Finance and Public Administration Committee
23rd Meeting, Session 6
Tuesday 2 September 2025

Recent Scottish Government and Scottish Fiscal Commission Publications

Purpose

1. The Committee is invited to take evidence on the following key publications to inform its pre-budget 2026-27 scrutiny on Responding to Long-Term Fiscal Pressures:

    - Medium-Term Financial Strategy (MTFS) – June 2025 (Scottish Government)
    - Fiscal Sustainability Delivery Plan (FSDP) – June 2025 (Scottish Government)
    - Scotland's Economic and Fiscal Forecasts (SEFF) Update – June 2025 Scottish Fiscal Commission)
    - Fiscal Update – August 2025 (Scottish Fiscal Commission)
    - Forecast Evaluation Report – August 2025 (Scottish Fiscal Commission)

2. The Committee will hear from the following two panels in relation to these publications:

    a) The Scottish Fiscal Commission--
        Professor Graeme Roy, SFC Chair
        Professor Francis Breedon, Commissioner
        Professor David Ulph, Commissioner
        Claire Murdoch, Head of Fiscal Sustainability and Public Funding

    b) Shona Robison MSP, Cabinet Secretary for Finance and Local Government and Scottish Government officials—
        Jennie Barugh, Director of Exchequer Strategy
        Richard McCallum, Director of Public Spending
        Lorraine King, Deputy Director of Tax Strategy, Engagement and Performance.

3. To support the evidence session, this paper sets out the Committee's agreed approach on pre-budget scrutiny and provides a summary of the key points contained in the above publications. Further analysis on the MTFS and the FSDP can be found in the following SPICe blog: "Balancing the Scottish budget: the challenges ahead".

Pre-budget scrutiny

4. The Committee has agreed to focus its pre-budget 2026-27 scrutiny on Responding to Long-Term Fiscal Pressures and, within that broad theme, to consider the following issues—

    - the steps the Scottish Government is taking now in response to fiscal pressures arising from the population trends highlighted in the Scottish Fiscal Commission's (SFC's) latest Fiscal Sustainability Report,
    - the Scottish Government's approach to increasing productivity and economic activity,
    - the steps being taken by the Scottish Government to support growth sectors in Scotland with a view to increasing economic performance and tax revenues,
    - key financial documents to be published by the Scottish Government during pre-budget scrutiny, including its Medium-Term Financial Strategy (MTFS) and Fiscal Sustainability Delivery Plan (FSDP), including whether they demonstrate improved medium- and longer-term financial planning by the Government,
    - the specific update the Committee asked to be included in the MTFS on the fiscal sustainability of social security spend including "details of how the Scottish Government is assessing the effectiveness and outcomes of its approach to the delivery of benefits as well as impacts on other parts of the Budget", and
    - the Scottish Government's Public Service Reform (PSR) Strategy and Infrastructure Investment Plan (IiP) pipeline refresh.

5. The Committee issued a call for views on 13 June, which ran until 11 August 2025. 28 written submissions have been received and are published on the Committee inquiry web pages.

6. Evidence sessions for pre-budget 2026-27 scrutiny are scheduled to take place during September, with the Committee's report of its findings then being published in October.

7. The Committee will have a further opportunity to hear from the Cabinet Secretary for Finance and Local Government when it takes evidence at the end of its pre-budget scrutiny.

Summary of recent publications

The Scottish Government's Medium-Term Financial Strategy (MTFS)

8. The Scottish Government's seventh MTFS was published on 25 June 2025, following its decision to delay publication from 29 May 2025 so that the MTFS could be informed by the outcomes of the UK Spending Review announced on 11 June 2025. The MTFS "sets out the medium-term context for annual budget decisions by presenting the economic, funding and spending outlooks to 2029-

30". These are informed by the latest Scottish Fiscal Commission (SFC) economic and fiscal forecasts whilst also reflecting the impact of the latest UK Spending Review.

