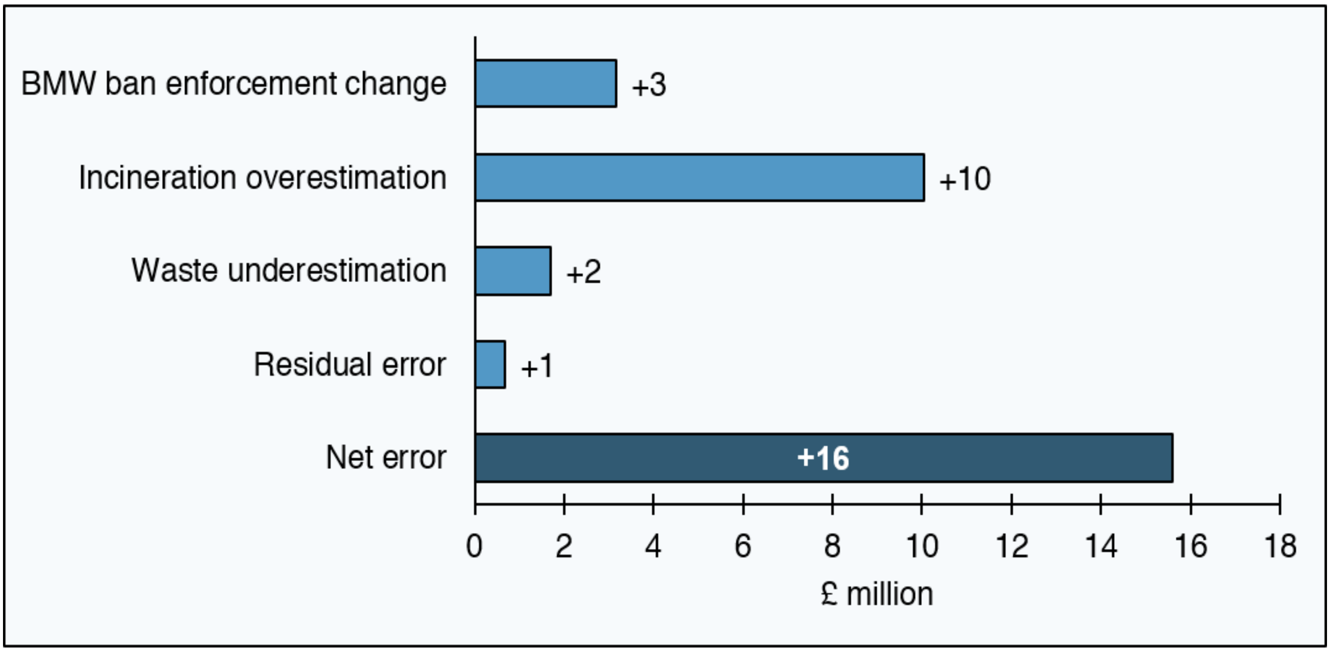
Scottish Landfill Tax

3.50 Figure 3.14 compares the 2025-26 provisional outturn data for Scottish Landfill Tax (SLfT) with our December 2024 forecast for SLfT revenue.

3.51 Provisional outturn revenue for 2025-26 is £56 million, which is 39 per cent higher than we forecast in December 2024. Figure 3.14 shows we overestimated incineration capacity leading to an error of £10 million. The remaining sources of error include underestimation of waste and the delay in implementation of the Biodegradable Municipal Waste (BMW) ban, which was not enforced at the start of 2026 as had been expected. These errors result in a total forecast error of £16 million.

Figure 3.14 Decomposition of December 2024 SLfT error for 2025-26

The error is largely explained by an overestimation of how much incineration capacity would be available in 2025-26



Description of Figure 3.14: Bar chart shows the main factors contributing to our Scottish Landfill Tax error. An overestimation of the amount of incineration capacity is the largest error, with the two-year delay in the enforcement of BMW ban, an underestimation of total waste and residual error also contributing to our net error.

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Revenue Scotland 2025 (2026) Scottish Landfill Tax (SLfT) statistics: Q4 2025/26, January – March 2026 and annual trends.

Figure may not sum because of rounding.

Chapter 4
Social security

Introduction

4.1 In this chapter we evaluate our social security forecasts, comparing provisional outturn in 2025-26 against our December 2024 forecasts, which informed the 2025-26 Scottish Budget. Total spending on devolved social security in 2025-26 was £6.8 billion. This is 3 per cent below our forecast of £6.9 billion.

4.2 Our forecasts cover 'devolved social security expenditure' as set out in the Scottish Fiscal Commission Act 2016. This includes nearly all the payments made by Social Security Scotland, some devolved payments that are still administered by the Department for Work and Pension (DWP), some payments made by local authorities, and some spending on employability services.[19]

4.3 The outturn used in this report is provisional and may be revised when Social Security Scotland publishes its audited Annual Report and Accounts later in 2026.

Figure 4.1: Headline evaluation – December 2024 forecast of 2025-26 social security

Forecast (£ million)	Provisional outturn (£ million)	Error (£ million)	Relative error (per cent)	Historical average error (per cent) [1]	Historical average absolute error (per cent) [1]
6,930	6,751	-179	-3	1	2

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Government, Social Security Scotland.

[1] Average errors are for 2020-21 onwards.

Figures may not sum because of rounding.

Understanding our forecast error

Background to our December 2024 forecasts

4.4 When we finalised our December 2024 forecasts, for most payments we had monthly financial data up to September 2024 and statistical data up to around mid-2024.

4.5 We knew the September 2024 CPI inflation rate of 1.7 per cent which would be used for uprating payment amounts in April 2025. This meant that our forecasts were based on the actual payment rates for 2025-26, though average amounts are still a source of error in areas where payment amounts can vary.

[19] Note that we are removing Employability Services from our next forecasts. This is discussed in Annex B in Scottish Fiscal Commission (2026) Fiscal Update – August 2026.

4.6 We expected slow but positive growth in the economy. Earnings growth was stronger than we forecast, GDP growth was slower, and employment fell slightly. However, we do not think these differences made a material contribution to the forecast error for social security.

4.7 Case transfers from Personal Independence Payment (PIP) to Adult Disability Payment (ADP) were in progress and Carer Support Payment was being made available nationally following a pilot. Pension Age Disability Payment and Scottish Adult Disability Living Allowance (SADLA) were due to launch in early 2025.

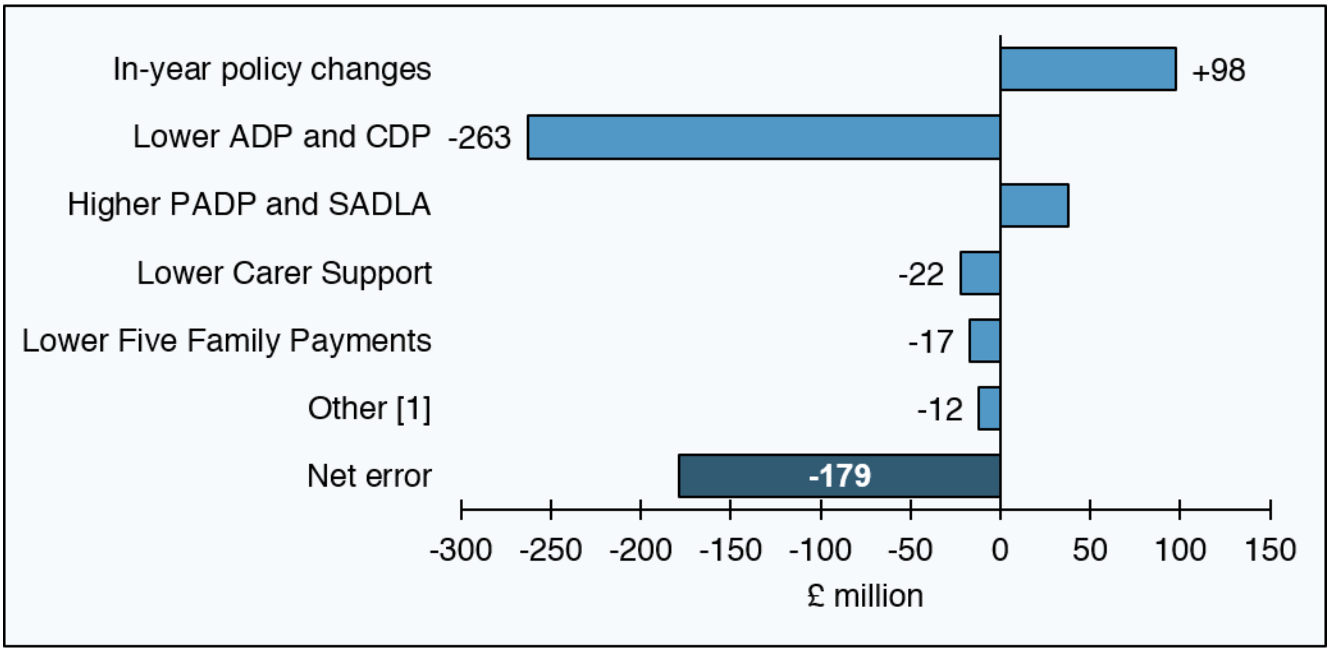
4.8 Our forecast for Pension Age Winter Heating Payment (PAWHP) was based on the Scottish Government's plan to pay the full amount to people in receipt of qualifying benefits, usually Pension Credit, as in 2024-25, but to introduce a payment of £100 for other households with a person over State Pension age but not in receipt of the qualifying benefits.

Reasons for forecast error

4.9 Figure 4.2 shows the main factors contributing to our forecast error. We have included a full table showing the error for each payment at the end of this chapter in Figure 4.5.

