Scottish Budget 2026 to 2027: distributional analysis

Summary

Distributional analysis is central to understanding the effect of these policies on inequality and identifying the households that benefit most.

This paper analyses the impact on household incomes of tax, social security and key spending measures set out in the Scottish Budget 2026-27 and the 2026 Scottish Spending Review (SSR) on households across Scotland.

The analysis shows:

- Scotland's tax and social security system is progressive, supported by the decisions in the 2026-27 Budget and redistributes income from higher-income households to those on lower incomes. Households with higher incomes contribute a larger share through income tax and receive less in social security support.
- Since tax and social security powers were devolved in 2016, Scottish Government policy decisions have strengthened this progressivity. On average, households in the lower half of the income distribution are around £480 better off a year than they would be under UK Government tax and social security policies in 2026-27. Overall, around 62% of households in Scotland are better off or unaffected. Households with children benefit the most under the Scottish system, primarily due to support from the Scottish Child Payment.
- UK Government's removal of the two-child limit means affected households in Scotland could gain an additional £300 per child each month. As some households will still be affected by the benefit cap, the Scottish Government helps mitigate this through increased spending on Discretionary Housing Payments. In addition, removing the limit makes some households eligible for devolved benefits linked to Universal Credit (e.g. the Scottish Child Payment).
- Compared to the 2025-26 Scottish Budget policy, the new approach to the Pension Age Winter Heating Payment gives higher payments to all pensioners earning less than £35,000 a year, with households in the second and the first deciles benefitting the most in 2026-27.
- Income Tax changes further increase progressivity in 2026-27. Lower-income households gain slightly from higher Basic and Intermediate rate thresholds, while higher-income households see reduced income due to the freeze on higher-rate thresholds.
- Progressivity is driven by the tax-benefit system. In contrast, public spending on health, schools, transport, education and funded early learning and childcare in 2026-27 is estimated to be distributed similarly across income groups. However, across all areas, spending represents a higher share of income for lower-income households.
- The impact of the Scottish Spending Review decisions at the end of the spending review period (2028-29), measured as a share of household income, is estimated to be progressive relative to a baseline where spending is held flat in real terms across all areas. This reflects health spending

growing in real terms. The estimated gains are proportionately larger for those on lower incomes (around 4.5% for the bottom quintile and 0.9% for the top quintile). Families with children under one, large families and single female households benefit the most.

Introduction

This paper analysis the effects of tax, social security and key spending decisions included in the Scottish Budget 2026-27 and 2026 Scottish Spending Review on households across Scotland. It models changes in household incomes across income levels, age groups and household characteristics.

Distributional analysis is central to understanding the effect of these policies on inequality and identifying the households that benefit most.

The **first** part of this paper analyses the impact of Scotland's tax and social security system on household incomes, both on its own and in comparison with the system operating in the rest of the UK. Understanding the overall effect of the social security and tax system as a whole provides essential context for assessing changes introduced in the annual Budget.

This section also considers the impact of removing two-child limit on households in Scotland, confirmed by the UK Government in Autumn 2025 Budget, considering interactions with the wider reserved and devolved social security system.

The **second** part focuses on selected policy changes announced or confirmed in the Scottish Government budget, specifically:

- Income tax policy changes
- Social security policy changes

These two parts of the publication consider only policies that affect households' financial resources – namely personal taxes and cash benefits - and do not include in-kind benefits (such as free school meals or free early learning and childcare).

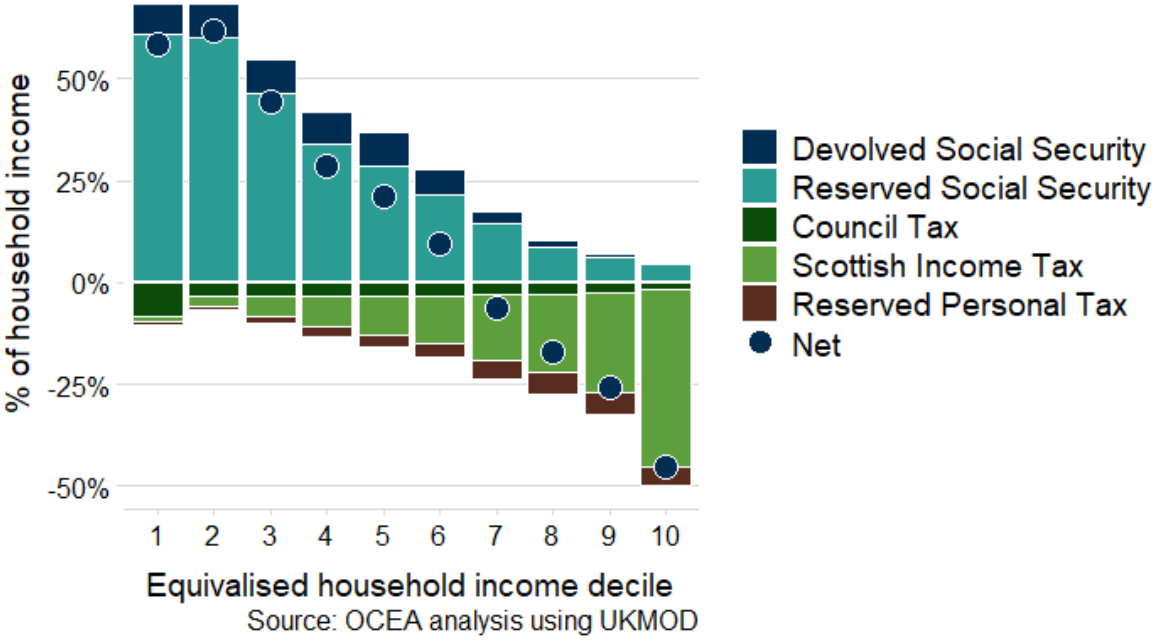
The **third** part of this paper extends the analysis of public spending published last year for the first time to include spending on Further and Higher Education. This analysis covers spending on Health, Schools, Education, Early Learning and Childcare and Transport. Overall, it covers approximately 70% of total resource spending (when Social Security is excluded which is analysed in parts 1 and 2). This part of the publication also explores the potential impact of decisions from the Scottish Spending Review published alongside the 2026-27 Scottish Budget.

Part One: Overall impact of the tax and social security system

Scotland's tax and social security system is progressive: households with higher incomes contribute a larger share through income tax. This structure enables redistribution from higher-income to lower-income households, both through direct payments – covered in this section – and through funding for public services, which is analysed in part three of this report.

Figure 1 illustrates this by showing the combined effect of personal taxes and social security payments on household incomes in 2026-27 by income decile.[1] It includes devolved or local taxes (Scottish Income Tax and Council Tax), reserved taxes (including Employee National Insurance Contributions and Income Tax on savings and dividends), as well as both devolved and reserved social security payments.[2]

Figure 1: Total personal tax paid and social security received in Scotland as a proportion of household income in 2026-27, by income decile



Source: OCEA analysis using UKMOD

Scottish Income Tax has a greater impact on higher-income households, whereas social security payments primarily benefit those on the lowest incomes. However, the main social security components, including Universal Credit (UC) and the State Pension, remain reserved to the UK Government. Council Tax – net of reductions and discounts – has a greater relative impact on households with lower incomes whereas higher-income households pay a smaller proportion of their income. The net impact for Decile 1 is slightly lower than for Decile 2, primarily due to a higher Council Tax burden following recent increases by Local Authorities, despite Decile 1

[1] To summarise impacts across the income distribution, households are ranked from the lowest net equivalised household income to the highest, then divided into equal groups. Where there are ten groups, these are called deciles and where there are five groups, these are called quintiles.
[2] All estimates are modelled using the UKMOD microsimulation model, based on policy decisions in the 2026-27 Scottish and UK budgets. Council Tax is assumed to rise in line with the September 2025 CPI, though local authorities will set their own rates after the Scottish Budget.

paying less Scottish Income Tax and receiving a similar gain through the devolved and reserved Social Security support.

Taken together, taxes and social security redistribute income away from higher-income households toward those with middle and lower incomes. As Figure 1 shows, it is estimated that households in the first six deciles are net beneficiaries of the system, on average.

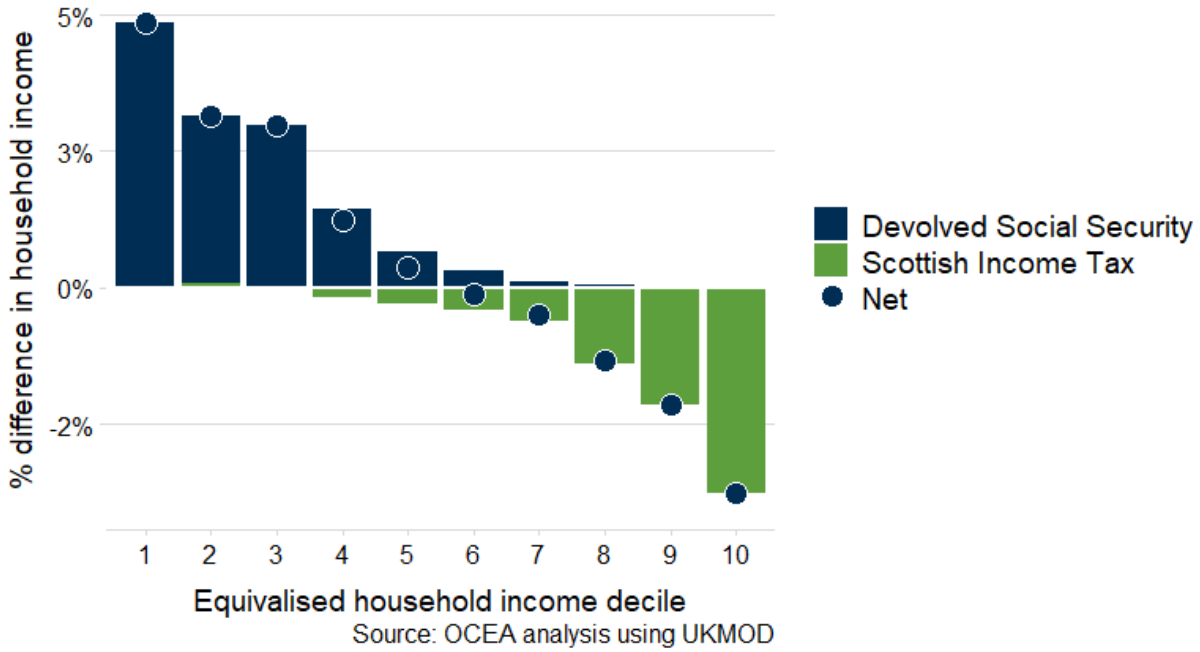
This analysis does not include indirect taxes or other reserved taxes that affect household finances, nor does it account for several significant measures announced in the recent UK budget, such as support for household energy bills through the Renewables Obligation. Distributional analysis of devolved benefits-in-kind is provided in part 3 of this publication.