Scotland's Economic Outlook

9. The MTFS provides an update on the state of the Scottish economy, incorporating the latest economic forecasts[1]. It notes a "marked rise" in macroeconomic and geopolitical uncertainty driven by the announcement of a range of tariffs from the US, many of which "have since been paused or amended".

10. It highlights that Scottish GDP grew 0.4 per cent in Q1 of 2025, up from 0.1 per cent in the previous quarter. Recent business survey data, the MTFS notes, "shows a slight improvement in business activity" while indicators for new business orders "remained slightly negative" with recent consumer sentiment at "its lowest level in two years".

11. While UK inflation increased to 3.4 per cent in May 2025, the MTFS highlights a robust Scottish labour market with unemployment at 4.2 per cent and states earnings are "continuing to grow faster than inflation". UK inflation has since risen to 3.8 per cent (July 2025).[2]

12. The MTFS further highlights that economic growth for 2025-26 has been downgraded by the SFC from 1.6 to 1.2 per cent to reflect "poorer economic data in the second half of 2024". In addition, the medium-term outlook for the economy has improved slightly given that "the size of the Scottish population was revised upwards".

13. The Scottish Government goes on to state that "the SFC continue to be more optimistic than the OBR on the medium-term outlook for nominal and real earnings growth, with the SFC forecasting annual growth around 0.7 percentage points higher on average over 2026-27 to 2029-30 than the OBR". However, "there is now no difference between the forecasters' judgements for 2025-26 with the OBR upgrading their earnings outlook […, which] in part reflects that there is now less evidence that the labour market in Scotland is slightly stronger than the rest of the UK".

14. Also included is an SFC scenario analysis showing that US tariffs could result in a lower Scottish GDP which settles at 0.3 per cent lower "towards the end of their forecast horizon". However, the MTFS explains that there is no strong evidence to suggest "that there could be an asymmetric impact on Scotland relative to the rest of the UK". This means that the "Fiscal Framework would help mitigate this risk to the long-term outlook".

[1] Forecasts from both the SFC and Office for Budget Responsibility (OBR).
[2] Inflation and the 2% target | Bank of England

Scotland's Funding Outlook

Overview

15. The Scottish Government's total funding is expected to grow by 0.7 per cent in real terms a year over the period 2025-26 up to 2029-30. Over the same period, in real terms, resource funding is expected to grow by 1 per cent a year while capital funding is set to fall by 1.8 per cent a year.

16. The Scottish Government's funding comprises the following high-level categories:

Resource Block Grant

17. The MTFS notes that the Block Grant is the main component of the Scottish Government's funding and that the UK Government's spending decisions fully shape the size of the Block Grant. The publication further highlights that decisions taken by the UK Government have resulted in a "small 0.8 per cent real-terms growth on average" of the resource block grant. It goes on to suggest that this is "less than the 1.2 per cent real-terms average growth of UK day-to-day spending".

18. The MTFS also notes that the Mains Estimates process has confirmed Barnett consequentials of £339 million for rises in public sector employer National Insurance Contributions in 2025-26, as compared to the full costs of the policy which the Scottish Government estimates to be over £700 million. This, it states, is an additional risk to the Scottish Budget.

Devolved taxes and Block Grant Adjustments

19. The net tax position for the Scottish Government is the difference between devolved tax revenue and the Block Grant Adjustments (BGAs). This, the MTFS explains "represents the spending power available to the Scottish Government as a result of tax devolution". In general, the effect is that the funding position improves "when tax revenues grow faster, on a per person basis, in Scotland than in the rest of the UK".

20. The total forecast tax net position ranges from £1.2bn in 2025-26 to £2.3bn in 2029-2030. Income tax is the largest component of the net tax position, amounting to almost £2.2bn in 2029-30.

21. The MTFS explains that for income tax "there is substantial downside risk associated with the net position in later years". This risk is driven by "divergent earnings growth" between the SFC and the OBR which is "greater than has historically been the case".

