Finance and Public Administration Committee
4th Meeting, 2026 (Session 6),
Tuesday 27 January 2026

Scrutiny of the Scottish Budget 2026-27

Purpose

1. The Committee is invited to take evidence from Shona Robison MSP, Cabinet Secretary for Finance and Local Government and Scottish Government supporting officials in relation to the Scottish Budget 2026-27.

Background

2. This paper provides an overview of key issues raised in—

    - the Scottish Budget 2026-27, published on 13 January 2026,
    - the Scottish Fiscal Commission's (SFC's) Economic and Fiscal Forecasts – January 2026, published on the same date
    - key conclusions from the Committee's pre-budget 2026-27 scrutiny, along with responses to them given by the Scottish Government
    - the Scottish Government's Scottish Spending Review and Infrastructure Delivery Pipeline published alongside the Scottish Budget 2026-27. The Committee will be able to explore these documents in more detail at separate evidence sessions to be held in February and March 2026
    - evidence sessions on 20 January 2026[1] with the SFC, and then with Professor Mairi Spowage, Director of the Fraser of Allander Institute (FAI), Professor David Bell from the University of Stirling, and Professor David Heald of the University of Glasgow.

3. More detailed information on the Scottish Budget 2026-27 and SFC Forecasts can be found in the SPICe briefing on the Scottish Budget 2026-27.

4. Other key documents relating to pre-budget 2026-27 scrutiny include the Scottish Government's Medium-Term Financial Strategy (MTFS) and Fiscal Sustainability Delivery Plan (FSDP), published in June 2025.

5. Annexe A of this paper includes background information on the UK context to the Scottish Budget 2026-27.

Responding to long-term fiscal pressures

6. The Committee's pre-budget 2026-27 scrutiny focused on responding to long-term fiscal pressures, drawing on the SFC's Fiscal Sustainability Report - April 2025. The Committee's pre-budget 2026-27 report, was published on 30 October

[1] The Official Report of the Committee's meeting on 20 January 2026 is expected to be published on 26 January 2026 on the Committee's web pages.

2025, and the Scottish Government's response to it was received on 14 January 2026.

7. In its report, **the Committee urged the Scottish Government to place much greater emphasis on longer-term financial planning in order to start mitigating the potential significant impact of future trends. In the first instance, the Committee called on the Scottish Government to provide a full response to the SFC's 2025 Fiscal Sustainability Report.**

8. The Scottish Government has not committed to providing a full response to the SFC's report. Instead, the response says it recognises and is responding to the anticipated impact of future trends, through delivery of its Population Strategy, Scotland's Migration Service, and the Health and Social Care Service Renewal Framework. Its Future Trends for Scotland report published in June 2025 "set out the best available Scotland-specific evidence on trends likely to be important to Scotland's future [and] is helping to inform and improve long-term decision-making".

9. **The Committee's report also requests a response by the end of January 2026 on the Cabinet Secretary's reflections on the Lithuanian approach to collectively developing and implementing Lithuania 2050, Lithuania's vision for the future, with a parliamentary committee monitoring progress towards achieving the vision.**

10. Other key recommendations and responses from the Scottish Government are reflected in the relevant sections of the paper below.

Scottish economy

11. In its January 2026 Forecasts, the SFC concludes that the economic conditions remain largely unchanged compared with its expectations in December 2024, with global instability and uncertainty "weighing on household and business confidence". The SFC has made some small adjustments to its five-year economic outlook, in line with recent outturn data and updated UK economy assumptions based on the OBR's November 2025 forecast, including—

- The SFC has revised down its GDP forecast slightly, in line with outturn data since the end of 2024. It explains that factors such as global instability and higher consumer and business costs had a greater impact on outturn data towards the end of 2024 than the SFC had anticipated.

- It has also revised down its forecast of trend productivity growth from between 1% and 1.2% in its December 2024 forecasts to 0.9%, "with the reduction in 2029-30 mirroring the OBR's downgrade".

- The SFC assumes that devolved public sector average earnings will grow by around 3% a year from 2027-28 onwards.

- For 2026-27, the SFC is forecasting Scottish earnings growth of 2.9%, a small increase from its December 2024 forecast of 2.8%. The OBR revised up its UK earnings growth prediction for 2026-27 in its November 2025 forecasts to 3.2% (from 2.1% in the OBR's October 2024 forecast). The SFC explains that real time information data up to October 2025 shows that annual mean pay growth in Scotland is slightly below the UK, partly due to slower earnings growth in the North East of Scotland relative to the Scottish average.

- The SFC suggests that economic inactivity is now back close to its pre-COVID-19 pandemic rate in both Scotland and the UK, "because rising inactivity due to long-term sickness has been broadly offset by falling inactivity for other reasons such as looking after family or home".

- Consumer Prices Index (CPI) inflation during 2025-26 was higher than the SFC expected in December 2024 and May 2025. This was "mostly because of higher food and services price inflation". The SFC highlights latest outturn data showing inflation has been falling from its recent peak of 3.8% in 2025 quarter 3. The latest Office for National Statistics (ONS) statistics published on 21 January 2026 shows that CPI rose by 3.4% in the 12 months to December 2025, up from 3.2% in the 12 months to November.

Scotland's overall funding position

12. The SFC forecasts total funding available to the Scottish Government of £61,677 million in 2026-27, an increase of 1.3% relative to 2025-26 in real terms. Total funding is forecast to grow on average by 0.8% in real terms in each year of the forecast period (2025-26 to 2030-31).

13. Resource funding increases in each year of the forecast by an average of 1.1% in real terms. Capital funding increases by nearly 2.9% in real terms in 2026-27, followed by real-terms cuts to funding in subsequent years. (However, the SFC explains that the Scottish Government has reduced capital funding in 2025-26 by £226 million, which means the growth rate in funding between 2025-26 and 2026-27 is higher than would otherwise have been the case.) The SFC also notes that the Scottish Government has taken the decision to reduce capital funding in-year in 2025-26 "to minimise any underspend".

14. The projected income tax net position for 2026-27, on which the Scottish Budget 2026-27 is set, is £969 million. This compares to £838 million on which the 2025-26 Scottish Budget was set (based on the latest available forecasts in December 2024). The SFC explains that—

> "Compared with the December 2024 and June 2025 projections, the Income Tax net position has been revised up in 2024-25 and 2025-26, largely caused by lower-than-expected UK Income Tax data reducing the BGA forecast. For the 2026-27 budget year, the Income Tax net position has been revised down to £969 million from £1,072 million in June 2025. This revision reflects lower than expected 2023-24 Scottish Income Tax outturn data and the effect of a larger upwards revision to UK average

earnings growth in the latest OBR forecasts, offsetting the downwards revisions to the BGA in 2024-25 and 2025-26."

15. The outturn data for 2023-24 also resulted in the reconciliation being applied to the Budget in 2026-27 increasing by £126m from £279m to £406m. The reconciliation to be applied to the 2027-28 Budget is now projected to be a negative £310m, compared to June 2025 projections of negative £851m. The SFC notes that "previously the projection would have been larger than the Scottish Government's resource borrowing limit in that year, but the Scottish Government can now borrow in full to cover it and intends to do so".

