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Economy and Fair Work Committee  
Scottish Parliament  
Edinburgh  
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25 February 2026

Dear Convener,

The Scottish Fiscal Commission has this morning published a report [Fiscal Sustainability Perspectives: What Scotland's finances mean for the next parliament](#). Our report concludes the fiscal outlook over the next parliament is likely to be challenging and identifies a wide range of structural and policy pressures the next Scottish Government will need to manage.

The next parliament will follow over a decade of relatively weak growth in living standards and has an outlook where living standards are expected to grow slowly over the next parliamentary term. This is linked to our expectation that GDP growth in Scotland will continue around 1.4 per cent over the next parliament. This is likely to mean more demand on public services.

People aged over 65 will make up nearly a quarter of the population by the end of the next parliament. Scotland represents a relatively large share of the UK's older population, which will exceed the share of the population used to calculate Block Grant funding.

We expect recent rising trends in disability payments to continue, and we forecast that the total number of people receiving disability payments in Scotland will exceed one million by 2030-31. We expect social security's share of the funding available for day-to-day spending to grow from 13.7 per cent in 2026-27 to 15.1 per cent in 2030-31.

A series of broader policy commitments, made during the current parliamentary term, will have budget implications beyond the election. The Scottish Parliament has set legislative targets around reducing child poverty by 2030. Interim targets have not been met. The flagship policy has been the Scottish Child Payment. In January 2026, we forecast that the Scottish Child Payment will cost £522 million by 2030-31. Responding to climate change will impact on the Scottish public finances in the next parliament and beyond. We estimate that reducing carbon emissions, in line with the Parliament's climate ambitions, will cost the Scottish Government £0.7 billion a year on average (in 2025-26 prices) from 2026 to 2050. Damage from climate

change and adaptation to climate change are likely to bring higher costs. Meeting the statutory targets on child poverty and climate change will require spending by the Scottish Government.

We highlight too how immediate policy commitments will have implications beyond May's election. During the current parliament, pay and workforce has affected Scottish public finances and will continue to do so into the next parliamentary term. The devolved public sector paybill is 55 per cent of day-to-day spending. The Scottish Government wants to manage its pay costs and reduce its workforce numbers. Available evidence to date shows only limited progress in workforce reductions or pay restraint.

The next Scottish Government may choose different approaches to taxes and spending to those set out by the current government. However the structural issues and effects of previous policy choices will remain a challenge for the next Scottish Government.

I am happy to discuss any aspect of our report and anything the Commission can do to aid the work of the Committee. We have enjoyed working with the Committee during this session of the Parliament and we look forward to engaging with your successor committee.

Yours sincerely

A handwritten signature in black ink that reads "G Roy".

Professor Graeme Roy



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

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# Summary

## Context

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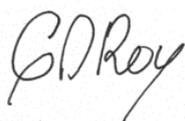
- 1 The Scottish Fiscal Commission is committed to our work on fiscal sustainability and we have published a number of reports on this theme.
- 2 The next Scottish Parliament election will happen in May 2026. The next parliament will begin following these elections, and last five years, to April 2031.
- 3 We highlight important issues we think will present challenges for the Scottish Budget in the next parliament. This paper summarises the fiscal pressures in our five-year forecasts and our longer-term work on fiscal sustainability. These topics include:
  - Trends in Scottish Government funding and spending and forecasts for the next five years.
  - Cross-cutting pressures on spending, such as the public sector pay bill and workforce.
  - The Scottish Government's responses to UK Government decisions that have emerged over the current Scottish parliamentary term.
  - Ongoing pressures on the public finances which the incoming Scottish Government will have to deal with. These pressures include slow growth in living standards, climate change and population ageing, as well as existing commitments to reducing child poverty and the national housing emergency.

## Key findings

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- 4 The current Scottish Government has stated that, if current trends continue, it expects spending to outpace funding in the next parliament.
  - In June 2025 the Scottish Government projected that spending trends suggested there would be a £2.6 billion gap in spending on day-to-day services and a £2.1 billion gap for investment in assets by 2029-30.
  - There have been large increases in real-terms spending on social security over this parliament. Based on current policies, we forecast social security spending will continue to increase.
  - The Scottish Government set out its plans for how it will balance the budget for the next three years at the January 2026 Scottish Spending Review. This includes a commitment to implement £1.5 billion of savings. If these savings are not delivered, then this will create challenges for the Scottish Government to deliver public services as planned while also balancing its budget. We noted in January that the majority of these savings are planned to be achieved through existing targets for the NHS, and progress to date against these targets suggests delivering these savings could be challenging.

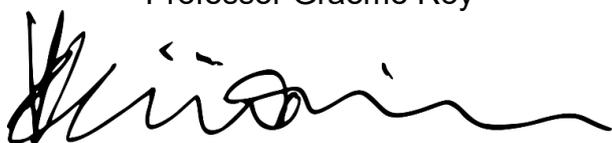
- 5 During this parliament, issues such as pay and workforce and responding to UK Government policies have affected Scottish public finances.
- The devolved public sector pay bill is 55 per cent of day-to-day spending in 2025-26. The Scottish Government wants to manage its pay costs and reduce its workforce numbers. Available evidence to date shows only limited progress in workforce reductions or pay restraint.
  - When the UK Government makes changes to taxes or social security policies that are devolved in Scotland, the fiscal framework leads to a change in funding for the Scottish Government. This means that the Scottish Government needs to decide how to respond, sometimes after the budget for the year has been set. There have been some high-profile examples of this over this parliament, for example, changes to the UK Winter Fuel Payment in 2024 led to the Scottish Government changing plans for the Pension Age Winter Heating Payment in Scotland.
- 6 The next Scottish Government will need to be realistic about what can be achieved. The next Scottish Government will need to manage a wide-range of structural and policy pressures over the next parliament.
- There are 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.
  - Alongside financial pressures, there is some evidence that Scottish public services – such as the NHS and local government services – are currently performing less well than they did before the pandemic.
  - Responding to climate change will impact the Scottish public finances in the next parliament and beyond. Additional devolved public investment required could average £0.7 billion a year, in 2025-2026 prices, from 2026 to 2050.
  - The Scottish Parliament has legislated targets for child poverty. While this has been a priority of the current Scottish Government, interim targets have been missed.
- 7 Managing these pressures will mean making difficult choices. Political parties need to be clear about what Scotland can afford and the impact of public spending for people in Scotland. Manifestos should make clear if meeting their commitments would mean cutting other areas of spending, or raising more revenue to fund them.



Professor Graeme Roy



Dr Eleanor Ryan



Justine Riccomini

# Chapter 1

## Scottish Government funding and spending

- 1.1 This chapter presents trends in Scottish Government funding and spending over the current parliament, which runs from May 2021 to April 2026. It also sets out what these trends imply for the next parliament.
- 1.2 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.
- 1.3 The current Scottish Government expects pressures on the Scottish Budget to grow over the next parliament, if trends in funding and spending continue. Spending on devolved social security, has been increasing in real terms and is forecast to keep growing. This has meant that other areas of spending have had to see their levels grow more slowly or even fall in real terms.
- 1.4 Capital budgets, which fell in real terms in 2023-24 and 2024-25, increased by almost 14 per cent in 2025-26 following UK Government decisions to invest more in devolved areas. However, capital budgets are again expected to fall in real terms over the next parliament. This means there will be less money available for public infrastructure.

## Funding for day-to-day services

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- 1.5 Funding for the Scottish Budget comes from many sources. Our Insights series recently summarised these.<sup>1</sup> This section highlights some important trends in funding over this parliament.

### The Block Grant is still the largest funding source

- 1.6 Figure 1.1 shows how resource funding, which is used for day-to-day spending, has changed over this parliament. The Block Grant, the main transfer from the UK Government that depends on UK spending decisions, remains the largest source of funding for the Scottish Budget. It fell in 2022-23 as COVID-19 funding tailed off but has grown since.
- 1.7 Devolved taxes have made an increasing contribution to the level of funding since 2023-24. This is largely because the Scottish Government has chosen to raise revenues

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<sup>1</sup> Scottish Fiscal Commission (2026) [Insights](#)

by increasing taxes for higher earners. This contribution could have been greater if the Scottish tax base had performed as well as the rest of the UK's.<sup>2,3</sup>

- 1.8 Social security BGAs have also grown during this parliament. Some payments were devolved during this parliament and so brought with them more associated funding.<sup>4</sup> There has also been fast growth in the disability benefit bill in the rest of the UK, leading to UK Government attempts to restrict eligibility for Personal Independence Payments. We discuss this in more detail in [Chapter 3](#).

## UK Government decisions affect the amount of funding available for Scotland

- 1.9 In 2016, the Scottish and UK Governments agreed a fiscal framework, which sets out how the Scottish Government is funded. This was revised in 2023. One of the implications of the fiscal framework is that UK Government decisions affect the amount of money Scotland has in a number of ways:
- **The Block Grant, the main transfer from the UK, remains the biggest source of funding.** It depends on decisions the UK Government makes about spending in devolved areas in the rest of the UK. In 2025-26, the resource Block Grant accounts for nearly 80 per cent of funding available for day-to-day spending.
  - **Tax Block Grant Adjustments reduce the Block Grant to take account of devolved Scottish tax powers.** This reflects that the UK Government no longer receives some tax revenues raised in Scotland. The reduction is linked to how much the equivalent taxes will raise elsewhere in the UK.
  - **Social security Block Grant Adjustments increase the Block Grant to take account of the devolved social security powers.** The UK Government has transferred responsibility for some social security payments to the Scottish Government. The UK Government transfers additional funding to the Scottish Government as it no longer has to pay for these in Scotland. The amount transferred is linked to how spending on benefits has changed elsewhere in the UK since devolution.

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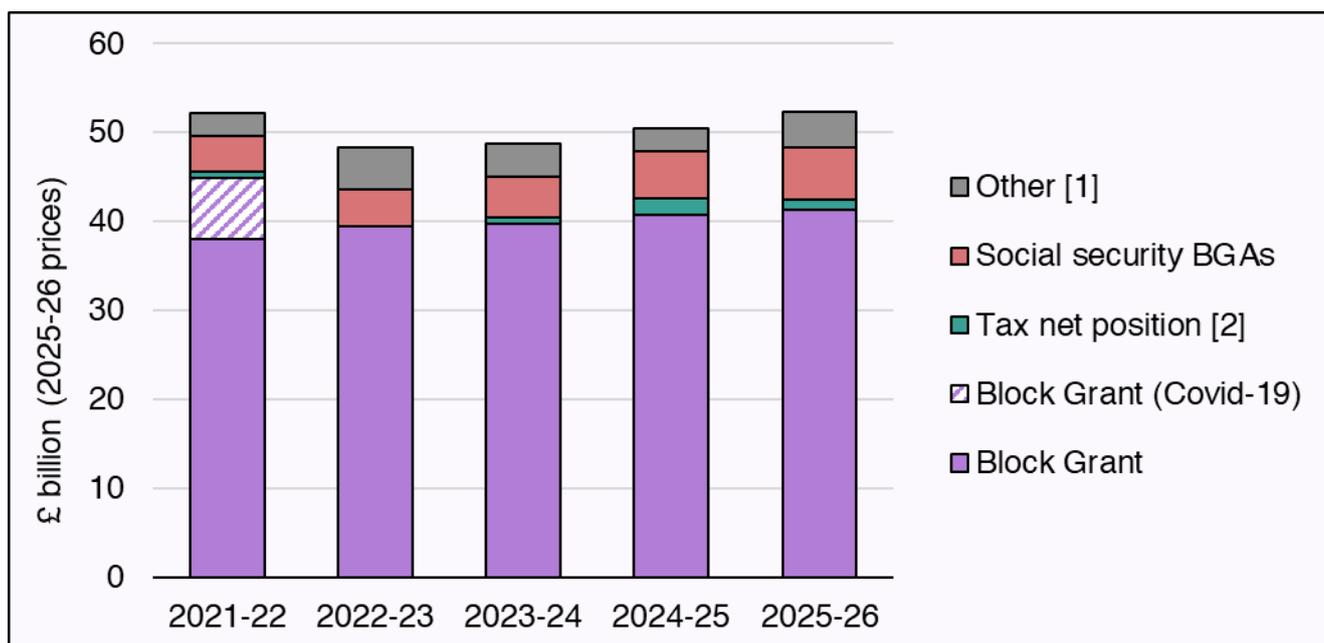
<sup>2</sup> Scottish Fiscal Commission (2026) [Scotland's Economic and Fiscal Forecasts – January 2026](#)

<sup>3</sup> The tax base depends on the tax. For Income Tax, it depends on factors such as employment levels, level of nominal earnings, and the distribution of income between taxpayers.

