FPAC/S7/26/12/1

Finance and Public Administration Committee
Wednesday 25 November 2026
12th Meeting, 2026 (Session 7)

UK Autumn Budget 2026: implications for Scotland

Background

1. At today's meeting, the Committee will take evidence from the Institute for Fiscal Studies (IFS) on the UK Autumn Budget 2026: implications for Scotland.

2. The UK Autumn Budget 2026 was published on 28 October 2026 alongside the Office for Budget Responsibility's (OBR) Economic and fiscal outlook – October 2026.

3. Key announcements in the UK Autumn Budget 2026 affecting Scotland include—

    - £100 energy support payments for households in council tax bands A-D in England, triggering £208 million in Barnett consequentials for the Scottish Government, which has indicated it will mirror the scheme in Scotland[1].
    - An extension to the VAT cut on electricity bills until July 2027 and the removal of gas standing charges across the UK from next year.
    - An extension to the 5p UK-wide fuel duty cut to July 2027.
    - An extra 20% reduction in business rates for pubs, music venues and social clubs in England and a freeze in business rates for all other retail, hospitality, and leisure properties for two years. As a result, the Scottish Government will receive Barnett consequentials of £37 million in 2027-28 and £60 million in 2028-29.
    - Suspension of import tariffs on more than 100 products including some food, drink, fuel, and agricultural products.
    - Introduction of the Pension Tax Allowance from April 2027, which prevents pensioners from paying small amounts of tax where their incomes only just exceed the Personal Allowance.
    - A temporary 6% bank corporation tax surcharge.

4. The OBR's October 2026 forecasts highlight that "adverse shocks have continued to hit the UK since the 2008 global financial crisis, including rising barriers to trade after EU exit, the pandemic, and the 2022 energy price spike". It adds that "these adverse shocks and low economic growth have resulted in elevated levels of government borrowing and debt in the UK".

[1] The Cabinet Secretary for Finance and Local Government confirmed this in the Scottish Government's response to the UK Budget.

5. The OBR's forecasts state that the rise in energy prices and interest rates since its March 2026 forecasts has led to a deterioration in the near-term economic outlook. In 2027, it expects GDP[2] growth of around 1%, down from about 1½% in its March forecasts. It also anticipates CPI[3] inflation will be around 3½% rather than falling back to 2% as previously expected. By 2029-30 real disposable household income is expected to be 1% above pre-pandemic levels, which the OBR explains is a result of a 'negative terms-of-trade shock'. In other words, the items the UK buys from other countries have become more expensive, leading to a fall in incomes.

6. It expects the slowdown in average earnings growth to continue, although the pace of this slowdown is more gradual compared to its March 2026 forecasts. This, it notes, reflects the higher inflationary environment, which is assumed to lead to higher-than-expected wage increases.

7. The OBR further notes that in the near term, the UK Government's decisions in the 2026 UK Budget increase borrowing by an average of around £5 billion a year in each of the next three years. It goes on to highlight economic risks relating to energy prices, productivity growth and labour market outlook, and fiscal risks including debt servicing costs, departmental spending and welfare spending.

8. The OBR gave evidence to the Committee on the UK Autumn Budget 2026: implications for Scotland and its October 2026 forecasts on 11 November 2026.

9. Further information on the UK Autumn Budget 2026 and the OBR's October 2026 forecasts is included in the SPICe briefing Breathing space for households, and for Scottish public finances published on 28 October 2026.

Recent IFS publications

Response to Scottish Fiscal Commission's Fiscal Update – August 2026

10. In its response to the Scottish Fiscal Commission's (SFC's) August 2026 Fiscal Update, the IFS stated that "alongside the effect of higher-than-expected inflation – including, potentially, on public sector pay awards – the fiscal challenges facing the Scottish Government are now stacking up". It added that "tough decisions and ruthless prioritisation will be needed to square the budgetary circle".

11. The IFS noted, "as with our analysis, the SFC's analysis points towards a stormier outlook for future years, and a particularly tough set of choices for the Finance Secretary Jenny Gilruth in her first Budget covering the 2027-28 financial year". It added that "with overall funding set to fall compared to 2026–27, if Ms Gilruth wants to protect the NHS from cuts, she will need to make even bigger cuts to spending on other services".

[2] Gross Domestic Product.
[3] Consumer Price Inflation.

12. Finally, the IFS points to “disappointing progress on some of the headline targets for efficiency savings set out by the Scottish Government”.