Differences between Scotland and the rest of the UK

Since additional powers over certain taxes and social security payments were devolved to the Scottish Parliament in 2016, the tax and social security systems in Scotland have increasingly diverged from those in the rest of the UK.

Figures 2 and 3 illustrate how Scotland's system compares with the rest of the UK system, incorporating the effects of policy changes announced in the 2026-27 Scottish and UK Government budgets. Figure 2 presents the annual impact as a proportion of household income, while Figure 3 shows the impact in cash terms.

Figure 2: Difference in Personal tax paid and social security received in Scotland relative to the rUK system as a proportion of household income in 2026-27, by income decile

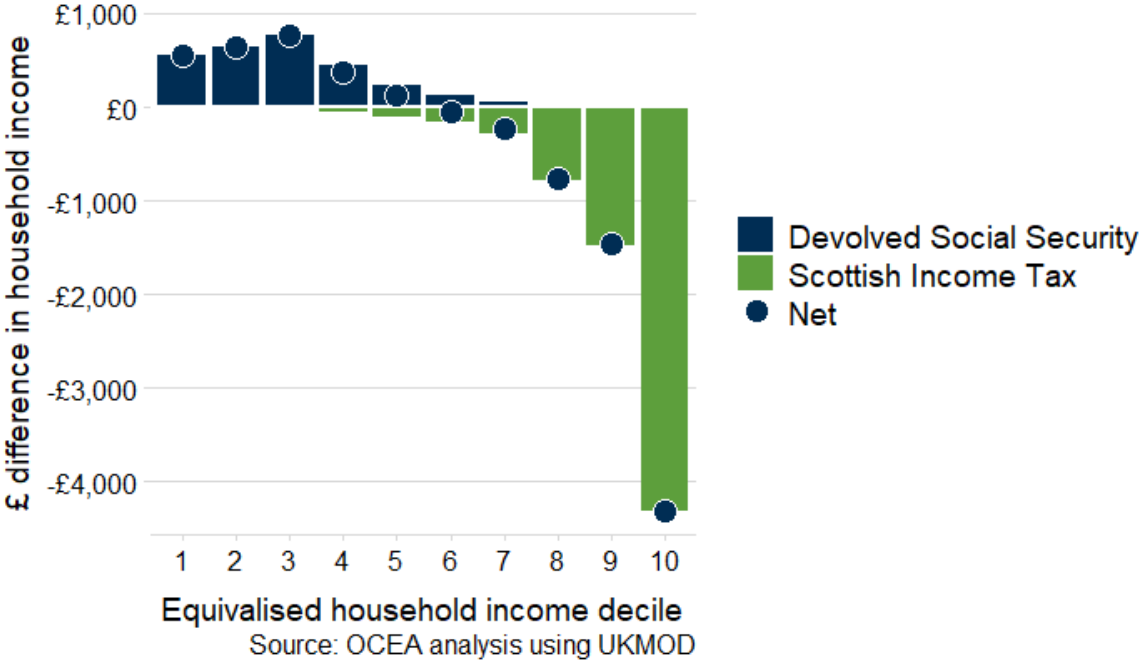


Due to policy differences between the Scottish and UK governments on Income Tax and Social Security, households in the lowest five income deciles are, on average, better off in Scotland than in the rest of the UK. 62% of households are either better

off or unaffected under Scotland's system compared with the rest of the UK, with most of these households falling within the lower half of the income distribution. On average, households in the lower half of the income distribution are around £480 better off a year than they would be under UK Government tax and social security policies. An estimated 53% of households are better off.[3]

The Scottish Child Payment (SCP) is the primary driver behind better outcomes for low-income households compared to the rest of the UK system, while the impact on higher-income households is primarily shaped by Scotland's Income Tax system.[4]

Figure 3: Difference in Personal tax paid and social security received in Scotland relative to the rUK system in cash terms in 2026-27, by income decile



Impact by Household Type

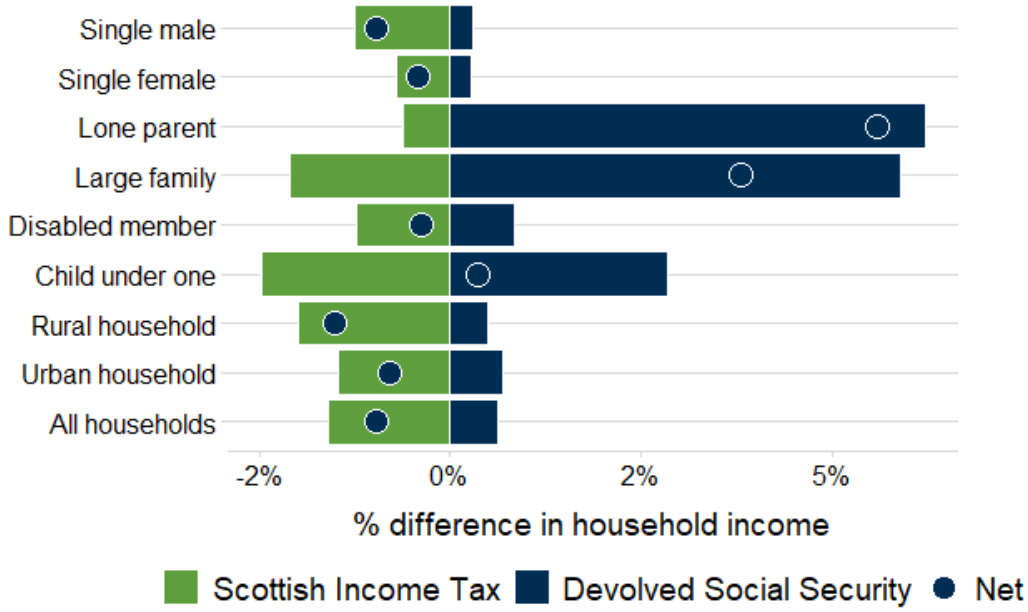
Along with examining impacts across income levels, it is useful to assess how policies affect different household types. Figure 4 compares Scotland's tax and social security policies with those in the rest of the UK across eight household groups. These household types have been selected with reference to protected characteristics as defined in the Equalities Act 2010 and the priority household types used in Scottish child poverty analysis.

While 62% of households benefit or are not affected in the Scottish system compared to the rest of the UK, Figure 4 also indicates that households, on average, pay more in Income Tax in Scotland. Households with children are generally net beneficiaries, primarily due to support from the SCP. The impact of the removal of the two-child limit on Scottish households is explored in Box A.

[3] These calculations are based on differences in net disposable household incomes, which are largely explained by differences in social security and personal income tax, as presented in Figures 2 and 3.
[4] More than half (around 55%) of Scottish taxpayers are expected to continue to pay slightly less Income Tax than if they lived elsewhere in the UK.

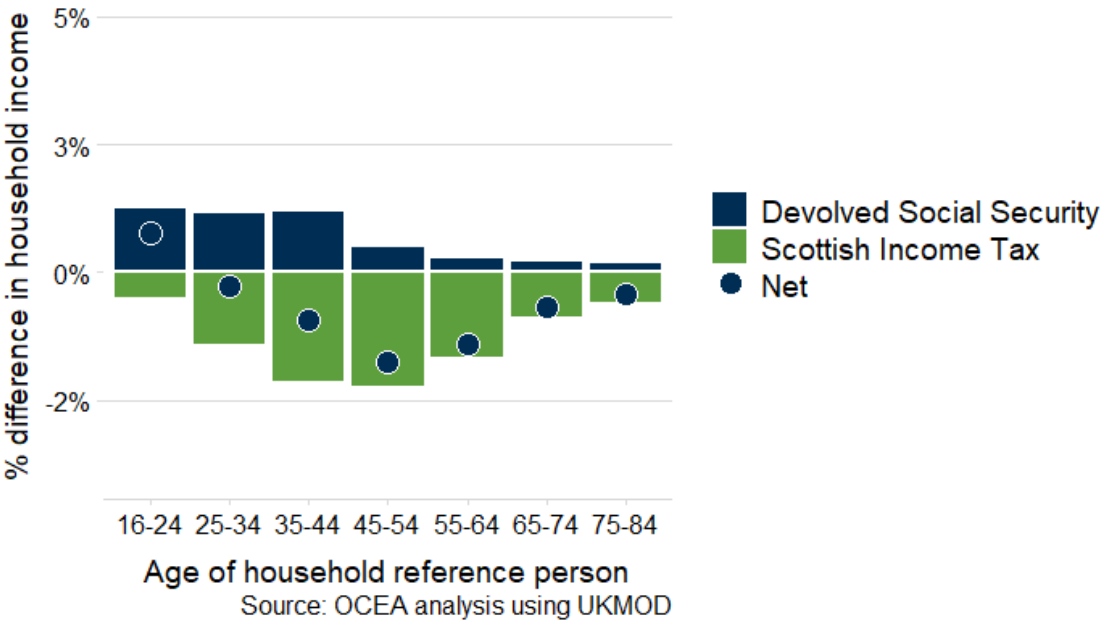
Figure 5 illustrates how differences in tax and social security systems vary according to the age of the household reference person. It shows that the impact is greater on middle-aged individuals (those aged 35 to 54), where average incomes peak.

Figure 4: Difference in Tax paid and social security received in Scotland relative to the rUK system in as a proportion of household income in 2026-27, by household type



For older households this effect is smaller as retirement or reduced working hours lowers incomes. In contrast, differences in social security payments are most significant for younger households, who are more likely to have children, largely due to the SCP.