<sup>4</sup> Cold Weather Payments were devolved in 2022-23, and Winter Fuel Payments in 2024-25, both leading to new BGA funding.

**Figure 1.1: Resource funding sources for the Scottish Government**

**The Block Grant remains the largest source, but devolved tax revenues increasingly contribute to funding**



Description of Figure 1.1: Stacked bar chart showing resource funding for the Scottish Government from 2021-22 to 2025-26. The Block Grant is the largest source of funding in all years, with the Tax net position, Social security Block Grant Adjustments and Other making up the rest of the resource position.

Source: Scottish Fiscal Commission, Scottish Government.

Real-terms values in 2025-26 prices and calculated using the ONS GDP deflator until 2024-25 and the OBR's November 2025 forecast for 2025-26.

Funding levels are final outturn for the period 2020-21 to 2023-24, provisional outturn for 2024-25, and as most recently reported (January 2026) for 2025-26.

Block Grant funding in the period 2022-23 to 2024-25 includes IFRS16 adjustments.

[1] Consists of Non-Domestic Rates distributed to local government, Scotland Reserve drawdowns, reconciliations and resource borrowing (if any), and has a deduction for the cost of servicing past debt.

[2] As originally estimated at the time of setting each budget to reflect the actual funding available in those years. The Income Tax net position is fixed at the budget-setting level, with differences relative to outturn dealt with via reconciliations in later years. In 2022-23 there is a negative £67 million Tax net position that is not presented.

## The impact of Scottish Income Tax on the budget

1.10 The Income Tax net position shows the effect of Income Tax devolution on the Scottish Budget. The Income Tax net position compares two amounts: the Scottish Income Tax revenues and the reduction in funding from the Income Tax BGA. A positive Income Tax net position means funding for the Scottish Budget is higher than it would have been had Income Tax not been devolved. The Income Tax net position has been positive since 2018-19, and has risen sharply since 2021-22.

## **The positive and rising Income Tax net position reflects policy differences between the Scottish and UK Governments.**

- 1.11 Since 2016-17, the Scottish Government has made a number of changes to its Income Tax policy. It has:
- introduced three new tax bands<sup>5</sup>
  - increased tax rates for higher earners
  - limited increases in tax thresholds<sup>6</sup>
- 1.12 In contrast, the UK Government has made fewer changes to Income Tax in England and Northern Ireland, with only limited adjustments to tax thresholds.
- 1.13 To show the effect of these differences in Scottish and UK Government Income Tax policies on the Income Tax net position, we calculate a ‘policy differences only’ Income Tax net position.
- 1.14 This illustrative calculation estimates how much Income Tax revenue would be raised with Scottish rates and bands compared to the rates and bands in the rest of the UK, for the same level of earnings and employment growth.
- 1.15 Because of divergence in Scottish and UK Government Income Tax policies, the policy differences only Income Tax net position is positive and rising over time, as shown in Figure 1.2.
- 1.16 The policy divergence between Scotland and the UK Government, explains why the actual Income Tax net position is also rising.

## **Slower earnings and employment growth is driving a tax base performance gap of around £0.8 billion in 2026-27**

- 1.17 Figure 1.2 shows the actual Income Tax net position, both the available outturn data and the latest projections. The actual net position is less than the policy differences only Income Tax net position. We refer to this difference as the tax base performance gap.
- 1.18 For 2026-27, we calculate the tax base performance gap to be negative £0.8 billion. The tax base performance gap arises primarily because of slower earnings and employment growth in Scotland compared with the rest of the UK.
- 1.19 This 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.

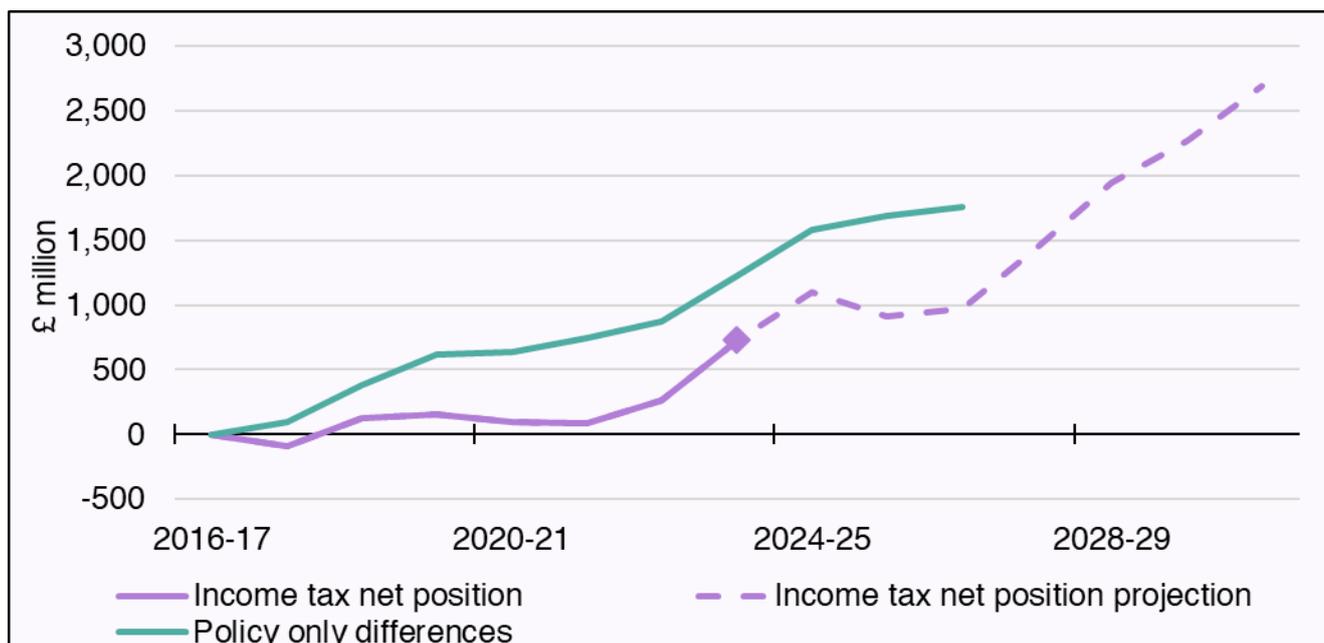
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<sup>5</sup> The starter rate and intermediate rate were introduced in the 2018-19 Scottish Budget. The advanced rate was introduced in the 2024-25 Scottish Budget.

<sup>6</sup> Fiscal Drag is the process whereby inflation or earnings growth pushes taxpayers into higher tax bands, increasing tax revenues, particularly when tax thresholds are frozen. For more information see Scottish Fiscal Commission – [Fiscal Drag](#)

**Figure 1.2: Income Tax net position and policy differences only net position**

**The policy differences only net position has increased faster than the Income Tax net position to date**



Description of Figure 1.2: Line chart of the Income Tax net position against policy difference only net position. The policy difference only net position increases from 2016-17 to 2026-27 where the series stops. Income Tax net position includes outturn data which starts in 2016-17 and ends in 2023-24 after which the figure is a projection. Overall the Income Tax net position also rises over time although not as quickly as the policy only position in the years that can be compared.

Source: Scottish Fiscal Commission.

1.20 Projections of the Income Tax net position are calculated by comparing our latest forecasts of Scottish Income Tax revenues to the latest projections of the Income Tax BGA, based on Office for Budget Responsibility (OBR) forecasts. The Income Tax net position is projected to continue rising over the forecast period, although there is a small fall in 2025-26. This increase over time is caused by two factors: fiscal drag, which has a larger effect in Scotland, and comparability issues between our forecasts and the OBR's.

## **Over a quarter of taxpayers are forecast to pay the higher rate of tax in Scotland over the next parliament**

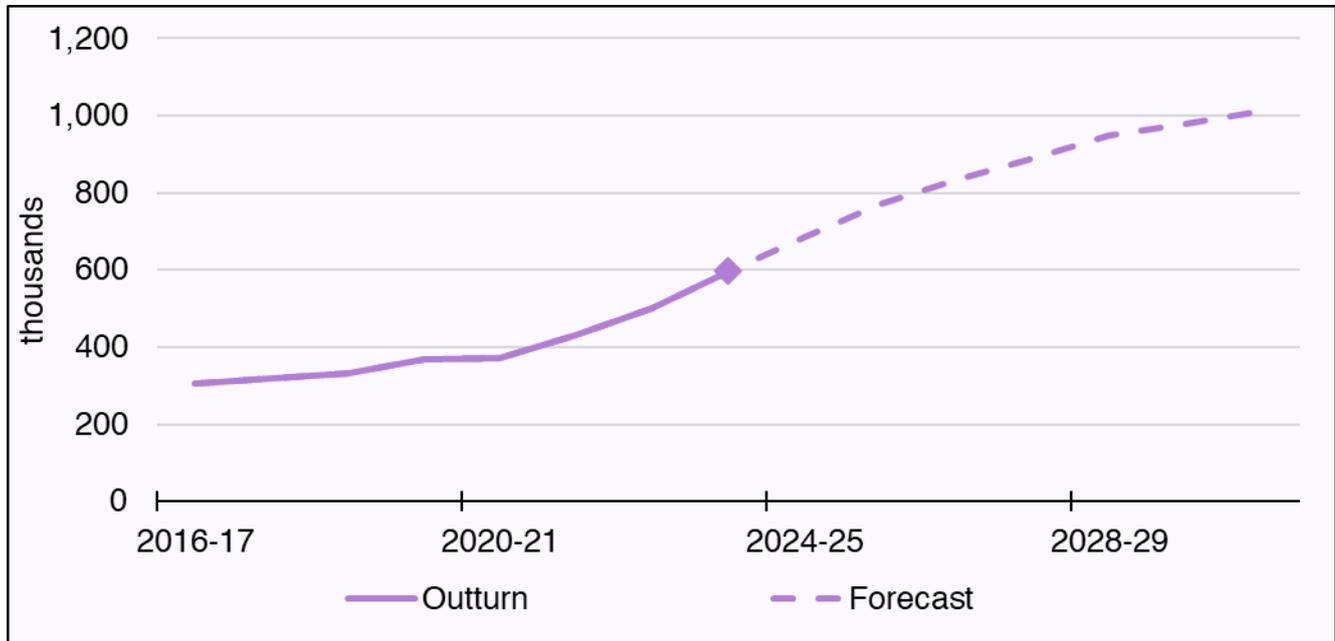
1.21 Given the policies currently in place in Scotland and the rest of the UK, with lower tax thresholds and higher tax rates in Scotland, we expect fiscal drag to have a larger effect in Scotland.

1.22 While both the Scottish Government and UK Government have announced freezes to the higher rate threshold in the coming years, it is frozen at £43,662 in Scotland compared to £50,270 in the rest of the UK. There are more taxpayers just below the

higher rate threshold in Scotland than in the rest of the UK.<sup>7</sup> As a result, as wages rise, we expect to see a growing number of taxpayers moving into the higher rate band in Scotland. This is shown in Figure 1.3.

**Figure 1.3: Number of taxpayers paying at least the higher rate in Scotland**

**The amount of Scottish taxpayers paying at least the higher rate of Income Tax has risen from 2016-17 and is expected to rise further**



Description of Figure 1.3: Line chart showing number of taxpayers paying at least the higher rate in Scotland from 2016-17 to 2030-31. Outturn data shows a steady increase in taxpayers paying at least the higher rate from 2016-17 to 2023-24 with our forecast showing further increases expected up until 2030-31.

Source: Scottish Fiscal Commission.

- 1.23 In 2016-17 there were around 300,000 taxpayers paying at least the higher rate in Scotland and the proportion was higher in the rest of the UK. Since then, the divergence in the thresholds has led to the number of higher rate taxpayers in Scotland becoming larger, and rising faster than in the rest of the UK.
- 1.24 Given the lower level of the higher rate threshold, we expect the proportion of higher rate taxpayers to continue to rise faster in Scotland than in the rest of the UK. Between 2023-24 and 2028-29 we expect the proportion of higher rate taxpayers in Scotland to rise by 8.3 percentage points. This compares to a rise of 4.3 percentage points in the UK based on the OBR’s November 2025 forecasts.
- 1.25 We see a similar trend for the advanced and top rate bands in Scotland compared to the rest of the UK both of which are set higher in Scotland than in the UK. Overall, this means that, for a given growth in income, we would expect faster growth in Income Tax revenues in Scotland than in the rest of the UK, increasing the Income Tax net position over time.

