Scotland's Fiscal Outlook

The Scottish Government's Medium-Term Financial Strategy

2025

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Scottish Government
Riaghaltas na h-Alba

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Foreword by the Cabinet Secretary for Finance and Local Government

Everyone has experienced the impacts of the volatile economic and fiscal environment of recent years. The Scottish Government is not immune to the repercussions of that volatility.

Our public finances have borne the impact of over a decade of Westminster austerity, the loss of billions of pounds in public funding due to the impact on the economy of Brexit, the COVID-19 pandemic and rampant inflation driven in part by the war in Ukraine, all culminating in a cost of living crisis.

Economic threats continue to emerge at a global level, further increasing the uncertainty facing Scotland's finances, as demographic trends mean the demands on our public services continue to grow.

The UK Spending Review announced on 11 June 2025 delivered a disappointing and challenging settlement for Scotland. Across both resource and capital budgets the Scottish Government's funding fell substantially short of expectations. Without the full fiscal levers of being a normal independent nation, the budgets for the Scottish Government will continue to be almost entirely dictated by decisions taken in Westminster. That means when Westminster decide to tax jobs or cut support for disabled people there is an automatic and substantial cost to Scotland's budget. The UK Government's failure to fully fund their employer National Insurance Contributions increase left Scotland with a £400 million shortfall in funding, undermining investment in our priorities.

Despite these challenges, we in Scottish Government have made the conscious decision to invest in the people of Scotland. We have put more money in people's pockets by funding free university tuition, prescriptions and concessionary travel along with providing support for older people to heat their homes, help for disabled people to live independent lives, and support for children in need through the game-changing Scottish Child Payment.

I believe working to eradicate child poverty is the greatest investment in Scotland's future. It is the route to enabling greater participation in Scotland's economy, raising overall living standards, and securing societal wellbeing. Prioritised investment in Scotland's public services, in health, education, skills, and in infrastructure, will lead to positive impacts on employment levels, productivity and long-term economic growth. And we must seize the opportunities for our economy to prosper in the transition to an environmentally sustainable economy, with growth in new industries.

Sustainable public finances are fundamental to achieving the Scottish Government's four central priorities. We must therefore remain resolutely focused on the actions we can take to mitigate fiscal pressures and to prepare for future shocks. I am proud of the progress this Government has already made. We continue to be a fiscally responsible government and balance the budget each year – as we have done every year for 17 years and we will do so again this year.

However, we are determined to go further to make sure the services that people rely upon will always be there for them. That means renewing how we design, develop and deliver public services to ensure they deliver the benefits we all expect. With changing needs and demands, we are conscious our public services must continue to evolve.

This is why the Scottish Government is reinforcing our commitment to ensuring the public finances are on a sustainable trajectory through the 2025 Medium-Term Financial Strategy and accompanying Fiscal Sustainability Delivery Plan. Together, these documents set out a credible plan to ensure we can continue to deliver this Government's priorities.

Shona Robison MSP

Cabinet Secretary for Finance and Local Government

Executive Summary

The Scottish Government's seventh Medium-Term Financial Strategy (MTFS) provides the economic, funding and spending outlooks for the financial years 2025-26 to 2029-30. It also presents the Government's fiscal strategy to deliver sustainable public finances, within the current constitutional settlement.

The outlooks presented in the MTFS are informed by the latest Scottish Fiscal Commission (SFC) economic and fiscal forecasts, published on 29 May 2025 and updated on 25 June 2025. Global economic uncertainty, increasing geopolitical tensions, and the volatility we will see in the projections due to the operations of the Fiscal Framework with the UK Government, mean the projections do have their limitations. Nonetheless, this analysis is based on the information we have available, drawing on data and modelling, and is intended as a guide to support financial planning.