Figure 5: Difference in Tax paid and social security received in Scotland relative to the rUK system as a proportion of household income in 2026-27, by age of household reference person



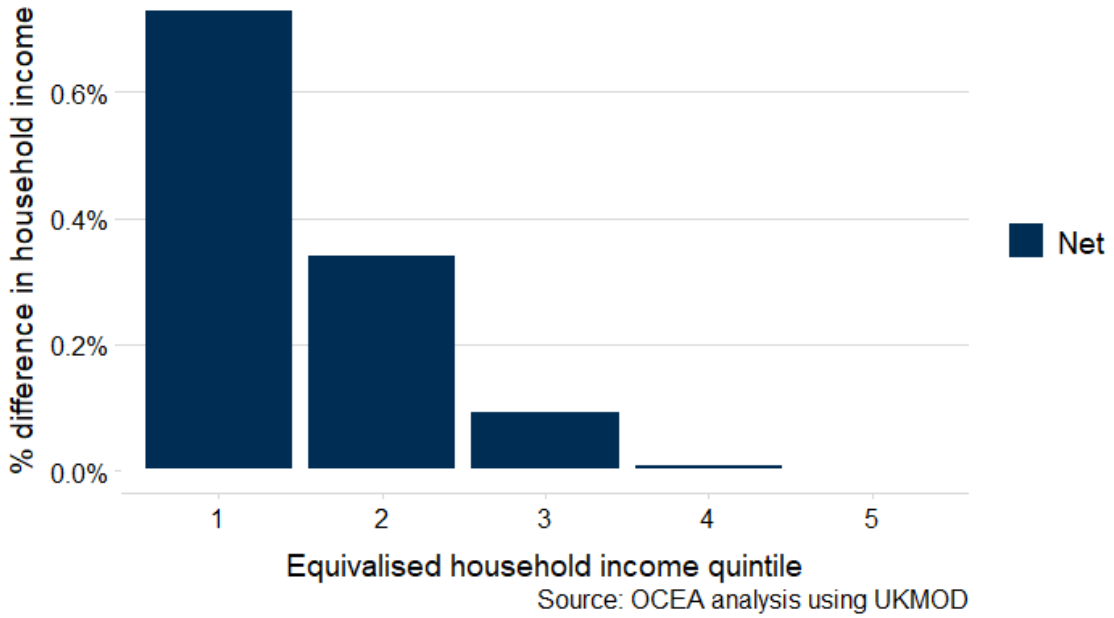
Box A: Impact of removing the two-child limit and interactions with the wider Social Security system in 2026-27

This publication focuses on devolved taxes and social security, where the Scottish Government has power to set policy. However, household incomes are also affected by recent changes in UK Government policy over reserved taxes and social security payments, which affect the Scottish Government social security expenditure.

One significant UK Government change announced in the Autumn Budget 2025 was the removal of the two child limit which restricts Universal Credit (UC) to the first two children in most households. This policy affects those born from 6 April 2017. The Scottish Government planned to mitigate this policy through a new Two-Child Limit Payment (TCLP), which was expected to lift 20,000 children in Scotland out of relative poverty.[5] With the UK Government's decision to remove the limit, this intervention is no longer required.

The analysis presented below explores the impact of the UK government's removal of the two child limit on households in Scotland in 2026-27.[6] Figure A1 shows that households who benefit are mostly in the lowest three quintiles of the income distribution, with 60% of households benefiting in the lowest income quintile. This shows the net impact on household incomes, after considering interactions with the wider benefit system. Across all households in the lowest quintile, household incomes increase by 0.73% on average, compared to no change in the top quintile.

Figure A1: Impact on household incomes in 2026-27 by household income quintile



Households could benefit by an extra £303.61 a month per child and the average gain to households who benefit is around £4,434 a year. A small proportion of households whose UC increases after lifting the two child limit will still be restricted

[5] Scrapping the two child limit to help end child poverty - gov.scot

[6] Over time, the number of households affected by the two-child limit is expected to rise as more children are born after April 2017, leading to a greater long-term impact.

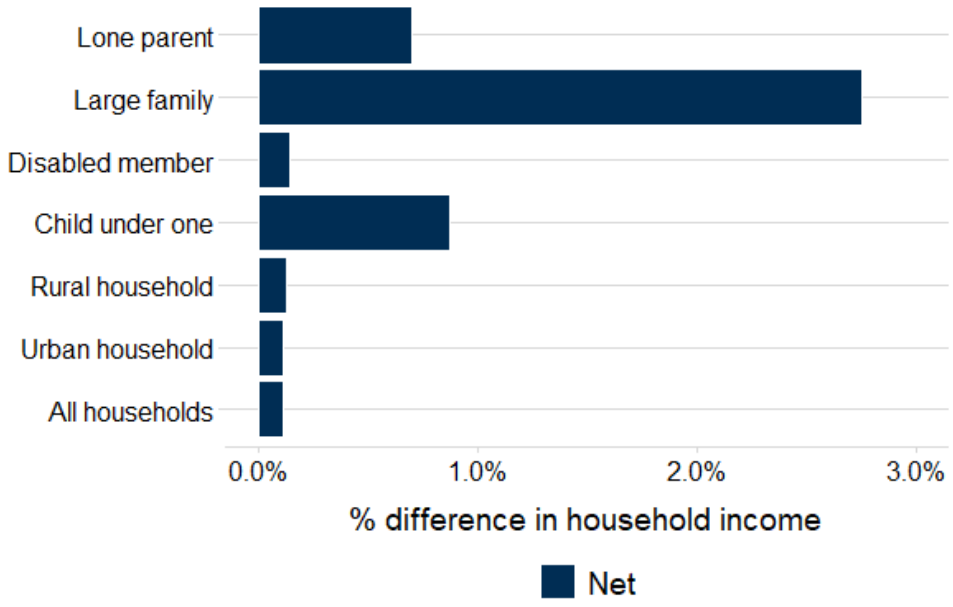
by the benefit cap, which gives an upper limit to the total amount of UC a household can receive. In May 2025, 0.6% of households receiving UC in Scotland had their benefit capped.[7] Some households will be exempt from the cap if they receive certain benefits.

In Scotland, households affected by the benefit cap can apply for a Discretionary Housing Payment (DHP). The amount that can be mitigated is at most their housing costs, which may not fully cover the amount they are capped by. The Scottish Government's total spending on DHPs for benefit cap mitigation is forecast to be £15.5 million in 2026-27, up from £6.1 million in 2025-26..

Some households, whose income is high enough for their UC payment to be fully tapered away, would start to receive a UC payment when the two child limit is lifted. These households would in turn become eligible for devolved benefits that are linked to receipt of UC, including Scottish Child Payment, Best Start Grant, Best Start Foods, Free School Meals and School Clothing Grant.

Removing the two-child limit benefits larger families with three or more children. These families are identified as one of the six priority family types most at risk of poverty under the Scottish Government's Tackling Child Poverty approach. Figure A2 shows that across all large families, households see an increase of over 2.5% in income, though the impact varies within this group. Families with more than three children gain the most, while some larger families will not benefit at all if they are not eligible for Universal Credit. Lone parent families and those with a child under one experience above average gains, reflecting their higher likelihood of being affected by the policy change.

Figure A2: Impact on household incomes in 2026-27 by household type



Source: OCEA Distributional Analysis model

[7] Benefit cap: number of households capped to May 2025 - GOV.UK

Part Two: Analysis of 2026-27 Budget decisions

This section analyses the impact of the tax and social security policy decisions made or confirmed in the 2026-27 Scottish Budget:

- An increase in the Basic and Intermediate rate thresholds by 7.4%.
- Freezing the Higher rate, Advanced rate and Top rate thresholds at £43,662, £75,000 and £125,140 respectively.
- A change to the Pension Age Winter Heating Payment (PAWHP) compared to the version announced in 2025-26 Scottish Budget, so that it is paid to all pensioners and the payment is recovered through taxation from those pensioners with a personal income of over £35,000 per year.

These are assessed against an assumed 'no policy change' counterfactual. This consists of:

- Uprating most social security payments and Scottish Income Tax bands (excluding the Personal Allowance) with inflation – including the Top rate thresholds given the SFC's approach to baselines.[8]
- A PAWHP as announced at the 2025-26 Scottish Budget, which restricts eligibility for full payments to households receiving a qualifying benefit and pays a lower payment of £100 to all other pensioner households.

Council Tax is assumed to rise in line with the September 2025 CPI, though local authorities will set their own rates after the Scottish Budget. In addition, the Cabinet Secretary announced the introduction of two new bands for high-value properties in this budget, which is not included in this analysis as the policy will be developed further and will take effect from April 2028. Since social security payments have also been uprated for inflation and no major policy changes were introduced beyond those already noted for 2026-27, the following charts focus on the impact of changes to Income Tax and PAWHP. Figures 6 and 7 show how Budget decisions affect household incomes, both as a share of income and cash terms.

The change to PAWHP, which extends payments to all pensioners earning less than £35,000 a year, is estimated to have a progressive impact, with households in the second and third deciles benefitting the most. Compared to the policy announced in the 2025-26 Scottish Budget, the new approach provides a higher payment to all pensioners, while recovery of payment only affects those in higher-income households with earnings above the £35,000 threshold.

The Income Tax policy further increases the progressivity of the tax-benefit system in 2026-27, with lower-income households benefitting slightly from increases to the Basic and Intermediate rate thresholds, while higher-income households experience a reduction in income due to the freeze on higher income tax thresholds.

There are also indirect effects arising from these tax changes. Universal Credit entitlement is assessed on post-tax income, so reductions in net income for some households may lead to new eligibility for UC. This then leads to entitlement to passported benefits such as SCP. Conversely, some households already receiving

[8] In all instances, uprating with inflation refers to increasing by September 2025 Consumer Price Index inflation rate for the preceding 12 months (3.8%).

UC who pay less tax as a result of the changes may see an increase in post-tax income, which could lead to a reduction in their UC award as more of their entitlement could be tapered away.