16. Concerns were raised by the FAI in its reaction blog that "the Scottish Government is again forecast to run a significant underlying deficit of around £659 million, which is actually higher than we had originally predicted and reflects the worsening of tax forecasts […] and [… is] despite a significant cut to planned spending". The FAI goes on to say that "despite a little bit of extra borrowing, [the Scottish Government …] has amended its [capital spending] plans down by £850m for next year" (from June 2025). This, the FAI suggests, "is a clear recognition that its original plans were unaffordable".

17. The SFC notes that the Scottish Government has considered other funding sources "to manage its budget and balance resource and capital funding across the next four years", including borrowing, using the Scotland Reserve, and using Crown Estate revenues (mostly from the ScotWind leasing programme) to support capital and resource spending. Over the SSR period, the Scottish Government is allocating a total of £476m of Crown Estate revenues, leaving a balance of £61m unallocated. As in previous years, it hopes not to draw down all the ScotWind funds allocated to the Budget if other funding becomes available. The Scottish Government also plans to move £132m of resource funding to capital in 2028-29.

18. Issues raised in evidence to the Committee on the Scottish Budget 2026-27 include—

- The Scottish Government is using all the flexibilities it has at its disposal to deal with fiscal pressures, particularly "to shore up finances in 2027-28" when the budget is especially tight.
- Significant concerns that the Scottish Government is using 'one-off' pots of money to fund day-to-day services, particularly ScotWind funds intended to support the transition to net zero. The FAI said that this Budget is "another example of the Scottish Government plugging an underlying deficit of over half a billion pounds with one-off funding pots – and even then having to make significant cuts to its planned expenditure".
- Professor Heald highlighted that, with the exception of "repeated messages from the SFC […,] there is no recognition in public debate that the finances of the Scottish Government are fiscally unsustainable", noting that cuts to public spending or increases in taxes or a combination of both will be needed.

- While policy divergence is expected with devolution, Professor Heald noted, “if that divergence is always in the direction of more spending, savings will need to be found elsewhere in the Scottish Budget”.
- The expectation that emergency in-year budgetary changes will be required in 2026-27.

Fiscal framework

19. The Scottish Government and HM Treasury are currently in discussions regarding the scope of a future fiscal framework review. As requested, the Committee submitted views on what should be included within scope of the review on 19 December 2025, including borrowing and the Scotland Reserve, the timing of fiscal events and forecasts, and block grant adjustments and forecasting.

20. Similar issues were raised in evidence to the Committee on the Scottish Budget 2026-27, including—

- Professor Heald explained the “paradox of more tax devolution is that Scotland’s public finances are now more vulnerable to UK fiscal events, in terms of both timing and substance”.
- The timing of UK fiscal events is more important than the number of such events in a year. It was noted that “the disruption caused to the budgetary procedures of the devolved legislatures clearly does not rank highly in the timing decisions of UK Governments”.[2]
- The fiscal flexibility of the Scottish Government does not match its exposure to fiscal risk. Limits on borrowing and the Scottish Reserve should be considered to provide greater flexibility and more ability to smooth fiscal pressures across a number of years.
- The 2025 UK budget could and should have been published much earlier this year. Greater predictability is needed regarding the timing of the UK Budget, with a preference expressed for a “broad expectation” that it will take place towards the end of October each year. The Scottish Government’s Budget can then be planned for December.

Transparency

21. A consistent theme in the Committee’s financial scrutiny this session has been the need for greater transparency and more data in relation to budgetary information. The Committee, as well as the SFC, FAI, IFS and SPICe have each recognised that the Scottish Government has made improvements in this area. This includes providing data by Classification of the Functions of Government (COFOG) and enabling more accurate comparison between the following year’s proposed Budget against the latest spending position in the current year’s Autumn Budget Revision.

[2] Professor Heald.

22. In its pre-budget 2026-27 report, the Committee stated that **it has "in recent years been calling for all routine in-year transfers to be baselined in the Scottish Budget**, however, in its response, the Scottish Government states that "some progress has been made, […] with £786m of baseline transfers actioned", adding that "not all the regular transfers will be baselined". The SFC notes that a remaining £606m of resource internal transfers between portfolios contained in the 2025-26 ABR have not been reflected in the Scottish Budget 2026-27. The SFC has therefore baselined all routine in-year transfers within its Forecasts, providing "a more accurate picture".[3]

23. There was frustration amongst commentators and witnesses that some regular in-year transfers remain to be baselined. For example, the IFS noted that "the Budget document continues to bury the most appropriate spending figures in an annex, with the main body including figures for this year and next that just cannot be meaningfully compared – a recipe for confusion". This, it argues, "isn't good enough – especially in an election year, when the electorate deserve a clear picture of how tax and spending are changing". SPICe also noted that not baselining the remaining transfers can distort comparisons, while the FAI repeated its regular calls that "it would be much better if the regular transfers were just baselined".

24. As noted later in this paper, concerns were also raised by witnesses regarding a lack of clarity and transparency about where some of the figures in the Scottish Budget have been arrived at and if funding announced is all 'new money'.

Scottish Budget 2026-27

Overview of spending announcements

25. On 13 January 2026, the Cabinet Secretary made the following spending announcements in relation to the Scottish Budget 2026-27—

    - "A record £22.5bn for health and social care". £36m is being provided to start the rollout of new High Street walk-in GP clinics, "making it easier to access same-day appointments".

    - An inflationary increase in the Scottish Child Payment (SCP) to £28.20 per week from 2026-27 and introduction of a "premium payment of £40 per week for eligible children under 12 months", from 2027-28. The SFC expects around 12,000 children to receive the £40 Scottish Child Payment (SCP) at a cost of around £7m per year from 2028-29 (£3m in 2027-28 due to mid-year introduction). The FAI suggested in its initial reaction blog that "there is a good rationale for providing a higher rate of SCP for young children", adding "families with children under one face an elevated poverty rate and are one of the six child poverty priority groups".

[3] Scotland's Economic and Fiscal Forecasts – January 2026 | Scottish Fiscal Commission

- Additional funding of £15m “to build on existing delivery” for breakfast clubs to be rolled out for every Scottish primary and special school pupil from August 2027.

- A combined increase of £70m in resource and capital funding for the college sector, “equivalent to a 10% uplift on last year’s budget”. According to SPICe, this £70 million increase does not include the £30 million spent on the Dunfermline Learning Campus in 2025-26 – including this spending reduces the year-on-year increase to around £40 million. Similar concerns were expressed during evidence regarding a lack of clarity and transparency around exactly what is ‘new money’ within this announcement.

- An overall increase in funding for local authorities of 2% in real terms. The SFC suggested that the increase is actually 0.4% in real terms once all routine in-year transfers are baselined. This lack of transparency was regarded as unhelpful. Witnesses suggested that local authorities may need to focus more of their spend on delivering statutory duties given the pressures on their budgets. Specific concerns were raised regarding significant pressures on the social care sector. As noted later in this paper, witnesses also suggested that some large council tax increases can be expected to plug funding gaps.

- A total of £5 billion for “measures that will reduce Scotland’s carbon emissions, increase our resilience in the face of climate change, and in many cases, save families hard-earned cash” in 2026-27. Targeted support will be provided “to ensure critical skills shortages in our offshore renewables sector are met, and to help retrain workers in the oil and gas sector”.

- A fund of £9 million over the next three years to provide targeted support for communities impacted by the closure of the Fife Ethylene Plant at Mossmorran.

- Removing peak fares on Northern Isles Ferries for residents of Shetland and Orkney.