Figure 4.2: Decomposition of December 2024 social security forecast error for 2025-26

Error was mainly because ADP and CDP spending were lower than forecast



Description of Figure 4.2: Bar chart shows the main factors contributing to our social security forecast error. The largest factor is that spending on ADP and CDP was lower than forecast, and this is partly offset by additional spending due to in-year policy changes.

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Government, Social Security Scotland.

[1] 'Other' category is the sum of all errors too small to be included in the figure individually.

Figures may not sum because of rounding.

In-year policy changes added £98 million

4.10 In June 2025, the UK and Scottish Governments both announced similar changes to Winter Fuel Payments (WFP) and Pension Age Winter Heating Payment (PAWHP), taking effect in winter 2025-26. In both cases broadly universal eligibility to receive a payment was reinstated, but with plans to subsequently recover the payment from pensioners with annual incomes over £35,000. This added £89 million to Social Security Scotland's spending in 2025-26 over and above our original forecast.[20] During 2025-26, the Scottish Government also announced an additional £8 million of in-year spending across the Scottish Welfare Fund and Discretionary Housing Payments. Together these in-year changes added £98 million to devolved social security spending in 2025-26.

Lower Adult Disability Payment

4.11 Spending on ADP was £222 million (6 per cent) lower than our forecast. This is the third consecutive year that ADP spending has been below our forecast. In the previous two years, this was because of lower average payment amounts, but the caseload had exceeded our forecasts. This is the first time that the caseload has not grown as fast as we expected.

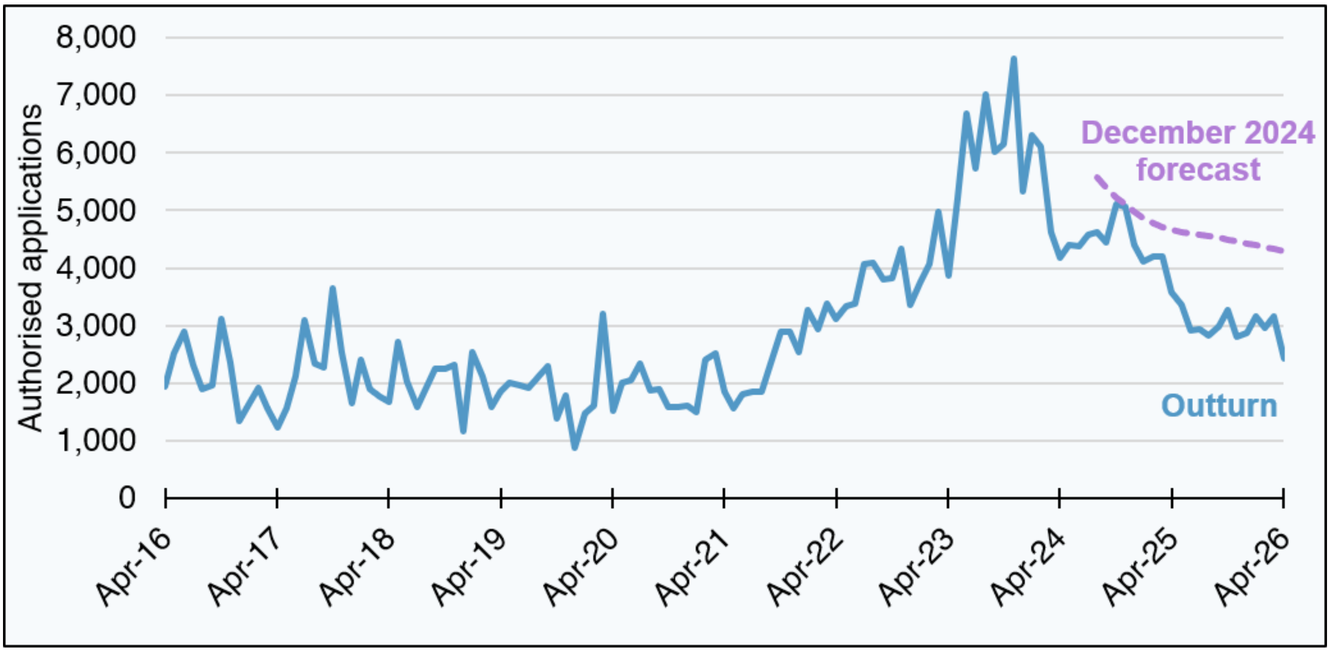
4.12 ADP data has shown that the number of people entering the payment is lower than we had previously forecast. The number of people submitting an initial application for ADP and the number of applications processed by Social Security Scotland were both broadly in line with our forecasts, but as we discussed in our January 2026 Scotland' Economic and Fiscal Forecasts report, the authorisation rate proved to be lower than expected and we reduced our forecasts.

4.13 Figure 4.3 shows the long-term trend in successful applications for PIP or ADP in Scotland, and compares the number of applications authorised by Social Security Scotland against our December 2024 forecast.

[20] Some of this spending will be recovered from higher income pensioners by HMRC.

Figure 4.3: Authorised PIP and ADP applications in Scotland, April 2016 to April 2026

In 2025-26 the number of authorised ADP applications fell faster than we had forecast



Description of Figure 4.3: Line chart showing forecast and actual monthly authorisations of ADP and PIP applications in Scotland. Following the spike in 2023-24, the number of authorisations fell faster than we had expected during 2025-26.

Source: Scottish Fiscal Commission, Department for Work and Pensions (2026) Personal Independence Payment statistics to April 2026, Social Security Scotland (2026) Adult Disability Payment statistics to 30 April 2026.

4.14 There were also slightly more people exiting ADP than we had expected, for example due to having their award stopped following a review. This explains only a small part of the error, and the trends here are still broadly in line with our forecasts, with only a small proportion of reviews leading to the award being reduced or ended.

4.15 In January 2026 we reduced our ADP forecast in response to data showing that average payment amounts were slightly lower than our forecasts. In the latest statistics from Social Security Scotland the data on award levels has been revised to show more people receiving higher amounts. As a result, the average payment amount in 2025-26 now appears to have been slightly higher than our forecasts. These revisions also affect the data for earlier years, which still shows a trend towards lower amounts, so the implications for our next forecasts are not clear at this point.

4.16 Now that we have the full set of statistical data for 2025-26, a large part of our error appears to be due to a narrowing of the gap between statistical and financial data. Typically, the total spending has been several per cent higher than is implied by the statistics on the number of people receiving the payment and payment amounts. We had assumed that this difference would be around 5 per cent, but it has narrowed to closer to 1 per cent. The revised average payment amounts and lower number of authorisations explain some of this change. However, they may not fully explain why the gap narrowed by this extent. We will review our assumptions for future forecasts.

Lower CDP

4.17 Spending on Child Disability Payment (CDP) was £41 million (7 per cent) lower than our forecast. The biggest factor was that our forecast of the number of CDP recipients aged over 18 was too high. This was a one-off effect, associated with a temporary measure which allowed some young people who had transferred from Disability Living Allowance (DLA) to receive CDP up to age 19 in 2022 and 2023. We took account of this in our May 2025 forecasts. While the number of young people aged over 18 has fallen from a late 2023 peak, the total caseload for CDP has continued to rise throughout 2025-26.

4.18 We have also seen lower average payment amounts, and reduced our forecasts in response in January 2026. We think that with the ongoing rise in the number of children receiving payments there is a higher proportion of recipients with less severe conditions who receive lower awards.

Higher PADP and SADLA

4.19 Following pilots and launch during 2024-25, Pension Age Disability Payment (PADP) and Scottish Adult Disability Living Allowance (SADLA) have replaced Attendance Allowance (AA) and Disability Living Allowance (DLA) in Scotland, with the case transfer process completing at the end of 2025. Spending on both these payments was higher than our forecasts.

4.20 For PADP, we have seen more new clients and more people receiving the payment than we expected with spending £23 million (3 per cent) higher than our forecasts. This had become apparent in data for AA before the full launch of PADP, and we responded by increasing our forecast in May 2025. This higher demand can also be seen in England and Wales, where spending on Attendance Allowance has exceeded the OBR forecasts. We do still expect that PADP will cost more than would have been spent on AA, but with a smaller difference than previously forecast.

4.21 For SADLA, spending was £14 million (4 per cent) above our forecast. This was mainly because fewer people moved from DLA to ADP than we had expected ahead of the launch of SADLA. We updated our assumptions on DLA to ADP transfers in our January 2026 forecasts, and this effect will also have contributed to lower spending on ADP.

Lower Carer Support

4.22 Spending on Carer Support (including the new Carer Additional Person Payment and Scottish Carer Supplement which replaced Carer's Allowance Supplement) was £22 million (4 per cent) below our forecast. This was mainly due to the caseload not growing as fast as we had expected.

4.23 Eligibility for Carer Support comes through providing substantial unpaid care to someone who is in receipt of a qualifying disability payment. This error in lower spending on carer payments corresponds with our forecast error across disability payments, where the total caseload was lower than we expected.

4.24 Our forecasts had also assumed an increase in the number of new recipients associated with the national launch of Carer Support Payment in 2024, which did not seem to emerge. Slower than expected processing times may also have led to temporarily reduced spending. We will review both these factors ahead of our next forecasts.

Lower Five Family Payments

4.25 Spending across the Five Family Payments (Scottish Child Payment, Best Start Foods and the three forms of Best Start Grant) was £17 million (3 per cent) below our forecast. Most of this error is due to the continuing fall in the number of children in households eligible for Scottish Child Payment, partly offset by higher take-up rates.

4.26 Some of the recent fall in our estimates of eligibility for Scottish Child Payment is associated with the replacement of Tax Credits by Universal Credit, which was completed during 2025. This was a one-off effect, and we also expect the removal of the two-child limit from Universal Credit to put some upward pressure on eligibility. We have updated our forecasts to reflect lower levels of eligibility, but we still expect the recent downward trend to level out.