Figure 6: Impact of Budget decisions on average household incomes in 2026-27 by household income decile, as a proportion of income

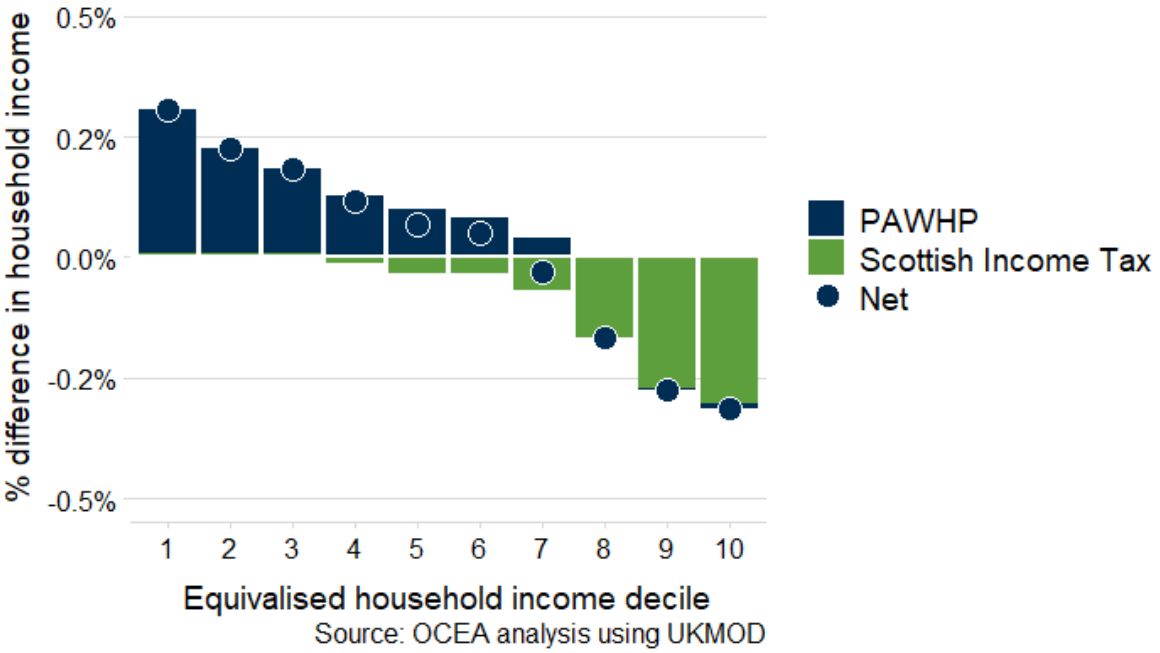
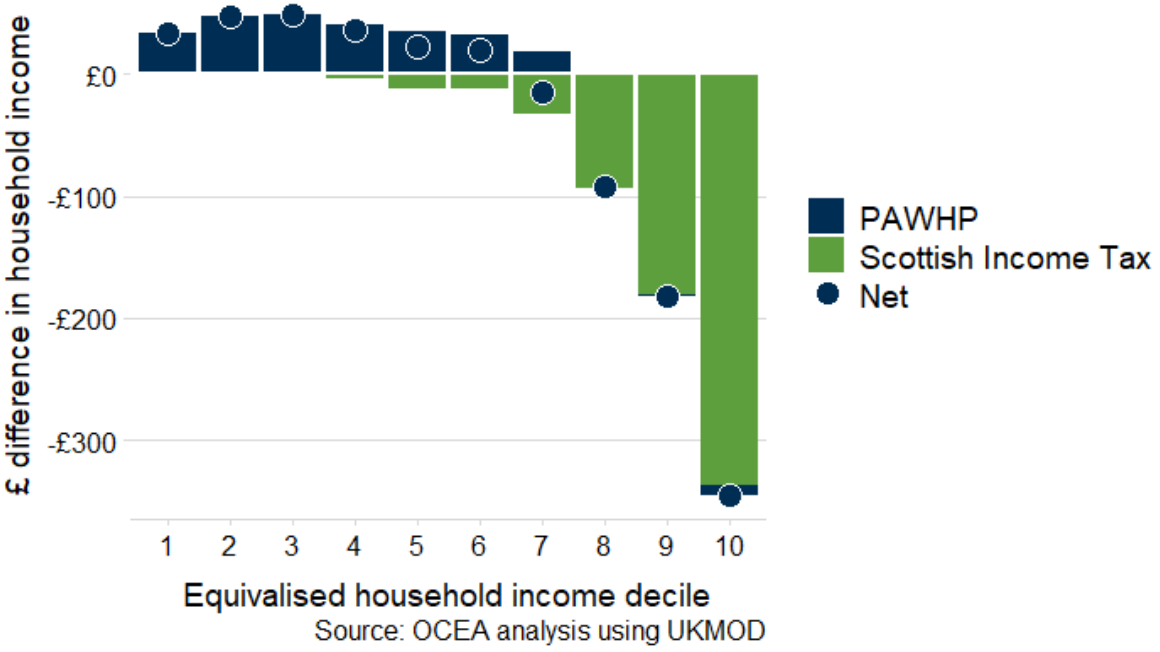


Figure 7: Impact of Budget decisions on average household incomes in 2026-27 by household income decile, in cash terms



As Figure 8 shows, the Budget decisions on Income Tax mainly have a negative impact on households with working age members, who are more likely to pay tax, whereas pensioner households tend to benefit from the increased PAWHP award.

Figure 8: Impact of Budget decisions in 2026-27 as a proportion of income, by age of household reference person

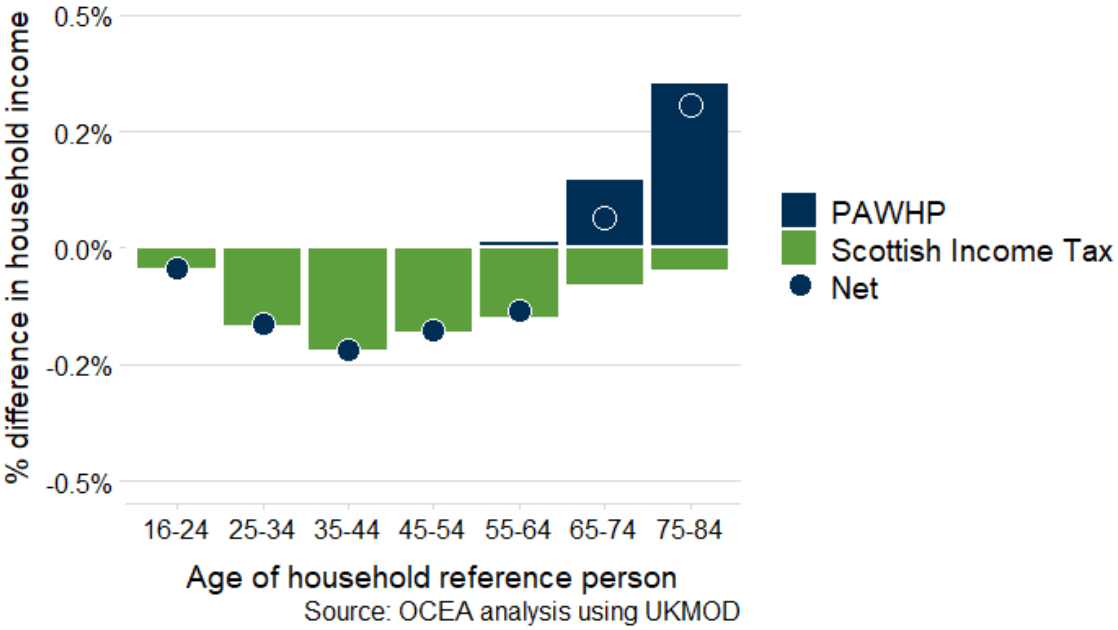
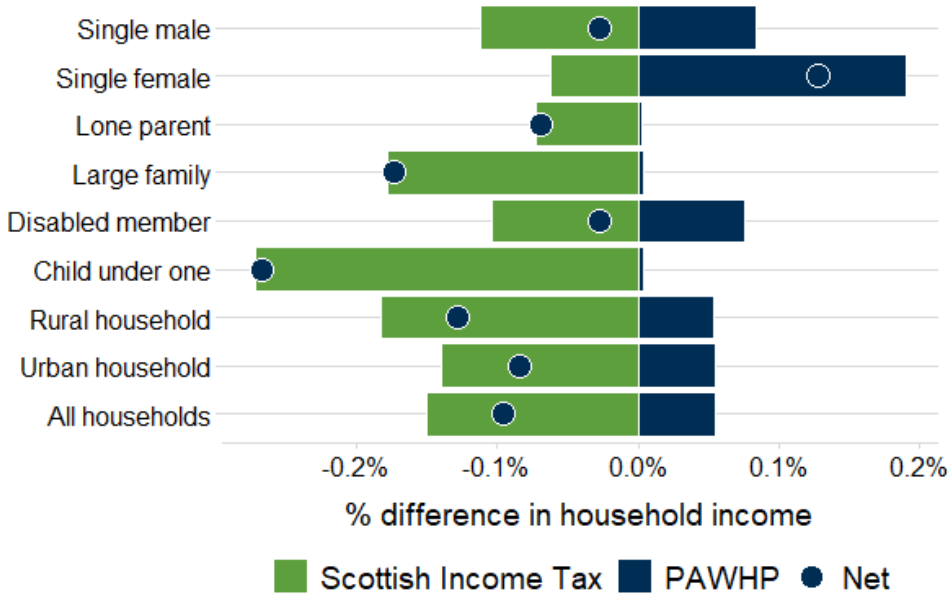


Figure 9 also analyses the impact by the same household types as used in Figure 4. Whilst all household types are estimated to see a reduction in income due to higher Income Tax payments, some households benefit from increased support through PAWHP. Single female households are net beneficiaries because of their lower incomes – they are less likely to be impacted by tax freezes.