<sup>7</sup> Scottish Fiscal Commission (2026) [Scotland’s Economic and Fiscal Forecasts – January 2026](#); UK Government (2026) [Income Tax rates and Personal Allowances](#)

## Part of the contribution of Income Tax to the Scottish Budget reflects differences between forecasts

- 1.26 In recent forecasts, the OBR has assumed lower growth in average earnings for the UK than we have for Scotland, particularly from the second year of the forecast onwards. For example, in 2027-28, we forecast growth in average nominal earnings in Scotland of 2.7 per cent, compared to the OBR's forecast for the UK of 2.1 per cent.<sup>8</sup> This does not reflect a judgement on our part that earnings growth in Scotland will be greater than in the UK, but it is the result of comparing two independently produced forecasts.
- 1.27 Faster growth in Scottish earnings would contribute to a rising Income Tax net position. However, there is a risk that Scottish and UK earnings will be closer than the current comparison of SFC and OBR forecasts suggest, reducing the Income Tax net position.
- 1.28 Overall, we think that policy differences mean the Income Tax net position is likely to continue rising over time. However, there is a downside risk that it may be less positive than currently projected if Scottish and UK earnings growth are more aligned.

## Spending on day-to-day services

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### Social protection has grown the most in this parliament

- 1.29 The Scottish Government spends money on providing lots of different public services. We track spending over time using categories identified by the United Nations.<sup>9</sup> These include:
- **health**, which is fully devolved in Scotland, and includes hospitals, public health and medicines
  - **social protection**, includes devolved social security payments
  - **general public services**, includes the cost of running the Scottish Administration as well as any transfers made to local government
- 1.30 Day-to-day spending (such as buying services and paying staff) grew significantly in the first year of this parliament because of the COVID-19 pandemic. Therefore, we have excluded 2021-22 from the analysis.
- 1.31 We have also excluded 2026-27. The spending plans for 2026-27 are currently being scrutinised by parliament. The presentation of spending plans in this year is different to previous years as some transfers of spending between areas historically made during the year are now reflected in the position presented in the budget. There are still expected to be some transfers made during 2026-27. To ensure the spending levels are

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<sup>8</sup> Scottish Fiscal Commission (2026) [Scotland's Economic and Fiscal Forecasts – January 2026](#)

<sup>9</sup> The framework is known as Classification of the Functions of Government (COFOG). There are ten main categories and 69 sub-categories.

compared on a consistent basis we have therefore excluded 2026-27 from this analysis.<sup>10</sup>

- 1.32 Figure 1.4 shows that overall day-to-day spending grew by 8.1 per cent in real terms between 2022-23 and 2025-26. Within this overall growth rate, some areas have seen spending increase faster and others slower.
- 1.33 Health and general public services account 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. However, social protection spending, which captures spending on all devolved social security payments, has increased much faster than overall day-to-day spending. This is partly the result of expanded Scottish Government policies and expanded powers on social security, and partly because of rising numbers of people receiving disability payments in Scotland, a trend across the UK. We discuss this in more detail in [Chapter 3](#).
- 1.34 In contrast, spending on education, public order and safety, and economic affairs other than transport has fallen in real terms during most of this parliament.

## Scottish Government spending scenarios exceed funding

- 1.35 In June 2025, the current Scottish Government set out its projections for both day-to-day and capital spending over the next five years in its Medium-Term Financial Strategy (MTFS).<sup>11</sup> Comparing this to its outlook for funding, the Scottish Government estimated that in 2029-30 spending was on track to exceed the funding available by £4.8 billion in nominal terms across both day-to-day and capital spending.
- 1.36 These figures relate to the Scottish Government's central scenario. In its more positive scenario, the gap between funding and spending by 2029-30 was £3.1 billion, and in the more negative scenario this increases to £6.4 billion.
- 1.37 While the funding position improved in our most recent forecasts in January 2026, significant fiscal challenges remain.
- 1.38 In the MTFS, the Scottish Government set out drivers for the forecast growth in spending including pay and workforce, health spending, social security, climate change and demographic spending, issues we comment on in this report.
- 1.39 The Scottish Government's Fiscal Sustainability Delivery Plan published alongside the MTFS sets out how the current Scottish Government planned to close these gaps, including saving £1.5 billion through public sector efficiencies by 2029-30.<sup>12</sup>
- 1.40 The Scottish Government used the Fiscal Sustainability Delivery Plan as a framework for its Scottish Spending Review.

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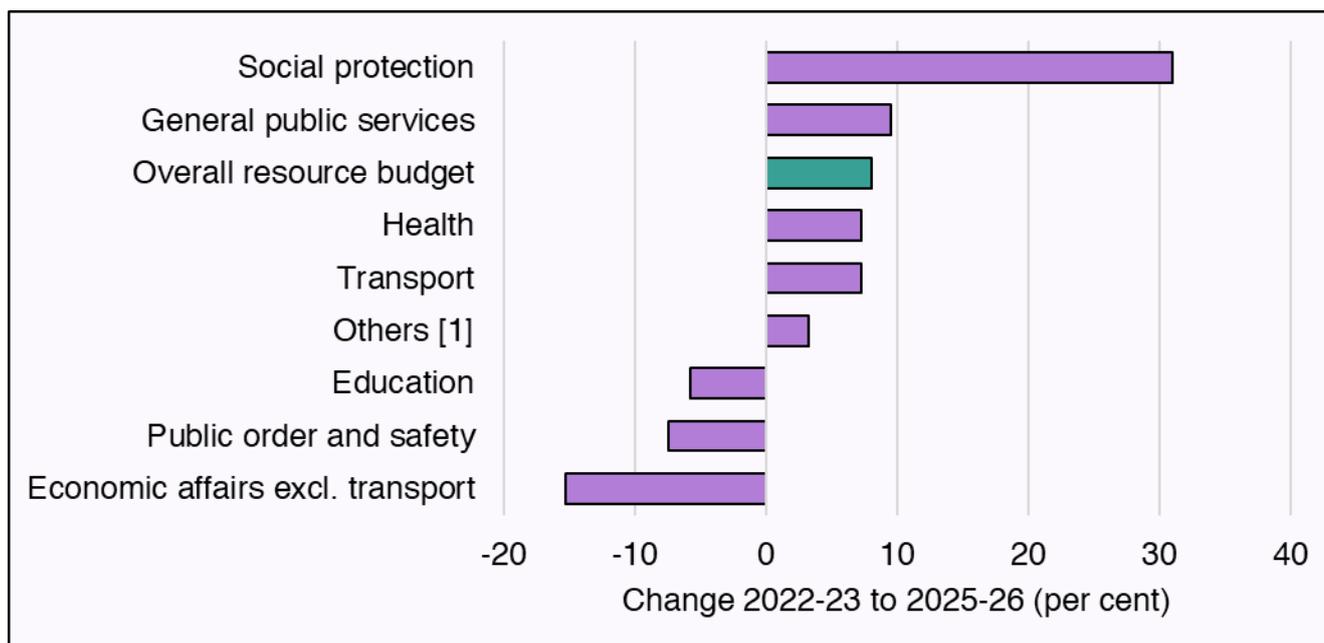
<sup>10</sup> Further information can be found in Scottish Fiscal Commission (2026) [Insights](#). We continue to recommend that the spending plans presented at the Budget should show spending in the portfolio where that spending will end up, and that no routine Budget transfers should be made during the year.

<sup>11</sup> Scottish Government (2025) [Scotland's fiscal outlook: medium-term financial strategy](#)

<sup>12</sup> Scottish Government (2025) [Fiscal Sustainability Delivery Plan](#)

**Figure 1.4: Change in day-to-day spending in this parliament by area of spending, in real terms**

**Spending on social protection has increased much more than any other area**



Description of Figure 1.4: Bar chart showing real-terms changes in spending levels from 2022-23 to 2025-26 by area of spending. The day-to-day spending grew by 8.1 per cent over this period. Social protection spending has grown by 31 per cent. General public services, Health and Transport have grown broadly in line with overall funding levels (9.6 per cent, 7.3 per cent and 7.3 per cent respectively). Education, Public order and safety and Economic affairs excluding transport have all seen real terms reductions in spending (5.7 per cent, 7.5 per cent, and 15.3 per cent respectively).

Source: Scottish Fiscal Commission, Scottish Government.

Real-terms values in 2025-26 prices and calculated using the ONS GDP deflator until 2024-25 and the OBR's November 2025 forecast for 2025-26.

[1] Consists of the three smallest classifications by amount of spending in 2025-26 plans at the Spring Budget Revision: Recreation, Culture and Religion; Environmental Protection; Housing and Community Amenities.

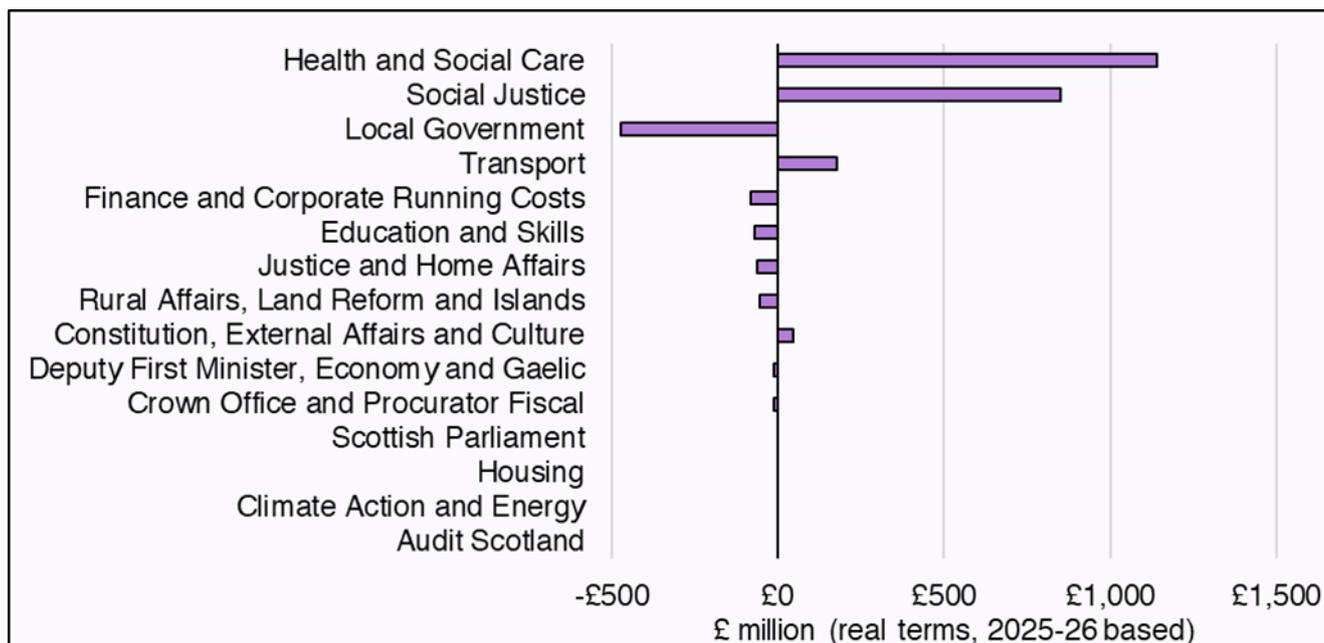
**The Spending Review set out the current government’s spending priorities**

- 1.41 The Scottish Government published the Scottish Spending Review alongside the 2026-27 Budget.<sup>13</sup> The Spending Review outlines how the Scottish Government plans to allocate funding between portfolios, and suggests that some of the trends seen over this parliament would continue for the first three years of the next parliamentary session.
- 1.42 For day to day spending, the largest real terms increases between 2025-26 and 2028-29 are £1,141 million in the Health and Social Care portfolio, £852 million in the Social Justice portfolio, and £202 million in the Transport portfolio.

<sup>13</sup> Scottish Government (2026) [Scottish Spending Review 2026](#)

**Figure 1.5: Change in portfolio allocation, 2025-26 to 2028-29 in real terms**

**The largest increase in spending is in Health and Social Care whilst the largest decrease is in Local Government**



Description of Figure 1.5: Horizontal bar chart showing the change in spending allocations between 2025-26 and 2028-29 in 2025-26 prices. The largest increase is in Health and Social Care, followed by Social Justice. Local Government experiences the largest decrease.

Source: Scottish Fiscal Commission, Scottish Government.