Other

4.27 Spending in areas of social security not discussed in detail in this chapter was below our forecasts, accounting for £12 million of the total error.

Comparison against OBR forecasts and BGA funding

4.28 The Scottish Government receives social security Block Grant Adjustment (BGA) funding from the UK Government, based on spending on equivalent payments in England and Wales. Outturn Block Grant Adjustments (BGAs) are not yet available, and the OBR will evaluate its forecasts for 2025-26 next year, but we can make a broad assessment of the implications for Scottish Government funding based on the OBR's March 2026 forecasts, and the DWP's Annual Report and Accounts for 2025-26.

4.29 Excluding Winter Fuel Payments, spending in England and Wales on the relevant benefits appears to have been 1 per cent higher than the OBR's October 2024 forecasts, mainly because of higher spending on DLA for children and Attendance Allowance. This higher spending in England and Wales slightly increases the BGA funding for social security and has already led to positive in-year reconciliations in the Spring Budget Revision, while devolved spending in these areas has been around £250 million lower than our forecasts.

4.30 For Winter Fuel Payments and Pension Age Winter Heating Payment, both we and the OBR have large forecast errors due to in-year policy changes. The new UK and Scottish policies are similar. However, the original UK Government policy had narrower eligibility for Winter Fuel Payments, so the relative change is larger in England and Wales. This means that the BGA based on Winter Fuel Payments spending increases by more than the devolved spending on PAWHP, narrowing the difference between funding and spending by around £50 million.

4.31 In December 2024 the social security net position for 2025-26 implied by our and OBR's forecasts was around negative £0.5 billion. Outturn BGAs are not yet available, but based on the available information, the net position is likely to have narrowed to around negative £0.2 billion.

Winter Fuel Payments and two-child limit

4.32 This year, there are two areas where there have been major in-year policy changes by both the UK and Scottish Governments since our December 2024 forecasts were finalised. The changes to WFP and PAWHP had a substantial effect on both spending and funding for 2025-26, and have been discussed already in this chapter.

4.33 The commitments and policy changes around the Universal Credit two-child limit were not included in our December 2024 forecast and had only a small and indirect effect on spending in 2025-26, but were included in some of our forecasts during the year.

4.34 In this section we set out how our forecasts of these two areas changed during the year.

Winter Fuel Payments and Pension Age Winter Heating Payment

4.35 Figure 4.4 shows how our forecast for PAWHP changed over the course of 2025-26 and the policy position at each update.

Figure 4.4: Forecasts of PAWHP 2025-26 spending since December 2024

Forecast date	Forecast spending (£ million)	Notes
December 2024 SEFF	101	Scottish Government policy of full payment for households with qualifying benefits and £100 for other eligible households
May 2025 SEFF	98	Forecast still based on Budget policy
June 2025 SEFF Update	151	New policy, forecast shown net of recoveries
August 2025 Fiscal Update	187	Forecast shows spending before recoveries
January 2026 SEFF	187	Forecast shows spending before recoveries
Provisional outturn	190	Actual spending, before recoveries

Source: Scottish Fiscal Commission, Social Security Scotland.

Two Child Limit Payment and the abolition of the two-child limit

4.36 The Scottish Government's proposed mitigation of the two-child limit was announced at the 2026-27 Scottish budget but was not included in our December 2024 forecast, as the information was provided to us after the final policy deadline.

4.37 We did publish a costing in January 2025 and following the Scottish Government's announcement of a March 2026 launch date, our June 2025 forecast update included £11 million in 2025-26 for the Two Child Limit Payment.

4.38 In November 2025, the UK Government announced that the two-child limit would be abolished from April 2026. We reduced our forecasts in January 2026, removing the Two Child Limit Payment altogether, but making small increases from 2026-27 to reflect how we expect the changes to Universal Credit to interact with eligibility for the Five Family Payments and the Scottish Government's commitments to mitigating the Benefit Cap.

4.39 The Scottish Government has committed to reallocating this reduction in our forecasts to other measures to tackle child poverty. The additional £5 million for the Scottish Welfare Fund in 2025-26 was part of this response, so while the original mitigation commitment was superseded by the UK Government's decision to remove the limit altogether, it did lead indirectly to some additional social security spending in 2025-26 that was not in our forecast.

Historical forecast performance

4.40 Over the period 2020-21 to 2025-26, spending has on average been 1 per cent higher than our Budget-setting forecasts, and our absolute error has averaged 2 per cent. The two main factors have typically been higher spending on disability payments, and in-year policy changes, including spending in response to the COVID-19 pandemic.

4.41 However, more recently spending has been below our forecasts, and 2025-26 was the first year that the number of people receiving disability payments did not grow as fast as we expected.

4.42 The supplementary tables published with this report include a full record of all our previous forecasts, and outturn spending for each payment.

Conclusions

4.43 Devolved social security spending in 2025-26 was 3 per cent below our forecast, with an underlying error of 4 per cent if we exclude the in-year policy changes. This is a relatively large error compared to recent years, and is the first time that the caseload for Adult Disability Payment has been below our forecasts.

4.44 We had already responded in our May 2025 and January 2026 forecasts to most of the factors causing this error, including some one-off factors, but will review our assumptions ahead of our next forecasts.

Forecast errors for individual payments

Figure 4.5: Summary of December 2024 social security forecast errors for 2025-26

Payment (£ million, unless specified)	Forecast	Provisional outturn	Error	Relative error (per cent)
Adult Disability Payment	3,605	3,382	-222	-6
Best Start Foods	19	17	-3	-14
Best Start Grant	21	20	-1	-6
Carer's Allowance Supplement	62	61	-1	-2
Carer Support Payment	459	437	-21	-5
Child Disability Payment	618	577	-41	-7
Child Winter Heating Payment	12	12	0	-3
Discretionary Housing Payments	97	93	-4	-4
Employability Services	73	73	0	0
Employment Injury Assistance	83	80	-3	-4
Funeral Support Payment	14	12	-1	-11
Pension Age Disability Payment	834	857	23	3
Pension Age Winter Heating Payment	101	190	89	89
Scottish Adult Disability Living Allowance	394	408	14	4
Scottish Child Payment	471	458	-13	-3
Scottish Welfare Fund	36	41	5	15
Severe Disablement Allowance	4	5	0	3
Winter Heating Payment	28	28	0	0
Total devolved social security	6,930	6,751	-179	-3

Source: Scottish Fiscal Commission (2024) Scotland's Economic and Fiscal Forecasts – December 2024, Scottish Government, Social Security Scotland.

This table uses the names of the new Scottish payments, but some lines still include spending on the DWP-administered payments that they replace.

Figures may not sum because of rounding.

4.45 The supplementary tables published with this report and available on our website include a full record of all our previous forecasts, and outturn spending for each payment.

Additional information

Abbreviations

AA	Attendance Allowance
ADP	Adult Disability Payment
ADS	Additional Dwelling Supplement
BGA	Block Grant Adjustment
BMW	Biodegradable Municipal Waste
CDP	Child Disability Payment
COVID-19	Coronavirus disease 2019
CPI	Consumer Prices Index
DLA	Disability Living Allowance
DWP	Department for Work and Pensions
EU	European Union
GDP	Gross domestic product
HMRC	His Majesty's Revenue and Customs
HM Treasury	His Majesty's Treasury
LBTT	Land and Buildings Transaction Tax
LFS	Labour Force Survey
NDR	Non-Domestic Rates
NICs	National Insurance contributions
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
PUT	Public Use Tape
QNAS	Quarterly National Accounts Scotland
RDHI	Real disposable household income
RTI	Real Time Information
SADLA	Scottish Adult Disability Living Allowance
SBBS	Small Business Bonus Scheme
SBTR	Small Business Transitional Relief

SCAPE	Superannuation Contributions Adjusted for Past Experience
SEFF	Scotland's Economic and Fiscal Forecasts
SFC	Scottish Fiscal Commission
SIT	Scottish Income Tax
SLfT	Scottish Landfill Tax
UK	United Kingdom
US	United States
WFP	Winter Fuel Payment
WHP	Winter Heating 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).[21] [22]

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.[23]

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

[22] OECD (2025) OECD Review of the Scottish Fiscal Commission 2025.

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

Correspondence and enquiries

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

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

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Foreword

The Scottish Fiscal Commission (SFC) is the independent fiscal institution for Scotland. We produce the independent and official forecasts of the Scottish economy, devolved tax revenues, and devolved social security spending to inform the Scottish Budget. We also provide an assessment of the reasonableness of the Government's borrowing projections, set out the funding for the Scottish Budget, and report on its fiscal sustainability.

Since we published our first Statement of Data Needs in September 2018, there has been a significant improvement in the coverage and quality of data available. Social Security Scotland has put in place a substantial statistical resource covering its payments and Revenue Scotland has provided us with the data we need to forecast the devolved taxes. We are grateful for the significant investment in data that HMRC now provides on Scottish Income Tax, including the development of Real-Time Information data on tax receipts and employment. On the economic side, the Scottish Government has also improved the range of economic data it produces.

Like other data users, we have been concerned about the quality of labour market data from the Office for National Statistics in recent years, but we recognise that work is underway to improve the quality of the data.

We would like to commend the Scottish Government on the improvements in the presentation and range of information it provides on the Scottish Budget over the last nine years. Although we continue to press for greater transparency on the Budget, it is important to acknowledge the progress the Scottish Government has made so far. In this Statement of Data Needs, we discuss how information on the Budget is currently presented by the Scottish Government, and how this information could be improved as well as other data need requests for the UK Government and Revenue Scotland.

We would like to thank the hard-working staff of the Scottish Fiscal Commission for their support in the production of this report.

We would like to give special thanks, from ourselves and on behalf of all previous Commissioners, to John Ireland. John has been an outstanding Chief Executive and has worked to establish the organisation since its very early days. He will leave soon for a very well-earned retirement, and we hope he will look back with a lot of pride on what the SFC has achieved under his leadership.