Figure 9: Impact of 2026-27 Budget decisions as a proportion of income, by household type



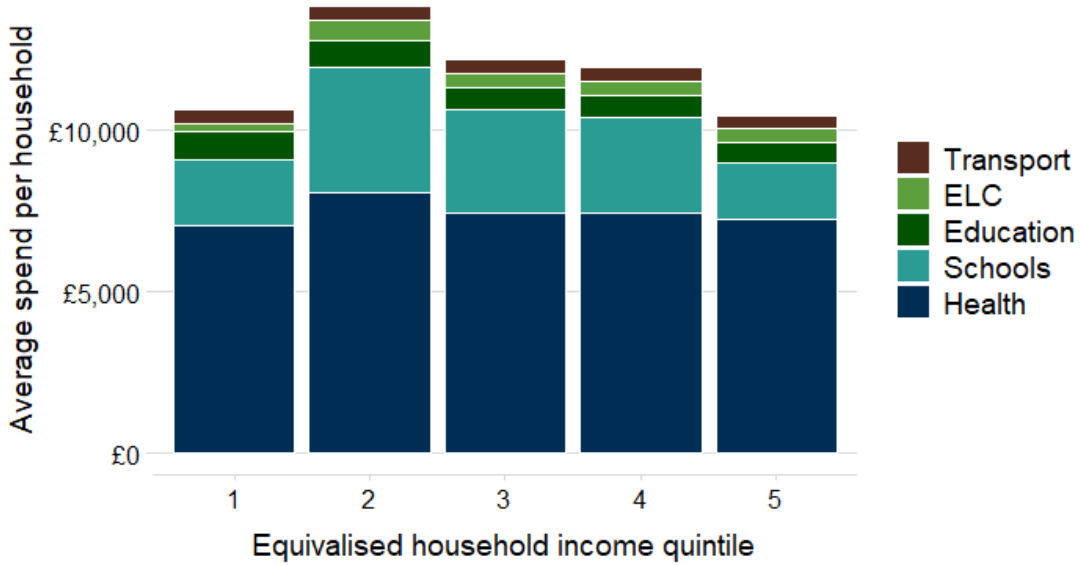
Part Three: Public spending

This section explores how public spending is distributed across households, focusing on resource spending for Health, Schools, Further and Higher Education, Early Learning and Childcare, and Transport. It offers a more comprehensive evaluation of the distributional effects of the 2026-27 Scottish Budget and the 2026 Scottish Spending Review.[9] The areas covered together represent approximately 70% of total resource spending, when the spending on Social Security is excluded, which is analysed in the earlier parts of this publication.[10]

Unlike taxes and social security, spending on public services does not directly affect household incomes. Instead, the average amount the government spends on different household types is estimated as a way to show the benefit they receive. In reality, the value of a service may be higher or lower than its cost and this can vary between groups and households.

As such, these estimates are not directly comparable to the tax and social security figures presented in parts one and two. The methods will continue to be tested and improved for future reports as the analysis expands to other areas. For details, see the methodology in the annex. As with previous sections, all figures represent the annual average spending across all households within in each quintile or type, not just those estimated to use these services. This approach ensures that amounts are comparable across different areas.

Figure 10: Average government spend in 2026-27 among all households in cash terms and as a share of household income, by income quintile



[9] Detailed spending plans were not finalised until 13 January. This analysis uses spending plans as of 5 January for portfolio allocations, with minor differences from final spending published in the Scottish Budget and Spending Review.

[10] Other major spending areas relating to the direct provision of public services to households in Scotland that are not captured in the public spending module of the model include Social Care, Justice and Home Affairs and Local Government spending not captured in areas already covered.

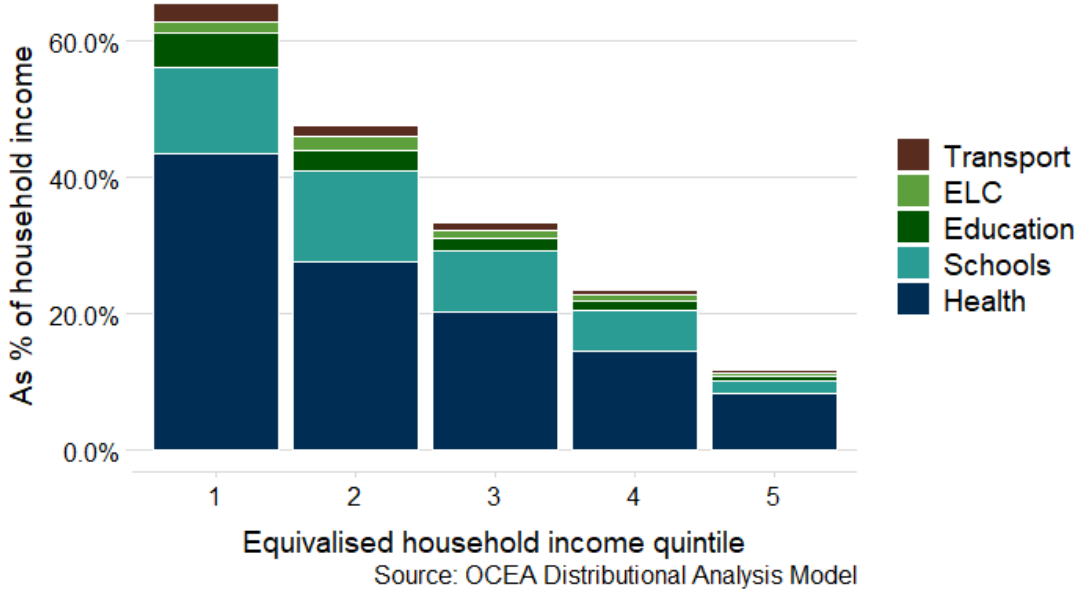
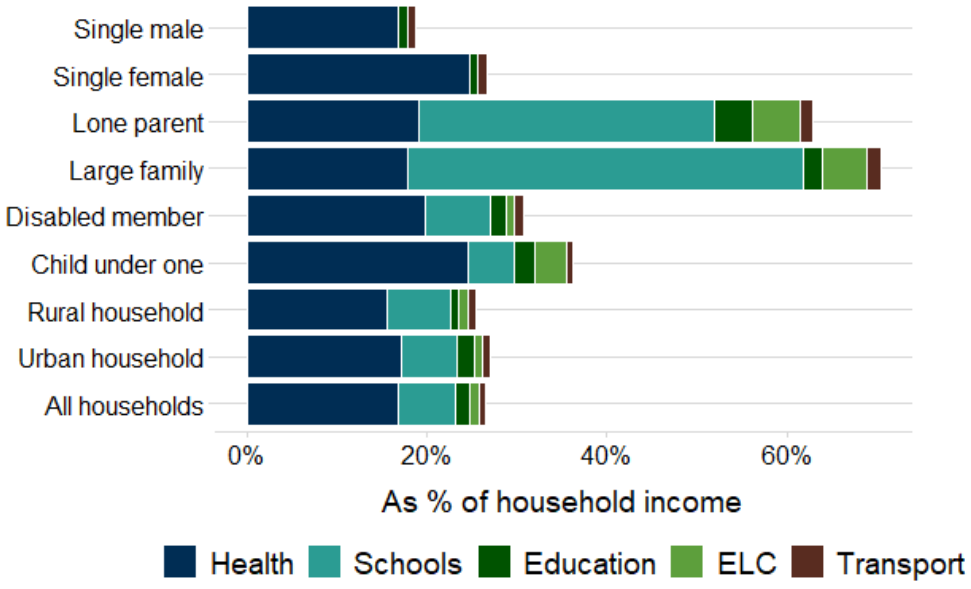


Figure 10 shows that most income quintiles receive similar average spending from public services considered, with the second quintile receiving the highest spending. However, when combined with the progressivity of the tax-benefit system as presented in part 1, this results in a redistributive effect. Across all areas, spending represents a higher share of income for lower-income households.

Figure 11 shows the impact of public spending on household types. It indicates that large families and lone parent households benefit the most from public spending considered in this section, primarily due to higher spending on Schools.

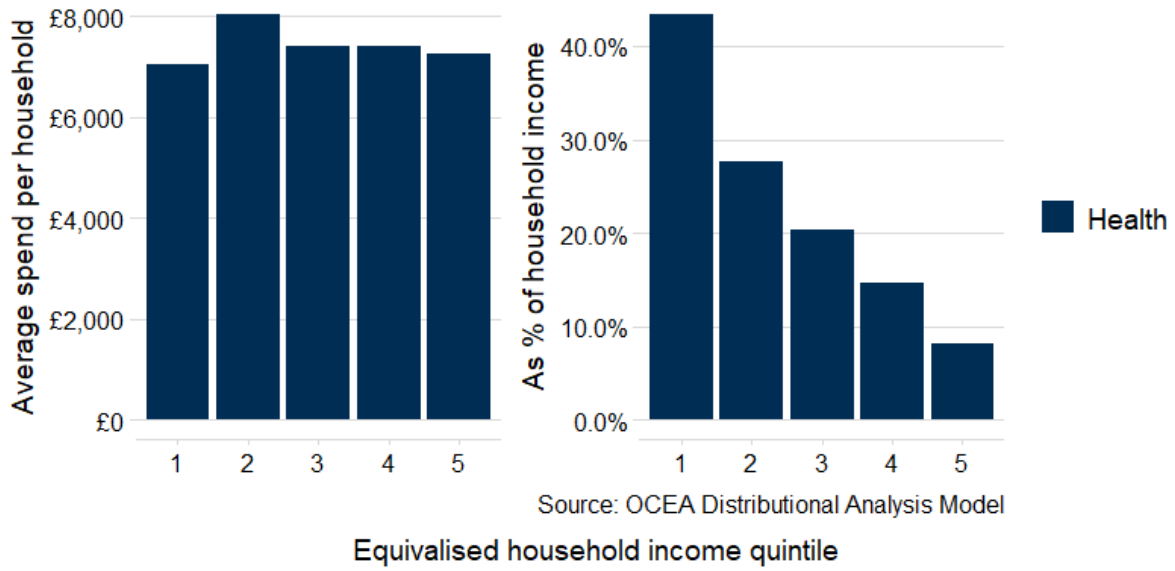
Figure 11: Average government spend in 2026-27 among all households by household type, as a share of household income



Health

Health resource spending covers NHS board, community health and mental health services. In this analysis, use of services is primarily modelled based on age and sex.[11] The impact is largely shaped by where households with older people fall within the income distribution. Whilst average cash spending is relatively similar, it is slightly lower in the bottom quintile, which includes fewer older people and more younger people. As a share of income, health spending has a greater impact on lower-income quintiles.

