

Finance and Public Administration Committee  
Tuesday 3 March 2026  
9<sup>th</sup> Meeting, 2026 (Session 6)

## **Scottish Fiscal Commission’s Fiscal Sustainability Perspectives: what Scotland’s finances mean for the next parliament**

### **Purpose**

1. The Committee is invited to take evidence from the following witnesses from the Scottish Fiscal Commission (SFC) in relation to its publication [Fiscal Sustainability Perspectives: what Scotland’s finances mean for the next parliament](#)—
  - Professor Graeme Roy, Chair,
  - Claire Murdoch, Head of Fiscal Sustainability and Public Funding, and
  - John Ireland, Chief Executive.
2. The session will also provide an opportunity to explore with the SFC themes to be included in the Committee’s legacy report.
3. This paper highlights some key issues raised in the SFC report, alongside legacy themes identified by the Committee in previous evidence sessions. Further information on the SFC report is included in the SPICe briefing attached at the Annexe to this paper.

### **Fiscal Sustainability Perspectives: what Scotland’s finances mean for the next parliament**

4. The SFC’s report was published on 25 February 2026 and highlights the fiscal pressures and challenges for the Scottish Budget in the next parliament. It warns that the next Scottish Government “will need to be realistic about what can be achieved” and “manage a wide range of structural and policy pressures”.
5. The report notes that due to tax devolution, the Scottish Government has had more control over its funding levels during the current parliamentary session. The Block Grant however remains the largest source of funding for the Scottish Budget. In 2025-26, the resource Block Grant accounted for nearly 80 per cent of funding available for day-to-day spending.
6. Devolved taxes have made an increasing contribution to the level of funding since 2023-24, although the SFC notes that this contribution could have been greater if the Scottish tax base had performed as well as in the rest of the UK.
7. The report provides an illustrative calculation of the amount of Scottish Income Tax revenue that would be raised, if earnings and employment growth in Scotland had matched the UK. The difference between this illustrative calculation and the

amount of Scottish Income tax revenue received is called the 'tax base performance gap'. For 2026-27, the SFC calculates the tax base performance gap to be negative £0.8 billion, primarily due to slower earnings and employment growth in Scotland compared with the rest of the UK.

8. Fiscal drag is expected to have a larger effect in Scotland than in the rest of the UK, with over a quarter of taxpayers forecast to pay the higher rate of tax in Scotland over the next parliament.
9. SFC analysis shows that overall day-to-day spending grew by 8.1 per cent in real terms between 2022-23 and 2025-26, with health and general public services accounting for around two thirds of total day-to-day spending, "These areas have grown broadly in line with the overall growth rate, as has spending on transport." Social protection spending is highlighted as having increased much faster than overall day-to-day spending. In contrast, spending on education, public order and safety, and economic affairs other than transport has fallen in real terms.
10. Despite improvements in the funding position in the January 2026 forecasts, Scottish Government spending scenarios (projections in the Medium-Term Financial Strategy for day-to-day and capital spending over the next five years) continue to exceed funding.
11. The SFC notes that if the savings set out in the Scottish Government's Spending Review do not materialise, "then there will be challenges for the Scottish Government to deliver public services as planned while also balancing its budget".
12. The report notes that capital spending is expected to fall following last year's sharp increase, which coupled with competing demands means that "the next parliament may face difficult decisions and trade-offs in capital spending".
13. Pay and workforce are highlighted as areas that will continue to put pressure on the Scottish Budget over the next parliament. Despite differences in trends across the wider Scottish Government workforce, the overall public sector workforce continues to grow. Pay deals for 2025-26 and 2026-27 have exceeded the 3 per cent set out in the 2024 pay policy, and the SFC notes that "for pay awards to remain within the 9 per cent limit, there would need to be an average pay award of 1.1 per cent in 2027-28, which is below our forecast of expected inflation [...]. If the pay deals exceed the policy, the public sector will have less money available for other costs of delivering public services in future years."
14. The impact of UK Government fiscal decisions is highlighted through the recent examples of the Winter Fuel Payment and the two-child limit, where the Scottish Government has had to respond to UK Government social security policy changes, with significant impacts on forecasts. The report states that "the effect of UK Government decisions on Scottish Government funding is a significant feature of the fiscal framework. The next Scottish Government will need to take this into account when setting its policies and will need to be ready to manage the impact of UK Government fiscal decisions."