UK Autumn Budget 2026: initial response

13. In its Autumn Budget 2026: initial response published on 28 October 2026, the IFS stated that—

> “This was broadly the Budget that many were expecting. In the face of bad economic news, the Chancellor has chosen to accept higher borrowing over the next five years. There was a small set of giveaways in the next few years, paid for with even higher borrowing today and higher revenues in later years.”

14. The IFS went on to suggest that next year’s UK Spending Review “will be a crunch point, and looks very tough for many departments, whose budgets will be squeezed by higher inflation forecasts”. These cuts are expected to have a detrimental impact on Scotland’s public finances.

Chancellor’s fiscal devolution roadmap

15. On 29 October 2026, the IFS published an article on the Chancellor’s fiscal devolution roadmap alongside the UK Autumn Budget 2026, describing it as “a balanced first step to sharing tax revenues with mayors”. A day later, the IFS provided more detailed commentary on the roadmap in its blog Fiscal devolution roadmap: has the government set a clear direction of travel? where it stated—

> “Sharing tax revenues is not the same as devolving tax-setting powers. Mayors will still have little control over how much tax their residents pay, while councils will remain heavily dependent on decisions made in Westminster. The roadmap leaves the door ajar to sharing additional taxes and exploring ways to capture increases in land values. But there is little sign of a rapid move towards greater local tax autonomy.”

16. David Phillips from the IFS, who is giving evidence to the Committee today, has also produced the paper attached as an Annexe which highlights that this local devolution in England could “have a knock-on effect on funding for the devolved nations”. The paper notes that England is moving to local retention of 70% of business rates in April 2027 and 100% by 2030. The paper therefore suggests “the natural step” of taking business rates out of the Barnett formula, which “over time, […] should be broadly revenue-neutral for the devolved governments”.

17. From April 2028, English mayoral authorities will be able to retain part of income tax growth, which David Phillips suggests, “over time, […] could cumulate up to a significant reduction in funding compared to the current system”. The paper sets out two broad approaches to address this. One would be to continue to include the Mayoral authorities’ share of income tax

revenues in the Barnett formula, which it states would be “the simplest approach and would ensure that Scotland, Wales and Northern Ireland still get their full Barnett based shares of any change in spending in England funded via income tax”. However, this option could “create some unfairness between the devolved nations and the different parts of England” and “on its own, [could also] increase costs to HM Treasury compared to current arrangements”.

18. Alternatively, the indexation of Scotland and Wales’s block grant adjustments (BGAs) could be updated and income tax retention extended to Northern Ireland, although this “would likely mean less funding for the devolved nations than [option] (1) and require a more complex set of changes to funding arrangements”.

Next steps

19. The Committee will scrutinise the Scottish Budget 2027-28 once published on 3 December 2026.

Committee Clerking Team
November 2026

Annexe

Implications of English fiscal devolution for the devolved nations – and options to address these

David Phillips, IFS, November 2026

The government's plans to move to 100% business rates retention for English local and strategic authorities, and to share a portion of income tax with England's mayoral strategic authorities (MSAs) will have knock on effects for funding for the devolved nations. This note highlights discusses these and options for updating funding arrangements to ensure fairness across the UK.

Business rates

Business rates are already partially retained by English local authorities. Changes in the revenues directly retained by English local authorities do not in general affect funding for Scotland, Wales and Northern Ireland – these revenues sit outside UK government departments' budgets and therefore the Barnett formula.[4] Changes in the portion of revenues that are currently transferred to central government for reallocation via departmental budgets do feed through the Barnett formula into changes in the devolved governments' funding. In particular, each £1 per person increase in forecast central government business rates revenues in England leads to a £1 per person reduction in funding via the standard Barnett formula. The logic behind this is that £1 per person increase in central government business rates in England is funding £1 per person increase in central government spending in England, which also feeds through the Barnett formula.[5] It would be unfair for Scotland, Wales and Northern Ireland to benefit from such an increase because they collect and retain their own business rates revenues. Without the offsetting reduction in funding as a result of forecast growth in central government English business rates revenues, the devolved nations would benefit twice over from business rates growth – from England's growth as well as their own.

Solution: when local retention of business rates is increased to 70% in April 2027 (with a 20% share for MSAs) and 100% by the end of the decade, the natural step would be to remove business rates from the Barnett formula entirely. Revenues would be retained by English LAs and MSAs, and so would not affect UK government departmental spending in England, or feed through the Barnett formula.[6]

[4] The exception is if UK government policy decisions directly reduce or increase these locally retained revenues – e.g. through the creation of a new business rate relief – and the UK government offsets that through increasing or reducing the grant funding it provides to local authorities. These grant changes do affect UK government departments' budgets and therefore do affect the devolved nations via the Barnett formula.