Figure 12: Average government spend on Health in 2026-27, all households in cash terms and as a share of household income, by income quintile

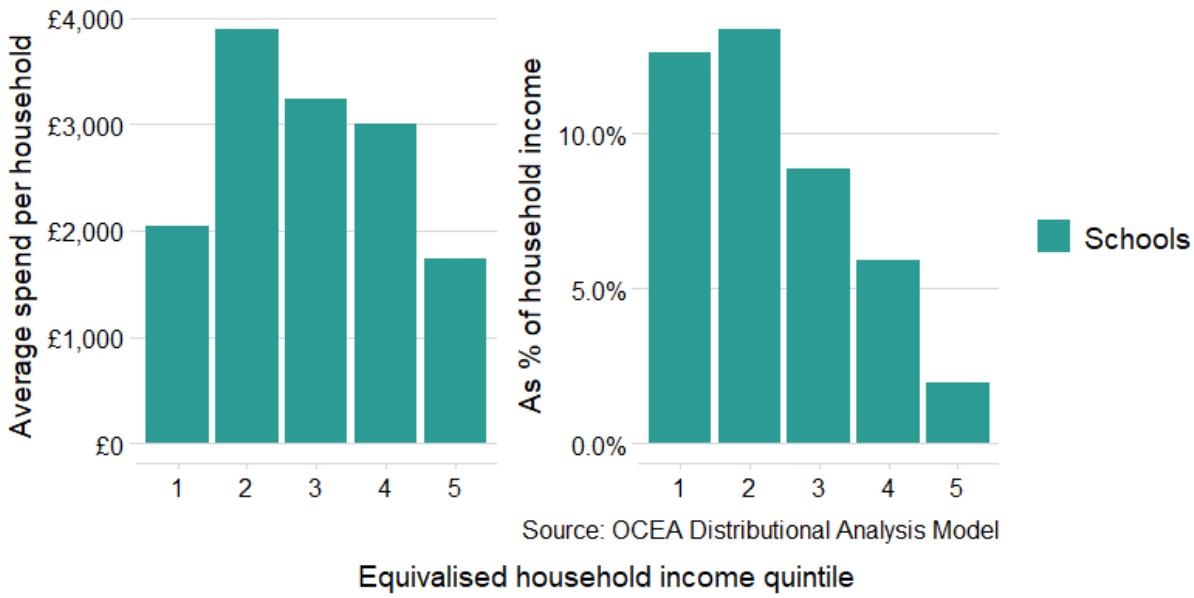


Schools

Schools resource spending covers primary, secondary and special schools. Spending is estimated to peak in the second income quintile, reflecting where households with children sit in the income distribution. Average spending is somewhat lower in the first quintile as it is estimated to have less households with children. Wider changes in the tax-benefit system, such as the removal of two child limit as covered in Box A, shifts some households with children from the first to the second quintile.

[11] See the methodological annex for more detail

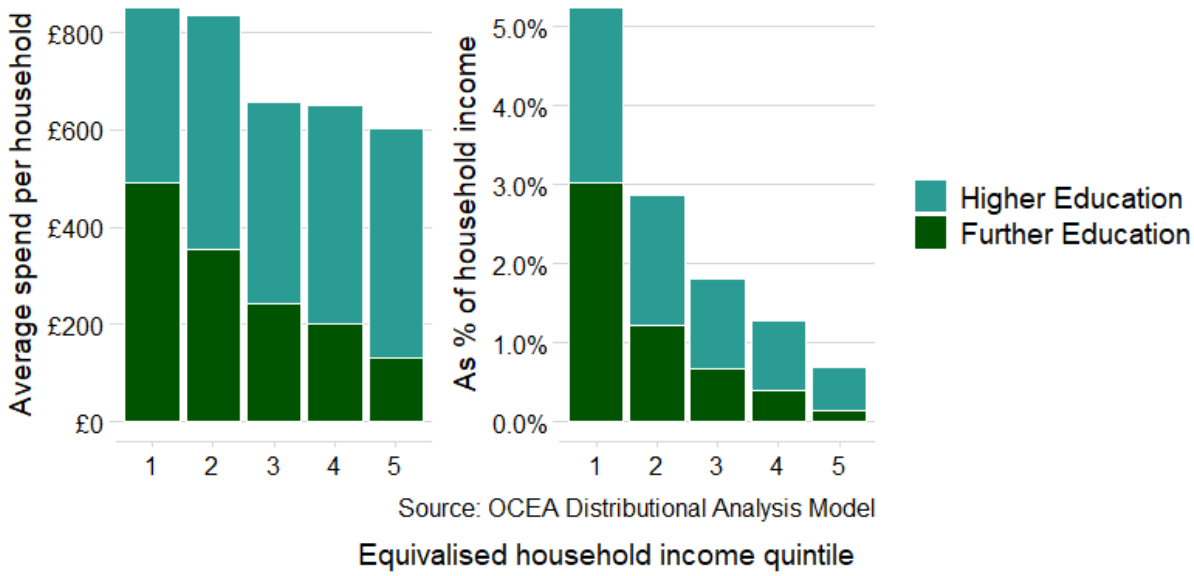
Figure 13: Average government spend on Schools in 2026-27, all households in cash terms and as a share of household income, by income quintile



Education

Overall, spending on further and higher education is progressive both in cash terms and as a proportion of household income. Lower-income households receive more in cash terms (and as a share of income) from spending on further education than higher-income households. Higher-income households receive more resource spending on higher education than lower-income households in cash terms, although the gap is smaller than for further education.

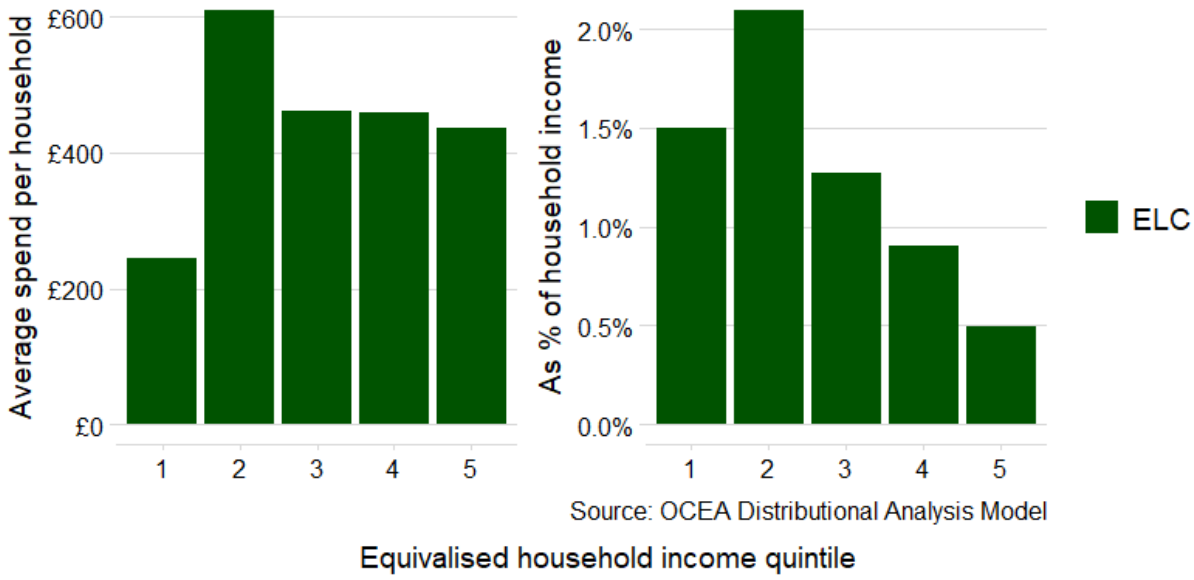
Figure 14: Average government spend on Education in 2026-27, all households in cash terms and as a share of household income, by income quintile



Early Learning and Childcare

The pattern of ELC spending is driven by the position of households with 3 and 4 year olds and eligible 2 year olds in the income distribution. The lifting of the two child limit under Universal Credit means that fewer households with eligible children sit in the lowest income quintile. This results in households in the second quintile benefiting the most in cash terms and as a share of income. Compared to the 2025-26 publication, there has also been a change in methodology – this moves some households with children higher in the income distribution.

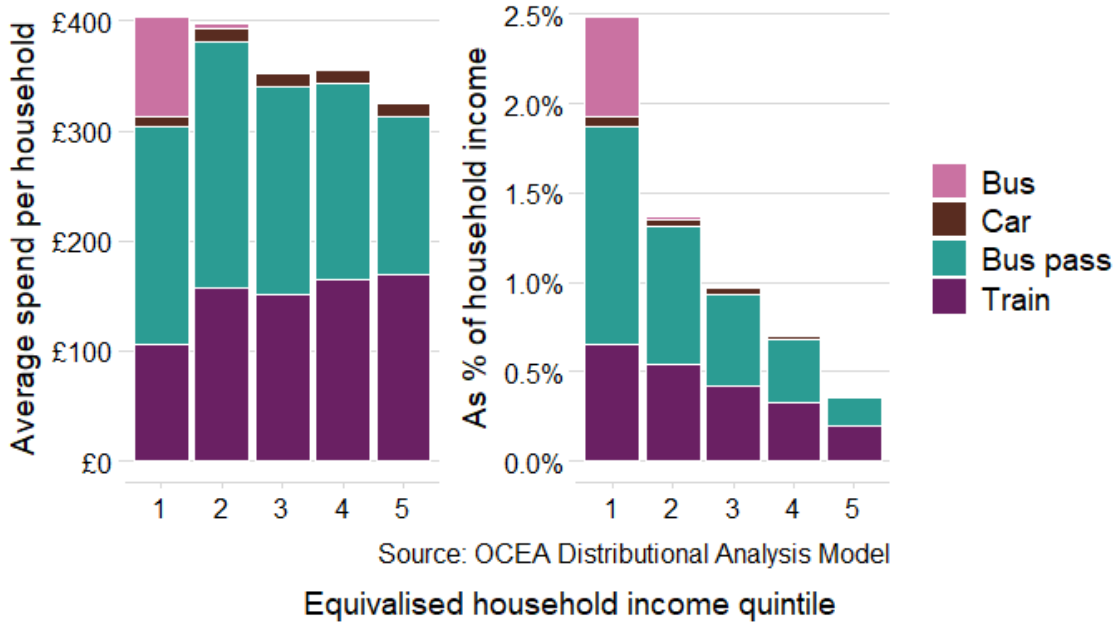
Figure 15: Average government spend on ELC in 2026-27, all households in cash terms and as a share of household income, by income quintile



Transport

Total spending on Transport is somewhat progressive, both in cash terms and when measured as a share of income. Larger amounts are spent on road (cars) and rail which tend to be used more by higher-income households. In contrast, spending on bus services and concessionary travel is more focussed on lower-income households, making overall transport spending more progressive.