The UK Spending Review (UKSR) announcements on 11 June 2025 set the UK Government's resource departmental budgets until 2028-29 and capital departmental budgets until 2029-30. The MTFS reflects the impact of these announcements on Scotland's funding position, but it is not in itself a spending review for Scotland. Specific funding, spending and investment decisions will continue to be taken at the annual budget and as part of a Scottish Spending Review.

Conclusions of the Scottish Spending Review, setting out indicative resource spending plans to 2028-29, and capital spending plans to 2029-30, are due to be published alongside the 2026-27 Scottish Budget, expected in December 2025. An updated infrastructure investment pipeline will also be published; providing clarity over the infrastructure projects and programmes that will be prioritised in the medium term.

A Fiscal Sustainability Delivery Plan (FSDP) is published alongside the MTFS this year, bringing together the actions from across Government to deliver fiscal sustainability under the three pillars of the Government's medium-term strategy.

Economic Outlook

Rising energy prices, inflation, and growing geopolitical instability contribute to an uncertain outlook. This follows on from a relatively subdued end to 2024, with consumer confidence, business activity and optimism declining. There have been encouraging signs for Scotland's economy at the start of 2025, with Scottish Gross Domestic Product (GDP) growing 0.4 per cent in the first quarter of 2025, picking up from 0.1 per cent growth in the final quarter of 2024, buoyed in particular by the

Services and Production sectors[1]. The Scottish labour market remains robust with unemployment at 4.2 per cent[2] and earnings continuing to grow faster than inflation.

Fiscal Outlook

The fiscal and economic environment poses considerable challenges to Scotland's public finances. Whilst the UK Government reset of Scotland's funding in 2024-25 was welcomed, growth in overall funding for Scottish Government from the total UK Block Grant is only set to increase by 0.8 per cent per annum in real terms over the outlook period, with overall resource (day-to-day) funding growth of only 1 per cent per annum in real terms.

Day-to-day government spending, however, continues to face pressures from growing demand for public services and the cost of achieving statutory net zero and child poverty targets. The devolved public sector wage bill is also a significant driver of projected costs, recognising the proportionately larger and better paid public sector in Scotland. This is due to investment that Scottish Government has made in our workforces over many years, however, the wage bill needs to be more sustainable going forward. Spending pressures in health and social care are particularly acute. Measures to achieve efficiency savings and reforms, as set out in Chapter 4 and in the FSDP will be essential to constrain this growth in spending to affordable levels while protecting the public services and social security this Government provides.

Overall, slower growth in projected resource funding relative to estimated spending illustrates the scale of the challenge. Without action, the difference between projected funding and estimated spending is set to grow from a balanced budget in 2025-26, to £2.6 billion in 2029-30.

Table ES.01: Resource fiscal position 2025-26 to 2029-30

(Figures in £million)	2025-26	2026-27	2027-28	2028-29	2029-30
Resource spending	52,623	54,938	57,132	59,453	61,723
Resource funding* (central scenario)	52,623	53,975	55,235	57,100	59,099
Resource Fiscal Gap	**-**	**(963)**	**(1,897)**	**(2,353)**	**(2,624)**

*Source: UK Spending Review up to 2028-29.

For capital, the outlook is also challenging. Capital funding is set to be lower in nominal terms in 2029-30 than in 2025-26. Within this, the capital Block Grant, excluding Financial Transactions (FTs), is expected to decrease by 1.1 per cent in real terms between 2025-26 and 2029-30. This real-terms reduction is compounded by the real-term cuts in previous years and sustained high levels of inflation which have reduced our spending power. The funding provided in the form of FTs is set to

[1] Scottish Government (2025), GDP First Quarterly Estimate 2025 Q1 (January to March) – Accessed May 2025
[2] Office for National Statistics (2025), HI11 Regional Labour Market: Headline Indicators for Scotland – Accessed June 2025

grow over the outlook period, providing some opportunities to support the Government’s investment programme.

Our capital spending supports investment in new and renewed public sector assets and networks, which are required to deliver our priorities – such as Heat in Buildings, Affordable Housing and public transport. The increasing spending outlook over the period reflects the Scottish Government’s ambitions across a number of policy areas as well as the scale of construction price inflation and ageing assets.