Spending by portfolio 2025-26 is the position at the [Autumn Budget Revision](#) adjusted for transfers which have not been baselined.

1.43 The largest planned reduction in real terms day-to-day spending is in Local Government, where spending is expected to fall by £472 million over the same period. Reductions are also planned for Justice and Home Affairs, and Education and Skills.

1.44 In several sectors where real-terms spending reductions are expected, organisations have already taken significant steps to reduce pressures. For example:

- All councils budgeted to increase Council Tax by more than inflation in 2025-26, with increases ranging from 6 to 15.6 per cent.<sup>14</sup>
- Police Scotland is looking for savings from staff and non-staff costs in both 2025-26 and 2026-27.<sup>15</sup>
- The number of staff employed by colleges fell by 7.7 per cent (as measured by full-time equivalent) in 2023-24.<sup>16</sup>

1.45 The Spending Review indicates the Scottish Government has identified £1.5 billion of savings to be delivered across the next three years. The efficiency and reform plans

<sup>14</sup> Accounts Commission (2025) [Briefing: Local government budgets 2025/26](#)

<sup>15</sup> Scottish Police Authority (2025) [2025-26 Draft budget](#)

<sup>16</sup> Auditor General for Scotland (2025) [Briefing: Scotland's colleges 2025](#)

published as part of the Spending Review set out how savings will be achieved within each portfolio.

- 1.46 These savings are to be made from workforce reductions, efficiencies in corporate functions such as sharing resources between public bodies, and other service reforms including spending to support prevention. The Scottish Government expects that achieving these targets will allow it to deliver its priorities within the spending plans set out at the Spending Review.
- 1.47 If these savings do not materialise, then there will be challenges for the Scottish Government to deliver public services as planned while also balancing its budget. The Scottish Government is required to broadly balance its budget, matching its spending to available funding each year.

## Capital spending

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### Capital spending increased sharply last year but is expected to fall over the next parliament

- 1.48 Public capital spending is used to invest in long-term assets, and includes things like building roads, schools, and hospitals.
- 1.49 During this parliament capital budgets came under pressure because of increasing costs. Reasons for this include:
- Pressures on global supply chains following the COVID-19 pandemic and Russia's invasion of Ukraine in early 2022.
  - Labour market shortages causing delays and higher costs.
  - Higher inflation meaning contractors had to pay more for building materials.
- 1.50 In 2023, around half the projects in the 2021 Infrastructure Investment Plan had been affected by cost increases or delays.<sup>17</sup>
- 1.51 In the 2026-27 Scottish Budget, £7.6 billion was allocated for capital investment. UK Government funding accounted for 93.5 per cent of the Scottish capital budget, with other sources of funding including capital borrowing.<sup>18</sup>
- 1.52 On a sector-by-sector basis, large infrastructure projects can have an impact on overall trends. Some portfolios may see a large project every few years, which leads to peaks of investment, rather than a regular stream of capital spending. For example, capital spending on public order and safety increased from around £300 million in 2024-25 to over £500 million in 2025-26 to build two new prisons. Capital spending will fall back in future years as the projects are completed.

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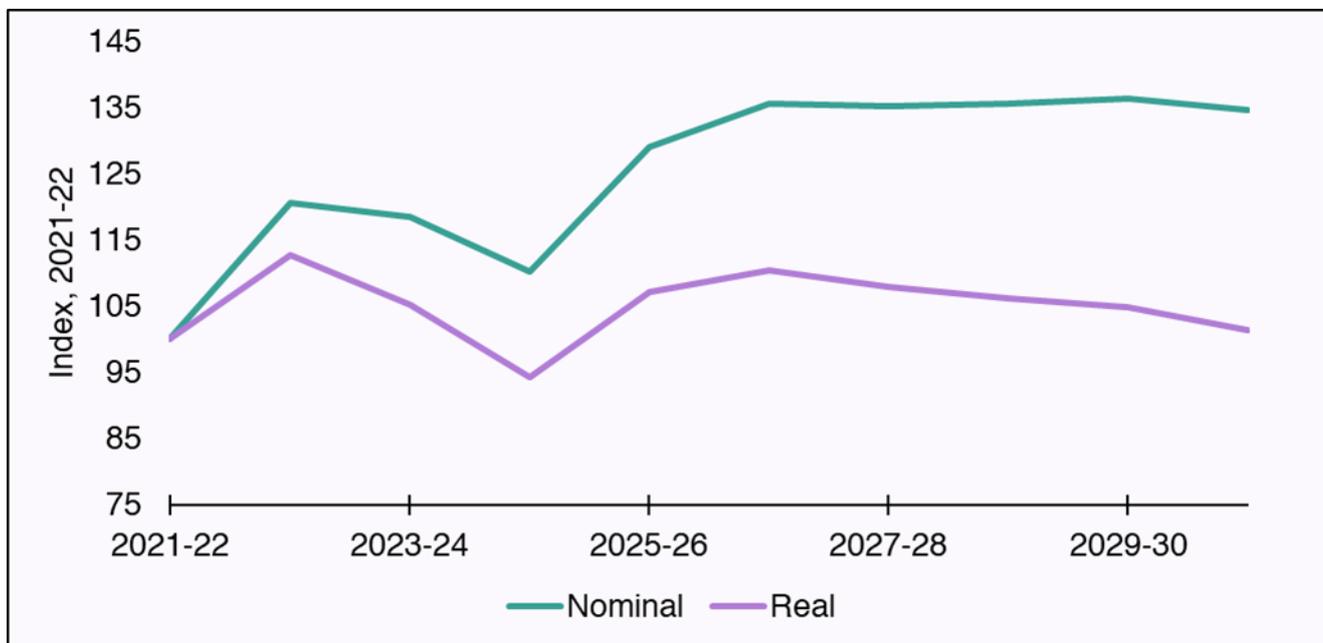
<sup>17</sup> Auditor General for Scotland (2023) [Investing in Scotland's infrastructure](#)

<sup>18</sup> Scottish Fiscal Commission (2026) [Scotland's Economic and Fiscal Forecasts – January 2026](#)

1.53 Figure 1.6 shows capital funding is expected to decline over the next parliament in real terms. This means that there will be less funding available to invest in public infrastructure, and the Scottish Government may face difficult decisions about where to invest the capital budget.

### Figure 1.6 Capital funding outlook

**Capital funding grows in 2026-27 but remains flat in later years and is falling in real terms**



Description of Figure 1.6: Line chart showing capital funding trends from 2021-22 to 2030-31, in nominal and real terms, indexed so that 2021-22 levels are equal to 100. Capital funding grows in 2026-27 by 5 per cent and then remains flat over the forecast period. Adjusting for inflation sees a fall in capital funding across the forecast period.

Source: Scottish Fiscal Commission, Scottish Government.

Real-terms values in 2025-26 prices and calculated using the ONS GDP deflator until 2024-25 and the OBR's November 2025 forecast for 2025-26.

## Over the next parliament, there will be competing demands on the capital budget

1.54 The Scottish Government chooses how to spend its capital budget each year across different portfolios. How capital spending is prioritised today will have long-term implications for the future costs and effectiveness of maintaining public services, and for addressing fiscal pressures.

1.55 In January 2026 the Scottish Government published a Scottish Spending Review, which includes capital spending, an Infrastructure Delivery Pipeline and a draft Infrastructure Strategy. The Infrastructure Delivery Pipeline sets out the major capital projects which the Scottish Government is planning to deliver between April 2026 to March 2030.<sup>19</sup>

<sup>19</sup> Scottish Government (2026) [Infrastructure Delivery Pipeline](#)

1.56 Since 2021, the Scottish Government has set three key goals for its capital spending:

- Enabling the transition to net zero emissions and environmental sustainability.
- Driving inclusive economic growth.
- Building resilient and sustainable places.

These priorities should guide how the Scottish Government allocates the capital budget.

1.57 The Infrastructure Delivery Pipeline sets out how projects meet the Scottish Government's wider priorities of growing the economy, eradicating child poverty, tackling climate change and delivering sustainable public services.

1.58 The next parliament may face difficult decisions and trade-offs in capital spending. For example, the Scottish Government has set out that there are some projects from the previous Infrastructure Investment Plan that have not been included in the new plan.<sup>20</sup> These are in the health sector where the capital position remains challenging.

1.59 The Scottish Government reports that it is working with all Health Boards to develop a whole system infrastructure plan, rather than individual Boards developing business cases for future projects in isolation.

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<sup>20</sup> The Scottish Government sets out that this includes the remaining National Treatment Centres and the Gilbert Bain Hospital in Shetland.

# Chapter 2

## Cross-cutting themes for the next parliament

2.1 Over the course of the current parliament, trends have emerged that have put pressure on the Scottish Budget. In this chapter we highlight two of these – pay and workforce, and the impact of UK decisions – which we think will continue to impact the next parliament.

### Public sector workforce

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2.2 The devolved public sector workforce consists of:

- **Local government**, which employs council workers including teachers, social workers and care assistants.
- **NHS Scotland**, which employs doctors, nurses, and other hospital workers like porters and administrative staff.
- **Devolved civil service**, which includes core Scottish Government, the Crown Office and Procurator Fiscal Service, executive agencies like Social Security Scotland, and non-ministerial offices such as the Scottish Fiscal Commission.
- **Police and Fire services**, including police and fire officers and their support staff.
- **Further education**, which includes staff employed at colleges.
- **Other public bodies**, including large public service bodies like Scottish Water, ScotRail, and CalMac Ferries Limited.

2.3 Until 2025, the Scottish Government did not regularly publish information about the total devolved public sector pay bill. The pay bill is the cost of employing all the people who work for the Scottish Government, NHS Scotland, and local government in Scotland.

### The devolved public sector workforce has been growing

2.4 Scotland's devolved public sector workforce was 468,600 Full-Time Equivalent (FTEs) workers in the three months to September 2025.<sup>21</sup> 'Full-time equivalent' is a way to measure employment numbers that simplifies the fact that employers have both part-time and full-time staff. We use FTE throughout this section.

2.5 As Figure 2.1 shows, local government has the largest public sector workforce. Local authorities make their own decisions on employment numbers. NHS Scotland is the second largest group.

2.6 The wider Scottish Government workforce has been growing since the beginning of devolution. The overall number of devolved public sector workers began to fall following

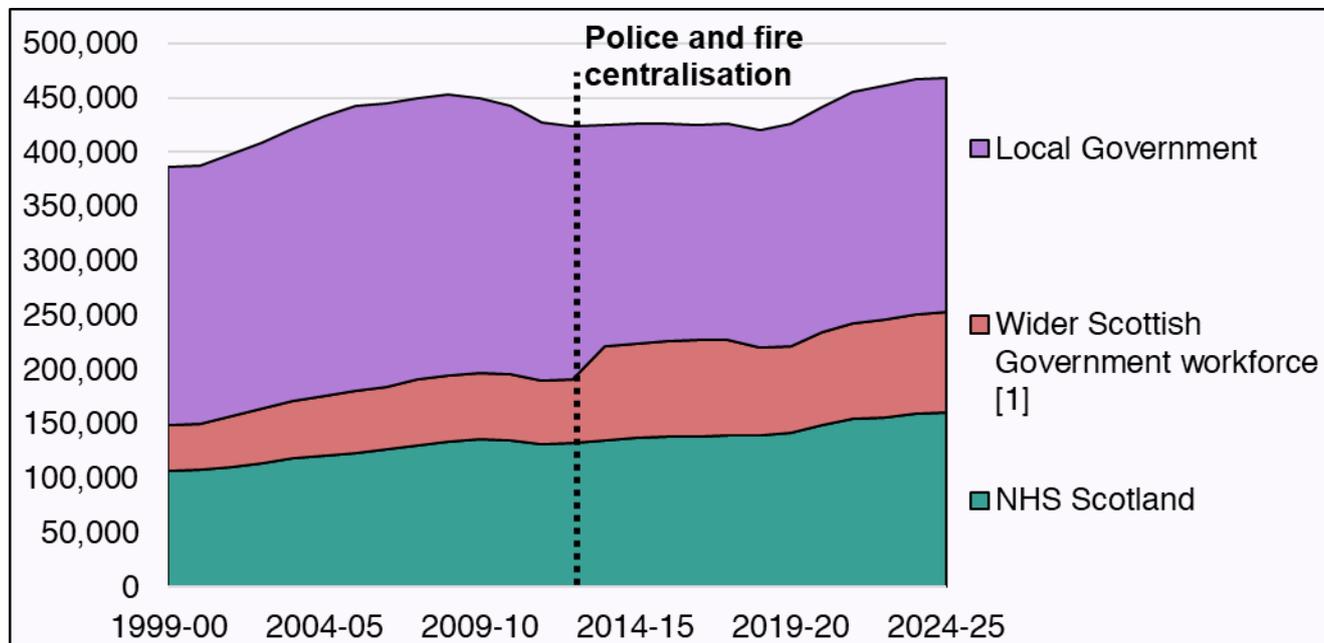
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<sup>21</sup> Scottish Government (2025) [Public sector employment in Scotland: web tables](#)

the financial crisis in 2008, and was broadly constant in the mid-2010s, but only because local government saw its workforce shrink. Since the COVID-19 pandemic, numbers for each part of the devolved public sector are growing more rapidly and have reached an all-time high.