Figure 16: Average government spend on Transport in 2026-27, all households in cash terms and as a share of household income, by income quintile



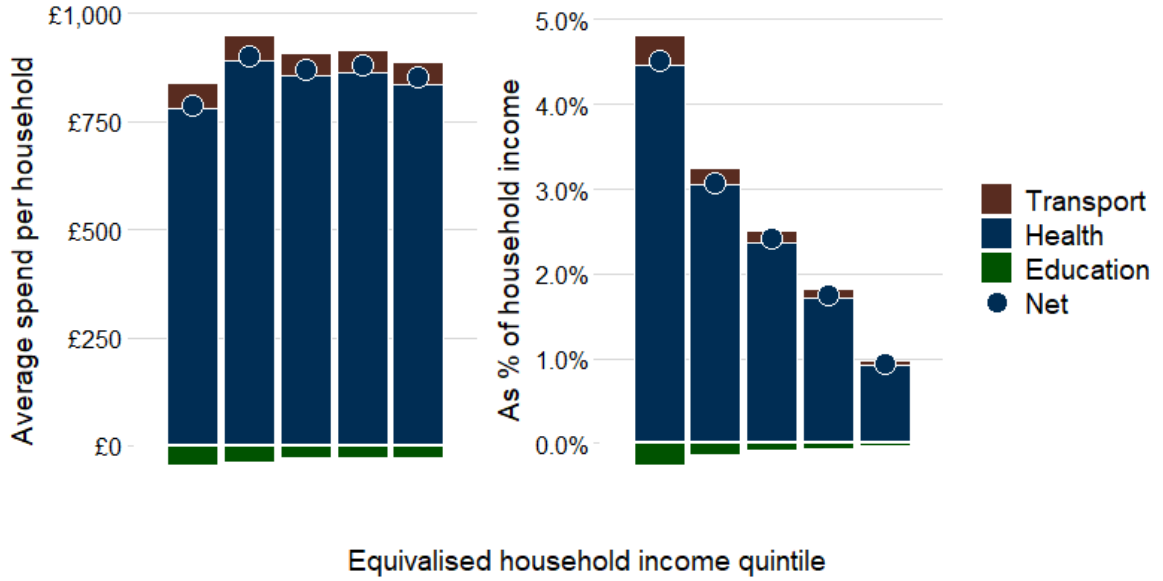
Box B: Distributional impact of the 2026 Scottish Spending Review at the end of the spending review period

The 2026 Scottish Spending Review (SSR), published with the 2026-27 Scottish budget, sets out spending plans from 2026-27 to 2028-29. Earlier analysis in this section shows the modelled distributional impact of 2026-27 public spending across the income distribution and household characteristics. This box explores the distributional impact of the SSR in 2028-29 based on areas covered by the distributional model. Public spending analysis models household-level use of public services with aggregated spending data. Although modelling multi-year spending decisions by individual spending lines is not feasible in the current model, assessing how spending changes (growth rate and allocation) offers insights into the distributional impact of the SSR.

The SSR shows aggregate spending is 10% (or 4% in real terms) higher by 2028-29 compared to 2025-26. Distributional impact of the SSR is shown by household quintile (from the poorest to the richest households) and household type, both in cash terms and as a share of household income. The estimated impact is not a direct cash transfer or income increase – it shows which groups benefit most from SSR spending changes. The impact is presented for the final year of the SSR period against the 2025-26 spending levels in each area, which are assumed to at least keep pace with inflation in future years in the absence of SSR. In other words, this analysis shows that households would benefit from spending that grows in real terms (i.e. grows above inflation).

Figure B1 shows that the impact of the SSR decisions, measured as a share of household income, is progressive – lower-income households gain more (4.5% for the bottom quintile) than higher-income households (0.9% for the top quintile).

Figure B1: Average impact of the SSR decisions in 2028-29 on households in cash terms and as a share of household income, by income quintile[12]



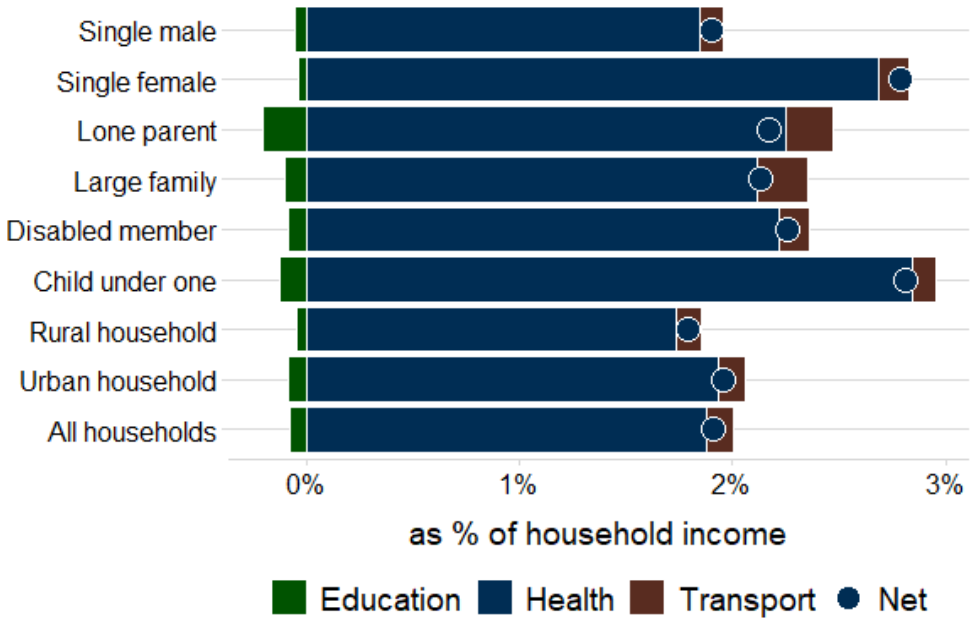
[12] Values for schools and ELC are too small to show on the charts.

However, spending is somewhat similar across the distribution in cash terms, with the second quintile seeing the largest benefit in cash terms. This largely reflects relatively flat Health spending across all income quintiles and that this spending grows above inflation compared to the baseline. Spending on Further and Higher Education does not keep pace with inflation and creates small losses across all income groups, but the overall impact remains positive.

Social security spending is part of the SSR decisions and is likely to make the overall spending more progressive, both in cash terms and as a share of income. The progressive impact of Social Security spending is presented in Figure 1 in the first part of this publication whereas it is excluded from the public spending analysis as it does not represent an in-kind benefit like other areas of spending but a direct cash transfer to households.

As shown in Figure B2, families with children under one and single female households benefit the most from the SSR decisions through above-inflation spending on Health when the benefit is shown as a share of income. In cash terms, families with children under one and large families benefit the most.

Figure B2: Average impact of the SSR decisions in 2028-29 on households by household type



Source: OCEA Distributional Analysis model

Annex: Methodology

Modelling Approach

This analysis uses two separate models, one for tax and benefit modelling, and one for public spending.

The tax and benefit analysis uses UKMOD, an open-access microsimulation model developed by the Institute for Social and Economic Research (ISER) at the University of Essex. The model applies tax and benefit rules to a set of individual and household-level data, allowing the user to simulate and compare alternative scenarios.

The input data in UKMOD is derived from the Department for Work and Pensions' Family Resources Survey (FRS). The analysis of tax and benefits in this paper uses three years of FRS data, 2021-22, 2022-23 and 2023-24. To pool the data, the grossing weights used to scale the FRS sample to the whole population are divided by the number of data years.

The public spending analysis uses a separate, purpose-built model. It links supplementary service-use information to the UKMOD output dataset. This linkage enables estimation of which households are likely to access public services, based on demographic and socioeconomic characteristics.

The income components and other monetary variables are scaled to the year being analysed (2024-25) based on the Office for Budget Responsibility (OBR) latest forecasts. No adjustments are made for demographic change.

All modelling includes adjustments to take-up rates of social security payments to reflect the latest take-up estimates. Overall amounts are reviewed against published outturn statistics. The model does not include any behavioural effects associated with tax policies.

Analysing the distribution of income

Parts one and two of the analysis examine the impact of policies on net household income before housing costs, showing how tax and benefit changes affect households across the income distribution. In contrast, part three shows a modelled allocation of government spending across the income distribution. All results are presented across the income distribution, which is arranged using equivalised net household income before housing costs. In this context, net means after the impact of direct taxes and social security payments.

Equivalised means income is adjusted based on household size and composition, to allow for the fact that larger households will require a higher income to maintain a similar standard of living as a smaller household. This analysis uses the modified OECD equivalence scale, following the same approach as used in UK and Scottish Government poverty analysis. Further detail on the equivalisation calculation is available here.

Household income means that all income is assumed to be shared across all members of the household. This analysis uses the Family Resources Survey definition of a household (i.e. one person living alone or a group of people - not necessarily related - living at the same address, who share cooking facilities and share a living room or sitting room or dining area).

Before housing costs means that no deductions are made for rent or mortgage payments from household incomes.

Part one and part two report results based on the average gain or loss of income within household income deciles. Part three reflects the average government resource spending per household within household income quintiles. There may still be considerable variation around the estimated averages.

As an indication of the income levels in each decile, table A1 below shows the median gross (i.e. pre-tax and pre-social security) unequivalised household income in each decile.