22. The net position for the Land and Buildings Transaction Tax (LBTT) is estimated "to remain positive over the forecast period, although there is variance across the period". The net position is currently forecast to be £393 million in 2025-26 and to decrease to £144 million by 2029-30 due to a number of factors including the

OBR forecasting faster growth in transactions in the rest of the UK than those being forecast for Scotland.

23. For Scottish Landfill Tax the net position is estimated to be negative over the forecast horizon, levelling out at around -£10 million per annum from 2027-28, driven largely by the Scottish Government's policy to ban biodegradable municipal waste from landfill sites from 31 December 2025.

24. The Scottish Aggregates Tax (SAT) will come into effect on 1 April 2026 and revenue is expected to increase to £38 million by the end of the forecast period. The SAT rate in 2026-27 will align with the UK Aggregates Levy 2026-27 rate, "to ensure stability and certainty". The MTFS highlights that "discussions regarding the BGA arrangements for SAT are underway between the UK and Scottish Governments and will be agreed in advance of SAT introduction".

Social Security Block Grant Adjustments

25. The MTFS explains that "the Social Security BGAs reflect the funding from the UK Government to the Scottish Government to recognise the costs incurred by the Scottish Government for benefits that have been devolved". It adds that this transfer is based on what the benefits would cost the UK Government in Scotland, if they had not been devolved.

26. The document goes on to say that "overall, the total Social Security BGA is expected to grow by […] 3.2 per cent per annum in real terms". This currently represents "85 per cent of Social Security Assistance spending" and is expected to reduce to 79 per cent by 2029-30, "mainly as a result of the welfare policy reforms announced by the UK Government in July 2024 and then again in the March 2025 Spring Statement". The Scottish Government highlights that there is higher uncertainty regarding social security BGAs than normal because of the lack of clarity around the pace and scale of UK Government welfare reforms.

Non-Domestic Rates

27. Non-Domestic Rates are administered and collected by local authorities but are pooled centrally by the Scottish Government. The distributable amount for Non-Domestic Rates is expected to increase from around £3.1bn in 2025-26 to £3.8bn in 2029-30.

Other income and expenses

28. The MTFS provides details of other lines of income and expenses "which together form a relatively small share of the total funding". These include reconciliations, resource borrowing, Crown Estate Scotland Revenues, and the Scotland Reserve.

29. While the reconciliation for the year 2026-27 has recently been confirmed to be a positive £406 million[3], current estimates for the reconciliation to be applied to the Scottish Budget 2027-28 is a negative £851 million. The MTFS states that "the

[3] Letter from Scottish Government, 22 August 2025

Scottish Government will continue to borrow to cover net negative reconciliations to smooth the impact on the funding position".

30. It goes on to say that no borrowing is assumed in 2026-27 given the large net positive forecast reconciliation. Borrowing in 2027-28 is set at the maximum of £663 million "which is insufficient to fully mitigate the current forecast reconciliation with a £168 million shortfall". Borrowing in 2028-29 is expected to be £222 million to "offset the corresponding forecast negative reconciliation".

31. Decisions on the deployment of ScotWind monies are to be taken at individual Budgets, in line with Scottish Government priorities.

32. In relation to the Scotland Reserve, a £501 million carry forward is forecast for 2025-26 based on provisional outturn position following the end of the 2024-25 financial year. The MTFS indicates that "the reserve assumption is set to zero in each future year".

Scotland's Spending Outlook

33. To illustrate the drivers for spending growth the MTFS assumes that "the Scottish Government's current policies and services continue". The MTFS goes on to say that for resource "divergence in growth in spending relative to growth in funding […] increases the challenge we face each year, from a balanced budget in 2025-26, to a gap of £2.6 billion in 2029-30".

34. Out of total spend, 90 per cent consists of resource spending. Health and Social Care, Local Government and the public sector pay bill are highlighted as being the largest components of spending, as well as some of the main drivers of the expected growth in future spending.