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Justine Riccomini

25 August 2026

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Introduction

The Scottish Fiscal Commission is Scotland's independent fiscal institution, producing the independent and official forecasts of the Scottish economy, devolved tax revenues, and devolved social security spending to inform the Scottish Budget. It is essential we have access to relevant and high-quality data for our analysis and commentary. We regularly publish a Statement of Data Needs (SDN) to specify our requirements from data providers. In this report we highlight areas for additions and improvements which would help us produce and evaluate our forecasts.

In Chapter 1 we discuss the progress made by our data providers as the information and data they produce have expanded and improved.

In Chapter 2 we make recommendations on the information provided in and alongside the Budget, as well as in other fiscal publications, and highlight the data we need to forecast Air Departure Tax.

In Chapter 3 we summarise the data needs covered in this report.

Chapter 1
Improvements in data provision

1.1 We published our first Statement of Data Needs (SDN) in 2018. Since then, our data providers have expanded and improved the data they produce.

1.2 For our tax and economy forecasts, we now largely get the information we need. In this chapter we discuss the improvements we have seen in relation to the Scottish Budget, climate change, and social security.

Public funding

1.3 There have been several improvements to the data we use for our commentary on the Scottish Budget since we published our last SDN in 2024.

1.4 The Scottish Government has improved how it presents the Scottish Budget following our previous recommendations and those of the Finance and Public Administration Committee (FPAC). For example, Budget plans for the upcoming year are now compared with the Autumn Budget Revision position for the current year, rather than the position of the current year when the Budget was first introduced to the Scottish Parliament. This is a more up-to-date comparison and is a welcome improvement.

1.5 We also welcome the publication of Classification of the Functions of Government (COFOG) data. This allows comparisons of funding and spending on a consistent basis, unaffected by changes in ministerial portfolios.

1.6 The Scottish Government now publishes the Level 4 spending plans alongside the Budget when it is introduced, in machine readable format. This is welcome and enables wider stakeholders to undertake analysis more easily.

1.7 It is common that the Budget Bill passed by the Scottish Parliament has funding and spending allocations slightly changed from the initial Budget documents. This is because, when there is a minority government, negotiations are required among parties to ensure the bill is passed in the Scottish Parliament. The Scottish Government has recently republished all budget documents, including the Level 4 spending allocations spreadsheet, reflecting the changes made during Stages 2 and 3 of the budget process. This is a welcome development, and we encourage the Government to continue this as a routine disclosure.

1.8 Public sector paybill information has also improved in recent years, with more details provided to us on pay policy and plans for workforce size. These improvements are very welcomed and are sufficient for the purposes of our economy forecasts. We continue to engage with the Scottish Government on further developments in this area. To ensure we are open and transparent about our forecasts and analyses, we will liaise with the Scottish Government to ensure this information is also published, where it is not yet publicly available.

1.9 All this demonstrates the significant improvements seen to date. However, despite these improvements, there is still further work to be done by the Scottish Government to improve the transparency of the Budget, as we discuss in Chapter 2.

Climate change

1.10 The Scottish Government has updated the Climate Change Assessment of the Scottish Budget since we last published a Statement of Data Needs in 2024. We welcome the new level of detail in which the data is presented. This allows spend to be distinguished as supporting mitigation or adaptation. We also welcome the introduction of a more panel-based approach to the assessing of budget categories in the Budget Note on Climate Spend Taxonomy Methodology.[1]

1.11 Generally, the data on costs related to adaptation is incomplete and uncertain. The Scottish Government has recently funded a study to estimate adaptation costs for Scotland. Noting that these are incomplete, the study also compared the estimated annual adaptation investment needs with current allocations in the Scottish Budget. It found that only the agriculture sector is likely to be meeting its adaptation needs, with the caveat that these results were low confidence.[2] The estimation of costs and use of adaption spending data from the Scottish Budget in this study is a helpful contribution to the evidence on adaption costs.

Social security

1.12 Since our first Statement of Data Needs in 2018, we have transitioned from relying on data provided by the Department for Work and Pensions (DWP) to working almost entirely with data provided by Social Security Scotland and the Scottish Government.

1.13 Our initial forecasts of Scottish disability and carer payments relied on data from the DWP on the equivalent UK benefits, either because the Scottish payments had not yet been launched or because Scottish data was not yet available. While most of this information was published through Stat-Xplore, the DWP also shared internal data to enable us to fulfil our forecasting responsibilities. The process for sharing this internal data is set out in a Memorandum of Understanding.[3]

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[1] Scottish Government (2025) Letter from the Cabinet Secretary for Climate Action and Energy to the Net Zero, Energy and Transport Committee – 20 June 2025.

[2] ClimateXChange (2026) Climate change adaptation investment need across five sectors in Scotland.

[3] Scottish Fiscal Commission (2025) Memorandum of Understanding with the Department for Work and Pensions.

1.14 Social Security Scotland has always been cooperative and supportive of our role as the independent forecaster, and there has always been good communication between us. While there were data provision issues when Social Security Scotland was established, these have largely been resolved. Social Security Scotland now publishes most of the data required for our forecasts or provides it to us directly, and this information is often subsequently included in its regular statistical publications. This covers all disability, carer, winter heating, and Five Family payments.[4] As these payments mature and additional elements are introduced, our data needs continue to evolve and expand.

1.15 Disability payments account for most of our social security forecast, so our data needs for these have been the most extensive. Statistical publications on child and adult disability payments have expanded over time to reflect user needs and the evolving nature of the benefits. We have also received supplementary management information on specific aspects of the payments where additional detail was required. More recently, Social Security Scotland has been sharing consistent and comparable data across all disability payments.

1.16 For carer payments, eligibility is determined by the carer's earnings and caring hours, as well as by the disability benefit component received by the cared-for person. We have received data on the qualifying benefits received by cared-for individuals and the characteristics of carers. We are currently discussing future data requirements relating to the Carer Additional Person Payment (CAPP) that was launched in March 2026 as a component of Carer Support.

1.17 While we previously requested data on qualifying reserved benefits for the Five Family Payments, this is no longer a priority. This is because Tax Credits have now largely been replaced and the DWP publishes data on the number of children in families receiving Universal Credit. We are grateful to Social Security Scotland for the management information it has shared.

1.18 In previous reports, we recommended that Social Security Scotland develop an online, flexible and versatile tool like the DWP's Stat-Xplore that would allow users to conduct their own exploratory analysis. It would also reduce the burden on Social Security Scotland analysts by decreasing the volume of ad hoc data requests. Social Security Scotland is currently exploring this option, and we would welcome any further developments in this area.

[4] The Five Family payments provide financial support for families who receive qualifying benefits like Universal Credit. They include the Scottish Child Payment, the three Best Start Grant payments, and Best Start Foods.

Chapter 2
Data improvement requests

2.1 We are using our Statement of Data Needs (SDN) to make recommendations on how the Scottish Government's information on the Scottish Budget provided in the different fiscal publications can be improved to better enable our analysis.

2.2 We structure the chapter around each of the Government's fiscal publications and set out areas where it can improve transparency and accessibility. We also present the data we require to produce forecasts of Air Departure Tax.

Scottish Budgets

2.3 The Scottish Government has made improvements in how it presents the Scottish Budget, but there are still areas where further improvements could be made to increase transparency.

2.4 In its presentation of Budgets before 2025-26, the Scottish Government compared spending plans for the year ahead with the plans presented in the previous Budget, known as a 'Budget-to-Budget' comparison. This approach did not take account of any changes made to budgets during the year and therefore did not reflect the latest spending position. The Budget-to-Budget comparison could overstate or understate the true level of spending growth. Where funding for a particular area increased during the year, comparing the new Budget only to the original plans in the previous Budget suggested a larger increase in spending than would happen in practice.

2.5 Since the 2025-26 Budget, the Scottish Government has compared new spending plans with the Autumn Budget Revision (ABR). Autumn and Spring Budget Revisions (SBRs) set out how the Government is changing its spending plans during the year. This was a welcome improvement as it provides a more up-to-date comparison. However, issues remain when there has been a material change to funding levels for a financial year since the ABR.[5]

2.6 Another issue is that the ABR figures include in-year transfers that take place every year (from the area with budget responsibility to the area with delivery responsibility). An example of this is a transfer from health to local government for social care: although the underlying spending plans are unchanged, health spending falls and local government spending increases during the year as the in-year transfers take place. In the 2025-26 Budget, these in-year transfers were not included, meaning changes in spending between 2024-25 and 2025-26 appeared too high in some areas and too low in others.

[5] The first UK Budget after the General Election in 2024 led to an in-year increase of £1.3 billion in Barnett funding in 2024-25 that was maintained in 2025-26. This was confirmed after the ABR 2024, and the Scottish Government did not indicate how it would spend this money until the SBR in early 2025. This was a material limitation in scrutiny of the 2025-26 Budget, as it compared an artificially small Budget (ABR) with a much larger budget. For more details, see Figure 5.1 in Scottish Fiscal Commission (2025) Fiscal Update – August 2025.

2.7 In its 2026-27 Budget, the Scottish Government again used the latest in-year position as presented in the 2025-26 ABR as its comparator. However, the Scottish Government improved the presentation of the 2026-27 Budget by baselining some routine in-year transfers, meaning that spending was included from the outset in the portfolio expected to incur it, rather than being transferred later in the year. For example, several areas of social care spending were included in the Finance and Local Government portfolio in the Budget, rather than in the Health and Social Care portfolio. In total, £786 million of resource spending which had previously been transferred between portfolios during the year was baselined in the 2026-27 Budget.[6]

2.8 However, there were still £606 million of in-year transfers which were not baselined.[7] This had implications for comparing some budget lines for certain key portfolios – in particular, Local Government, Education and Skills, and Health and Social Care. For example, Local Government had £476 million added to the 2025-26 ABR baseline, but then these spending lines were shown in different portfolios in 2026-27 plans.