**Figure 2.1: Devolved public sector workforce FTE**

**Since the pandemic, the public sector workforce has been on an upward trajectory**



Description of Figure 2.1: Chart showing the change and size of the public sector workforce. Local Government makes up the largest share of the workforce, and the size of the NHS Scotland workforce has increased over time.

Source: Scottish Fiscal Commission, Scottish Government (2026).

Quarterly data has been converted into financial years.

[1] Consists of the devolved civil service (Scottish Administration), further education staff, workers of public corporations like Scottish Water or CalMac Ferries Limited, other public bodies, and (since 2013-14) police and fire officers following their centralisation.

2.7 Within the wider Scottish Government workforce, there are different trends. For example, police and fire numbers have consistently fallen from 28,500 FTE when they were centralised in 2013-14 to 26,675 FTE in the last complete year of data, 2024-25. College staff peaked during the financial crisis at 12,325 FTE in 2008-09, but have fallen consistently since, reaching 9,400 FTE in 2024-25.

2.8 By contrast, the devolved civil service has grown by more than two thirds since the financial crisis in 2008-09, from 16,250 FTE to 27,150 FTE in 2024-25. New fiscal devolution following the Scotland Act 2016, increased the size of the devolved civil service, and the Scottish Government core workforce has also been growing since the Brexit referendum in 2016. The Scottish Government employed 73 per cent more people in 2024-25 than it did in 2016-17, as measured by FTE.

2.9 Data for the first two quarters of 2025-26 shows that the Scottish Government's workforce has stabilised near 2024-25 levels, at around 8,900 employees.

## Public sector wages have run ahead of Scottish Government policy

- 2.10 With a growing workforce, salaries are another key variable in managing the devolved public sector pay bill. The devolved public sector pay bill is 55 per cent of day-to-day spending in 2025-26.<sup>22</sup> Over this parliament there has been relatively higher inflation compared with the previous parliament, and this has put pressure on Scottish Government pay policies.
- 2.11 The Scottish Government's pay policy is designed to apply to all elements of the public sector aside from local government. Originally published in 2024, it set out options for the period from 2025-26 to 2027-28:
- If employers agreed a three-year pay deal, pay could increase by up to 9 per cent in total.
  - Employers could decide how that 9 per cent increase would be spread over the period.
  - Any employer that did not agree a three-year pay deal could only offer up to a 3 per cent increase for 2025-26.<sup>23</sup>
- 2.12 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.
- 2.13 For most NHS Scotland staff this would be a pay rise of 0.78 per cent in 2027-28, as pay awards have been higher than other parts of the public sector on average in 2025-26 and 2026-27.<sup>24</sup>
- 2.14 As we have set out in previous reports, pay rises are locked into future budgets and are making it harder for the Scottish Government to manage pay costs over time. Supply side shortages caused by the COVID-19 pandemic, and Russia's invasion of Ukraine in early 2022, contributed to higher prices, which in turn increased wages. Public sector wages are higher than in the rest of the UK: in 2024 the median pay for a full-time public sector employee in Scotland was around £1,500 higher than in the UK in 2023, up from around £400 before the pandemic.<sup>25</sup> This means that even if Scotland were to receive additional Barnett consequentials as a result of higher UK pay deals, because the public sector workforce is relatively larger and better paid than in the rest of the UK, the cost of matching a UK pay deal in Scotland would not be fully covered by the consequentials it would receive.
- 2.15 Finally, in addition to pay, the Scottish Government's pay bill also covers employer's pensions contributions and National Insurance Contributions (NICs). Higher levels of

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<sup>22</sup> Scottish Government (2025) [Scotland's fiscal outlook: medium-term financial strategy](#)

<sup>23</sup> Scottish Government (2024) [Public Sector Pay Policy](#)

<sup>24</sup> This applies to Agenda for Change staff and includes most NHS staff other than doctors

<sup>25</sup> Scottish Government (2024) [Public sector: economic overview](#)

pay increase the cost to the Scottish Government of these other staffing costs. The increases in employer NICs that came into force in April 2025 were only partly funded by the UK Government through Barnett consequentials.

## **The next Scottish Government will need to carefully consider public sector pay and workforce**

- 2.16 Given historical trends, we think there is a risk that pay awards will exceed 1.1 per cent in 2027-28. For the purposes of forecasting the size of the Scottish economy and Scottish Income Tax revenues, our forecasts published alongside the budget assumed public sector pay awards match our forecast of Consumer Price Index inflation in 2027-28. The Cabinet Secretary for Finance and Local Government committed to review the pay policy as part of the 2027-28 Budget process. Whoever forms the next Government will face pressures to agree public sector pay deals higher than the currently planned below inflation pay awards.
- 2.17 Budgets for day-to-day spending in 2027-28 set out in the recent Scottish Spending Review assume that pay deals remain within the Public Sector Pay Policy. 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.
- 2.18 In its Fiscal Sustainability Delivery Plan, the current Scottish Government set out plans to reduce its workforce by 0.5 per cent on average each year. The Government estimated this will save around £100 million in 2026-27, rising to £700 million by 2029-30.<sup>26</sup> For comparison, the total devolved public sector workforce grew by 0.3 per cent between 2023-24 and 2024-25.<sup>27</sup>
- 2.19 The Scottish Spending Review set out efficiency and reform plans for each portfolio. For all portfolios except Health and Social Care, this includes a specific workforce savings target. These targets total £81.5 million for 2026-27.<sup>28</sup>
- 2.20 While workforce growth has slowed, this does not suggest that the overall devolved public sector workforce is falling. The required reductions are equivalent to a cumulative headcount reduction, relative to 2024-25, of 13,600 in 2029-30.<sup>29</sup>
- 2.21 In addition, the Fiscal Sustainability Delivery Plan sets out that the workforce reduction target will only affect those staff who are not frontline workers. The Scottish Government plans to set out an approach to delivering these workforce changes in spring 2026.<sup>29</sup> It expects that the workforce will reduce because of changes to how services are provided.<sup>30</sup> While there might be some voluntary redundancy schemes, the numbers will mostly reduce when people leaving or retiring are not replaced. While this avoids extra

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<sup>26</sup> Scottish Government (2025) [Fiscal sustainability delivery plan](#)

<sup>27</sup> Scottish Government (2025) [Public sector employment in Scotland: web tables](#)

<sup>28</sup> Scottish Government (2025) [Scottish Spending Review 2026](#)

<sup>29</sup> Scottish Fiscal Commission (2026) [Scotland's Economic and Fiscal Forecasts – January 2026](#)

<sup>30</sup> Scottish Government (2025) [Scotland's Public Service Reform Strategy](#)

costs of redundancy payments, it makes it harder for the Scottish public sector to plan its workforce.

## Impact of UK Government fiscal decisions

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- 2.22 Since the Scottish Parliament was reconvened in 1999, funding for the Scottish Government has been shaped by UK Government spending decisions through the Barnett formula and the resulting consequentials.
- 2.23 The devolution of tax and social security powers in the 2010s gave more powers to the Scottish Parliament. The fiscal framework agreed between the Scottish and UK Governments means that, after the UK Government takes decisions on these areas, the Scottish Government must take the funding consequences of these decisions into account when setting its own policies for them.
- 2.24 When the UK Government changes policy on devolved taxes and social security spending, this affects funding for the Scottish Budget through the tax and social security BGAs. Therefore, the Scottish Government must consider the impact of the UK Government change on funding available in Scotland. It must then decide whether to match the policy change or set a different policy, taking account of the specific policy area and the wider Scottish Budget.
- 2.25 Over this parliament there have been high-profile examples where the Scottish Government has had to respond to UK Government social security policies, such as the Winter Fuel Payment and the two-child limit, as they have developed and changed.
- 2.26 More recently, as set out in our Scotland's Economic and Fiscal Forecasts in January 2026, there have been a number of changes that have had a significant impact on our forecasts:
- In December 2024 we expected that the Scottish Government would have to spend an extra £1.5 billion on social security in 2029-30 in addition to the Block Grant Adjustment funding it receives from the UK Government.
  - By June 2025, driven by the welfare reforms and the Scottish Government's planned two-child limit mitigation, this had increased to an additional £2.0 billion in 2029-30.
  - In January 2026, this had fallen to £1.2 billion in 2029-30. This was in part because the UK Government withdrew its proposed welfare reforms and committed to removing the two-child limit, and in part because of other forecast changes.<sup>31</sup>

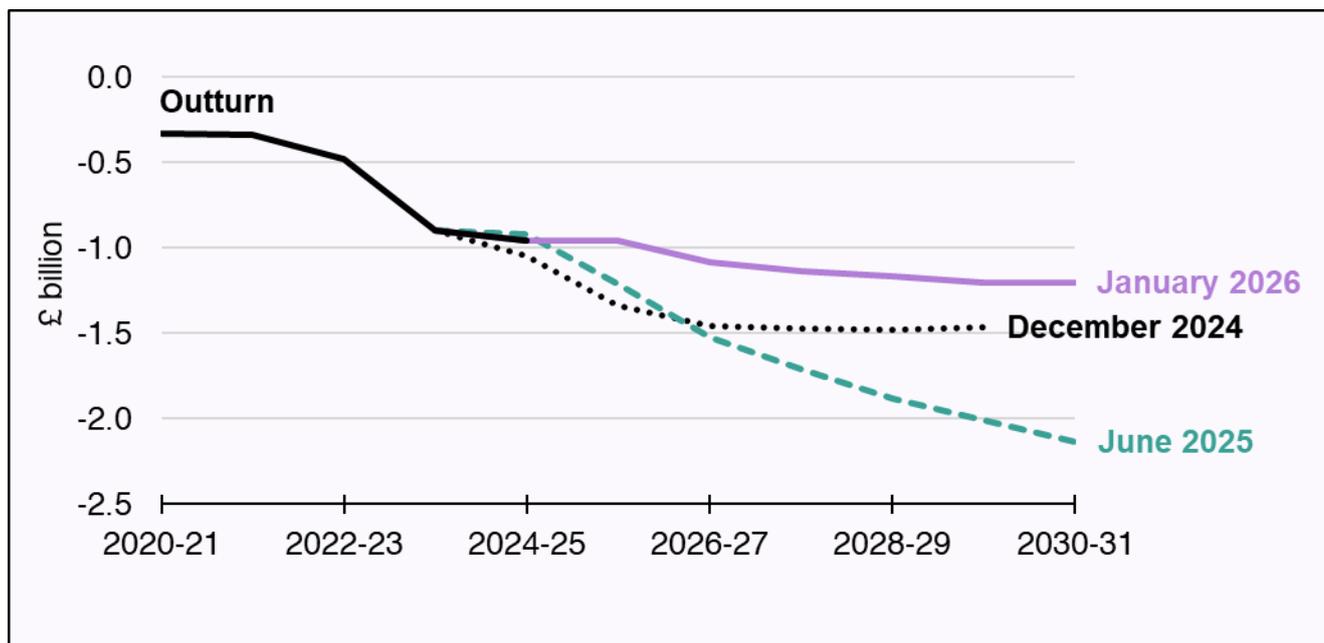
We present these changes in Figure 2.2.

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<sup>31</sup> Scottish Fiscal Commission (2026) [Scotland's Economic and Fiscal Forecasts - January 2026](#)

## Figure 2.2 Change in the effect of social security spending on the Scottish Budget

We forecast a smaller gap between BGA funding and spending than we did in June 2025



Description of Figure 2.2: Line chart showing the effect of social security spending on the Scottish Budget for this forecast, compared with previous forecasts. For 2029-30, this widened from £1.5 billion in our December 2024 forecast to £2.0 billion in June 2025 and then narrowed to £1.2 billion in our January 2026 forecast.

Source: Scottish Fiscal Commission.