35. The MTFS states that, in relation to the public sector pay bill, "the Scottish Government's budget is primarily dictated by the levels of spending in the rest of the UK". Given that there are "proportionately more public sector workers in Scotland, as well as higher pay for public sector workers in Scotland on average, this places a structural pressure on [the Scottish Government's] budgets". Devolved public sector pay in Scotland is estimated to be around 55 per cent of the entire Scottish resource budget in 2025-26.

36. The Scottish Government's Public Sector Pay Policy set a "multi-year pay envelope of 9 per cent over 2025-26 to 2027-28". The MTFS describes the pay metrics as "fair, sustainable and realistic". It then goes on to say that "where pay deals have been agreed, costs are estimated to be around £122 million higher, compared to the costs expected under the Public Sector Pay Policy published in December 2024".

37. Social security payments are predicted to increase from £6.8 billion in 2025-26 to £8.8 billion by 2029-30. The MTFS states that this is due to "factors common across the UK such as the projected increasing demand for disability payments, increased cost of living, and rises in payment rates due to uprating". As noted

above, the MTFS also highlights that “disability benefits account for the majority of devolved Social Security Assistance (81 per cent in 2025-26)”.

38. The MTFS also states that Scotland’s “capital budget has faced significant challenges”. This was driven by a 27 per cent increase in the cost of materials compared to pre-Covid levels whilst there was a “4.3 per cent real-term reduction in our UK capital Block Grant over the period 2022-23 to 2024-25”. This has resulted in the change of the delivery timescale for some “projects and programmes within the 2021 Infrastructure Investment Plan pipeline”.

39. The MTFS also notes that the Scottish Government “intends to publish an infrastructure investment pipeline in December 2025, alongside the 2026-27 Scottish Budget and the Scottish Spending Review”. It goes on to say that the Scottish Government is “currently exploring the use of revenue finance models to bring additionality to our capital funding envelope to deliver the infrastructure needed across the country”.

40. The Scottish Government is progressing its due diligence on Scottish Government Bonds. This, it suggests, “continues to suggest bonds offer a valuable tool to support the capital borrowing policy and broader fiscal and economic objectives”. It also commits the Scottish Government to providing an update on progress ahead of the 2026-27 Scottish Budget.

41. The MTFS highlights “a number of potential spending risks that the Scottish Government has to consider”. These cover demand-led spending, which are said to “always carry a degree of forecast risk” given that “actual expenditure depends on the eligible population choosing to use the service”. The other risks considered include (i) climate change, (ii) Scotland’s demographics, (iii) contingent liabilities and (iv) ageing assets.

A strategic approach to public finances

42. The MTFS notes that the Scottish Government is committed to deliver a strategy which ensures that “the public finances remain sustainable over the medium term”. This strategy is built around three pillars: (i) public spending, (ii) economic growth and (iii) taxation.

Public spending

43. The MTFS explains that “improving public finances requires effort right across the public sector” To this end, the Scottish Government is setting out the level of savings that it intends to make across four “key areas”—

    a) Increasing public value – this includes “prioritising higher impact spending” and “improving the evidence base for existing spend and new spend proposals”.
    b) Efficiencies and productivity – this includes “increased productivity through workstreams such as scaling intelligent automation”.

c) Service reform – the Scottish Government aims to deliver services which secure “the same or better outputs for lower cost” delivered through the Public Service Reform Strategy and other reform programmes.
d) Prevention – this category includes “impactful preventative spend to reduce service demand in the medium to long term”.

Economic growth

44. The MTFS document lists three key measures that are “intended to support economic growth, and expand and broaden the tax base”, as follows—

a) Increasing aggregate business activity – this is said to include actions such as “developing business clusters in innovative markets” and “building on Scotland’s expertise in critical technologies”.
b) Improving employment levels – the document mentions the “devolved employability programme” which is intended to provide “person-centred, place-based support” as well as action “to improve health and work services”.
c) Increasing average wages – the MTFS notes the Fair Work First approach which includes “increasing the number of employers who pay at least the real Living Wage”.