- Funding of £926 million in 2026-27 for the Scottish Government’s Affordable Housing Supply programme, “ensuring new, affordable homes are energy efficient and meet environmental standards”.

- Investment in Enterprise Agencies of £326 million and a commitment to a further £200 million for the Scottish National Investment Bank.

- While funding for Creative Scotland increases by £20 million in 2026-27, the budgets of the five National Performing Companies will be “protected”, with a view “to providing additional support in future years as part of the cultural funding uplift to the additional £100 million by 2028-29”.

- Increased funding for Scotland's International Development Fund and the Humanitarian Emergency Fund to £16 million in 2026-27.

- Investment of £29.9 million through the next round of Invest to Save for projects that "will deliver ongoing savings and support the delivery of the PSR [Public Service Reform] strategy – a key part of the Government's overarching approach to fiscal sustainability".

26. In her budget statement to Parliament, the Cabinet Secretary highlighted that some key priorities of opposition members have also been included in the Scottish Budget 2026-27. This includes "more money to improve neurodevelopmental assessments and care for children and young people, additional investment for Changing Places toilets, resources to support bus franchising, and support for the redevelopment of Edinburgh's Kings Theatre".

27. **The Committee in its pre-budget 2026-27 scrutiny report sought clarity in future documents on which areas of spending within the Scottish Budget are being prioritised and deprioritised.** The Scottish Government responded that "progress is being made to further improve this in our 2026-27 Scottish Budget, including clear references to how prioritised funding delivers the Scottish Government's four priorities".

28. On spending, the IFS suggested that "the overall outlook for Scottish public finances and services is far less rosy than [… the topline announcements] would suggest", with many public services in Scotland set to see a reduction in their budgets. Overall day-to-day spending on public services will see very small increases over the next three years (0.6% above inflation in 2026-27, and 0.2% above inflation a year on average over the following two years). In 2026-27, there is an 0.7% increase in health and social care spending, which "allows [… the Scottish Government] to avoid cuts to other services, but without heroic improvements in productivity will almost certainly not be enough to maintain let alone improve services".

Social security spending

29. The SFC forecasts spending on social security to rise from £7.4 billion (bn) in 2026-27 to £9.2bn in 2030-31, which it states, "is driven by annual increases in payment rates with inflation and an ongoing rise in the number of people receiving disability and carer payments".

30. The gap between social security spending in Scotland and the social security element of the BGA is expected to widen from £954m in 2024-25 to £1,202m in 2030-31. However, changes at a UK and Scottish level have led to this gap narrowing compared to the SFC's December 2024 forecast, which it states reduces the pressure on the Budget from social security spending. The SFC considers "there is still a risk to the Scottish Budget from social security spending, but the current scale of the risk is lower now than for previous forecasts".

31. The SFC has reduced its spending forecast for adult disability payment (ADP) "because there have been fewer approved applications and more people exiting

the payment than we expected in December 2024”. While spending on ADP is expected to exceed what would have occurred if the personal independence payment (PIP) remained in Scotland, “the latest data suggests the difference between ADP and the counterfactual of the continuation of PiP is narrower than our previous forecasts suggested”.

32. The Committee concluded in its pre-budget 2026-27 report that—

- **It is not convinced that the Scottish Government has set out sufficient evidence to support its argument that the future social security budget is sustainable. It therefore requested that the Scottish Government should carry out a review of the fiscal sustainability of social security spending.** The Scottish Government’s response points to a March 2024 report by the Office of the Chief Social Policy Adviser (OCSPA) which “found early evidence that benefits administered by Social Security Scotland, including ADP, support a number of outcomes, such as reducing child poverty; household poverty; material deprivation and debt; and health and wellbeing”. A literature review is also being undertaken “to explore drivers of spend and the ongoing evaluation programme has provided insight into the immediate and short-term outcomes of the devolved benefits”. There is no commitment in the response to the Scottish Government carrying out a separate review as requested by the Committee.

- **The Scottish Government should also undertake a review of the extent to which the level of social security assistance provided supports economic activity.** While the response refers to the OCSPA’s 2024 report and analysis produced by the Chief Economist, it does not commit to carrying out a dedicated review as requested by the Committee.

- **A review of the spending and outcomes arising from universal payments and services should also be carried out if not already part of the Scottish Spending Review.** The response falls short of committing to this work. However, the Scottish Government said it is developing its approach to public value which “will embed a framework for understanding spending proposals through a lens which considers the delivery of government outcomes, delivery risk, impact assessments, the financial implications and other key factors and drawing upon this information to make decisions about government spending plans”.

33. Issues raised in evidence to the Committee on the Scottish Budget 2026-27 included—

- The growing social security budget is leading to significant pressures on other areas of the Scottish Budget.
- Professor Heald noted that “overspends on devolved social security benefits have to be accommodated within the Scottish Budget, creating another source of destabilising fiscal pressure on public services”. He therefore suggested there is an argument for demand-led social security

payments to be categorised under AME (annual managed expenditure) as is the case in the rest of the UK (rUK).

- It is difficult to identify which social security policies are making the most difference in Scotland,
- Professor Heald suggested that the Scottish Government cannot be seen to be less generous than the rest of the UK with its social security policies.
- Lack of awareness regarding the public value work being developed by the Scottish Government (referred to in the Scottish Government's response to the Committee's pre-budget 2026-27 report). It is unclear how this work links to the Committee's recommendation to carry out a review of the spending and outcomes arising from universal payments and services.
- A positive development is the UK RAPID[4] project which will shortly provide a population-based dataset created from administrative records held by the Department for Work and Pensions (DWP) and His Majesty's Revenue and Customs (HMRC). However, witnesses noted that Social Security Scotland figures are not currently within this dataset.[5]
- A lack of clarity regarding how the savings expected from the UK Government's decision to remove the two-child benefit cap "will be recycled into child poverty reduction policies, only that they will".

Taxation plans

34. Key tax decisions announced in the Scottish Budget 2026-27 include—

- A 7.4% increase to the basic and intermediate rate thresholds of income tax in 2026-27, which the SFC notes reduces revenues by £50m that year.

- Previously announced freezes to the higher rate, advanced rate, and top rate thresholds in 2026-27, which is part of the SFC's forecast baseline. The Government's plans to extend these freezes to 2027-28 and 2028-29 would, the SFC forecasts, increase revenues by £72m in 2027-28 and around £200m from 2028-29 onwards.

- Air Departure Tax (ADT) will come into force in April 2027. The Scottish Government is launching a consultation by the end of January 2026 on a new Highlands and Islands Exemption for domestic flights. It also plans "to bring forward a Private Jet Supplement within ADT in 2028-29 and engage with the UK Government to seek further devolution to allow private jet 'ghost flights' to be addressed".

- 15% non-domestic rates relief in 2026-27 for retail, hospitality and leisure (RHL) premises. The SFC states that its non-domestic rates forecast is based on the new valuation roll which comes into effect on 1 April 2026, leading to an increase in forecast revenue from £3,097m in 2025-26 to £3,387m in 2026-27. The SFC estimates that the RHL premises reliefs

[4] Registration and Population Interaction Database.
[5] Professor Spowage and Professor Bell.

announced along with transitional reliefs relating to the new valuation roll are estimated to reduce revenue by £153m in 2026-27. The small business bonus scheme will be maintained at the existing rates and thresholds for the next three years of the revaluation cycle "in order to ensure certainty for businesses".