15. The report provides an overview of issues that are affecting public spending now, and which are expected to continue to do so over the next parliament. It highlights—

- Structural issues such as the impact of an ageing population on the public finances, an increase in the rates of disability across the whole of the UK, and ongoing slow growth in living standards.
- Financial pressures and pressures on public service performance. Performance indicators suggest that performance across Scottish public services has deteriorated, with some Scottish public services, such as the NHS and councils, currently performing less well than they did before the pandemic.
- The impact on Scottish public finances of responding to climate change - additional devolved public investment required for this could average £0.7 billion a year, in 2025-2026 prices, from 2026 to 2050.
- Statutory targets for child poverty - although this has been a stated priority of the current Scottish Government, interim targets have been missed.
- Current commitments to tackle the housing emergency. The Spending Review shows that by 2028-29, Housing will become the second largest portfolio by capital spend, accounting for nearly 18 per cent of the capital budget, “a substantial commitment for the Scottish Government with competing priorities”.

## Legacy issues

16. The SFC report summarises fiscal pressures in the SFC’s five-year forecasts and longer-term fiscal sustainability reports. It identifies legacy issues for the next Scottish Government to address. These will also be of relevance to the next Finance Committee as areas of scrutiny, which could be highlighted in this Committee’s legacy report.

17. Legacy reports are intended to pass on knowledge and experience, both in terms of policy and Committee working practices, and inform the successor Committee’s priorities for scrutiny.

18. The Committee held two evidence sessions on legacy issues, on [10 February](#) and [17 February 2026](#). Written submissions were also received and are available on the Committee’s [legacy report webpage](#). Summaries of the key pieces of work and recommendations made in Committee reports during Session 6 are included in the papers for the previous evidence sessions, as follows:

- [Session 6 legacy issues and key themes – finance – Paper for 10 February 2026](#)
- [Session 6 legacy issues and key themes – public administration – Paper for 17 February](#)

19. Finance-related legacy issues raised in evidence to the Committee include—

- The imperative to focus on both medium and long-term issues. Audit Scotland noted that “short-term decision making and delivering fiscal balance have been a recurring theme over the past three or four years”. Professor Bell argued that “a move towards a focus on considering the sustainability of Scotland’s medium-term finances seems particularly important”, given structural pressures such as demography, health and social care demand, public sector pay and devolved social security. Scrutiny should persistently focus on those key issues.
- The need for revisions to the fiscal framework, described by Professor Bell and Professor Heald as “not fit for purpose”. As noted by Professor Heald, “the paradox of increased fiscal devolution is that implementation has intensified interactions between the Scottish Budget and UK Budget timing and decisions”.
- Medium-term fiscal risks due to devolved social security benefits. Professor Bell’s submission explains that “policy divergence from the rest of the UK increases asymmetric fiscal exposure: Scotland bears the full cost of more generous eligibility or higher take-up, while Block Grant Adjustments reflect rUK trends and adjust with a lag.”
- The use of emergency reviews and in-year budgetary changes, which Audit Scotland concluded “feels suboptimal. Instead of mapping out how fiscal sustainability will be delivered, it is a reactive process.” Instead, “the Scottish Government needs a clear plan to move to what it states is a prevention-based model—a recalibration of public services that addresses the forecast £2.6 billion in revenue and £2 billion or so in capital funding”
- The need for enhanced detail in Government strategies, alongside clear implementation plans. The Scottish Government has itself confirmed it has 100 live strategies and, at the Committee’s request, will look for opportunities to streamline these numbers. Audit Scotland has called for greater alignment between strategies
- Achieving a more efficient and less complex tax system and improving public understanding of taxes. The current system was described as complex. Polling by CIOT showed in 2023 that only one in five people correctly identified income tax as being shared between the Scottish and UK Parliaments.
- The need to focus on managing those taxes with significant revenue potential, such as Scottish Income Tax, Non-Domestic Rates and Council Tax. Witnesses’ general view is that reform of council tax is “difficult” and dependent on cross-party consensus.
- As explained by the Auditor General, there remains “an unresolved issue regarding the sustainability of local government finances”. He goes on to explain that “The Scottish spending review illustrates that growth in the indicative areas around health, social care and welfare will make things incredibly difficult for other local government services.”