Taxation

45. On taxation, the MTFS mentions “two key measures to ensure a strategic approach to tax”. These are: (i) the improvement of the operation and performance of the existing tax system and (ii) future tax reform to deliver sustainable and growing tax revenues.

46. The MTFS further states the devolution of remaining taxes is a “key strategic priority for the Scottish Government” and that the Scottish Government will be “working in partnership with Local Government […] to explore the creation of more revenue-generating powers for local authorities”.

The Scottish Government’s Fiscal Sustainability Delivery Plan (FSDP)

Background

47. The FSDP explains that the Scottish Government is publishing the document alongside the MTFS to strengthen its strategic approach. The Plan is intended to set out “the key actions [the Scottish Government is] taking over the next five years, expanding on, and bringing further transparency to, the range of activity underway as part of the three-pillar approach”. Updates on the progress of the FSDP “will be provided on an annual basis, as part of the annual update of the MTFS”.

48. The FSDP explains that the Plan is “structured around the three pillars of the [MTFS]” given that all three pillars are said to “play an important role in

strengthening public finances". The FSDP notes however that "in the short- to medium-term […] the most immediate level by which we can improve fiscal sustainability is public spending" and that this "is reflected in the scale and scope of those activities".

49. The Scottish Government states that the FSDP does not include "actions to set the capital programme on a sustainable path" given that a new infrastructure investment pipeline will be published in December 2025.

Pillar 1 –Public Spending

50. The FSDP notes the following key actions in pursuit of its aim to ensure that "public money is focused on delivering government objectives"—

    - The increase of public value through actions which include "prioritising impact spending" and "reviewing all spending lines across government" to identify savings.
    - Increasing productivity to secure "the same or better outputs for lower cost" which is driven through the Public Service Reform Strategy and is "aligned with a public sector workforce reduction target"
    - The implementation of service reform which includes "key reform programmes" in: (i) health and social care, (ii) social security disability benefits, (iii) justice reform, and (iv) education and skills reform.
    - Investment in "the most impactful preventative spend to reduce service demand".

51. The Scottish Government claims that the actions under Pillar 1 will have the following savings over the five-year MTFS period—

    - Savings "growing from £0.1 billon to £0.7 billion per annum" delivered through an average workforce reduction of 0.5 per cent per annum over five years.
    - Productivity and efficiency savings growing from £0.6 billion to £1.5 billion per annum over the five years.
    - Savings between £0.3 billion and £0.7 billion by "increasing public value" which is to be set out in the Scottish Spending Review.

Pillar 2 – Economic Growth

52. The FSDP explains that the "main economic interventions to support economic growth and fiscal sustainability" are set out in the National Strategy for Economic Transformation, Green Industrial Strategy and the 2024 and 2025 Programmes for Government.

53. The FSDP details actions aimed at (i) increasing aggregate business activity, (ii) increasing employment levels and (iii) increasing average wages. Some of the key actions included in the FSDP are—

- The implementation of a “Six Point Export Plan” to ensure exporters meet emerging challenges and potential opportunities.
- The delivery of two green freeports and two investment zones.
- The delivery of “financial support and guidance scheme to support industry clusters”.
- The investment of up to £500 million over five years in offshore wind.
- The acceleration of planning reforms.
- The investment in access to housing and transport infrastructure.

54. The FSDP acknowledges that “forecasting and quantifying the direct impact on tax take of any individual or set of economic growth commitments is challenging and complex”. It goes on to say that the Scottish Government will use economic indicators to “progress growth in these areas and enable comparison between Scotland, the rest of the UK, and against peer nations”.