- New council tax bands for properties with a 2026 market value above £1m will be introduced in 2028. The SFC states that "we have assessed the potential behavioural effect of this policy on LBTT revenue and consider that it will fall below our materiality threshold, and so we have not made any adjustments to our LBTT forecast". SPICe notes in its initial reaction blog that these new bands will be based on an up-to-date valuation of those properties rather than the 1991 value currently used to calculate council tax liability, and that £5m has been set aside to carry out this partial/targeted revaluation. It goes on to highlight Scottish Government expectations that this will affect fewer than 1% of properties.

- All LBTT rates are maintained in 2026-27. The SFC forecasts total LBTT revenue in 2026-27 to be £1,049 million, £9 million lower than it forecast in December 2024.

- Scottish Landfill Tax (SLfT) rates will continue to be aligned with equivalent UK rates in 2026-27, "ensuring consistency and simplicity for taxpayers". The SFC expects a reduction in revenue from SLfT from £50m in 2025-26 to £27m in 2026-27 as incineration capacity increases. The SFC states that this decrease in revenue occurs even after including the effect of the delay to the biodegradable municipal waste ban from 2026 to 2028.

- Scottish Aggregates Tax comes into effect from 1 April 2026 and will be aligned to the equivalent UK tax rate in 2026-27. It is forecast to raise £42m in 2026-27, increasing to £48m in 2030-31.

- There is no cap or limit on increases to council tax in 2026, although the Cabinet Secretary said in her Budget statement that the 2% real terms increase in the local government budget "[…] is a reasonable deal and, given the cost-of-living pressures that we all recognise, I urge local authorities to translate that settlement into reasonable decisions on council tax".

35. The UK Budget increased the rate of Income Tax charged on property income in the rest of the UK by 2p from 2027-28 and the UK Government committed to devolving an equivalent power to Scotland. An LCM on the UK Finance (No.2) Bill has since been lodged and will be considered by the Committee on 27 January. The first year the power for a separate rate for property income in Scotland could come into effect, if approved, would be 2027-28.

36. Key recommendations in the Committee's pre-budget 2026-27 report mainly related to growing the tax base through tackling economic inactivity and increasing productivity, supporting high-value sectors to grow and encouraging

older and disabled people back into the workforce. It also asked the Scottish Government "to maximise opportunities for better aligning skills with the needs of Scotland's economy, including supporting fit-for-future funding models for colleges and universities and careers advice". Detailed actions by the Scottish Government in these areas are provided in its response.

37. The following issues were raised in evidence relating to the Scottish Government's 2026-27 taxation plans—

- Income tax rates and thresholds should increase more gradually.
- Fiscal drag is "perceived to be less politically costly". It was suggested that this is now the main tax policy instrument of both the UK and Scottish Governments, "seeking to exploit the lack of taxpayer understanding of the interaction between tax bands and rates".[6]
- It was noted that with all higher thresholds remaining frozen for 2026-27 and the following two years, significant revenue will be raised through fiscal drag.
- Anomalies arising from how the Scottish income tax rates interact with UK national insurance and personal allowance policies should be addressed. It was noted "it is not a fair income tax schedule and it does have implications for decisions people are making", which "isn't good for the economy; it isn't good for tax receipts".[7]
- There are questions around the level of public understanding in relation to the tax system in Scotland and the UK as well as on the accuracy of latest data on this. It was suggested that, while the Scottish income tax system is layered onto an already complex UK system, a simpler more understandable Scottish income tax model is possible.
- The need to think more broadly about how progressive other taxes are, rather than focusing mainly on income tax. Council tax was highlighted as being the least progressive tax in Scotland.
- Lack of clarity regarding how the revenues from the new council tax bands for high-value properties will be distributed across local authorities and whether there could be any impact on the local authority settlement. The FAI suggested that "clarity on whether how/if additional income will be equalised across local authorities needs to be clarified – obviously most £1m+ properties will be clustered geographically, but this doesn't mean that those geographical areas will retain all that income".
- Consensus that a much wider review of council tax is urgently needed and therefore, disappointment that revaluation is so limited. For example, the FAI said that "such a move by the Scottish Government to tweak around the edges is not surprising based on past experience but is hugely disappointing".
- Some large increases to council tax rates can be expected, given the pressures on the local government budget.

[6] Professor Heald.
[7] Professor Spowage.

Scottish Spending Review

38. The Scottish Spending Review 2026 published with the Scottish Budget 2026-27 sets out the Scottish Government's indicative spending plans up to 2028-29 for resource, and up to 2029-30 for capital. In her foreword to the SSR, the Cabinet Secretary states that—

> "With continued focus on our key priorities and the commitments set out in the Programme for Government, the SSR delivers cumulative real terms resource spending growth of 2.8% up to 2028-29. While Scotland's capital funding will reduce in real terms by 0.3% by 2029-30, as a result of UK Government decisions, we are nevertheless using all funding levers at our disposal to sustain an impactful capital programme."

39. In its report on the Scottish Budget process in practice published in June 2025, the Committee said it "is supportive of the Scottish Government carrying out a Scottish Spending Review (SSR) at this time and of publishing the outcomes in December 2025 alongside the Scottish Budget 2026-27".

40. Following its visit to Estonia in September 2024, the Committee recommended that the Scottish Government considers adopting a zero-based budgeting approach for the next SSR. The Committee thereafter concluded in its pre-budget 2026-27 report in October 2025 that **it remains of the view that a zero-based budgeting approach should be taken in the Scottish Spending Review and requested in-depth information on the process for preparing, scrutinising and delivering the Review.** The Scottish Government's response advises that it already adopts the principles of zero-based budgeting and spending is reviewed in detail throughout the Scottish Budget process. The in-depth information requested on process undertaken for the SSR has not been provided in the Scottish Government response.

41. During evidence, Professor Graeme Roy, Chair of the SFC, said he was unaware of the methodology used for producing the SSR.

42. Annex A of the SSR sets out a Summary of Portfolio Spending Plans. The document notes that these plans "are focused on delivering our priority outcomes[8] for the people of Scotland [… and] it represents an important step forward in progressing our work on fiscal sustainability and providing a funding framework for our partner organisations to plan effectively and strategically". Many of the funding assumptions across the SSR period were referred to in the Scottish Budget and are therefore highlighted earlier in this paper.

43. The SSR further states that while the review is based on robust funding assumptions, "plans should be viewed as indicative and subject to substantial change", given the wider risks and uncertainties set out in the MTFS.

[8] The four priorities are: eradicating child poverty, growing the economy, tackling the climate emergency, and ensuring high quality and sustainable public services

44. The Scottish Government intends to take forward monitoring and reporting through established governance structures, supplemented through focused reviews of areas of significant spend over the course of the SSR. Progress towards delivery of the targets and measures “will be regularly monitored and updates on progress of the FSDP will be provided publicly as part of the update of the MTFS”.

45. The SFC commented in its Forecasts that the SSR is less detailed than the 2011 spending review, which provided level 3 figures for all portfolios. It goes on to say, “given that many public policy budgets are at level 3, it is not possible to look at the document and see the funding outlook for key public bodies like Skills Development Scotland and SEPA, or to see how level 2 budgets are split between resource and capital”.