- Public service reform and the need for a “digital, prevention-based model” and “a thought-through implementation of a workforce strategy”.
- The impact of the quality of financial memorandums on long-term financial scrutiny, particularly in relation to framework legislation, as well as the need for post-legislative scrutiny, and the merits of an annual finance bill.

20. The Committee may also wish to reflect, during the session on 3 March, on the SFC’s work and contribution to Committee scrutiny, and potential recommendations for the successor Committee. In its [report on the Scottish Budget process in practice](#), the Committee agreed “with the recommendation of the OECD that the Scottish Fiscal Commission should broaden and deepen its spending analysis beyond social security to encompass a wider range of budget areas and help inform political debate.”

21. Professor Roy’s letter to the Committee of [19 November 2025](#) sets out new areas of work for the Commission, including—

- To continue developing spending analysis as part of the SFC’s work on long-term fiscal sustainability. Reports published so far focused on the effects of demographic change on broad categories of spending, health spending, and long-term costs of climate change. Future topics could include local government, education and capital spending.
- Scrutiny of the Scottish Government’s spending projections and scenarios included in the Medium-Term Financial Strategy
- The continued provision of commentary on the spending plans set out by the Scottish Government in the yearly Budget. Professor Roy’s letter states that, while commentary to date has focused on portfolio level spending plans and analysis at the COFOG level, “there is scope for us to do more to identify where the Scottish Government is prioritising spending and how this is changing between years.”

22. The new parliamentary session will also provide an opportunity to revise the budget process agreement between the Finance Committee and the Scottish Government. The Committee may wish to discuss with the SFC the operation of the current agreement, reflecting on its application during the current session, and potential recommendations for improvement.

## Next steps

23. The Committee will reflect on the issues raised in the SFC report and in evidence in its legacy report, which will be published in March 2026, before the end of the Parliamentary session.

Committee Clerking Team  
February 2026

**SPICe****The Information Centre**  
An t-Ionad Fiosrachaidh

## Finance and Public Administration Committee

### Tuesday 3 March 2026

## Scottish Fiscal Commission - Fiscal Sustainability Perspectives: what Scotland's finances mean for the next parliament

On Wednesday 25 February the Scottish Fiscal Commission (SFC) published its report '[Fiscal Sustainability Perspectives: what Scotland's finances mean for the next parliament](#)'. This report draws on the SFC's recent fiscal sustainability work, and economic and fiscal forecasts, to highlight issues which will present a challenge to the Scottish Budget in the next parliament.

This note summarises the key messages in the report, and links to related SFC publications.

### Key messages

- The SFC highlight the Scottish Government's projections in the Medium Term Financial Strategy (MTFS, June 2025). This projected a £2.6 billion gap in resource spending by 2029-30 and £2.1 billion gap in capital.
- Social security spending has risen in real terms over this parliament – the forecast suggests this trend will continue over the next parliament.
- The Scottish Government presented its spending review in January which sets out how the budget can be balanced over next 3 years. The SFC note this relies on £1.5 billion in savings being achieved over three years.
- Devolved public sector pay accounts for 55 per cent of day-to-day spending.
- The fiscal framework links tax and spending decisions by UK Government with Scottish Budget – the SFC highlight some recent examples of this such as changes to the Winter Fuel payment in 2024.
- The SFC also highlight four policy and structural issues which will be relevant in the new parliament:

1. Structural issues including the impact of an aging population, increasing rates of disability, and slow growth in living standards.
2. Some Scottish public services, for example the NHS and local government services, are performing less well than before the pandemic
3. Responding to climate change could cost an average of £0.7 billion per year in Scotland between 2026 and 2050.
4. Interim targets for child poverty have been missed, despite this being a priority for the Scottish Government.

## Scottish Government funding and spending

The Block Grant remains the largest source of funding for the Scottish Budget, but since 2023-24 devolved taxes have been contributing more to funding. The SFC state that

“While UK Government fiscal decisions remain a key driver of how much the Scottish Government has to spend, the Scottish Government has had more control over its funding levels, compared to previous parliaments, because of tax devolution. Adjusting for inflation, funding available for day-to-day spending (excluding pandemic-related funding) has increased by 15.4 per cent over the current parliament. In contrast, the funding sources that depend solely on the UK Government – the Block Grant after tax and social security Block Grant Adjustments (BGAs) – fell by 1 per cent in real terms.”

