Finance and Public Administration Committee
Wednesday 2 September 2026
3rd Meeting, 2026 (Session 7)

Scottish Fiscal Commission: Fiscal Update 2026 and other recent publications

Background

1. At today's meeting, the Committee will take evidence from the Scottish Fiscal Commission (SFC) in relation to the set of documents it published on 25 August 2026, as referred to in the covering letter from Professor Graeme Roy, Chair of the SFC of the same date.

2. The SFC is the independent fiscal institution for Scotland, producing Scotland's official, independent economic and fiscal forecasts to inform the Scottish Budget and assist in the scrutiny of fiscal events.

Fiscal Update 2026

3. This is the SFC's third annual Fiscal Update setting out the latest economic developments and changes to the Scottish Government's funding and spending since the SFC's last forecasts published alongside the Scottish Budget 2026-27 on 13 January 2026.

4. The Fiscal Update highlights that the economic outlook now appears to be weaker than previously forecast, with higher-than-expected inflation, rising energy prices and a risk of "higher food prices from high temperatures, wildfires, and drought across the UK and Europe". It notes that the exact knock-on implications of this weaker economic outlook for the Scottish Budget remain uncertain.

5. The Update also highlights additional funding for the Scottish Government in 2026-27 and 2028-29 largely due to UK Government spending decisions on education. It however notes particular pressures on the 2027-28 Scottish Budget, with "very little new funding" and a reduction of £720 million for a negative income tax reconciliation to "correct funding for forecast errors in the 2024-25 [Scottish] Budget"[1].

[1]The SFC explains that "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."

6. On 25 August 2026, the Institute for Fiscal Studies commented on the Fiscal Update), as did the Fraser of Allander Institute.

7. In her letter to the Committee of 24 June 2026, the Cabinet Secretary for Finance and Local Government also committed to deliver a fiscal statement to Parliament in September, "aligned with the Programme for Government, setting out the current fiscal context and the key issues and choices facing the Scottish Budget". She further noted—

   "As you know, the Scottish Fiscal Commission will also be publishing their Fiscal Update on 25 August ahead of my intended statement which will further support parliamentary scrutiny.

   I intend that my statement will build on the wide-ranging suite of fiscal information the Scottish Government published earlier this year, including the 2026-27 Scottish Budget, Scottish Spending Review, Portfolio Efficiency and Reform Plans, Infrastructure Delivery Pipeline and Draft Infrastructure Strategy, alongside a whole range of supporting data and analysis. Taken together, this reflects our continued commitment to openness and will help provide up-to-date context to inform the Committee's work before and during the Budget process."[2]

Forecast Evaluation Report

8. The SFC produces annual Forecast Evaluation Reports (FERs) to evaluate its previous forecasts and to identify improvements for future forecasts. In its August 2026 FER, the SFC has evaluated its December 2024 forecasts for the economy, fully devolved taxes, and social security expenditure in 2025-26, and its December 2023 forecast for Scottish Income tax revenue in 2024-25.

9. The SFC states that "given the ongoing uncertainties at the time we produced our forecasts, we are satisfied with the performance of our forecasts". It goes on to note "a particularly small income tax budget setting forecast error [in 2024-25] with an overestimate of £209 million or 1 per cent, our smallest ever relative error for income tax". However, despite this small error, "funding for the Scottish Budget [in 2027-28] will be reduced by a record £720 million through a reconciliation to account for income tax forecasting errors".

Statement of Data Needs

10. The SFC publishes a Statement of Data Needs biennially "to specify our requirements from our data providers", highlighting progress made and areas for additions and improvements which would help it produce and evaluate its forecasts.

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[2] Scottish Budget 2026 to 2027; Scottish Spending Review 2026; Annex B: Portfolio Efficiency and Reform Plans - Scottish Spending Review 2026; Infrastructure Delivery Pipeline 2026; Infrastructure Strategy 2027-2037: consultation

11. The 2026 Statement of Data Needs notes a significant improvement in the coverage and quality of data available in recent years. It states that “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 the presentation and range of information it provides. The SFC further highlights that Social Security Scotland has put in place “a substantial statistical resource covering its payments” and Revenue Scotland “has provided us with the date we need to forecast the devolved taxes”.

12. All 24 recommendations for data improvements set out in the report are summarised in Chapter 3 of the Statement.

Other recent work

SFC’s Fiscal Sustainability Perspectives Report

13. The evidence session also provides an opportunity for the Committee to explore a longer-term view of Scotland’s public finances informed by the SFC’s Fiscal Sustainability Perspectives Report: what Scotland’s finances mean for the next parliament published on 25 February 2026. [3]

14. The 2026 Report suggests that the Scottish Government will need to manage both structural and policy pressures over Session 7 of the Scottish Parliament including—

    - the impact of an ageing population on the public finances
    - an increase in the rates of disability across the UK
    - ongoing slow growth in living standards
    - evidence that Scottish public services – such as the NHS and local government services – are performing less well than before the pandemic
    - additional public investment is required to respond to climate change
    - challenges in meeting child poverty targets.

15. The Report further notes that, if current trends continue, the Scottish Government expects spending to outpace funding in this Parliament, with significant spending on the public sector pay bill and social security payments, and a need to meet efficiency targets as part of public service reform.

The Committee’s Pre-budget scrutiny 2027-28

16. While this is an annual standalone evidence session, it is also intended to set the scene for the Committee’s evidence sessions for pre-budget 2027-28 scrutiny on the affordability and sustainability of Scotland’s public finances which begin on 9 September 2026. At the time of writing, 66 written submissions were received to the Committee’s call for views.

[3] The SFC usually publishes a fiscal sustainability publication annually.

Today’s meeting

17. At today’s meeting, Members will take evidence from the SFC on its Fiscal Update and other recent publications.

Clerks to the Committee
August 2026