Pillar 3: Taxation

55. The FSDP suggests that the Scottish Government’s “approach to Income Tax policy has been particularly important in supporting fiscal sustainability with decisions since devolution estimated to have raised up to £1.7 billion in 2025-26 when compared to if we had implemented the same rates and bands as in the rest of the UK”. It notes that by 2029-30 the SFC forecasts the total tax net position to be £2.3 billion.

56. The FSDP details the following actions “to improve the operation and performance of the existing tax system” and for “future tax reform to deliver sustainable and growing tax revenues”—

- The exploration of “more revenue-generating powers for local authorities”.
- The publication of research in 2025 “on how the tax environment affects the competitiveness of the Scottish economy”.
- Working to build consensus “for meaningful and long-term reform of Council Tax”.
- The publication of a literature review on wealth taxation to “frame a well-informed and broad discussion on taxing wealth”.

Scotland’s Economic and Fiscal Forecasts Update – June 2025 (SFC)

57. The SFC’s SEFF report was published alongside the Scottish Government’s MTFS and FSDP on 25 June 2025. The report restates the SFC’s May 2025 forecasts and reflects two additional policies included in the 2025 MTFS (the rate for the Scottish Aggregates Tax and a revised date for the mitigation of the Two Child Limit Payment). It also provides details of the Scottish Government’s funding following the UK Government’s Spending Review which was published on 11 June 2025. Key elements of the Forecasts include—

- The total funding for 2025-26 is £485 million higher than in the May report. Most of the additional funding is carried forward from the previous year.
- Following the UK Government's Spending Review, by 2030-31 total funding is projected to be £994 million lower compared to the May report "with resource funding down £700 million and capital funding down £293 million".
- Over the period from 2024-25 to 2030-31 resource funding is expected to grow 10 per cent when adjusted for inflation. The SFC explains that "devolved social security spending is taking up an increasing share of the resource budget. This reduces funding growth available for all other areas of spending to 6 per cent in real terms over the next five years".
- The pay deals agreed by the time the SFC report was published "have been above the Scottish Government's Public Sector Pay Policy of 3 per cent in 2025-26". The SFC notes that "a higher current award not only increases the paybill in the current year, but also the cost of every future award because it increases the base to which those future awards are applied".
- In its analysis of the Scottish Government's spending projections and fiscal gaps, the SFC concludes that "the gaps between the Scottish Government's spending projections and the available funding are significant. For resource, there is a move from a balanced budget in 2025-26 to a gap of just under £1 billion in 2026-27 and a gap of over £2.6 billion in 2029-30. For capital, the gap reaches £2.1 billion by 2029-30".
- On the FSDP, the SFC Forecasts note that "the most concrete proposal is a workforce reduction target of 0.5 per cent on average each year. The Scottish Government estimates this would save around £100 million in 2026-27 rising to around £700 million in 2029-30".
- On closing the fiscal gaps in resource and capital, the SFC explains that "if the expected savings identified by the Government can be realised, by themselves they would be sufficient to close the projected resource fiscal gap in all five years". The report goes on to say that "there is less detail in the FSDP on how the Government intends to close the capital gap. The Government intends to publish a refreshed Infrastructure Investment Plan (pipeline) alongside the 2026-27 Budget. This should provide more detail on projects and how they may be funded".

Fiscal Update – August 2025 (SFC)

58. The SFC published its Fiscal Update on 26 August 2025. The publication aims to "examine recent developments affecting the Scottish funding outlook, [to] consider trends in funding and spending, and [to] look ahead to upcoming fiscal events".