Growth in spending on social security is forecast to continue, which given the tight outlook for funding will increase pressure on other spending areas. However, the social security BGA has also increased, reflecting the growth in disability prevalence in the UK

While devolved taxes are making a greater contribution to the Scottish Budget, the tax base performance gap is forecast to be around £0.8 billion in 2026-27. This is primarily due to slower earnings and employment growth in Scotland. The SFC note that:

“This [slower earnings growth] may be explained by a range of factors including underlying economic performance, behavioural responses from taxpayers to policy changes, differences in the sectoral make-up of the Scottish economy, and the different distribution of incomes between Scotland and the rest of the UK.”

The income tax net position is forecast to increase throughout the next parliament, contributing over £2.5 billion by the end of the forecast period. The SFC note that this increase is due to a differential forecast impact of fiscal drag in Scotland, and a difference between the OBR and SFC forecasts for average earnings.

Over a quarter of taxpayers are forecast to pay the higher rate of tax in Scotland over the next Parliament – in absolute terms the SFC forecast growth from approximately 600,000 taxpayers in 2024-25 to around 1,000,000 by the end of the

forecast. This increase is around 8.3 percentage points, almost double the 4.3 percentage point increase forecast by the OBR for the UK.

The SFC also highlight the downside risk to the net tax position should earnings grow in the rest of the UK more quickly than is currently forecast by the OBR. The SFC forecast nominal earnings growth of 2.7 per cent in 2028-29, while the OBR forecast 2.1 per cent.

## Spending on day-to-day services

The Classification of Functions of Government (COFOG) is a standardised classification developed by the United Nations that categorises public spending into 10 main categories and 69 sub-categories. Using COFOG to analyse public spending over time allows you to look past some events which can distort the picture in annual budgets or other reporting, such as the restructuring of Ministerial portfolios. The SFC have used this approach to analyse trends in public spending over the parliament. The SFC highlight that the Covid-19 pandemic has an impact on the first year of public finances in session 6 of the parliament, and so this year is excluded from the analysis.

Between 2022-23 and 2025-26, overall day-to-day (resource) spending grew by 8.1 per cent in real terms. This growth was not even among different areas however; Health and general public services (which together account for around two thirds of all resource spending) grew roughly in line with the overall growth rate, but social protection spending has increased more quickly.

This relatively fast growth in social protection spending is driven by three factors;

- 1) the Scottish Government assuming more responsibility for social security spending,
- 2) Scottish Government policy to introduce new benefits or increase the uptake of existing benefits; and
- 3) a rising number of people receiving disability benefits in Scotland and in the UK.

Spending on education, public order and safety, and economic affairs (apart from transport) has fallen in real terms during most of this parliament.

However, spending plans outlined by the Scottish Government in the [most recent Medium Term Financial Strategy](#) (MTFS) suggest that spending for resource and capital funding will exceed available resources in every year. While the central scenario suggested that by 2029-30 the total gap would be £4.8 billion, the positive and negative scenarios identify a possible range of £3.1 billion to £6.4 billion.

The MTFS had suggested that the 2026-27 Budget would face a resource gap of £963 million and a capital gap of £1,070 million. The SFC stated that:

“While the funding position improved in our most recent forecasts in January 2026, significant fiscal challenges remain.”

It is not explicitly clear how the Scottish Government has closed the resource and capital gaps identified in the 2026-27 Budget. The capital spending plans in the MTFs suggested that £7.1 billion in capital funding would be available for 2026-27, but that £8.2 billion would be required to meet spending plans. In the 2026-27 Budget, a total of £7.6 billion in capital spending plans were set out (including financial transactions). This suggests that the Scottish Government has closed the projected gap by cutting around £600 million from capital spending plans, and found an additional £400 million in capital funding.

The picture is similar for resource funding. The MTFs suggests that resource spending for 2026-27 will be £54.9 billion, but that funding will be £54.0 billion. The 2026-27 Budget includes plans for £54.1 billion in resource spending, suggesting that the gap has been closed by reducing spending plans by £800 million, and identifying an additional £100 million in resource funding.