2.9 In our January 2026 Scotland's Economic and Fiscal Forecasts publication, we stated that stakeholders should avoid comparing spending in the Local Government portfolio between 2026-27 and the 2025-26 ABR. We presented resource spending for the Local Government portfolio based on the 2025-26 ABR position adjusted for the routine in-year transfers which were not baselined. This provided a more accurate and transparent picture.

2.10 This has practical and tangible implications for Members of the Scottish Parliament (MSPs) and other stakeholders in trying to understand the extent to which an area of spending is set to change. Box 2.1 discusses the presentation in the 2026-27 Budget further.

[6] These include 'Care at Home' (£124 million in 2025-26) and 'Health and Social Care' (£257 million in 2025-26).

[7] £606 million was the value of the in-year transfers at the 2025-26 ABR. The Scottish Government did not set out the expected value of these in-year transfers in 2026-27.

Box 2.1: Comparing 2026-27 Scottish Budget spending plans

Spending lines and portfolio totals for 2026-27 in the Scottish Government's Budget document were compared with the 2025-26 ABR. For resource allocations this included £606 million of in-year transfers not reflected in the 2026-27 Budget.

Figure 2.1 highlights the effects on year-on-year growth rates for resource spending by portfolio with and without these internal transfers. It shows that most portfolios were affected.

The baseline chosen has a material impact on comparisons

In real terms, Health and Social Care spending grew by 1.5 per cent and Local Government spending fell by 2.9 per cent in the Scottish Government's presentation. Comparing spending plans for 2026-27 with the 2025-26 ABR (including the transfers not baselined) meant that Health and Social Care grew in real terms by 0.7 per cent, and Local Government grew by 0.4 per cent. These two portfolios together make up around two-thirds of resource spending, so having such different growth rates has a significant impact on scrutiny of spending decisions.

Figure 2.1: 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 (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	9.8	9.8
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.

2.11 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, we continue to recommend all routine in-year transfers are baselined, and that any routine in-year transfers which are not baselined should have the expected value of the in-year transfer set out in the Budget when it is presented.

2.12 We are working with the Scottish Government to implement the recommendation from the previous Finance and Public Administration Committee that the protocol between the Scottish Government and Scottish Fiscal Commission should "include agreement on how regular in-year transfers should be presented, in time to be implemented in the Scottish Budget 2027-28".

Recommendation 1

We continue to recommend that the Scottish Government presents all routine Budget transfers in the spending portfolio into which they will ultimately move – so that the Scottish Parliament, the media and everyone interested in the Scottish Budget can understand as clearly as possible how plans are changing from year to year. The Scottish Government should set out at the time of the Budget the expected value of any routine in-year Budget transfers which have not been baselined in the Budget.

Improvement of COFOG spending data

2.13 Given that Scottish Government's portfolios change over time, we have welcomed the move by the Scottish Government to publish budgetary information on a Classification of the Functions of Government (COFOG) basis. Using the United Nations' COFOG framework allows for spending trends to be compared over time, across UK nations and with other countries.

2.14 However, the Scottish Government did not publish COFOG data alongside the Spending Review 2026. Furthermore, the data published alongside the 2026-27 Budget was not available in sufficient time for us to analyse it and incorporate it into our January 2026 forecast report, which meant comparisons with spending trends in recent years were not possible. The Finance and Public Administration Committee in the previous Parliament recommended that "[a]greement should also be reached in the Protocol on a suitable timetable for the Scottish Government to provide COFOG data to the SFC for inclusion in its Budget forecasts."[8] We are working with the Scottish Government to include this in the protocol.

[8] Finance and Public Administration Committee (2026) Report on the Scottish Budget 2026-27.

2.15 There is also scope to improve the quality of the COFOG data. Currently, only one COFOG category and one sub-category are assigned to each Level 3 spending line, which is acceptable in most cases. However, the largest budget lines need a more detailed breakdown for analytical scrutiny. For example, the initial 2024-25 Budget allocation for 'NHS Territorial Boards' was £12.4 billion, with £15.3 billion eventually spent. This budget line was assigned a 'Health' COFOG category. However, it is highly unlikely that all the money was for health services. NHS territorial boards are important funders of Integration Joint Boards (IJBs). These contract social care services within their respective areas and are funded by a mix of transfers from the relevant NHS territorial board and councils within the area. IJBs spent £12.9 billion in 2024-25, with around 70 per cent (£9 billion) coming from NHS boards.[9] If transfers to IJBs are known from the outset or reported to the Scottish Government during the year, that part of the budget allocation to NHS territorial boards should be 'Social Protection' rather than 'Health'.

2.16 In addition, the assignment of COFOG categories sometimes seems arbitrary. For example, in the Health and Social Care portfolio, there are often Level 3 spending lines described as 'Social Care Investment', 'Social Care Support' or 'National Care Service'. These consistently get the 'Health' category assigned to them, when their description points more to 'Social Protection'. Similarly, the 'Education and Training' Level 3 spending line in the Health and Social Care portfolio, which is for nursing and midwifery training, is regularly in the 'Health' COFOG, when it seems a better fit for 'Education'.

2.17 The arbitrary assignment of COFOG categories is corrected if the money is transferred to another portfolio at Budget Revisions, as in the two examples given in the previous paragraph. However, it remains a problem when analysing the published COFOG data based on the Budget as introduced.

Recommendation 2

We recommend that the Scottish Government provides us with the COFOG data in sufficient time ahead of our forecast report to allow us to provide the Scottish Parliament with spending analysis.

Recommendation 3

We recommend that the Scottish Government allocates multiple COFOG categories to Level 3 spending lines for large allocations (for example, Health) and assigns the spending in a consistent way.

Recommendation 4

We recommend that the Scottish Government undertakes a systematic and timely review of COFOG assignments to ensure current assignments reflect the nature of the spending line.

[9] Accounts Commission (2026) Integration Joint Boards: Financial bulletin 2024/25.

Medium-Term Financial Strategies

2.18 Originally recommended by the Budget Process Review Group,[10] the Medium-Term Financial Strategy (MTFS) is a document in which the Scottish Government reflects on its medium-term fiscal position. As such, it considers the potential impact of several upside and downside funding and spending scenarios. This provides some helpful insights into the medium-term risks the Government faces.

2.19 The last MTFS in 2025 contained projections for both resource and capital spending over the next five years. The Government then compared its projected spend with the funding outlook at the time with estimate fiscal gaps. As a result, the Government showed both resource and capital spending exceeding the funding available from 2026-27.[11]

2.20 The MTFS was accompanied by a Fiscal Sustainability Delivery Plan (FSDP), which set out actions the Government intended to take to control spending and close the projected gaps.[12] Explaining how the gaps would be closed was a welcome improvement and we encourage the Scottish Government to report on progress made towards the measures outlined in the FSDP.

2.21 The resource spending projections in the MTFS were based on the Scottish Government's assessments of demand for areas like health and social care, local government, and pay. Although we discussed the effect of these projections in our accompanying forecast report, we did not undertake detailed scrutiny of the projections.[13] In addition, the methodology and assumptions behind the capital spending projections were not shared with us or published.

2.22 In our role as Scotland's independent fiscal institution, we were encouraged by the Organisation for Economic Co-operation and Development (OECD) to deepen our analysis of spending beyond devolved social security.[14] To do so, we need the Scottish Government to share all the detailed information available on the spending projections presented in the MTFS, so we can scrutinise projections and identify risks to the Budget. We are working with the Scottish Government to ensure that the protocol between the Scottish Government and Scottish Fiscal Commission includes timings to allow us to undertake this scrutiny as part of our forecast report published alongside the MTFS.

Recommendation 5

We recommend that the Scottish Government includes detailed information on the methodology and assumptions behind spending projections for both resource and capital spending in future MTFS documents.

[10] Budget Process Review Group (2017) Final Report.

[11] Scottish Government (2025) Scotland's fiscal outlook: medium-term financial strategy.

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

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

[14] OECD (2025) OECD Review of the Scottish Fiscal Commission 2025.

Scottish Spending Reviews

2.23 The UK Spending Review, published in June 2025 provided a degree of multi-year funding clarity for the Scottish Government's Block Grant. The Scottish Government then presented its own multi-year spending plans in January 2026, in the Scottish Spending Review (SSR) alongside the 2026-27 Scottish Budget. This was a welcome development following many years of single-year Scottish Budgets. Multi-year plans should provide clarity on funding levels for public bodies over several years allowing improved planning for delivery of public services.

2.24 In our January 2026 Scotland's Economic and Fiscal Forecasts publication, we commended the Scottish Government for publishing an SSR, noting that it is helpful for MSPs and other stakeholders to see multi-year spending plans. However, we also noted that there is room for improving the transparency of the SSR presentation.

2.25 The SSR set out resource and capital spending plans at the portfolio level. Level 2 information was also provided in the document. However, we noted that this was combined information on resource and capital spending which meant funding for day-to-day public services could not be distinguished from funding for investment in infrastructure, reducing transparency and potentially obscuring pressures faced by different public services. It was not possible to see Level 2 information split between resource and capital, despite that information being known to the Scottish Government. We consider this to be a limitation in transparency. For more detail on levels of budgetary information, see Box 2.2.

Box 2.2: The different levels of Budget information

The Scottish Budget document is structured according to different levels of detail. This helps the Scottish Parliament, analysts, and the public understand how the Budget breaks down from broad categories to specific policy 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 is the highest level and the most aggregated category of spending. These are portfolios, each under the responsibility of a Cabinet Secretary: for example, Education and Skills.
- Level 2 is the first division within portfolios and breaks down the portfolio into broad areas of spending: for example, 'Education Reform' within 'Education and Skills'.
- Level 3 shows a more detailed breakdown, broadly aligned with programmes: 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 policies: for example, 'Schools Reform'.