## UK changes to the Winter Fuel Payment

2.27 In July 2024, the UK Government announced that the Winter Fuel Payment (WFP) would be restricted to people of State Pension age in receipt of means-tested benefits, with the change coming into effect in autumn 2024.

2.28 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.

2.29 There were subsequent changes in both the PAWHP and WFP policies. In December 2024 the Scottish Government announced that, from 2025-26, PAWHP payments would be made to most households with a person above State Pension age. The payment amount would depend on the client's age, their living arrangements and whether they receive specific qualifying payments.

2.30 This would have created a substantial difference between the spending on PAWHP, and the equivalent funding received via the WFP BGA. But in June 2025, the UK Government changed its WFP policy so most people above State Pension age will

receive a payment, with HMRC recovering payments from those with an annual income over £35,000.

- 2.31 The Scottish Government then decided to implement a similar PAWHP policy in Scotland, but unlike in England and Wales, with payment increasing with inflation. Based on our latest forecasts, excluding the effect of HMRC payment recovery, PAWHP will cost £4 million more than its corresponding Block Grant Adjustment in 2025-26, rising to £37 million by 2030-31.<sup>32</sup>

## Two-child limit mitigation

- 2.32 The two-child limit policy means that most families can only receive the child element of Universal Credit – a reserved benefit – for up to two children. At the same time as reinstating some universality for PAWHP, the Scottish Government announced it would mitigate the two-child limit in Scotland by providing a payment equal to the Universal Credit child element for any additional children.<sup>33</sup>
- 2.33 In June 2025, we estimated that spending on this policy would be £156 million in 2026-27, rising to £199 million in 2029-30, with mitigation payments being made for around 50,000 children.<sup>34</sup>
- 2.34 In November 2025 the Chancellor of the Exchequer announced that the UK Government would remove the two-child limit from April 2026,<sup>35</sup> making the planned Scottish payment unnecessary.
- 2.35 The Scottish Government announced it would not take forward its mitigation payment, reducing forecast social security spending. Instead, it intends to reallocate these savings to other measures to reduce child poverty, with the overall plan set out at budget and more details to be confirmed before the election in the next Tackling Child Poverty Delivery Plan.

## UK welfare reforms

- 2.36 In March 2025, the UK Government announced reforms to incapacity and disability benefits. These included changes to Universal Credit and restrictions in eligibility for Personal Independence Payment (PIP).
- 2.37 At that point, this was expected to reduce spending on PIP in England and Wales. This would therefore reduce the BGA funding that the Scottish Government receives from the UK Government by £440 million by 2029-30.
- 2.38 The UK Government withdrew the proposed changes to PIP in summer 2025, which reversed the forecast reduction in funding through the BGA for PIP.

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<sup>32</sup> Scottish Fiscal Commission (2026) [Scotland's Economic and Fiscal Forecasts – January 2026](#)

<sup>33</sup> Scottish Government (2024) [Budget 2025-26](#)

<sup>34</sup> Scottish Fiscal Commission (2025) [Scotland's Economic and Fiscal Forecasts Update](#)

<sup>35</sup> UK Government (2025) [Budget 2025](#)

## **The next Scottish Government will likely have to respond to further changes in UK Government social security policy**

- 2.39 The UK Government is now reviewing the eligibility criteria for PIP.<sup>36</sup> If changes are introduced, spending on PIP in England and Wales could come down. Since Scotland's funding for devolved benefits is partly based on spending levels in the rest of the UK, a decrease in PIP spending would also reduce the funding the Scottish Government receives. This could place additional financial pressure on the Scottish Budget and may require the Scottish Government to reconsider its own policies and budget allocations.
- 2.40 Similarly, any future changes by the UK Government to taxes which have been devolved to the Scottish Parliament could change the funding the Scottish Government receives and may require the Scottish Government to review its tax policies.
- 2.41 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.

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<sup>36</sup> Department for Work and Pensions (2025) [The Timms Review](#)

# Chapter 3

## The in-tray for the next Scottish Government

- 3.1 In this chapter we highlight some of the issues that are affecting public spending now, and which will continue to do so over the next parliament. With the fiscal outlook set out in [Chapter 1](#), managing these pressures will mean the next Scottish Government will need to make difficult choices. Political parties need to be clear about what the Scottish Government can afford and the impact on public spending for people in Scotland. Manifestos should make clear if any additional spending commitments set out would need cuts to other areas of spending or raising more revenue to fund them.
- 3.2 These pressures include the forecast slow growth in living standards, the impact of an ageing population on the public finances, and an increase in the rates of disability in Scotland and the rest of the UK.
- 3.3 Responding to climate change will impact on the Scottish public finances in the next parliament and beyond. The Scottish Parliament has passed targets in legislation to mitigate climate change and achieve net zero by 2045. The next Scottish Government will be responsible for progress towards these targets.
- 3.4 The Scottish Parliament has also passed legislation to set targets for other priorities, most notably around reducing child poverty, and has committed funding towards these goals. While this has been the top priority of the current Scottish Government, interim targets have been missed.
- 3.5 In addition, the Scottish Parliament announced a national housing emergency in 2024. Tackling this emergency will require additional investment.
- 3.6 Alongside financial pressures, performance indicators suggest that performance across Scottish public services, such as the NHS and councils, has deteriorated compared to past levels. The next Scottish Government will need to consider how well services are working when deciding how to set its budget.

## We expect to continue to see slow growth in living standards in Scotland

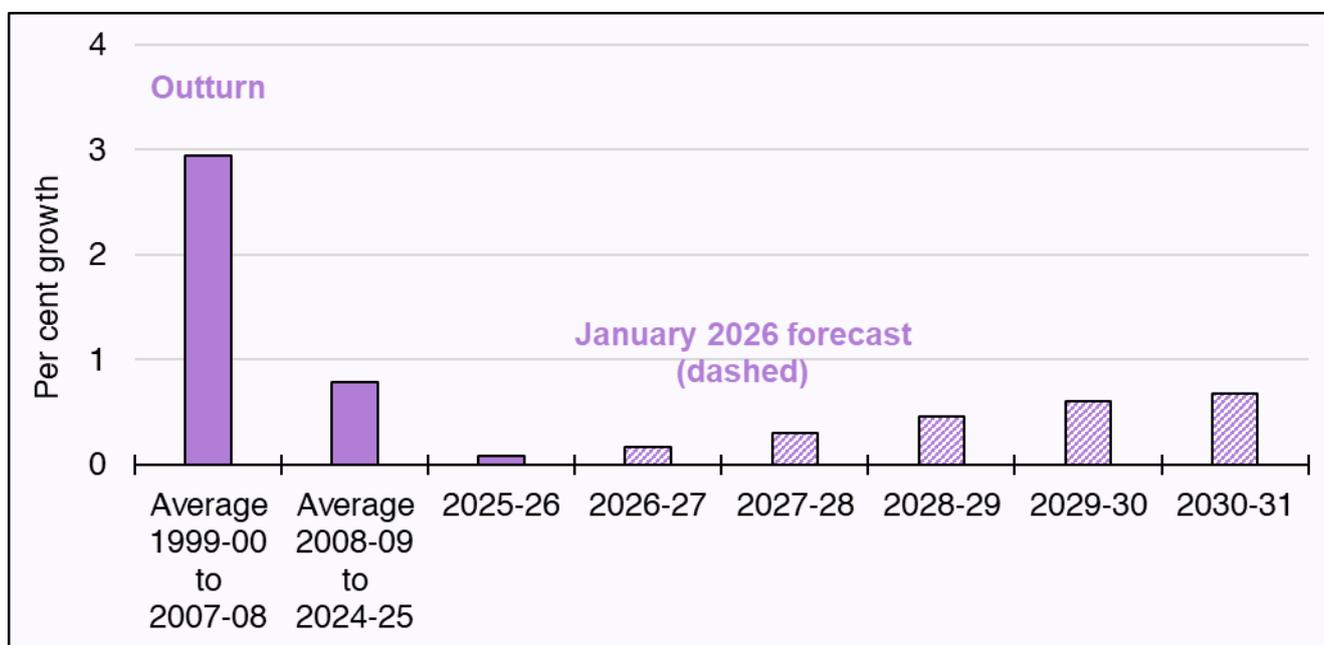
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- 3.7 Stronger economic growth and rising living standards help the public finances because higher incomes boost tax revenues making it easier for government to fund public services sustainably.
- 3.8 From the start of devolution in 1999 up to the Global Financial Crisis in 2008, living standards, as measured by real disposable income per person, we calculate a real-terms improvement in Scotland of an average of 2.9 per cent per year. This sustained growth supported increased investment in public services, higher wages, and investment in actions to reduce in child poverty.

- 3.9 Living standards have grown slowly since the Global Financial Crisis, with real disposable incomes growing by less than 1 per cent per year on average.
- 3.10 In 2022-23, in the middle of the current parliament, living standards fell in Scotland and the UK largely because of sharply rising energy costs and higher inflation following Russia's invasion of Ukraine in early 2022. Real disposable income per person is currently estimated to have recovered to its 2021-22 level in 2023-24 in Scotland (and in 2024-25 in the UK as a whole).
- 3.11 Our forecasts of Scottish living standards over the next five years, as shown in Figure 3.1, show growth of less than 1 per cent per year. The outlook for living standards over the next parliament remains weak. This is linked to our expectation that GDP growth in Scotland will continue around 1.4 per cent over the next parliament.

**Figure 3.1: Living standards, real disposable income per person**

**We forecast Scottish living standards will grow by less than 1 per cent per year over the next five years**



Description of Figure 3.1: 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 latest forecast horizon (2025-26 to 2030-31). The forecast growth in living standards is much lower than the pre-2008 trend, tending towards the post-2008 average only towards the end of the forecast horizon.

Source: Scottish Fiscal Commission.

- 3.12 The impact of a slow growth in living standards will vary for different households. This will be harder for lower-income households, as they spend a larger share of income on essentials such as energy, food, and housing, for which prices levels have increased significantly from 2021-22.<sup>37</sup>
- 3.13 The next parliament will follow on from 17 years of relatively weak growth in living standards and an outlook where living standards are only expected to improve slowly

<sup>37</sup> ONS (2026) [Consumer Price Inflation tables](#)

over the next parliamentary term. This is likely to mean more demand on public services as people on lower incomes are more likely to have higher demand for services. In 2022, the Scottish Government showed that the cost-of-living crisis increased demand for health and social care, public transport and criminal justice, as well as support from charities.<sup>38</sup>

## People aged over 65 will make up nearly a quarter of the population by the end of the next parliament

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- 3.14 Scotland's population is expected to have grown by 3 per cent over the current parliament, from 5.4 million in 2021 to an expected 5.6 million.<sup>39</sup> We project that the total population will grow by less than 1 per cent over the course of the next parliament between 2026 and 2031.
- 3.15 Scotland's population is ageing and this will put pressure on the Scottish Government's finances:
- The share of the population aged 16 to 64 in Scotland is expected to fall from 63.5 per cent in 2021 to 63.0 per cent in 2026. This is projected to fall to 62.1 per cent in 2031. This group is most likely to be in employment or seeking work.<sup>40</sup>
  - As the baby boomer generation ages, with higher life expectancy than in previous generations, they are projected to make up a growing share of the population. The population aged 65 and over is expected to have increased from 19.9 per cent in 2021 to 21.3 per cent in 2026, and is projected to rise to 23.3 per cent of the Scottish population by 2031.
  - This means that Scotland will have a smaller share of the population aged 16 to 64, the age group most likely to be working, and a greater share of those aged over 65, who are more likely to be retired and not participating in the labour market. As a result, a smaller number of people in work will be supporting a larger number of older people. This shift in age structure is known as an increasing dependency ratio.
- 3.16 The increasing dependency ratio will add pressure on health and other areas of spending which are most influenced by the age of the population. We describe these as demographic spending. Demographic spending increases with the dependency ratio. This is generally because demand for health and some other services increases with age.