The SFC also analyse the spending review which was published alongside the Scottish Budget. Looking at resource spending, the largest real terms increases between 2025-26 and 2028-29 are Health and Social Care (£1.1 billion in 2025-26 terms), Social Justice (£852 million) and Transport (£202 million).

Local Government faces a fall of £472 million in real terms, while Justice and Home Affairs, and Education and Skills also face real terms reductions. The SFC note that these policy areas are already taking some action in the face of planned spending reductions:

- All councils budgeted to increase Council Tax by more than inflation in 2025-26, with increases ranging from 6 to 15.6 per cent.
- Police Scotland is looking for savings from staff and non-staff costs in both 2025-26 and 2026-27.
- The number of staff employed by colleges fell by 7.7 per cent (as measured by full-time equivalent) in 2023-24.

The spending review also identified £1.5 billion in planned savings to be delivered across three years.

## **Capital spending**

The SFC note that there were three main factors contributing to pressure on capital budgets during this parliament:

- 1) Disruption to global supply chains caused by the Covid-19 pandemic and the Russian invasion of Ukraine
- 2) Labour market shortages have caused delays and higher costs
- 3) Higher inflation has meant that contractors have had to pay more for materials.

The SFC note that in 2023, around half the projects in the 2021 Infrastructure Investment Plan had been affected by cost increases or delays.

Capital funding is expected to decline over the next parliament. The SFC note that UK Government funding through the block grant accounts for 93.5 per cent of the Scottish Capital Budget, so the funding available will be heavily dependent on the allocations outlined in the 2025 UK Spending Review.

## **Cross cutting themes for the next parliament**

The SFC identify two key themes which will impact all policy areas; the public sector workforce and UK Government fiscal decisions.

### **Public sector workforce**

The SFC highlight that the public sector workforce in Scotland has been growing since the Covid-19 pandemic, although in the most recent years the rate of increase has slowed. This growth has not been even across functions; police and fire numbers have fallen from 28,500 FTE in 2013-14 to 26,675 in 2024-25, while college staff have reduced from 12,325 FTE in 2008-09 to 9,400 in 2024-25.

The devolved civil service has grown from 16,250 FTE in 2008-09 to 27,150 FTE in 2024-25. The SFC note that some of this increase relates to new powers being devolved during this period, particularly fiscal devolution following the Scotland Act 2016. The latest data covering the first two quarters of 2025-26 shows that the central Scottish Government workforce has stabilised.

In addition to the growth in the Scottish public sector workforce, growth in salaries has an impact on public finances. The 2024 Scottish Government pay policy set out aims to constrain growth in salaries to 9 per cent between 2025-26 and 2027-28. The SFC note, however, that:

“Most of the devolved public sector workforce is now covered by agreed pay deals for 2025-26 and 2026-27. All of them have exceeded 3 per cent each year. For pay awards to remain within the 9 per cent limit, there would need to be an average pay award of 1.1 per cent in 2027-28, which is below our forecast of expected inflation, which is 2.0 percent.”

The SFC note that most NHS staff would need to agree a pay rise of just 0.78 per cent in 2027-28, as their pay has grown more than other parts of the public sector.

While the high inflation in this parliament has been a factor in growing public sector pay, the SFC note that the difference in public sector pay in Scotland compared to the rest of the UK has increased. The median wage for a full time public sector worker in Scotland was around £400 higher than in the UK pre-pandemic – as of 2023 this had increased to £1,500.

Finally, the higher national insurance contributions for employers which was introduced by the UK Government in April 2025 has a disproportionately large impact in Scotland. The public sector workforce is larger in Scotland, however benefits provided by the UK Government reflect only a population share, and therefore only partly fund the increased costs for the Scottish public sector.

## UK Government fiscal decisions

While fiscal devolution has given the Scottish Parliament some additional control over the funding available for the Scottish Budget, the Fiscal Framework between the UK and Scottish Government's means that tax and spending decisions taken in the UK can still have a direct impact on the funding available in Scotland.

UK Government changes in policy on devolved taxes or social security spending can have an impact on the tax and social security block grant adjustments, which can mean more or less funding is available for the Scottish Budget.

In this parliament, there have been a few high profile examples of this impact, or speculation about possible UK Government decisions which have highlighted the possible impacts. The SFC note that the UK Government decisions on the Winter Fuel Payment and the two-child limit are two examples of this.