2.26 Some Level 3 information was provided in the SSR for the largest areas of spending. For example, the Scottish Government published total funding for each health board, as well as some Level 3 local government funding. However, there was less detail provided than in the previous full SSR in 2011, which presented Level 3 allocations across all areas.

2.27 Many Scottish public bodies have their spending allocations presented at Level 3. In the absence of that information, it is not possible for key public bodies like Skills Development Scotland and the Scottish Environment Protection Agency to look at the SSR and see their funding outlook.

Recommendation 6

We welcome the Scottish Government Spending Review. We recommend that, where possible, these should be published regularly to provide as much certainty and transparency as possible on multi-year spending plans.

Recommendation 7

We recommend that the Scottish Government produces future SSRs that provide budgetary information at Level 3 to give public bodies and other stakeholders a clearer indication of the Scottish Government's spending priorities, and to allow them to better plan on a multi-year basis.

Recommendation 8

We recommend that the Scottish Government publishes SSRs with Level 2 and Level 3 spending plans split between resource and capital.

Recommendation 9

We recognise that spending plans in SSRs are indicative until the Scottish Parliament votes on the Scottish Budget for each financial year and that changes will inevitably be required. We therefore recommend that future Scottish Spending Reviews contain commentary and explanation on budget priorities – specifically, which areas of spending the Scottish Government would look to prioritise should additional funding become available, and which areas will see spending reduced if funding in the future is lower than expected.

2.28 The 2025 MTFS had outlined a fiscal gap from 2026-27, and the FSDP had set out measures on how to close it. In the January 2026 SSR the Scottish Government balanced the budgets for those same years. There had been changes to funding levels since the MTFS, as well as changes to our social security forecasts, but a large share of the gap was attributable to spending decisions made at the SSR. Since the spending projections in the MTFS and the spending plans in the SSR were presented on different basis, it was not possible to establish which spending decisions had enabled the fiscal gap to close.

Recommendation 10

We recommend the Scottish Government explains how the spending projections set out in the MTFS differ to plans set out in a SSR and explain the decisions made at an SSR to balance the budget where the preceding MTFS had identified a gap.

Efficiency and reform plans

2.29 As part of the 2026 SSR, the Scottish Government published an efficiency and reform plan indicating how savings will be achieved within each portfolio.[15]

2.30 In total, the Government identified £1.5 billion of savings to be delivered across three years, from 2026-27 to 2028-29. These were a mix of workforce savings, efficiencies in corporate functions, and other service reforms. Delivery of these is expected to allow the Government's priorities to be achieved within the allocations given at the SSR. If these savings do not materialise, this will create challenges for the Scottish Government to deliver public services as planned while balancing its Budget.

2.31 We welcomed the publication of these plans in our January 2026 report. We noted that "on-going monitoring of progress against these plans will be important in ensuring the required savings are on track to be delivered."[16]

Recommendation 11

We recommend that, ahead of the Scottish Budget, the Scottish Government should set out progress on the planned efficiencies, developments on public sector pay and workforce, and how the spending pressures it faces have changed since the Spending Review in January. The Scottish Government should then regularly report on progress on reforms and efficiency savings in its Budget. For example, the 2027-28 Scottish Budget should include savings plans for that year, and a summary of achieved savings. This should be broken down by portfolio and by spending amounts. The Scottish Government should also identify any required changes to spending plans if the planned efficiencies are not achieved.

[15] See Annex B in Scottish Government (2026) Scottish Spending Review 2026.

[16] Scottish Fiscal Commission (2026) Scotland's Economic and Fiscal Forecasts – January 2026.

Other publications

Infrastructure Delivery Pipeline

2.32 The Scottish Government published an Infrastructure Delivery Pipeline (IDP) alongside the SSR in January 2026. This was welcome.

2.33 While the IDP was developed alongside the SSR, it only covered part of the allocations and was presented in a different format. The IDP listed projects the Government is committed to delivering. Some of these may be started or completed during the SSR period of 2026-27 to 2029-30 if business cases are developed and signed off, but the funding allocated to these projects is unclear, making it difficult for MSPs to scrutinise plans.

Recommendation 12

We recommend that the Scottish Government publishes the future Infrastructure Delivery Pipelines and Budget and Spending Review documentation in a way that allows for clear comparisons in spending and funding allocations.

Transparency of presentation

2.34 In this section we discuss issues around the transparency of budget information across a range of the Scottish Government's publications.

2.35 The Scottish Budget includes helpful supporting documents alongside the Scottish Budget, including Excel spreadsheet tables containing portfolio and various levels of budgetary information. However, the Scottish Government has not published spreadsheet tables alongside the Budget Revisions, MTFS, or the most recent Spending Review. We also note that the presentation of budgetary information is not provided in a consistent format, making it challenging for users to read across different documents.

2.36 One recommendation from our 2025 Fiscal Update report related to the issue following the change in the UK Government in 2024 which resulted in £1.3 billion being added to funding in year for 2024-25, but after the ABR had been closed. This meant the baseline comparator was wrong. We stated:

2.37 "If the Scottish Government were to agree with the Finance and Public Administration Committee a threshold for in-year funding changes following the ABR, it could improve scrutiny of the Budget. If the threshold is exceeded, it should trigger a requirement for the Scottish Government to indicate, as part of the Budget documents for the year ahead, the new level of funding and how that funding would be spent, with decisions to be confirmed in the SBR. This would effectively mean the Scottish Government should provide an early indication of how it plans to allocate the funding in the SBR, which could then be the basis for comparisons between years. This would mean year-on-year comparisons in spending would be more informative."[17]

[17] Scottish Fiscal Commission (2025) Fiscal Update – August 2025.

Recommendation 13

We recommend that the Scottish Government always publishes relevant tables in spreadsheets alongside the Scottish Budget, Autumn and Spring Budget Revisions, the MTFS, and Spending Review documents.

Recommendation 14

We recommend that the Scottish Government presents budgetary information across fiscal documents in a consistent way, making it easier for users to compare across the different documents.

Recommendation 15

We recommend that the Scottish Government considers the recommendation we made in our 2025 Fiscal Update – specifically, that where a threshold of in-year funding changes is exceeded, it triggers a requirement for the Scottish Government to indicate in its Budget how that funding will be allocated.

Climate change costs data

Costs associated with the Climate Change Plan and Scottish National Adaptation Plan

2.38 Climate change can require spending to mitigate emissions, to adapt to climate change, and to respond to damage from climate change. The impact on the devolved Scottish public finances depends on how these forms of spending are split between the public and private sector, as well as on how spending is split between the Scottish, UK, and local governments.

2.39 We have previously made recommendations on how the Scottish Government should present the costs in its Climate Change Plan (CCP)[18] and the Scottish National Adaptation Plan (SNAP3).[19] We recommended that the costs associated with each policy should be clearly published. This should include the cost for each financial year, how the cost is split between the public and private sectors, and how the cost is split between different levels of government.[20]

[18] Scottish Government (2026) Scotland's Climate Change Plan: 2026-2040.

[19] Scottish Government (2024) Climate change: Scottish National Adaptation Plan 2024-2029.

[20] Scottish Fiscal Commission (2025) Letter from the Chair to the Net Zero, Energy and Transport Committee – 25 March 2025.

2.40 Specific to the CCP, we have flagged that, while policies are costed, proposals are not, and the split between emissions reductions in each remains unclear.[21] Without costing data of both policies and proposals we cannot meaningfully assess the cost of delivering the CCP.

2.41 We recommended that the plans should be presented in a way which allows spending on key policies and programmes to be explicitly identified in the Scottish Budget and tracked consistently over time.[22,23] The presentation, classification and format of any financial material, including information on costs, in the plans should be consistent with how the same information is presented in Budget documents.[24] Each Budget and outturn report should then identify spending on policies and programmes in the CCP and SNAP3 so that spending plans can be linked to delivered spending. This would ensure it is possible to monitor and track spending to improve transparency.

2.42 We made these recommendations so that the expected level of spending is clear and delivery of these plans can be monitored. This information would allow us to assess risks to fiscal sustainability, as the failure to reduce emissions or invest in adaptation will have implications for future spending. The CCP and SNAP3 do contain some costing data, but this is incomplete and we cannot identify what spending is required by the devolved public sector.

Recommendation 16

We recommend that the Scottish Government clearly sets out the cost associated with each policy or proposal within the CCP and SNAP3. This should include the cost for each financial year, how the cost is split between the public and private sectors, and how the cost is split between different levels of government.

Recommendation 17

We recommend that the Scottish Government publishes climate change cost data in accessible spreadsheets, alongside information about how the data was calculated and whether any accompanying assumptions were used when formulating these datasets.

[21] Scottish Fiscal Commission (2026) Why robust data is essential for assessing Scotland's Climate Change Plan.

[22] Scottish Fiscal Commission (2025) Letter from the Chair to the Net Zero, Energy and Transport Committee – 25 March 2025.

[23] Scottish Fiscal Commission (2024) Statement of Data Needs – August 2024.

[24] Scottish Fiscal Commission (2025) Letter from the Chair to the Net Zero, Energy and Transport Committee – 25 March 2025.

Recommendation 18

We recommend that the Scottish Government extends the Climate Change Assessment of the Scottish Budget to allow identification of spending on policies and programmes in the CCP and SNAP3.

Recommendation 19

We recommend that the Scottish Government publishes the Climate Change Assessment alongside outturn spending regarding mitigation, adaptation, or damages as a result of climate change.