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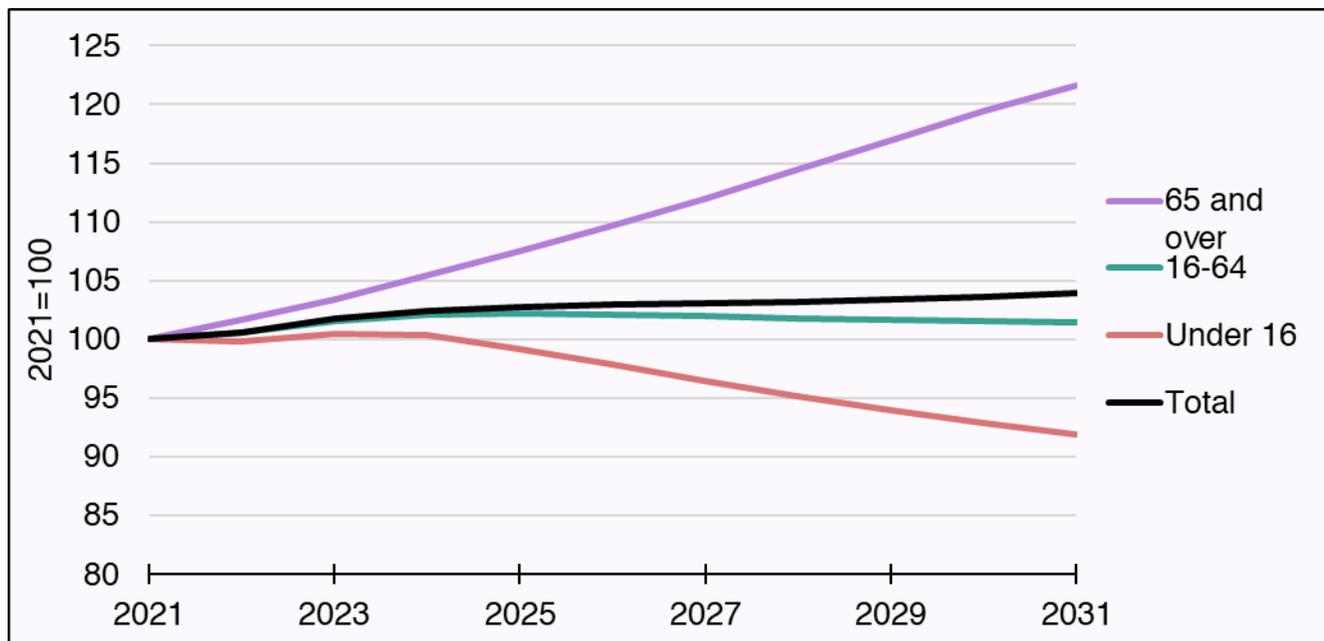
<sup>38</sup> Scottish Government (2022) [The Cost of Living Crisis in Scotland: analytical report](#)

<sup>39</sup> NRS (2025) Population estimates time series data, SFC (2026) Scotland's Economic and Fiscal Forecasts - January 2026 (population forecast presented in Economy Supplementary Figures)

<sup>40</sup> Population figures up to 2024 from National Records of Scotland, and projections to 2031 from Scottish Fiscal Commission forecasts.

**Figure 3.2: Population growth in Scotland over the current and next parliament (by age-group)**

**Scotland’s over-65 population is expected to grow faster than other age groups over the next parliament**



Description of Figure 3.2: Line chart showing the population aged under 16, 16 to 64 and 65 and over in Scotland. Population is indexed so that 2021 is equal to 100. Chart shows that the 65 and over population is rising steadily, but the population aged 16 to 64 is projected to peak in 2025. The under 16 population is falling over the next parliament.

Source: Scottish Fiscal Commission.

- 3.17 As we set out in [Chapter 1](#), the Scottish Government’s main source of funding is the Block Grant. How the Block Grant changes over time is determined by Scotland’s share of the UK population, not by differences in age structure.
- 3.18 The relative age structure in Scotland compared to the rest of the UK is important, as different age groups are associated with different levels of public spending. Public spending tends to be higher for older populations. Scotland represents a disproportionately large share of the UK’s older population, but a smaller share of the total population used to calculate Block Grant funding. By 2031, Scotland will make up 8.7 per cent of the UK over 65 population, while being 7.9 per cent of UK’s overall population. This will be a challenge for the next parliament to manage.

## **We forecast one million people will receive disability payments in Scotland by the end of the next parliament**

### **Spending on disability payments has increased over the current parliament**

- 3.19 Since the 2021 Scottish Parliament election, more people in Scotland have reported having a disability and are receiving disability payments. Within this period, the Scottish

Government introduced several disability payments for children and adults, replacing UK Government benefits. These include:

- **Child Disability Payment (CDP)**, which was launched in November 2021. We estimate that the number of children and young people receiving payments has increased from 50,000 in 2021-22 to 95,000 in 2024-25. Some of this increase is because payments were extended to age 18 when CDP was launched, while eligibility to the UK benefit, Disability Living Allowance (DLA) child, stops at age 16. The reported percentage of children with a disability in Scotland rose from 6 per cent in 2020-21 to 12 per cent in 2023-24.<sup>41</sup>
- **Adult Disability Payment (ADP)**, which replaced PIP in Scotland in August 2022. We estimate the number of people receiving PIP or ADP has increased from 320,000 in 2021-22 to 475,000 in 2024-25. The percentage of working age adults in Scotland reporting a disability rose from 19 per cent in 2020-21 to 28 per cent in 2023-24.<sup>41</sup>
- **Pension Age Disability Payment (PADP)** is the Scottish Government's replacement for Attendance Allowance (AA). It was launched nationally in April 2025. We estimate the number of people receiving payments increased from 125,000 in 2021-22 to 150,000 in 2024-25.

3.20 As more people have qualified for and received disability payments, spending has risen from £2.9 billion in 2021-22 to £4.8 billion in 2024-25.

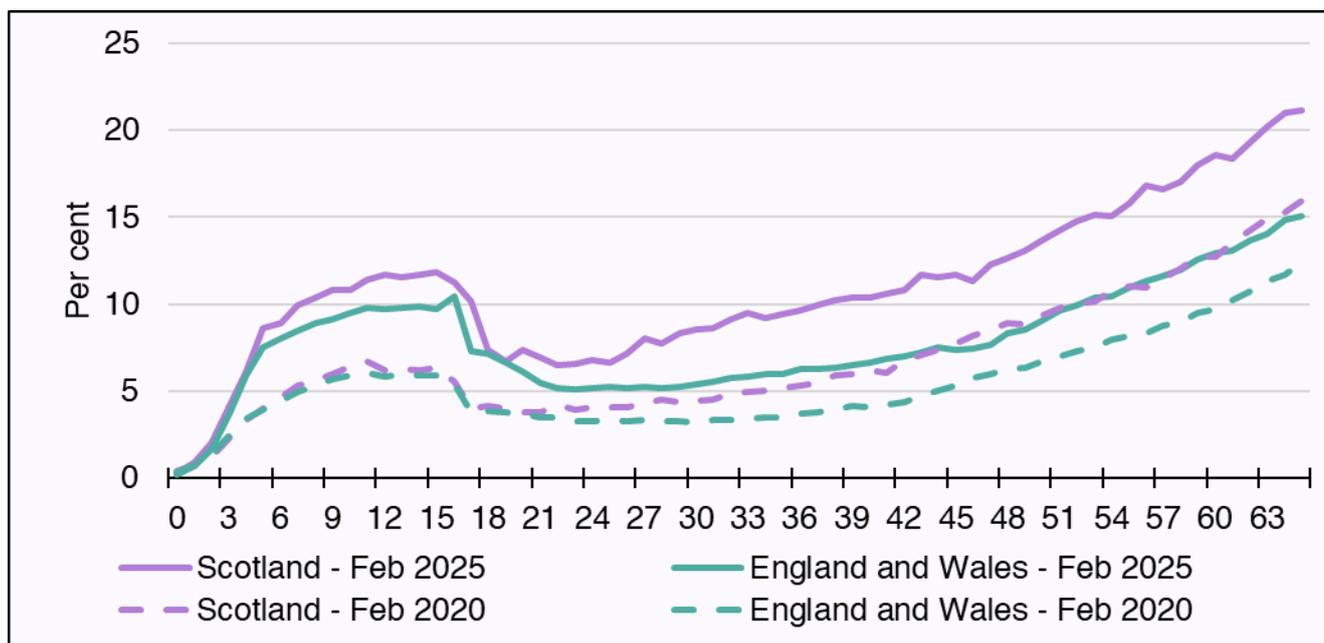
3.21 Figure 3.2 shows that a higher percentage of people are starting to receive disability payments at younger ages – either as children or young people. This pattern, while seen elsewhere in the UK, has been more pronounced in Scotland since the launch of CDP in 2021 and ADP in 2022. When these payments were launched the Scottish Government introduced operational and delivery changes to support people applying and improve their experience.

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<sup>41</sup> Family Resources Survey (2026) [Family Resources Survey](#).

**Figure 3.3: Percentage of population receiving disability payments in Scotland and England and Wales by single year of age in 2020 and 2025**

**The rate of people receiving disability payments has increased across all ages between 2020 and 2025, but has increased more in Scotland than in England and Wales**



Description of Figure 3.3: Line chart showing the disability prevalence rate in Scotland and England and Wales in February 2020 and February 2025.

Source: Scottish Fiscal Commission.

## **We estimate devolved social security will account for 15 per cent of the day-to-day budget by the end of the next parliament**

- 3.22 We expect recent trends will continue, and we forecast that the total number of people receiving disability payments in Scotland will exceed one million by 2030-31.<sup>42</sup>
- 3.23 Overall, we forecast spending on devolved social security payments will increase from £7.4 billion in 2026-27 to £9.2 billion in 2030-31. Over 80 per cent of social security spending will be on disability payments.
- 3.24 The Scottish Government receives BGA funding for the devolution of social security. In 2021-22, BGA funding covered over 90 per cent of the spending on devolved social security. This has reduced to 84 per cent in 2024-25. This is partly because of the number of people receiving devolved disability payments in Scotland is growing faster than in England and Wales. It is also partly because of the launch of payments unique to Scotland for which there is no BGA funding. This has resulted in a larger share of the Scottish Budget being spent on social security.
- 3.25 We expect social security's share of the funding available for day-to-day spending to grow from 13.7 per cent in 2026-27 to 15.1 per cent in 2030-31. The next Scottish

<sup>42</sup> Scottish Fiscal Commission (2026) [Scotland's Economic and Fiscal Forecasts - January 2026](#).

Government will need to increase its funding, or cut spending to other areas to maintain its social security commitments.

## Performance of several key public services has been falling

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3.26 Pressures on public service performance existed before the COVID-19 pandemic, and have been increasing over this parliament.

3.27 The current Scottish Government set out its plans for public service reform in 2025, including changing how services are delivered to support early intervention, joining up services, and making public services more efficient.<sup>43</sup> The UK Government has also highlighted the need to change how public services are delivered.<sup>44</sup>

3.28 Services where there is evidence of pressures on performance include:

- **Local government services:** the Improvement Service reported that in 2022-23 and 2023-24 (the most recent data available) more performance indicators declined than improved (45 per cent compared to 39 per cent, respectively).<sup>45</sup> Financial pressures on local government are also increasing, with the Accounts Commission reporting that Scotland's councils risk becoming financially unsustainable.<sup>46</sup>
- **Health services:** evidence on the pressures on the health service are significant. Most waiting times standards are not being met, despite increased funding and staff numbers since the COVID-19 pandemic.<sup>47</sup> The Auditor General and the Accounts Commission recently described the increase in the number of people whose discharge from hospital is delayed as being a symptom of much wider challenges across the health and social care system.<sup>48</sup>

In addition, results from the Scottish Household Survey points to declining satisfaction in the quality of local health services and schools.<sup>49</sup>

3.29 All public services have different pressures and challenges. Changing how public services are delivered can have benefits, but it can also take time, and require public

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<sup>43</sup> Scottish Government (2025) [Scotland's Public Service Reform Strategy: Delivering for Scotland](#)

<sup>44</sup> Department of Health and Social Care (2025) [Fit for the Future: 10 Year Health Plan for England](#)

<sup>45</sup> Improvement Service (2025) [National Benchmarking Overview Report 2023-24](#)

<sup>46</sup> Accounts Commission (2026) [Local Government in Scotland: financial bulletin 2024/25](#)

<sup>47</sup> Auditor General for Scotland (2025) [NHS in Scotland 2025: Finance and performance](#)

<sup>48</sup> Auditor General for Scotland and the Accounts Commission (2026) [Delayed discharges: A symptom of the challenges facing health and social care](#)

<sup>49</sup> Scottish Household Survey (2024) [Scottish Household Survey 2024: Satisfaction with Local Health Services and Sport and Leisure Facilities](#), [Scottish Household Survey: Satisfaction with Schools, 2024](#).

bodies to work differently.<sup>50</sup> The next Scottish Government will need to manage the level of public service performance and expectations of that performance as part of its response to the financial pressures set out in this report.