The SFC illustrate how the changing UK Government position impacted their forecasts. In December 2024, the SFC were forecasting that social security payment in Scotland would cost £1.5 billion more than the block grant funding in 2029-30. By June 2025, this had changed to an additional £2 billion reflecting planned UK welfare reforms and the Scottish Government's intention to mitigate the two child limit. By the January 2026 forecast, this had reduced to £1.2 billion, partly due to UK Government decisions to withdraw proposed welfare reforms and to remove the two child limit, but also reflecting other forecast changes.

The UK Government changes to the Winter Fuel Payment, announced in July 2024 following the election, had a smaller but more immediate financial impact – affecting Scottish Government spending plans in-year. The SFC explain that:

“The Scottish Government had planned to replace WFP in Scotland with Pension Age Winter Heating Payment (PAWHP) in 2024-25. The WFP BGA that the Scottish Government received fell significantly because the UK Government planned to spend much less on the payment in England and Wales. The Scottish Government needed to decide how to respond to this. It announced that it would mirror the WFP eligibility for PAWHP for 2024-25. This was expected to reduce spending by a similar amount to the fall in the equivalent BGA funding.”

## In tray for next Scottish Government

Finally, the SFC highlight seven issues which the next Scottish Government will need to respond to:

1. The **SFC expect the recent slow growth in living standards to continue.** This is expected to have a more significant impact on lower income households who have to spend a higher proportion of their income on essentials such as energy, food and housing.
2. **Demographic change in Scotland is expected to continue**, and people over 65 will make up nearly a quarter of the population by the end of the next

parliament. While the population is forecast to have grown by around 3 per cent over this parliament, the latest forecasts suggest it will grow by less than 1 per cent over the next parliament. The share of the population aged 16 to 64 is expected to fall to 62.1 per cent, increasing the 'dependency ratio'. This is expected to increase pressure on some areas of public spending, such as healthcare.

3. **The increase in disability prevalence will increase pressure on social security spending.** The SFC forecast that one million people in Scotland will receive disability payments by the end of the next parliament. This will contribute to social security spending accounting for a greater proportion of public spending – reaching 15 per cent of the resource budget by the end of the next parliament.
4. The SFC note that **public service performance pressures** existed before the Covid-19 pandemic but have been increasing over the course of this parliament. The report highlights local government services and health services as two areas where performance has declined, and note evidence from the Scottish Household Survey which points to declining satisfaction with the quality of local health services and schools.
5. **Climate change** can affect the public finances through three channels; the costs of addressing damage caused by a changing climate, adaptation costs to reduce the expected impact of future changes in climate, and mitigation costs to reduce greenhouse gas emissions and meet Scottish Government net zero targets. The SFC highlight their analysis that the Scottish Government's costs of mitigating climate change are expected to be higher than the UK Governments, with devolved additional public investment averaging £0.7 billion per year from 2026 to 2050 (approximately ten per cent of the current capital budget). This additional public investment is expected to peak between 2031 and 2035.
6. The next Scottish Government will need to meet targets **to eradicate child poverty by 2030**. However, interim targets are currently not being met.
7. During this parliament the Scottish Government declared a **national housing emergency**. The 2026-27 Scottish Budget includes an 8.5 per cent real terms increase for spending on housing, a trend which the spending review suggests will continue. The SFC note that plans in the spending review imply that housing will become the second largest portfolio for capital funding, accounting for nearly 18 per cent of the total.

## Links to other SFC publications

This report draws on several recent publications from the SFC:

- The Economic and Fiscal Forecasts, published alongside the Scottish Budget in January 2026.
- In September 2025, the SFC published a report exploring [how climate change could affect the Scottish Government's fiscal sustainability](#).

- In April 2025, the SFC published a [fiscal sustainability report looking at how demographic changes could affect devolved public finances over the long term](#). Note – this report was updated in December 2025.
- The [first fiscal sustainability report was published in March 2023](#), which assessed the fiscal sustainability of devolved public finances in the context of the Fiscal Framework out to 2072-73. In response to a request from the Finance and Public Administration Committee, the SFC [published a paper in August 2023](#) which assessed how changes in productivity growth would affect the projections made in the March report.

**26 February 2026**

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