59. The Scottish Government plans to present its multi-year Spending Review alongside the 2026-27 Scottish Budget in December 2025. The SFC notes that the Scottish Government is "facing a tight fiscal settlement and growing pressures on its Budget in the short, medium, and long term". The Fiscal Update makes the following key points—

- The UK Government has committed to allocate 5 per cent of GDP to defence spending by 2035. The way in which the Scottish funding position is affected will be determined by how the UK Government decides to fund the increased defence spending.
- Previously planned measures to restrict eligibility for Personal Independence Payments were reversed by the UK Government. This is estimated to increase the funding that the Scottish Government receives for social security by around £0.4 billion. Any further UK Government policy changes to devolved social security benefits, including further changes to disability payments, will affect the Scottish Government's funding.
- Outturn data for 2023-24 showed strong growth in Scottish Income Tax revenues compared to the rest of the UK. As noted earlier in this paper, this "contributed to a positive final Income Tax reconciliation of £406 million to be applied in the 2026-27 Scottish Budget". The latest forecasts suggest negative reconciliations for the 2027-28 and 2028-29 budgets. The reconciliation for 2027-28 is forecast to be £851 million, an amount which would "exceed the resource borrowing limit allowed in the fiscal framework".
- The Scottish Government's public sector pay policy published in December 2024 provides a framework for yearly pay deals to be limited to a 3 per cent increase in 2025-26 or to a cumulative 9 per cent over three years from 2025-26 to 2027-28. The Fiscal Update explains that "the pay deals agreed have all exceeded the Scottish Government's public sector pay policy". It further notes that "unless deals with nominal pay growth of around 1 per cent are accepted for the final year, the policy of 9 per cent pay increases over three years will be exceeded".
- The Scottish Government has committed in the FSDP to a public sector workforce reduction of around 0.5 per cent a year over the next five years, "with frontline services remaining protected". The Fiscal Update states that "higher-than-anticipated pay increases would mean the workforce reductions required would be larger than those announced in the FSDP to keep the paybill at the levels intended by 2029-30". It goes on to say that "achieving these reductions in the workforce is likely to be challenging [and] the Scottish Government will need to set out progress against this target and how it plans to measure the size of the workforce, and how that changes over time". It further notes that "frontline services" is not a well-defined term, and it is not yet clear exactly what parts of the public sector will be protected". In addition, "frontline services often rely on a range of support from back-office staff".
- On longer-term challenges, the Fiscal Update explains that pressure to increase health-related spending will increase due to an ageing population, and that meeting new climate change targets set by the Scottish Government "will require significant investment". The Scottish Spending Review, the SFC suggests "provides an opportunity for the Scottish Government and the Scottish Parliament to address both immediate budgetary pressures and, crucially, long-term fiscal sustainability challenges".

- The Fiscal Update notes that the FSDP has “identified broad areas of efficiency and reforms in the public sector” to close fiscal gaps and that “the detail of how these efficiencies and reforms would be achieved was not included”. The publication suggests that the Scottish Spending Review should “provide more detail on how the Scottish Government will deliver on the ambitions presented in the FSDP”.
- It is important that the Scottish Spending Review provides “a meaningful basis for informed debate by all political parties on how the fiscal challenges the Scottish Government faces can be addressed”, given implementing the Review “will mainly be the responsibility of the Scottish Government and Scottish Parliament elected in May 2026”.
- The Fiscal Update makes certain technical recommendations on how the Scottish Budget can be improved. These includes improvements to the presentation of in-year funding changes and of internal transfers and recommends a threshold for in-year funding changes following the Autumn Budget Revision. If that threshold is exceeded, it should “trigger a requirement for the Scottish Government to indicate, as part of the Budget documents for the year ahead, the new level of funding and how that funding would be spent, with decisions to be confirmed in the Spring Budget Revision”.

SFC’s Forecast Evaluation Report

Background

60. The SFC also published its Forecast Evaluation Report on 27 August 2025, which evaluates its—

- December 2023 forecasts for the economy, fully devolved taxes, and social security in 2024-25, and
- December 2022 income tax forecast for 2023-24.

61. It states that it publishes this report to (a) provide transparency about its forecasts, (b) help users understand the limitations and likely degree of accuracy of its forecasts, (c) learn lessons to improve future forecasts, and (d) aid understanding of the effect of forecast errors on the Scottish Budget, including reconciliations.