## Climate change can affect the public finances in a number of ways

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3.30 The global climate is warming. In 2023, global temperatures are estimated to have risen by 1.3 degrees Celsius above pre-industrial levels because of human activities.<sup>51</sup> The effect of rising temperatures can be felt across Scotland and the world, with more frequent extreme weather events and record temperatures. Preventing, adapting to, and dealing with the consequences of climate change will have a significant impact on Scottish Government finances over the next five years and beyond.

3.31 There are three ways in which climate change can affect the public finances:

- **Damage costs** from climate change, through needing to respond to the harm caused by more intense and frequent severe weather events and potential loss of economic activity because of changes in the climate. The cost of damage across a short period such as five years is highly uncertain. The fiscal implications of climate change damage for the Scottish Government depend on whether the damage affects England or Scotland more, or impacts both in a similar way. This means that the increasing risk of climate change damage could make the Scottish Budget more unpredictable and volatile.
- **Adaptation costs** to climate change include infrastructure investment to reduce the likelihood or impact of climate change damage. For example, the cost of implementing an initial 32 flood schemes in Scotland is expected to be £1 billion.<sup>52</sup> Flood schemes aim to make communities more resilient to flooding.
- **Mitigation costs** are actions taken to reduce greenhouse gas emissions to limit further global warming.

## The Scottish Government's costs of mitigating climate change are higher than equivalent costs in the rest of the UK

3.32 In September 2025, we published our Fiscal Sustainability Perspectives report on climate change mitigation, which explores how taking action to meet Scotland's statutory targets to reach net-zero by 2045 could affect the Scottish Government's fiscal sustainability.<sup>53</sup>

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<sup>50</sup> See for example, Scottish Government (2025) [Learning from 25 years of preventative interventions in Scotland](#)

<sup>51</sup> Climate Change Committee (2025) [Scotland's Carbon Budgets](#)

<sup>52</sup> Auditor General for Scotland and the Accounts Commission (2025) [Flooding in Communities: Moving towards flood resilience](#)

<sup>53</sup> Scottish Fiscal Commission (2025) [Fiscal Sustainability Perspectives: Climate Change Mitigation – September 2025](#)

- 3.33 As we set out in our response to Scottish Government’s consultation on the draft Climate Change Plan, the plan in its current form does not provide enough detail to be able to factor it into our analysis.<sup>54</sup> The analysis we published in September 2025 uses the central scenario laid out by the Climate Change Committee (CCC) in May 2025. We apply assumptions to the CCC data on which sectors are devolved and how much of the total investment will require public spending.<sup>55</sup>
- Using data from CCC we have estimated that total public investment in mitigation in Scotland will total £22 billion (in 2025-26 prices) over the next 25 years. We estimate 81 per cent of this is in devolved sectors such as surface transport land and agriculture, and buildings.<sup>56</sup> Devolved additional public investment required could average £0.7 billion a year, in 2025-2026 prices, from 2026 to 2050.
- 3.34 Figure 3.4 shows that when applying our methodology to the CCC data the expected amount of additional public spending on mitigation is expected to peak in the second carbon budget, which runs from 2031 to 2035. The next carbon budget, which aligns with the incoming parliament, still requires considerable additional capital investment. Lack of investment in the next carbon budget could create further pressure to achieve future carbon budgets.

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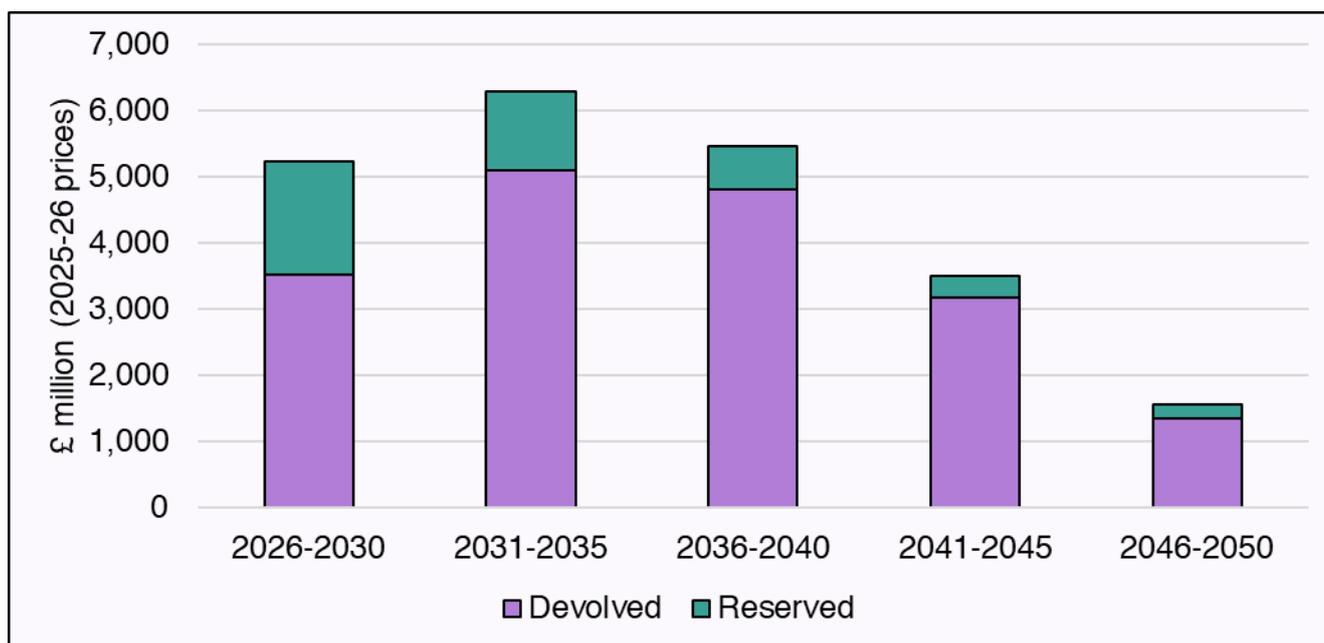
<sup>54</sup> Scottish Fiscal Commission (2026) [Letter From Professor Graeme Roy To Scottish Government’s Climate Change Plan Team About The Consultation 28 January 2026](#)

<sup>55</sup> For more information on our methodology, see Scottish Fiscal Commission (2025) [Fiscal Sustainability Perspectives: Climate Change Mitigation – September 2025](#).

<sup>56</sup> In our [Fiscal Sustainability Perspectives: Climate Mitigation](#) report we presented this number as £21 billion in 2024 prices. For this report we have reported the total cost in 2025-26 prices.

**Figure 3.4: Additional public investment, reserved and devolved sectors, Scotland**

**In Scotland the majority of public investment in climate mitigation will be in devolved sectors**



Description of Figure 3.4: Stacked column chart showing the total additional public investment needed in Scotland and how much of this is in reserved and devolved sectors. In all periods, the additional public investment in devolved sectors is higher than in reserved sectors. Additional public investment peaks in the second carbon budget.

Source: Scottish Fiscal Commission.

Real terms values in 2025-26 prices and calculated using the OBR's November 2025 forecast for 2025-26.

This chart shows the total for each five-year period displayed.

3.35 When the UK Government spends additional money to mitigate climate change in devolved sectors, Scottish Government funding through the Block Grant increases. The fiscal framework means that the expected public spending per person in Scotland relative to the rest of the UK is important.

3.36 Using the CCC data we calculate a rest of UK central scenario. Public spending required in devolved sectors is expected to be 26 per cent more per person in Scotland than in the rest of the UK between 2026 and 2050. We discuss the reasons behind this in our climate report.<sup>57</sup>

3.37 This means that the funding the Scottish Government receives from the UK Government because of its spending on climate change mitigation would not be sufficient to cover the total costs faced by the Scottish Government.

3.38 The next Scottish Government will need to manage this shortfall to meet its statutory duty and achieve its carbon budgets.

<sup>57</sup> Scottish Fiscal Commission (2025) [Fiscal Sustainability Perspectives: Climate Change Mitigation – September 2025](#)

# The next Scottish Government will need to meet the targets set towards eradicating child poverty by 2030

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- 3.39 The current Scottish Government has identified reducing child poverty as its top priority. The Child Poverty (Scotland) Act 2017 has set targets relating to the eradication of child poverty with 2030 targets based on four measures of poverty. Data published in March 2025 showed the interim targets had not been met for any of the measures.
- 3.40 For example, for relative child poverty, the latest estimates suggest that 22 per cent of children were living in households in relative poverty in 2023-24, compared to the target for that year of less than 18 per cent. The final target for this measure is that less than 10 per cent of children will be living in relative poverty in 2030-31.<sup>58</sup>
- 3.41 The current Scottish Government has implemented a number of policies to reduce child poverty. The flagship policy has been the introduction of the Scottish Child Payment (SCP), which currently pays £27.15 per week for eligible children under the age of 16. In the 2026-27 Scottish Budget, the Scottish Government announced that this would be increased to £40 for babies under one year old from 2027-28. In January 2026, we forecast that the SCP spending will be £522 million by 2030-31.
- 3.42 The 2030 child poverty targets falls within the next parliament, and the next Scottish Government will need to take steps to achieve these goals, within the powers that are currently available to them.

## The current Scottish Government declared a national housing emergency

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- 3.43 On 15 May 2024, the Scottish Parliament agreed to a motion supporting the declaration of a national housing emergency. The current Scottish Government has focused on three elements of policy to tackle the housing emergency:
- ending children living in unsuitable accommodation
  - supporting the housing needs of vulnerable communities such as women experiencing domestic abuse, and people at greatest risk of rough sleeping
  - maximising investment in Scotland's housing sector<sup>59</sup>
- 3.44 The Scottish Budget for 2026-27 includes a 8.5 per cent real-terms increase for capital spending for housing compared to 2025-26. 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.

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<sup>58</sup> Scottish Government (2025) [Best Start, Bright Futures: Tackling Child Poverty Progress Report 2024-25](#). People are considered to be in relative poverty if their household's income, adjusted for household size, falls below 60 per cent of the UK median income for that year.

<sup>59</sup> Scottish Government (2025) [Housing Emergency Action Plan](#)

3.45 This is a substantial commitment for the Scottish Government with competing priorities in the next parliament such as the cost of mitigating climate change.

## **The next Scottish Government will need to be realistic about what can be achieved**

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- 3.46 This report sets out the context and some of the existing pressures and commitments on the Scottish Budget, which the next Scottish Government will need to consider.
- 3.47 Many of the issues we have identified reflect structural changes in our economy, society and environment. For example, demographic and climate pressures will only become more acute in the foreseeable future, while slow growth in living standards has continued for nearly two decades.
- 3.48 The next Scottish Government may choose different approaches to taxes and spending to those set out by the current Government. The detail parties set out in their manifestos will help voters in Scotland choose what approach and outcomes they would like to see.
- 3.49 All political parties seeking to shape future policy priorities in the next parliament will need to be realistic about what can be achieved within the projected budget when they are writing their manifestos. Manifestos should make clear if meeting their commitments would mean cutting other areas of spending, or raising more revenue to fund them. We call on political parties to be open and transparent with citizens about the implications of any future spending plans.

# Additional information

## Abbreviations

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AA	Attendance Allowance
ADP	Adult Disability Payment
BGA	Block Grant Adjustment
CCC	Climate Change Committee
CDP	Child Disability Payment
COVID-19	Coronavirus disease 2019
DLA	Disability Living Allowance
FTE	Full-Time Equivalent
GDP	Gross Domestic Product
HMRC	His Majesty's Revenue and Customs
MTFS	Medium-Term Financial Strategy
NHS	National Health Service
NICs	National Insurance Contributions
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Cooperation and Development
ONS	Office for National Statistics
PADP	Pension Age Disability Payment
PAWHP	Pension Age Winter Heating Payment
PIP	Personal Independence Payment
SCP	Scottish Child Payment
SFC	Scottish Fiscal Commission
UK	United Kingdom
WFP	Winter Fuel Payment

A full glossary of terms is available on our website: [Glossary | Scottish Fiscal Commission](#).

# Professional standards

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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 Cooperation and Development (OECD).<sup>60</sup>

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.<sup>61</sup>

## Correspondence and enquiries

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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](mailto:info@FiscalCommission.scot). Press enquiries should be sent to [press@FiscalCommission.scot](mailto: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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<sup>60</sup> OECD (2014) [Recommendation on Principles for Independent Fiscal Institutions](#)

<sup>61</sup> Scottish Fiscal Commission (2025) [Statement of Voluntary Application of the Code of Practice for Statistics and Error Policy](#)

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