46. Issues raised in evidence on the Scottish Budget 2026-27 include—

- While it is helpful to have an SSR, witnesses echoed the SFC’s view that more detail (level 3 figures) is needed, including how allocations are split between resource and capital. Some witnesses questioned how much confidence the Parliament and public bodies could have in the SSR.
- The Scottish Government could have started a zero-based budgeting approach before the UK Government began its Spending Review to enable a longer and more detailed process and outcomes.
- The incoming Scottish Government after the election should produce a more detailed version of the SSR and capital plans, “perhaps even before the next Scottish Budget”.[9]
- Asked about the value in producing an SSR in the context of much volatility and unpredictability, it was noted that the “lack of borrowing powers means a lack of ability to smooth out and stick to a plan”.[10]

47. As noted earlier in this paper, the Committee has planned separate evidence sessions on the SSR and IDP in February and March to explore these documents in more detail.

Public service reform

Overview

48. This session, the Committee has undertaken regular scrutiny of the Scottish Government’s progress in relation to public service reform (PSR). The Scottish Government published [Scotland's Public Service Reform Strategy: Delivering for Scotland] on 19 June 2025, which “sets out commitments to change the system of public services - to be preventative, to better join up and to be efficient - in order to better deliver for people”.

49. In its pre-budget 2026-27 report, the Committee made the following recommendations in relation to PSR—

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[9] Professor Spowage.
[10] Professor Bell.

- **The Committee asked for a detailed plan on how the Scottish Government will meet its high-level targets on efficiencies and workforce while minimising the impact on public services.** The Government response refers to the PSR Strategy along with Portfolio Reform and Efficiency Plans (included in the SSR document) and a separate Integrated Pay and Workforce Policy published alongside the Scottish Budget 2026-27. More details on these documents are included in later sections of this paper.

- **On prevention, the Committee sought an update on progress with work in considering and reporting back on the potential benefits, risks and costs of introducing a new category of expenditure on preventative spend.** The Government response highlights that as part of this work, “we are testing a budget tagging method for tracking preventative spend across the Scottish Budget” along with developing pilots to test this approach across portfolio areas of the budget. A first set of results is planned for publication in summer 2026. Witnesses on 20 January 2026 said ‘budget tagging’ has the potential to enable delivery and outcomes to be identified and tracked, even after long periods of time.[11]

- **The Committee sought details of how the projects receiving funding under the PSR Invest to Save Fund are being monitored for outcomes and whether success is being shared more widely across the public sector.** The response explains that successful projects are required to provide six-monthly progress reports, which are then collated to provide an overview of programme. It goes on to say that some projects with similar themes are working together to share resources, including sharing learning and opportunities to implement similar efficiencies with bodies not directly funded by the programme.

  As noted above, the SSR confirms that funding will be provided in 2026-27 to continue the Invest to Save Fund.

Portfolio Efficiency and Reform Plans

50. Annex B of the SSR includes detailed Portfolio Efficiency and Reform Plans “to set out actions to secure the sustainability of Scotland’s public services”. These Plans cover workforce savings, efficiencies in corporate functions and wider service reforms, with £1.5bn in cumulative savings set out over the SSR period.

51. The SFC welcomed the publication of these plans showing how savings will be achieved within each portfolio, stating—

> “Delivery of this plan is expected to allow Government’s priorities to be delivered within the allocations given at the Spending Review. If these savings are not delivered, then this will create challenges for the Scottish

[11] Dr Eleanor Ryan, Commissioner, Scottish Fiscal Commission.

Government to deliver public services as planned while also balancing its Budget".

"The on-going monitoring of progress against these plans will be important in ensuring the required savings are on track to be delivered".

52. The majority of the savings (£384m in 2026-27, £374m in 2027-28, and £303m in 2028-2029) are to be achieved in the health and social care portfolio, mainly through the existing target for 3% recurring savings across core funding for NHS Boards. The SFC notes that "progress towards achieving these targets for recurring savings to date, and the number of health boards not breaking even, suggest that it could be challenging for the Scottish Government to deliver the efficiency savings it has incorporated into the health and social care portfolio plans".

53. Issues raised in evidence to the Committee on the Scottish Budget 2026-27 include—

- It is unclear how the Portfolio Efficiency and Reform Plans fit in with the figures in the SSR.
- These efficiencies were described as an internal management process within Government.
- Instead, there were calls for transparency around the progress in meeting the savings in each portfolio and by each public body, along with their impact on public service delivery, including in relation to the significant savings expected of NHS Boards.
- Specific concerns were also expressed regarding efficiencies expected of local government and the justice sector.
- The extent to which these efficiencies are achievable is difficult to assess, given the detail provided.

Integrated Pay and Workforce Policy

54. In its pre-budget 2026-27 report, the Committee said it "**shares the SFC's view that the SSR should include a strategy for how the public sector workforce and public sector pay bill are going to be managed over the medium-term. It asked that this provides greater clarity about how decisions on pay impact choices on the size of the workforce and vice versa.** The Scottish Government's response points to the Integrated Pay and Workforce Policy, which "sets an overall pay envelope of 9% over 3 years with a cap of 3% for any single-year deal". It adds that the future such Policy to be published alongside the Scottish Budget 2027-28 "will include recognition of the connection between pay policy and workforce management as dual drivers of fiscal sustainability".

55. The SFC continues to highlight particular risks around public sector pay. Achieving the Scottish Government's current target to reduce the overall devolved public sector workforce by an average of 0.5% a year from 2025-26 to 2029-30 would, according to the SFC, "require a significant departure from recent trends". The SFC further notes that if pay awards are higher than the Scottish

Government has assumed, larger workforce reductions would be needed to keep the paybill at the level used in the SSR.

56. The SFC goes on to say that "to remain within the limits of the pay policy, there would need to be an average pay award of 1.1% in 2027-28", a real terms cut to pay. In its January 2026 forecasts, the SFC has instead assumed inflationary pay awards in 2027-28, which it considers "is more in line with historical trends".

57. As noted above, the Scottish Government published an [Integrated Pay and Workforce Policy]() alongside the Budget. The Scottish Government says this "is the first step in operationalising the commitments in the FSDP to manage the public sector pay bill and workforce size through a co-ordinated approach to pay and workforce planning". The document notes "the Cabinet Secretary […] has acknowledged that many multi-year deals cover only two years of the three-year [Public Sector Pay] Policy for 2025-26 to 2027-28, [and] to address this, the Cabinet Secretary has committed to review the pay policy as part of the 2027-28 Budget process".

58. The Integrated Pay and Workforce Policy further commits the Scottish Government to publishing a Workforce Management Governance Framework in Spring 2026 "setting out our approach for all public sector workforces across Scotland including NHS Scotland, firefighters and police officers, local government, further education workers, core Scottish Government and public bodies including non-departmental public bodies, public corporations". This framework will, it states, "underpin a data-driven, collaborative approach to workforce planning and change to ensure resources are deployed efficiently and enable more capacity to be directed to front-line services".

59. In evidence to the Committee on the Scottish Budget 2026-27 the following key issues were raised—

- The Scottish Government "laid out ambitious targets for efficiencies in the public sector in the FSDP, but the underlying assumptions that are required for these settlements border on heroic". It "would be no surprise to see an emergency statement in the coming year if pay deals continue to burst through the stated pay policy especially given that a few are already automatically inflation-protected".[12]
- The FAI further argued "it is difficult to see how the Scottish Government can claim – as it does in its Budget document – to be running a "sustainable pay policy" and "it's also hard to square these pay deals with the allocation of just 0.7% growth in real terms for the Health portfolio" (as set out in the SFC forecasts baselining all routine in-year transfers).
- Any increase in inflation will put even more pressure on pay budgets.