2.43 The requirements of a well-adapted Scotland are less clear than the requirements to get to net zero, as the exact course of climate change impacts are unknown. However, in the short to medium term there is sufficient clarity on adaptation needs to allow for targets on adaptation to be set. Linking adaptation ambition to quantifiable targets would enable better costing and planning of spending as well as monitoring of delivery.

Recommendation 20

We recommend that the Scottish Government creates targets specific to adaptation for SNAP3.

Climate change damage

2.44 The Scottish Government has not indicated how much it may need to spend on damages from climate change. As the exact path of climate change is unknown, planning future spending on climate change damage would be imprecise, but some damage is inevitable and should be prepared for. As more extreme weather events take place, marking Scottish Government and Local Government spend on climate change damage in outturn data would help track this over time. This would allow monitoring of impact and could inform planning and modelling of potential future costs.

Recommendation 21

We recommend that the Scottish Government tracks unplanned spending in response to climate change damages in outturn data, including spending by local government in its Local Government Finance Statistics.

2.45 Scottish Government's planning around climate change damages would be supported by knowing UK Government spending in this area. As well as building the evidence on the impact of climate change damage in the UK, whether climate change damage affects UK Government spending in devolved areas has implications for the Scottish Government. If the UK Government incurs costs due to damages in devolved areas, this may result in additional funding for the Scottish Government through the Block Grant. However, if climate damage is greater in Scotland, the Scottish Government will need to manage the costs from within its existing budget. The increasing risk of climate change damage could make the Scottish Budget more vulnerable to volatility. Knowing the spend in response to climate change damages across the UK, Scottish, and local governments would help track this fiscal risk and plan for the future.

Recommendation 22

We recommend that the UK Government reports spending in response to climate changes damages in its outturn data.

Data to inform our forecasts

Air Departure Tax

Before introduction

2.46 Following the devolution of Air Passenger Duty (APD), the Scottish Government plans to introduce Air Departure Tax (ADT) from 1 April 2027. ADT will replace UK APD for passengers departing from Scottish airports and will be administered by Revenue Scotland.

2.47 Our Fiscal Update, published alongside this report, presents our first forecast of ADT.[25] The Scottish Government has stated that ADT rates and bands will match APD in 2027-28. However, the treatment of the Highlands and Islands exemption will differ from APD, and a Private Jet Supplement is planned from 2028-29. Rates, bands and other features of ADT could diverge further from APD in future. Until outturn data becomes available from Revenue Scotland, our forecast will rely on a combination of Civil Aviation Authority passenger statistics, HM Revenue and Customs APD statistics, and modelling assumptions. These sources do not provide a complete and timely Scotland-specific breakdown of passengers by tax band, rate type, and exemption which we need to produce the ADT forecast.

2.48 For example, the most recent airport survey information used to estimate the distribution of passengers by band and rate type dates from 2018 for Aberdeen, Edinburgh, and Glasgow airports. HMRC publishes UK-level APD data by band and rate type, but it cannot identify the airport or nation in which the liability arose. This increases uncertainty in the initial ADT forecast.

[25] Scottish Fiscal Commission (2026) Fiscal Update – August 2026.

After introduction

2.49 Once ADT is in operation, Revenue Scotland statistics should provide the main evidence base for our forecast. Revenue Scotland has engaged constructively with us while developing the ADT return. The return is being developed, and it is important for us that the information collected is sufficiently detailed and timely to support forecasting and policy costing. Figure 2.2 presents the data requirements we set out to Revenue Scotland.

2.50 For the baseline forecast, we need the number of passengers and tax due, split by airport of departure, destination band, and rate type. The data should identify the date of flight and be available at least quarterly. A consistent time series by date of flight is needed to assess seasonality and changes in passenger demand.

2.51 We also need the total number of exempt passengers and, where feasible, a breakdown by exemption type. This should include children, transfer or transit passengers, and passengers covered by the Highlands and Islands exemption. Information on intermediate and transfer passengers is particularly important because the ADT treatment of connecting journeys will differ from APD.

Figure 2.2: Core data requirements for Air Departure Tax

Data item	Priority	Purpose
Passenger numbers and tax due by destination band and rate type	Essential	Forecast the tax base and reconcile liabilities
Airport of departure	Essential	Capture differences in route mix and airport-level trends
Date of flight, reported at least quarterly	Essential	Align liability to activity and model seasonality
Total exempt passengers	Essential	Reconcile chargeable and non-chargeable passengers
Exempt passengers by exemption type	High	Model children, transfer/transit and Highlands and Islands exemptions
Intermediate and transfer passengers	High	Model connecting journeys and the revised exemption
Refunds and adjustments	Desirable	Explain revisions between liabilities and receipts

Source: Scottish Fiscal Commission.

2.52 Revenue Scotland has informed us that from the tax return it should be able to provide data on passenger numbers and tax due by destination band and rate type, and total exempt passengers. It does not intend to collect any of the other information we require as part of its ADT tax return as it is not necessary for Revenue Scotland to carry out its operational functions.

2.53 This means we will need to use other sources of information to inform our forecasts, such as data from the Civil Aviation Authority. However, the lack of data from the tax return does increase the risk of forecast error, as other sources of data on things such as passenger numbers might not align with Revenue Scotland data on tax-liable passengers.

Recommendation 23

We recommend that Revenue Scotland continues to engage with us on our core data requirements and the development of the ADT tax return and considers expanding the information collected.

Potential future policy changes

2.54 Detailed data will improve our ability to estimate the effect of future policy changes. If Scottish rates diverge from APD, the effect may differ by airport, route, destination band, and class of travel. Airport-level band and rate data would allow us to produce a static costing and identify where behavioural responses are most likely to matter.

2.55 Some behavioural analysis will require supplementary evidence that is unlikely to be available from the tax return. This could include route-level fare information, passenger origin or airport catchment data, and evidence on own-price and cross-price elasticities. We will continue to use Civil Aviation Authority data and other external indicators alongside Revenue Scotland data.

2.56 The planned Private Jet Supplement may require information on aircraft characteristics as well as passenger numbers and tax due. Depending on the final policy design, relevant characteristics could include aircraft weight, seating configuration, flight type, and airport of departure.

Recommendation 24

We recommend that Revenue Scotland and the Scottish Government continue to engage with us as the private jet supplement is designed so that the information needed to forecast and cost the policy can be identified.

Chapter 3 Summary

3.1 This chapter summarises the broad range of data needs covered in this report. We will evaluate progress on each of these in our next Statement of Data Needs, which we expect to publish in 2028.

Figure 3.1: Summary of recommendations

Topic	Recommendation
Funding and spending	1. We continue to recommend that the Scottish Government presents all routine Budget transfers in the spending portfolio into which they will ultimately move – so that the Scottish Parliament, the media and everyone interested in the Scottish Budget can understand as clearly as possible how plans are changing from year to year. The Scottish Government should set out at the time of the Budget the expected value of any routine in-year Budget transfers which have not been baselined in the Budget.
Funding and spending	2. We recommend that the Scottish Government provides us with the COFOG data in sufficient time ahead of our forecast report to allow us to provide the Scottish Parliament with spending analysis.
Funding and spending	3. We recommend that the Scottish Government allocates multiple COFOG categories to Level 3 spending lines for large allocations (for example, Health) and assigns the spending in a consistent way.
Funding and spending	4. We recommend that the Scottish Government undertakes a systematic and timely review of COFOG assignments to ensure current assignments reflect the nature of the spending line.
Funding and spending	5. We recommend that the Scottish Government includes detailed information on the methodology and assumptions behind spending projections for both resource and capital spending in future MTFS documents.
Funding and spending	6. We welcome the Scottish Government Spending Review. We recommend that, where possible, these should be published regularly to provide as much certainty and transparency as possible on multi-year spending plans.
Funding and spending	7. We recommend that the Scottish Government produces future SSRs that provide budgetary information at Level 3 to give public bodies and other stakeholders a clearer indication of the Scottish Government's spending priorities, and to allow them to better plan on a multi-year basis.

Funding and spending	8. We recommend that the Scottish Government publishes SSRs with Level 2 and Level 3 spending plans split between resource and capital.
Funding and spending	9. We recognise that spending plans in SSRs are indicative until the Scottish Parliament votes on the Scottish Budget for each financial year and that changes will inevitably be required. We therefore recommend that future Scottish Spending Reviews contain commentary and explanation on budget priorities – specifically, which areas of spending the Scottish Government would look to prioritise should additional funding become available, and which areas will see spending reduced if funding in the future is lower than expected.
Funding and spending	10. We recommend the Scottish Government explains how the spending projections set out in the MTFS differ to plans set out in a SSR and explain the decisions made at an SSR to balance the budget where the preceding MTFS had identified a gap.
Funding and spending	11. We recommend that ahead of the Scottish Budget, the Scottish Government should set out progress on the planned efficiencies, developments on public sector pay and workforce, and how the spending pressures it faces have changed since the Spending Review in January. The Scottish Government should then regularly report on progress on reforms and efficiency savings in its Budget. For example, the 2027-28 Scottish Budget should include savings plans for that year, and a summary of achieved savings. This should be broken down by portfolio and by spending amounts. The Scottish Government should also identify any required changes to spending plans if the planned efficiencies are not achieved.
Funding and spending	12. We recommend that the Scottish Government publishes the future Infrastructure Delivery Pipelines and Budget and Spending Review documentation in a way that allows for clear comparisons in spending and funding allocations.
Funding and spending	13. We recommend that the Scottish Government always publishes relevant tables in spreadsheets alongside the Scottish Budget, Autumn and Spring Budget Revisions, the MTFS, and Spending Review documents.
Funding and spending	14. We recommend that the Scottish Government presents budgetary information across fiscal documents in a consistent way, making it easier for users to compare across the different documents.
Funding and spending	15. We recommend that the Scottish Government considers the recommendation we made in our 2025 Fiscal Update – specifically, that where a threshold of in-year funding changes is exceeded, it triggers a requirement for the Scottish Government to indicate in its Budget how that funding will be allocated.