Without further action, capital spending is forecast to exceed our available budget by £1.1 billion in 2026-27, rising to £2.1 billion in 2029-30.

Table ES.02: Capital fiscal position, excluding Financial Transactions, 2025-26 to 2029-30

(Figures in £million)	2025-26	2026-27	2027-28	2028-29	2029-30
Central capital funding*	7,230	7,109	7,004	7,059	7,067
Central capital spending	7,230	8,180	8,501	8,962	9,213
Capital Fiscal Gap	**-**	**(1,070)**	**(1,497)**	**(1,903)**	**(2,146)**

*Source: UK Spending Review up to 2029-30.

Whilst the UKSR provided some certainty in relation to Scotland’s Block Grant allocation over the next three to four years, there remains a level of uncertainty, including the impact of decisions that the UK Government may make on reversing the two child cap on Universal Credit and the pace and scale of reforms to the Personal Independence Payment. Wider sources of uncertainty and risk to the funding and spending outlooks include broader global volatility, which could impact the overall level of public spending UK-wide and the cost of delivering services.

Despite representations to the UK Government through the UKSR, the Scottish Government has limited borrowing powers and operates within a fixed budget framework, making it harder to respond flexibly to fiscal shocks. It appears that the UK Government also intend to continue using the Internal Market Act to deliver its local growth funding programme, bypassing the Scottish Government. This will constrain our ability to target investment in a way that maximises impact and economic benefit.

Fiscal Strategy

The MTFS responds to the scale of the fiscal challenge that we face, with further detail set out in the FSDP. The strategy remains focused around the public spending, economic growth, and taxation pillars first set out in the 2023 MTFS, and these have been updated to recognise where progress has been made and where additional focus is needed.

Box ES.01: Three pillars of the 2025 Medium-Term Financial Strategy

Pillar 1: Ensuring public money is focused on delivering government objectives, underpinned by reform and prioritisation to maximise impact.

Pillar 2: Supporting sustainable, inclusive, economic policies with the greatest potential to grow Scotland's economy, expand and broaden the tax base to fund public services.

Pillar 3: Ensuring a strategic approach to tax revenues, which considers the longer-term impact of our tax choices and competitiveness.

Considerable progress has been achieved since 2023 to strengthen the public finances. Actions across the 2024-25 and 2025-26 Programmes for Government (PfG) and associated Scottish Budgets have streamlined commitments and prioritised spending, strengthened policy action to underpin economic growth, enhanced the tax take, and ensured a balanced budget each year.

Improving the public finances requires effort across the public sector over the medium to long-term. The FSDP sets out the key actions we are taking to constrain the rate of growth in public spending and maximise the impact of economic and tax performance over the next five years.

Our strategic approach to public spending is closely integrated with the Government's Public Service Reform (PSR) Strategy[3], published on 19 June 2025. We will target day-to-day spending on delivering government objectives and ensuring high quality public services, underpinned by reform and prioritisation to maximise impact.

Under the Public Spending Pillar, the FSDP sets out four measures: increasing public value, efficiencies and productivity, service reform, and prevention. It focuses on the main drivers of public spending, delivering significant savings through:

- A devolved **public sector workforce** downward trajectory of an average 0.5 per cent reduction per annum over the five years with savings growing from £0.1 billion to £0.7 billion per annum over the five years, whilst protecting frontline services;

- Wider **public sector efficiencies and productivity, reform, and revenue raising,** with savings growing from £0.6 billion to £1.5 billion per annum over the five years;

- **Increasing public value**, to be set out in the Scottish Spending Review, with a savings target of between £0.3 billion and £0.7 billion per annum over the five years.