Infrastructure Delivery Pipeline 2026

60. The Scottish Government's [Infrastructure Delivery Pipeline 2026]() (IDP) published alongside the Scottish Budget 2026-27 and SSR sets out the infrastructure

[12] Fraser of Allander Institute.

projects and programmes the Scottish Government plans to fund over the next four financial years, “underpinned by over £30 billion of capital funding set out in the SSR”. It includes “specific investment plans totalling £11.1bn, as well as our plans to develop new revenue-financed programmes of investment”.

61. The IDP contains “projects over £5 million and programmes over £20 million” and a Future Pipeline setting out projects that are being explored to determine if there is a case for investment. The Scottish Government expects that “more projects will move into the Pipeline as business cases are approved over the Spending Review period”.

62. Planned investments in the IDP include—

- supporting the delivery of 36,000 affordable homes
- targeted investment across the NHS estate, aimed at improving resilience and enabling modernisation of both property and services
- £1.2 bn in renewing Scotland’s rail fleet and ferry vessels and associated enabling works
- progressing work to dual the A9 between Perth and Inverness
- supporting justice and prisoner welfare through investing over £700m in HMP Glasgow and HMP Highland
- investing in Scotland’s natural infrastructure, with nearly £300m in peatland restoration and woodland creation
- investing £519m to deliver rail electrification in Fife and the Borders over the course of the Spending Review period.

63. A full list of projects and programmes is included in Annex A of the IDP, and the Future Pipeline can be found at Annex B, while the Pipeline Decision-making Process is set out at Annex C of the document. The Scottish Government plans to report on progress in delivering the projects and programmes set out in the IDP every six months.

64. The SSR and IDP highlight that the Scottish Government plans to proceed with a £1.5bn Bond Programme over the next parliamentary term, “following the high Investment grade Credit Ratings received by Moody’s and S&P”. This, it notes, “will deliver one of the key recommendations from the Investor Panel as part of a fiscally sustainable capital borrowing policy”. The IDP also confirms that the Scottish Government will continue to deploy revenue-funded models, including the Mutual Investment Model “to deliver additional investment over and above constrained capital budgets assessed to be necessary to meet our investment ambitions.” The Scottish Government expects to use this Model to deliver community health centres.

65. At the same time, the Scottish Government launched a consultation on a 10-year Infrastructure Strategy (2027-2037) “to guide infrastructure planning, investment, and delivery across Scotland”. It describes this Strategy as “an evolution from the previous Infrastructure Investment Plan, which combined strategy and pipeline”. The consultation closes in early May 2026, with the final Strategy due to be published later in 2026.

66. While the FAI has indicated that it will provide more analysis of both the SSR and the IDP, "[…] an initial look shows that some projects have been on a "development" rather than delivery pipeline – which may appear a subtle difference, but crucially the Scottish Government has so far allocated no funds for these projects". It goes note, "while the document says that the strategic outline case has been made and is a Government commitment, those of a more cynical disposition might see it as a staging post for significant delay or eventual cancellation". The FAI provides examples such as the A96 programme, including the Nairn Bypass, as well as the renewal programme for the Highland Mainline and the redevelopment of the Ardrossan Harbour.[13]

67. In its pre-budget 2026-27 report, the Committee asked the Scottish Government **to set out as part of its IiP and pipeline what steps it will take to smooth out the "lumpy" capital budget over time**. The Scottish Government's response notes that the IDP provides multi-year spending certainty on projects and programmes to be taken forward in the next four years. It goes on to say that "through careful management of the pipeline, we can ensure a steady stream of investment in the infrastructure needed to deliver Ministers' priorities", adding it continues to explore revenue finance models to expand capacity for infrastructure investment.

68. Issues raised with the Committee during evidence on the Scottish Budget 2026-27 include—

- The Plan provides distinct 'delivery' and 'development' pipelines, which raises questions about exactly which projects will be delivered and when.
- It is "a long way from" providing timescales and costs for delivery, or the detail required.[14] This should be provided "perhaps along with some commentary on how the Government will cope if costs overrun" because with public sector capital projects there is often 'optimism bias' on both timing and costs.
- There may be merit in considering whether the GDP deflator is the best measure to use in relation to capital expenditure and what may happen with cost overruns.
- As noted above, a more detailed version of the SSR and capital plans should be published by the incoming Scottish Government.

Climate Change

69. As in recent years, the Scottish Government has published the Climate Change Taxonomy of the Scottish Budget setting out how the 2026-27 Budget will impact Scottish Government's priority of tackling the climate emergency.[15] This year, the document has two parts: (1) overarching narrative with key spending areas from

[13] A Budget where the silences were loudest | FAI
[14] Professor Mairi Spowage.
[15] This Taxonomy was developed following an FAI-led research project on behalf of the Scottish Government on Improving emissions assessment of Scottish Government spending decisions and the Scottish Budget which published its findings in December 2022.

portfolios across the Scottish Budget 2026-27 “that contribute towards our response to climate change”, and (2) a carbon taxonomy assessment and commentary of the capital and resource budget.

70. There has been criticism in recent years that the approach used in relation to this taxonomy work is “too broad-brush to be useful”, with calls for more precise figures on how much is being spent on climate adaptation in Scotland.[16]

71. Part 1 of the document highlights official statistics for Scotland showing that Scotland’s “greenhouse gas emissions had fallen by 51.3% between 1990 and 2023 – the largest reduction in the whole of the UK”, with nearly every sector of the Scottish economy seeing substantial emissions reductions over that time. It further notes the move in 2025 from annual climate change targets to a five-yearly carbon budget mechanism, which, the Scottish Government says, “offers greater flexibility in the long-term planning of decarbonisation, whilst retaining our statutory 2045 net zero target date”. In October 2025, the Scottish Parliament passed legislation to set carbon budgets at the levels advised by the UK Climate Change Committee.

72. The Scottish Government’s draft Climate Change Plan (CCP) published on 6 November 2025 “sets out the policies and proposals the Scottish Government will take forward to enable our carbon budgets to be met between 2026-2040”. The Net Zero, Energy and Transport (NZET) Committee’s call for views, which was held prior to the draft CCP being published, was intended to provide evidence that all committees could use in their scrutiny of the draft CCP.

73. The Finance and Public Administration Committee agreed to ask any questions relating to the financing of the Scottish Government’s draft CCP as part of its budget scrutiny. In this context, relevant themes arising from responses to the NZET Committee’s call for views include—

- A lack of clarity on “who pays” for CCP delivery
- How future Budgets will track and report spend against the CCP’s sectoral pathways
- Whether the fiscal framework needs to be strengthened to reflect structural challenges such as climate change, which requires a co-ordinated response across the two governments, and demographic trends which are more pronounced in Scotland. (This issue has been raised by the FPA Committee previously during its scrutiny of the SFC’s Fiscal Sustainability Perspectives paper on climate change – March 2024 and in the Committee’s response to the Cabinet Secretary on the scope of a future fiscal framework review (November 2025).
- How taxation can best be used to change behaviours in response to climate change.
- Whether current funding structures allow CCP delivery at the required pace and scale.