[5] Note that for Wales and Northern Ireland, needs-based factors mean that population factors are uplifted by 5% and 24%, respectively. So a £1 per person change in spending or revenues in England leads to a £1.05 per person change in funding for the Welsh Government, and £1.24 per person change in funding for the Northern Ireland Executive.

[6] Again, with the exception of UK government policy decisions directly reduce or increase these locally retained revenues. Changes in grant funding used to offset these changes should continue to go through the Barnett formula as currently.

Over time, this should be broadly revenue-neutral for the devolved governments: both the direct negative and indirect positive effects of business rates growth revenues in England on their funding via the Barnett formula will be removed. However, because the link between business rates revenues in England and the amount allocated via English departments is not 1-for-1 in any given year, the change will not necessarily be revenue neutral for the devolved governments in every single year.

Income tax

The case of income tax is more complicated. Like business rates, changes in income tax revenues in England (and Northern Ireland) impact the devolved governments budgets:

- For Scotland and Wales, where income tax is partially devolved, growth in income tax revenues in England leads directly to a higher block grant adjustment (BGA) subtracted off the devolved governments' block grants.
- For all countries, higher income tax revenues help fund departmental expenditure in England, and so indirectly generate funding for the devolved governments via the Barnett formula.

This system is once again aimed at ensuring that Scotland and Wales do not benefit twice over from income tax growth – from their own revenues, and via the Barnett formula as a result of spending in England (and Northern Ireland).

The government proposes that from April 2028, English MSAs will retain a portion of income tax revenues directly, in lieu of grant funding. In future, their funding will depend on changes in these income tax revenues rather than changes in grant funding. As a result of this, future increases in departmental spending for England are likely to be lower than they otherwise would be.

It would not be fair to just put these smaller future increases in departmental spending for England through the Barnett formula and leave the rest of the system unchanged. This is because whereas the devolved nations currently get a share of the expenditure funded via *all* of income tax raised in England (and Northern Ireland), offset in Scotland and Wales's case by a BGA designed to account for what they could expect to raise from income tax (if they mirrored UK government tax policy), in future the Barnett formula would not apply to the spending funded by MSAs' retained income tax revenues.

For example, suppose that in 2028–29, income tax revenues were forecast to grow by £10 billion in England, but mayors would directly retain £0.5 billion of that growth. Rather than getting their population based share of £10 billion, the devolved governments would get their population-based share of £9.5 billion – 5% less. Over time this could cumulate up to a significant reduction in funding compared to the current system.

Solution: to address this, two broad approaches would be possible, each with advantages and disadvantages.

Option 1

Continue to include MSAs share of income tax revenues in the Barnett formula. This is the simplest approach and would ensure that Scotland, Wales and Northern Ireland still get their full Barnett based shares of any change in spending in England funded via income tax. However, there would be two issues with this approach.

First, it would arguably create some unfairness between the devolved nations and the different parts of England. This is because within England, MSAs will retain their share of income tax revenue growth. If revenues in Manchester, for example, were to grow faster than in the rest of the country, the Greater Manchester MSA would keep the growth on its retained share of income tax revenues. Liverpool City Region MSA, West Midlands MSA, and so on, would not get a share of this – indeed, their funding would likely be slightly lower (because of the revenue-based indexation of equalisation 'offset' payments in the income tax assignment scheme). But the devolved nations would get a share of the growth in Greater Manchester MSA's assigned revenues via the Barnett formula. This differential "sharing" of growth with the devolved nations compared to other parts of England may be seen as unfair.

Second, on its own, this approach would increase costs to HM Treasury compared to current arrangements. The reason for this is thus. Currently all income tax revenues raised in England and Northern Ireland (as well as some of the revenues from Scotland and Wales) flow to HM Treasury, which uses them to fund expenditure across the UK. The part that is used to fund expenditure in England is what generates Barnett consequentials for the devolved governments of Scotland, Wales and Northern Ireland. In essence, this means the Barnett consequentials are funded from within these income tax revenues. However, when a portion of income tax revenues are assigned to English MSAs, all of these assigned revenues will fund expenditure in England. The Barnett consequentials for the devolved governments would then need to come *on top* of these revenues. England will retain more income tax revenues and have higher spending – and so too would the devolved governments via the Barnett formula under this option. However, this issue could be addressed by reducing the amount provided to England (and hence the other devolved nations via the Barnett formula) from the UK government's remaining share of income tax – ensuring fiscal neutrality overall. One would not want to try to do this each and every year – varying other spending on England each year to offset faster or slower growth in income tax revenues would be unwise. But it could be done on a longer-term basis if the UK government wanted to.