December 2023 forecasts

62. The report highlights that at the time of the December 2023 forecasts, “the Scottish and UK economies were still experiencing challenging conditions after the successive shocks of the previous years, including the COVID-19 pandemic and higher energy prices following Russia’s invasion of Ukraine”. The SFC goes on to say that, given the uncertainties at the time, it is satisfied with the performance of these forecasts.

63. The SFC under-forecast Scottish Gross Domestic Product (GDP) growth for 2024-25 by 0.5 percentage points, which it describes as “a reasonable forecast

error, and is smaller than our historical average absolute error". Its forecast of employment growth for 2024-25 was also "reasonably accurate", an under-forecast of 0.3 percentage points compared to the OBR's under-forecast of 1.0 percentage points for UK employment growth. The SFC notes that this may be explained by different employment data sources being used[4].

64. Earnings growth in 2024-25 was under-forecast by 0.9 percentage points, with most of this error "being accounted for by higher-than-expected pay growth in the public sector". This compares to the OBR's under-forecast of 1.3 percentage points for the UK. Pay deals in Scotland and the UK for 2024-25 were higher than both Governments' stated policies at the time of the forecasts.

65. In relation to fully devolved taxes, outturn revenue was higher than forecast for 2024-25 by £170 million, an error of 4%. This was largely due to an under-forecast of Land and Buildings Transaction Tax (LBTT) by £169 million. The SFC explains that prices and transactions returned to growth earlier than forecast, especially in the residential sector. Revenue for Additional Dwelling Supplement was £180 million, 12% higher than forecast. The SFC notes that there were more transactions than expected at a higher average price, which increased revenue relative to its forecast; this was partly offset by larger deductions in repayments and reliefs than forecast.

66. The SFC's forecasts for non-domestic rates were £4 million below provisional outturn data (£3,146 million), a "very small error", which rounds to 0% in relative terms.

67. Provisional outturn revenue for Scottish Landfill Tax was £56 million, 4% lower than forecasts (of £58 million). An overestimation of the amount of waste produced caused outturn to be lower than forecast. This, the SFC explains, is mostly cancelled out by an overestimation of incineration capacity.

68. Spending on devolved social security in 2024-25 was £6.1 billion, 2% below the SFC's forecast of £6.3 billion. The SFC explains the main reason for this error was the in-year change in policy for Pension Age Winter Heating Payment which led spending to be £151 million lower than forecast. It further highlights that while the number of people receiving disability payments, particularly Child Disability Payment, continued to exceed its forecasts, "total spending on these was slightly lower than our forecasts, as the average weekly amounts were lower than we expected".

69. In relation to the Block Grant Adjustments (BGAs), the SFC highlights that while outturn data is not yet available, "in December 2023, the net position implied by the OBR and SFC forecasts was negative £368 million". However, "we now expect that the gap between the final BGAs and spending on the corresponding Scottish payments will be less than £200 million". This is due to higher spending in England and Wales, updated population estimates since December 2023, and the lower spending on devolved benefits mentioned above.

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[4] The OBR uses the Labour Force Survey, while the SFC uses Real-Time Information.

December 2022 forecasts

70. The SFC notes that at the time of the December 2022 forecasts "both the Scottish and UK economies were undergoing a period of high inflation and rising interest rates while still adjusting to the consequences of Brexit and the COVID-19 pandemic". These factors contributed to an underestimate of income tax revenues in 2023-24 of 8% (£1,283 million), a lower figure than forecast errors for 2021-22 and 2022-23 "but high by comparison with our absolute average error since 2018".

71. The report explains that growth in earnings exceeded the SFC's expectations and makes up around two-thirds of the error. Employment figures were also higher than expected, "reflecting the impacts of migration as well as a tight labour market".

Next steps

72. The Committee will continue to take evidence on its pre-budget 2026-27 scrutiny throughout September and is expected to report on its findings in October 2025.

Committee Clerking Team
August 2025