[16] Climate Change and Scottish Parliament committees: Finance and Public Administration Committee – SPICe Spotlight | Solas air SPICe

- If the CCP should be aligned with multi-year spending plans rather than annual budgets to enable sustained action by local authorities and other partners.

Next steps

74. The Committee will publish a report in relation to its scrutiny of the Scottish Budget 2026-27 in early February 2026.

Committee Clerking Team
January 2026

ANNEXE A

Key announcements in the UK Budget 2025

1. The UK Government in its UK Budget 2025 document states that "this Budget takes the fair and necessary choices to deliver on the government's promise of change", by cutting the cost of living, reducing the NHS waiting list in England and decreasing debt and borrowing. It further highlights that "the government's plans are underpinned by its non-negotiable fiscal rules which provide credibility by ensuring day-to-day spending is met with revenues, while allowing the step change needed in investment to grow the economy".

2. Key spending announcements in the UK Budget 2025 include—

   Removing the two-child limit in universal credit from April 2026. The UK Government estimates that this measure will lift 450,000 children out of poverty. The Fraser of Allander Institute (FAI) in its reaction blog on the UK Budget noted that this decision allows the Scottish Government to spend the £155 million it had set aside for mitigation on other priorities, although it also highlighted knock-on effects[17] that would reduce the net savings to around £121 million.[18]

   Increasing the national living wage by 4.1% to £12.71 per hour for eligible workers aged 21 and over. For 18 to 20-year-olds, the increase will be 8.5% to £10.85 per hour and for 16 to 17-year-olds and apprentices 6.0% to £8.00 per hour.

   Introducing a cash limit of £12,000 within the overall annual limit of £20,000 for individual savings accounts (ISAs).[19]

   Cancelling the planned uprating of fuel duty for 2026/27.

   Maintaining the £35,000 taxable income threshold for winter fuel payment payable to eligible pensioners for the rest of the UK Parliament.

   Reducing household energy bills by around £150 on average in Great Britain from April 2026 through changes to the renewables obligation and the energy company obligation.

3. The Budget document states that, as a result of the UK Budget 2025, the Scottish Government will receive an additional £510 million in resource funding over the next four years and an extra £310 million in capital funding over five years (£820

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[17] The FAI explained that scrapping of the two-child cap leads to additional costs to the Scottish Government "as it means more households are entitled to Universal Credit (and therefore for some Scottish benefits like the Scottish Child Payment) and moves more existing Universal Credit claimants onto the Benefit Cap (which is mitigated in Scotland through Discretionary Housing Payments)".
[18] FAI Budget 2025 reaction: meeting the (briefed) expectations.
[19] The limit will not apply to savers over the age of 65.

million in total).[20] The FAI suggested that this funding for the Scottish Government "is quite lumpy: there is a boost in the short-term, eroding away quickly and a small cut in day-to-day spending in 2028-29".[21]

4. Further specific direct investment in Scotland is also referred to in the UK Budget document, including £14.5 million in funding for the Grangemouth industrial cluster, £20 million from the Growth Mission Fund to upgrade Inchgreen Dry Dock, and a further £20 million for the redevelopment of Kirkcaldy town centre and seafront.

5. Key revenue-raising measures announced in the UK Budget include—

    Freezing personal tax thresholds for both income tax and national insurance contributions (NICs) for employees and self-employed individuals for a further three years—from April 2028 through until April 2031. Prior to the UK Budget there was speculation that income tax rates in the UK would be increased. The FAI had estimated that a two-percentage point increase in the basic rate of UK income tax would have led to a cut of around £1 billion in Scotland's block grant in each of the next three financial years.[22]

    Capping National Insurance Contributions (NICs) relief on salary sacrifice into pension schemes to the first £2,000 of pension contributions per person from 2029.

    Increasing tax on dividend income by two percentage points at the ordinary and upper rate from April 2026.

    Increasing tax on property income and savings income by two percentage points at the basic, higher and additional rates from April 2027. The Budget states that the UK Government intends to "engage with the devolved governments of Scotland and Wales to provide them with the ability to set property income rates in line with their current income tax powers in their fiscal frameworks".[23] The Cabinet Secretary for Finance and Local Government wrote to the Committee on 9 December 2025 providing advance notice of a Legislative Consent Memorandum (LCM) relating to amendments to the UK Finance (No.2) Bill which would devolve this power to Scotland. The letter asks the Committee to consider and report on the LCM by the end of January 2026 to fit in with the UK Bill's timetable.

    In its reaction blog on the UK Budget, SPICe noted that "once the Scottish Parliament has the powers to set income tax rates to property, it will presumably face a choice between at least matching the rates for

[20] SPICe UK Budget 2025: Key Changes and Impacts on Fiscal Policy
[21] FAI Budget 2025 reaction: meeting the (briefed) expectations.
[22] What would UK income tax changes mean for Scotland? | FAI
[23] Change to tax rates for property, savings and dividend income — technical note - GOV.UK

England, or accepting a block grant adjustment which will reduce funding for the Scottish Budget".[24]

Reducing capital gains tax relief on qualifying disposals to employee ownership trusts from 100% to 50% from 26 November 2025.

Increasing gambling levies, including remote gaming duty to 40% from April 2026.

Introducing electric vehicle excise duty, a new mileage-based charge for electric vehicles and plug-in hybrid cars, from April 2028.

Introducing a council tax surcharge in England from April 2028 on residential properties valued at or over £2 million (a so-called 'mansions tax').

Implementing permanent lower business rates for retail, hospitality and leisure properties. SPICe commented in its blog that "it is certain that industry [in Scotland] will advocate for the Scottish Government to implement similar changes for retail, hospitality and leisure properties in Scotland".[25] The Scotsman newspaper reported on 11 December 2025 that 12 Scottish retail organisations have jointly written to the Cabinet Secretary for Finance and Local Government calling for a permanent business rate discount for all retailers at the Scottish Budget which is "at least as competitive" as the situation in England.[26] Five Business Improvement Districts have since, alongside the Scottish Retail Consortium, called on Scottish Government and MSPs to introduce a permanent business rate discount for all retail, hospitality, and leisure premises.[27]

6. Despite concerns raised by the oil and gas industry in advance of the UK Budget, the UK Government confirms in the Budget document that the temporary Energy Profits Levy (EPL) will continue until 2030 (unless it concludes earlier if the EPL price floor triggers). The UK Government then plans to replace the Levy with a permanent Oil and Gas Profits Mechanism, "a revenue-based mechanism which only operates in times of high prices".

7. The UK Budget document also states that "to support the economy with greater policy certainty, the government is delivering on its commitment to hold one fiscal event a year, by legislating to ensure that the fiscal rules are only assessed at future Budgets".

[24] SPICe UK Budget 2025: Key Changes and Impacts on Fiscal Policy
[25] SPICe UK Budget 2025: Key Changes and Impacts on Fiscal Policy
[26] Scotsman article, 11 December 2025
[27] Improvement districts back business rate discount for retail, hospitality and leisure | Scottish Financial News

OBR's Economic and fiscal outlook

Overview

8. In its Economic and fiscal outlook – November 2025 published alongside the UK Autumn Budget 2025, the OBR forecasts real GDP growth of 1.5% in 2025, increasing its March forecast figure of 0.5%. This, the OBR explains, is "because output growth was revised up in the second half of 2024 and growth was stronger than expected in the first quarter of 2025, at 0.7%".