Climate change	16. We recommend that the Scottish Government clearly sets out the cost associated with each policy or proposal within the CCP and SNAP3. This should include the cost for each financial year, how the cost is split between the public and private sectors, and how the cost is split between different levels of government.
Climate change	17. We recommend that the Scottish Government publishes climate change cost data in accessible spreadsheets, alongside information about how the data was calculated and whether any accompanying assumptions were used when formulating these datasets
Climate change	18. We recommend that the Scottish Government extends the Climate Change Assessment of the Scottish Budget to allow identification of spending on policies and programmes in the CCP and SNAP3.
Climate change	19. We recommend that the Scottish Government publishes the Climate Change Assessment alongside outturn spending regarding mitigation, adaptation, or damages as a result of climate change.
Climate change	20. We recommend that the Scottish Government creates targets specific to adaptation for SNAP3.
Climate change	21. We recommend that the Scottish Government tracks unplanned spending in response to climate change damages in outturn data, including spending by local government in its Local Government Finance Statistics.
Climate change	22. We recommend that the UK Government reports spending in response to climate changes damages in its outturn data.
Tax	23. We recommend that Revenue Scotland continues to engage with us on our core data requirements and the development of the ADT tax return and considers expanding the information collected.
Tax	24. We recommend that Revenue Scotland and the Scottish Government continue to engage with us as the private jet supplement is designed so that the information needed to forecast and cost the policy can be identified.

Source: Scottish Fiscal Commission.

Annex A
Previous requests

A.1 This annex details the progress on the issues we raised in previous Statements of Data Needs.

A.2 We only report on recommendations which in previous years we considered to be in progress, or which had not yet seen any progress. If we now consider them closed, we will not be reporting on them again.

Figure A.1: Log of past recommendations

Topic	Improvement requested	Addressed to	Progress
SDN 2024			
Funding and spending	Publish and regularly update a machine-readable, open-source dataset with unrounded spending plans, down to Level 3 and COFOG category and sub-category, for as many financial years as is reasonably feasible. It should include plans at each stage of the budget's lifecycle for each level of the spending hierarchy and COFOG category as well as actual spent amounts (outturn) when available.	Scottish Government	In progress
Funding and spending	Share spending data reconciled with total discretionary funding with sufficient time ahead of setting the Budget.	Scottish Government	Closed – delivered
Funding and spending	Add unique codes to each Level 3 line when publishing the machine-readable, open-source dataset suggested in Recommendation 1 (SDN 2024).	Scottish Government	No progress
Funding and spending	Publish mapping of Level 3 lines when they get merged, split, or redefined. Associated amounts should be unrounded.	Scottish Government	No progress
Funding and spending	Publish funding tables with unrounded amounts at Scottish Budgets, Medium-Term Financial Strategies, Budget Revisions, and provisional and final outturn, in a consistent machine readable and open-source format.	Scottish Government	In progress

Funding and spending	Introduce and publish results of its planned net zero assessment and introduce a similar methodology relating to adaptation to assess the implications of spending decisions on climate change mitigation and adaptation.	Scottish Government	Closed – partially delivered
Funding and spending	Include in the Climate Change Plan the effect of each policy on reducing emissions and their cost, split between public and private sectors where appropriate, in a way that is consistent and trackable over time.	Scottish Government	Closed – partially delivered
Funding and spending	Set out in the Scottish National Adaptation Plan how each policy meets adaptation outcomes and their associated cost, split between public and private sectors where appropriate, in a way that is consistent and trackable over time.	Scottish Government	Closed – partially delivered
Funding and spending	Keep improving the Climate Change Assessment of the Scottish Budget and update it as the budget changes. Show if spend supports mitigation, adaptation, or both.	Scottish Government	In progress
Funding and spending	Ensure timely publication of Barnett funding data, either by updating the Block Grant Transparency at each UK fiscal event or directly releasing detail on Barnett consequentials.	HM Treasury, Scottish Government	Closed – partially delivered
Funding and spending	Provide the SFC with statutory access to the relevant information its departments and public bodies hold.	UK Government	No progress
Economy and tax	Publish a timetable for LFS/TLFS and APS reweighting exercises and wider developments, with full and clear information about planned changes for all UK nations.	Office for National Statistics	In progress
Economy and tax	Work jointly to ensure availability of Scottish labour market estimates of high quality and consistent with UK estimates.	Office for National Statistics, National Records of Scotland, Scottish Government	In progress

Economy and tax	Finalise publication of the regional breakdown of RTI data by private and public sectors (employees, mean pay, aggregate pay).	HMRC	In progress
Economy and tax	Supply, where possible, consistent projections of basic pay awards, average pay bills, total paybill, and workforce for the devolved public sector in sufficient time for the SFC to consider for its forecasts alongside the Scottish Budget and MTFS.	Scottish Government	Closed – Delivered
Economy and tax	Consider our data needs in relation to potential future policy changes to Scottish Aggregates Tax (SAT), and to continue to develop SAT return with insight from the Scottish Government to anticipate likely future policy changes.	Revenue Scotland	In progress
Social security	Publish detailed statistics on the outcome of award reviews of disability payments as part of its publications.	Social Security Scotland	Closed – delivered
Social security	Publish quarterly data on the number of people transferred from DLA for Adults and their payment award levels.	Social Security Scotland	Closed – no longer required
Social security	Publish detailed statistics on the characteristics of the people in receipt of different carer payments, as well as the cared-for person's qualifying payment.	Social Security Scotland	In progress
Social security	Keep providing information on methodology changes, and their effect on published statistics.	Social Security Scotland	In progress
Social security	Produce quarterly statistics like those from the Department for Work and Pensions for payments yet to be launched.	Social Security Scotland	In progress
SDN 2022			
Social security	Develop an online tool similar to Stat-Xplore to allow stakeholders to access the specific data they require.	Social Security Scotland	In progress

Funding and spending	Consider whether the SFC should be given a statutory right to access information held by UK Government departments and public bodies as part of the fiscal framework review.	Scottish Government, UK Government	No progress
Economy	Continue to consider how to improve regional wages and earnings data using RTI and other sources.	Office for National Statistics, HMRC, Scottish Government	In progress
Economy	Publish a regional (NUTS1) breakdown of RTI data by private and public sectors (employees, mean pay, aggregate pay).	HMRC	In progress
Economy	Provide the SFC with additional information, where feasible, to improve our forecast of public sector employment and its internal consistency with our public sector earnings forecast and the overall government spending position.	Scottish Government	Closed – delivered
Economy	Develop regional inflation data and price deflators.	Scottish Government, Office for National Statistics	In progress
SDN 2019			
Economy	Provide QNAS breakdown of public sector expenditure by different levels of government.	Scottish Government	In progress
Economy	Address Scottish data gaps: for example, long-term economic time series, trade, business investment, capital stock.	Scottish Government, Office for National Statistics	In progress
Income tax	Supply evidence on how RTI liabilities data is compiled and divergences from outturn data.	HMRC	In progress
Value Added Tax (VAT)	Produce outturn data revision policy.	HMRC	In progress

Land and Buildings Transaction Tax (LBTT)	Supply pre-2003 property price and transactions data.	Registers of Scotland	No progress
Land and Buildings Transaction Tax (LBTT)	Provide public sector shared access to records of properties.	Scottish Government	No progress
SDN 2018			
Value Added Tax (VAT)	Create a detailed Assignment Outturn Model for VAT in Scotland, with clear timeline for updates.	HMRC, Scottish Government, HM Treasury	In progress
Value Added Tax (VAT)	Publish headline figures for the Standard Rated Share model.	HMRC, Office for Budget Responsibility	No progress
Value Added Tax (VAT)	Publish policy re-costings which are significant in value.	Office for Budget Responsibility	In progress
Social security	Supplement Discretionary Housing Payment statistics with further data on mitigation of the ‘Bedroom Tax’.	Scottish Government	Closed – now delivered by the DWP

Source: Scottish Fiscal Commission.

Additional information

Abbreviations

ABR	Autumn Budget Revision
ADP	Adult Disability Payment
ADT	Air Departure Tax
APD	Air Passenger Duty
APS	Annual Population Survey
CAPP	Carer Additional Person Payment
CCP	Climate Change Plan
COFOG	Classification of the Functions of Government
DLA	Disability Living Allowance
DWP	Department for Work and Pensions
FPAC	Finance and Public Administration Committee
FSDP	Fiscal Sustainability Delivery Plan
HM	His Majesty's
HMRC	His Majesty's Revenue and Customs
IDP	Infrastructure Delivery Pipeline
IJB	Integration Joint Board
LBTT	Land and Buildings Transaction Tax
LFS	Labour Force Survey
MSP	Member of the Scottish Parliament
MTFS	Medium-Term Financial Strategy
NHS	National Health Service
NUTS1	First-level Nomenclature of Territorial Units for Statistics
OECD	Organisation for Economic Co-operation and Development
QNAS	Quarterly National Accounts Scotland
RTI	Real Time Information
SAT	Scottish Aggregates Tax
SBR	Spring Budget Revision
SDN	Statement of Data Needs
SFC	Scottish Fiscal Commission
SNAP3	Third Scottish National Adaptation Plan
SSR	Scottish Spending Review
TLFS	Transformed Labour Force Survey
UK	United Kingdom
VAT	Value Added Tax

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).[26] [27]

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.[28]

Correspondence and enquiries

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

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

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26 OECD (2014) Recommendation of the Council on Principles for Independent Fiscal Institutions.

27 OECD (2025) OECD Review of the Scottish Fiscal Commission 2025.

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

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