Option 2

Update the indexation of Scotland and Wales's BGAs and extend income tax retention to Northern Ireland. This is an alternative approach that would arguably be fairer between the devolved nations and the various parts of England. But it would likely mean less funding for the devolved nations than (1) and require a more complex set of changes to funding arrangements, especially for Northern Ireland. It would work as follows:

1. **First,** do not count future changes in MSAs' retained income tax revenues as expenditure subject to the Barnett formula.

2. **Second**, update the way BGAs are indexed for Scotland and Wales so that it is based on only the growth in central government's income tax revenues from England and Northern Ireland, excluding the change in MSAs' retained income tax revenues.

    a. For Wales, where the income tax BGAs are indexed using the comparable model, shown in in Figure 1, updates would be required in two steps shown in blue. First, the cash tax revenue change entering the formula would be the change *excluding* the MSAs retained income tax revenues. Second, the tax base share factor (which accounts for the fact that Wales has a smaller tax base than England and Northern Ireland) may need to be adjusted if the way revenues are assigned to MSAs affects the ratio between Wales and central government's England and Northern Ireland tax revenues per person.

    b. For Scotland, where the income tax BGA is indexed using the indexed per capita model (to account for differential population growth), more complex changes would be needed. The replacement formula that could be used in shown in Figure 2. Like the Welsh formula it would apply only to the cash change in revenues in England and NI excluding MSAs' income tax revenues.

Figure 1: Updating the Welsh comparable BGA model

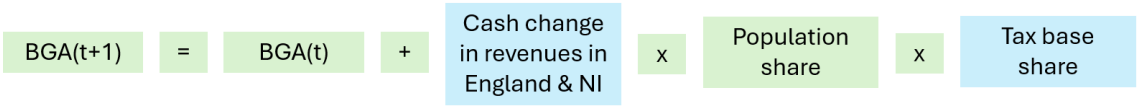
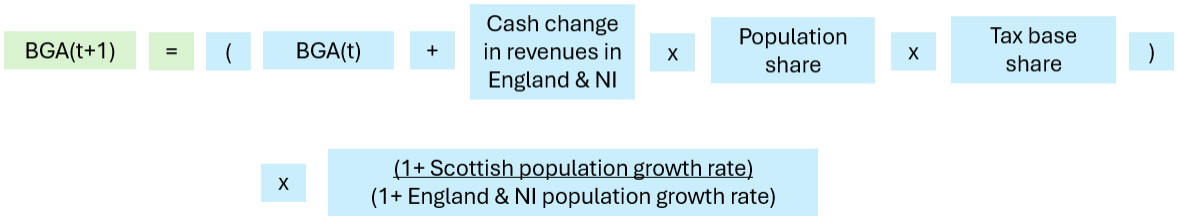


Figure 2: Updating the Scottish indexed per capita BGA model



Note that in the long-term we would expect that Scotland and Wales would see less funding under this second approach than under the first approach. This is because under option (1), the Barnett formula would give the Scottish and Welsh governments a population-based share of the income tax revenues retained by English MSAs, while the BGAs would claw back a tax-base adjusted share. Because income tax taxes are lower in Scotland and Wales, their governments are net beneficiaries of both existing arrangements and option (1) – in effect a proportion of English MSAs income tax revenue growth would still be transferred to the devolved nations. Under option (2), this would end. As discussed this is

arguably fairer to England, but would likely be opposed in Scotland and Wales as a ‘detriment’ compared to current funding arrangements.

c. **Third**, income tax revenues need to be directly retained by the Northern Ireland Executive. Because it would no longer be getting a Barnett formula share of the revenues retained by English MSAs, it would need to retain a share of income tax revenues itself instead. This would mean that its future funding would depend on how fast (in percentage terms) its revenues grew relative to England – it could gain if they grow faster or lose if they grow slower. Like English MSAs this would mean greater risk but also greater reward and incentive for economic growth. Note that the Northern Ireland Fiscal Commission advised against an income tax revenue retention system for Northern Ireland, arguing that the balance between risk and reward was not favourable enough (it instead argued for the partial devolution of income tax rate and band setting powers as in Scotland).

Summary

Option (1) is closest to the status quo for the devolved governments, and would prevent Scotland and Wales from losing financially from a change to devolution arrangements within England (and, indeed, they may might even gain financially); however, arguably, it would mean the devolved nations benefit more from growth in a particular region of England (e.g. Greater Manchester) than other regions of England do, which may be deemed unfair; option (2) addresses this issue but in doing so requires both a more complex set of changes, and is likely to mean the Scottish and Welsh governments will receive less funding in future than they would under the continuation of current funding arrangements.