9. Borrowing is projected to fall from 4.5% of GDP in 2025-26 to 1.9% in 2030-31. Debt rises as a share of GDP from 95% of GDP this year and ends the decade at 96% of GDP. This, the OBR highlights, is 2 percentage points higher than projected in March and "twice the debt level of the average advanced economy". The OBR told the Committee on 13 January 2026 that UK levels of debt are much higher than in other advanced economies and that interest rates have increased substantially and remain at relatively high levels.

10. The OBR has revised up its near-term forecast for earnings growth and inflation. Cumulative real wage growth over the next two years is just under ¾ percentage points higher than in its March forecasts and CPI inflation just over ½% higher "as surveys of wage settlement expectations have held up more than we expected, and there is more momentum in domestically generated inflation than we anticipated". It goes on to say that "greater domestically generated inflation, alongside higher food prices, mean we also expect inflation to stay higher for longer than in March".

11. The OBR further expects the unemployment rate "to remain close to its current rate of around 5% until 2027", before falling back to around 4% over the forecast. It explains that "the employment rate is expected to be broadly flat at around 61 per cent over the forecast, as a cyclical decline in the unemployment rate is offset by a structural fall in the participation rate from an ageing population and rising sickness-related inactivity".

12. According to the OBR, policies in the UK Autumn Budget "increase spending in every year and by £11 billion in 2029-30, primarily to pay for the summer reversals to welfare cuts and lift the two-child limit in universal credit".

13. The UK Budget also raises taxes "by amounts rising to £26 billion in 2029-30, through freezing personal tax thresholds and a host of smaller measures and brings the tax take to an all-time high of 38% of GDP in 2030-31". The OBR states that the tax increases which are expected to raise £0.7 billion next year and £26 billion in 2029-30 more than offset the increase in spending by the final years of the forecast.

14. Overall, the direct effect of these policy measures "increases borrowing by £3.7 billion in 2025-26, by £5.9 billion in 2026-27 and by £9.9 billion in 2027-28".

15. In its November 2025 forecasts, the OBR reduced its central forecast for the underlying rate of productivity growth in the medium term to 1%, 0.3 percentage points slower than in its March forecasts. It explains that “the UK’s productivity performance has undershot our forecasts, despite several substantial downgrades since 2010, as a significant rebound from recent negative shocks has not materialised”.

16. It goes on to say that this decision “is based on our latest assessment of the UK’s productivity performance in historical and international context; what the latest output and labour force data tell us about the impact of shocks and underlying productivity of the economy; and how developments in global trade policy, the sectoral composition of output, the emergence of new technologies like artificial intelligence, and other structural trends are likely to affect the productive potential of the UK economy in the future”.

17. The UK Government announced as part of its Autumn 2025 Budget that it is “reforming the OBR forecast cycle”. The Budget document states that “the government is delivering on its commitment to hold one fiscal event a year, by legislating so that the OBR’s assessment of the government’s performance against the fiscal mandate will happen once a year – at the annual Budget in the autumn, when the government sets out its tax and spending policy”. It further notes that “the OBR will continue to publish a second forecast in the spring to provide an interim update on the economy and public finances”.

18. On 5 January 2026, the Chancellor confirmed she has asked the OBR to prepare an Economic and fiscal forecast for publication on 3 March 2026, noting this will “fulfil the obligation required by the Budget Responsibility and National Audit Act 2011 for the OBR to produce at least two forecasts in a financial year”. She went on to say that—

> “As set out at the Budget, the spring forecast will not make an assessment of the Government’s performance against the fiscal mandate and will provide an interim update on the economy and public finances.
>
> The Government intend to respond to this with a statement to Parliament. This is in line with my commitment to deliver one major fiscal event a year at the Budget. This approach gives families and businesses the stability and certainty they need and, in turn, will support the Government’s growth mission.”

19. The OBR told the Committee on 13 January 2026 that the approach of having one annual fiscal event but two forecasts a year is common in other countries.

Scottish-specific issues

20. The UK Budget document states that, as a result of the UK Budget 2025, the Scottish Government will receive an additional £510 million in resource funding over the next four years and an extra £310 million in capital funding over five

years (£820 million in total).[28] The FAI suggested that this funding for the Scottish Government “is quite lumpy: there is a boost in the short-term, eroding away quickly and a small cut in day-to-day spending in 2028-29”.[29]

21. Alongside its Economic and fiscal outlook, the OBR also published Devolved tax and spending forecasts, November 2025. The OBR forecasts that the Scottish tax Block Grant Adjustment (the amount removed from the Scottish Budget to reflect tax devolution) will be £21,382 million in 2026-27. This is slightly lower than the £21,658 forecast by the SFC in May 2025. SPICe highlighted in its reaction blog published on 27 November 2025 that “if the next forecast from the SFC expects a lower BGA than in May, this will be a boost for the Scottish Government”.

22. SPICe further observed that the UK Budget has been accompanied by new forecasts for the GDP deflator, which are used to uprate borrowing limits in the fiscal framework. This means that the Scottish Government is able to borrow up to £491 million in capital in 2026-27, while the cumulative capital borrowing limit rises to £3,275 million. The annual limit on resource borrowing increases to £655 million, with the cumulative cap rising to £1,910 million, and the limit on the Scotland Reserve increases to £764 million[30].

Interaction between the SFC and OBR forecasts

23. At its evidence session with the SFC on 2 September 2025, the Committee explored the differing approaches taken to forecasting by the SFC and the OBR, and the possible implications for the Scottish Budget. The SFC explained that due to data quality issues, they were using Real Time Information from HMRC in place of the ONS Labour Force survey. Professor David Ulph[31] noted that:

> “One implication of that point in relation to the quality of our employment forecasts and comparing those to the OBR forecast is that we are not comparing like with like. Our forecast is based on RTI data and the outturns that come from that, while the OBR forecast is based on the labour force survey data and the outturns that come from that. That creates a challenge in understanding how well we are performing in forecasting.”

24. The SFC also discussed the correlation between forecast errors by the SFC and by the OBR, and how this impacts reconciliation. Professor Ulph noted that analysis in 2021 assumed a correlation of around 50% between the SFC and OBR forecast errors, but subsequent data suggests that the correlation is actually around 80%. The SFC went on to say that—

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[28] SPICe UK Budget 2025: Key Changes and Impacts on Fiscal Policy
[29] FAI Budget 2025 reaction: meeting the (briefed) expectations.
[30] SPICe UK Budget 2025: Key Changes and Impacts on Fiscal Policy
[31] Professor Ulph was one of the SFC Commissioners at the time of this evidence session. His tenure ran from October 2018 to October 2025.

> "The correlation matters quite a lot. If we and the OBR made exactly the same mistakes, there would be no reconciliation. It is only because we make different mistakes that we have the problem of reconciliation. That is why the correlation between what we do and what the OBR does matters."

25. The SFC noted, on the general interaction between the OBR and SFC forecasts, that it does not make independent judgements on the overall performance of the UK economy, but rather "we largely take the outcomes and risks that emerge from the OBR forecasts as a given and then look at those in Scotland-specific terms".

26. During evidence to the Committee on 13 January 2026, the OBR explained that both the OBR and SFC are transparent about the risks in terms of forecast accuracy, and both produce forecast evaluation reports annually to identify, explain and learn from where any forecast error.