Table A1: median unequivalised gross annual household income, by equivalised net income decile in the 2026-27 policy scenario

Equivalised household income decile, before housing costs	Median unequivalised gross annual household income (£)
1	£900
2	£2,900
3	£10,600
4	£23,000
5	£26,800
6	£33,400
7	£46,200
8	£63,400
9	£80,000
10	£128,900

Tax and benefits: scope

The following policies are devolved taxes or social security payments which are explicitly modelled in this analysis: Scottish Income Tax, Council Tax (excluding Water and Sewerage charges), Scottish Child Payment, Discretionary Housing Payments (DHPs) used to mitigate the bedroom tax and benefit cap, Carers Allowance Supplement, Best Start Grant and Best Start Foods, Child Winter Heating Payment and Pension Age Winter Heating Payment.

In addition to the payments listed above, the Scottish Government also has responsibility for a range of disability benefits, which have been replaced by the Adult Disability Payment, Child Disability Payment and Pension Age Disability Payment.
These benefits are reflected in the underlying survey data, but the impact of the changes introduced by the Scottish Government are not modelled. Consequently, differences in policy on these aspects of the social security system do not account

for any of the differences shown in figures 2 or 3 above. As more data becomes available on the effect Scottish Government policy changes have on take-up, we may revisit modelling of these aspects of the social security system.

Figure 1 presents analysis of a wider segment of the tax and social security system, including several reserved policy measures, and so additionally includes: Employee National Insurance Contributions, Income tax on savings and dividends income Universal Credit, and the legacy benefits it replaces, Pension Credit, Child Benefit, State Pensions, Statutory sick pay and Statutory maternity pay.

All impacts on household incomes are shown excluding any behavioural responses. This is particularly important when considering impacts of tax policy on higher income deciles, where behavioural responses to policy changes are likely to be greatest. The analysis may not reflect impact on the very richest households.

Public Spending

The public spending model combines income variables and household characteristics from the FRS with modelled tax and benefit data, supplemented by service-use information. The aim is to estimate how much individuals use each public service, enabling spending to be allocated and averaged across the income distribution.

This publication covers five areas of public spending: Health, Funded Early Learning and Childcare (ELC), Further and Higher Education, Schools, and Transport. The methodology builds on the 2021 Scottish Government feasibility study[13] on distributional analysis of taxes, social security, and public services.

Spending lines are taken from Level 4 budget tables where possible. For schools and funded ELC, expenditure is funded through Local Government and therefore is not separately identified in Budget allocations.

Resource spending is aggregated to the household level, and all charts present household-level allocations to ensure comparability with the tax and social security analysis in Parts One and Two.

Where detailed data on individual service use is not available, the analysis assumes that individuals with similar broad characteristics access services in a comparable way. These assumptions are necessary given data constraints and are consistent with established practice in distributional analysis. Further discussion of these methodological considerations can be found in the Institute for Fiscal Studies (IFS) report on modelling public service spending.[14]

Health

The health modelling approach aims to follow the principles of the National Resource Allocation Formula (NRAC), which Public Health Scotland use to distribute NHS funds to health boards in Scotland.

[13] Budget 2019 to 2020: feasibility of distributional analysis - study - gov.scot
[14] The distribution of public sector spending

Spending is allocated according to an individual's age and sex using the NRAC cost curves across six care packages: Acute, Care of the Elderly (COTE), Mental Health and Learning Difficulties (MHLD), Maternity, Community, and GP Prescribing.

An additional adjustment is applied according to the individual area of residence. This aims to account for relative need due to differences in morbidity and life circumstances. However, this adjustment is relatively minor because location data is only available at a high level and does not capture the variation across smaller geographies.

No adjustment is made for differences in the cost of delivering services in different geographic areas (e.g., additional travel costs for district nurses in remote regions). This is because the model assumes that the level of care, and therefore its value to the household, is consistent across locations.

The total allocation is then scaled to match the total health spending reported in the Level 4 tables.

Unlike other areas of public spending, which allocate resources based on actual or modelled usage patterns, this approach uses an insurance-based method. This is due to limited availability of reliable health service usage data and the need to reflect the greater costs associated with illness, rather than actual service consumption.[15]

Funded Early Learning and Childcare (ELC)
The analysis models the entitlement to 1,140 hours of funded ELC for 3 and 4 year olds and eligible 2 year olds. It uses data from the FRS to identify users of funded and formal childcare. The FRS is based on self-reported data, and may not perfectly represent all households eligible for funded ELC, especially if some groups are underrepresented.

To increase sample sizes, data is pooled across three years: 2021, 2022 and 2023. While most of this period follows the introduction of the policy in August 2021, it also includes some data from before implementation.

Spending data is taken from Local Government 2024-25 Provisional Outturn and 2025-26 Budget Estimates and uprated by the overall growth in resource spend, excluding spend on health and social care, education and skills, and transport. The amount spent on funded ELC is allocated proportionately to households based on the modelled number of hours used. This household spending figure is then averaged across quintiles and household type.

Further and Higher Education
To model further and higher education, the FRS is used to identify people who are students or who might be students.

The caseload of further education students identified in survey responses is lower than reported figures. This is partly because some groups are underrepresented in

[15] OECD's The Impact of Publicly Provided Services on the Distribution of Resources

the survey classification. For example, individuals under 16 who attend further education part-time alongside secondary school are recorded as attending secondary school only.

To address this, random sampling is applied to under-16s, and individuals aged 16 and over who report being economically inactive and not in higher education. These sampled cases are added to the further education caseload until the target caseload is met.

For higher education, the number of respondents reporting that they are in higher education is reasonably close to the reported caseload. This group is split into individuals who identify as Scottish in the FRS and those who don't.

Spending data for further education is taken from the Level 4 spending line for college resource. This expenditure covers both further and higher education delivered in colleges. However, as there is not sufficient detail in the data to distinguish higher education students attending college from those attending university, we assume that higher education students in colleges receive the same per-student allocation as higher education students in university. The remaining college expenditure is allocated solely to further education students. This is allocated evenly across all further education students.

Spending data for higher education is taken from the Level 4 tables. Higher education resource spending is allocated evenly across all higher education students. Student support and tuition fee payments are available to Scottish-domiciled students only. Spending is allocated to individuals who identify as Scottish and in higher education. This approach does not aim to model caseload by ethnicity but helps refine the estimate to bring it closer to the target caseload.

Schools
The schools methodology uses the FRS to identify children who attend state-run primary or secondary school, and distributes spending evenly among them.

Due to data issues, the special school education budget is shared proportionately across the primary and secondary education budgets based on pupil numbers. A location factor is applied to adjust for more spending on schools in deprived areas. The location factor is calculated using the amount spent in each local authority on primary and secondary.

Spending data is taken from Local Government 2024-25 Provisional Outturn and 2025-26 Budget Estimates and uprated by the overall growth in resource spend, excluding spend on health and social care, education and skills, and transport.

Transport
Transport modelling uses individual travel patterns from the Scottish Household Survey (SHS) to develop a logistic regression model. This model predicts the likelihood of using different methods of transport - car, bus, train, and concessionary bus passes - based on characteristics such as age, income, and sex.

The model is then applied to the FRS to estimate each individual's probability of using each transport method. These probabilities are used to proportionally allocate transport expenditure among individuals as a proxy for usage. The allocated amounts are scaled so that the total matches the transport resource spend reported in the Level 4 spending lines.

As a validation step, results for specific demographic groups are compared against the Transport and Travel in Scotland (TATIS) survey to ensure consistency.

Scottish Spending Review

The distributional analysis of the Scottish Spending Review does not cover all resource spending, as only some areas of spending relate to the direct provision of goods and services to households. The distributional analysis model covers resource spending on Health, Schools, Further & Higher Education, Early Learning & Childcare (ELC) and Transport. Together these accounted for 70% of total spending in 2025-26, excluding spending on Social Security, which is covered in parts 1 and 2 of this publication.

Spending Review assumptions

- It is assumed that spending on Health will grow in line with the relevant Level 4 lines in 2026-27 and spending on the Health & Social Care portfolio in the SSR allocations for all future years (Health is the main component of that spending).
- Transport spending is assumed to follow relevant Level 4 lines in 2026-27 and the path set out for the Transport portfolio for all future years (although only a portion of that spending is covered in the model).
- Spending on Higher & Further Education is assumed to grow in line with proposed allocations for relevant Level 4 lines and the path set out for the Education & Skills portfolio for all future years.
- It is assumed that spending on Schools and ELC – in the absence of granular data – will grow in line with spending on all other portfolios combined, once Health & Social Care, Education & Skills and Transport are excluded.

Counterfactual Parameters
Table A2 below summarises the parameters used for each of the two counterfactuals reported on in this analysis.

Table A2: counterfactual parameters

Policy	Part 1 counterfactual: rUK policy counterfactual for 2026/27	Part 2 counterfactual: No policy change counterfactual for 2026/27
Income Tax	Income Tax rates and bands as in place in England & Northern Ireland for 2026/27, based on Autumn Statement announcements.	Personal allowance frozen, as per UK Government policy. All bands uprated by CPI (3.8%). All rates unchanged.
Council Tax	Excluded from comparisons made against this counterfactual.	Average Band D Council Tax uprated with CPI.
Scottish Child Payment	Policy not in place.	Awards uprated with CPI. Eligibility criteria remain unchanged.
Discretionary Housing Payments to mitigate bedroom tax benefit cap	Policy not in place.	Awards uprated with CPI. Eligibility criteria remain unchanged.
Carers Allowance Supplement	Policy not in place.	Awards uprated with CPI. Eligibility criteria remain unchanged.
Child Winter Heating Payment	Policy not in place.	Awards uprated with CPI. Eligibility criteria remain unchanged.
Best Start grant & Best Start Foods	Replaced with Sure Start and Healthy Start grants	Awards uprated with CPI. Eligibility criteria remain unchanged.
Pension Age Winter Heating Payment	Flat payments of £200 and £300.	Restricted eligibility for full payments to households receiving a qualifying benefit and a lower payment of £100 to all other pensioner households.

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ISBN: 978-1-80643-643-9 (web only)

Published by The Scottish Government, January 2026

Produced for The Scottish Government by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA
PPDAS1693546 (01/26)