While we recognise the wider context, notably UK Departments being required to deliver at least 5 per cent savings and efficiencies by 2028-29, and to reduce

[3] Scottish Government (2025), Scotland's Public Service Reform Strategy: Delivering for Scotland - gov.scot – Accessed June 2025

administrative budgets by at least 16 per cent in real terms by 2029-30, the measures above will be taken forward in a balanced way, ensuring funding is allocated fairly to deliver our core priorities. This will be reflected in the Scottish Spending Review published later this year.

Economic growth is a government priority with the latest package of policies and activities that this Government will deliver set out in the 2025 Programme for Government. Our range of economic interventions are set out in the National Strategy for Economic Transformation[4], Innovation Strategy[5], Green Industrial Strategy[6], and 2024[7] and 2025[8] Programmes for Government. We are focused on increasing aggregate business activity, employment and wages, to grow the economy, and expand and broaden the tax base.

'Scotland's Tax Strategy: Building on our Tax Principles'[9] sets out this government's approach to developing tax policy, ensuring the tax system raises the revenue needed to achieve our priorities, and supports our growing economy. Two of the key measures that will support fiscal sustainability are improving the operation and performance of the existing tax system, and future reform to deliver sustainable and growing tax revenues.

We welcome the findings of the recent Organisation for Economic Co-Operation and Development (OECD) review which recognised the critical role of the Scottish Fiscal Commission in supporting transparency over the public finances and analysis of fiscal sustainability and risks. We look forward to working closely with the Commission as they consider the OECD's recommendations and means to further strengthen their impact.

We continue to press the UK Government to work collaboratively to maximise economic benefit through closer collaboration over reserved and devolved policy development and investment decisions. We continue to seek increased fiscal flexibilities, enabling the Scottish Government to better manage volatility, achieve a fair share of the FTs budget allocations and secure parity of treatment across our public bodies.

Delivering the MTFS and the accompanying actions in the FSDP requires appropriate governance, monitoring and evaluation arrangements. We will include progress updates in future MTFS publications.

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[4] Scottish Government (2022), Scotland's National Strategy for Economic Transformation - gov.scot – Accessed May 2025
[5] Scottish Government (2023), National Innovation Strategy 2023 to 2033 - gov.scot – Accessed May 2025
[6] Scottish Government (2024), Green Industrial Strategy - gov.scot – Accessed May 2025
[7] Scottish Government (2024), Programme for Government 2024-25: Serving Scotland - gov.scot – Accessed May 2025
[8] Scottish Government (2025), Programme for Government 2025 to 2026 - gov.scot – Accessed May 2025
[9] Scottish Government (2024), Scotland's Tax Strategy: Building on our Tax Principles - gov.scot – Accessed December 2024

Introduction

This is the Scottish Government's seventh Medium-Term Financial Strategy (MTFS). It sets out the medium-term context for annual budget decisions by presenting the economic, funding and spending outlooks to 2029-30; provides an analysis of the risks and uncertainties to the economic and fiscal outlook; and confirms the Government's strategic approach to manage the public finances within the current constitutional settlement. This year's MTFS is accompanied by a Fiscal Sustainability Delivery Plan (FSDP) which sets out the actions across Government to ensure Scotland's finances are on a sustainable trajectory.

The previous MTFS, published in May 2023, set out the Scottish Government's strategic approach to managing the public finances over the medium term against a backdrop of significant spending pressures and acute funding challenges. There was no MTFS published in 2024 due to the timing of the UK General Election. However, the Fiscal Statement[10] published on 3 September 2024 provided an update to the public finances between the 2023 and 2025 MTFS publications, and a multi-year funding projection was published at 2025-26 Budget.

The Scottish Government delivers against the fiscal rules set by the UK Government. Scotland's Fiscal Framework, agreed by the Scottish Government and the UK Government in 2016 and revised in 2023, determines how the Scottish Government is funded. The Framework includes how the Block Grant operates, the budget management tools (borrowing and reserve powers) available, and the independent fiscal institutions and forecasting arrangements for Scotland. The majority of Scottish Government funding is determined by UK Government spending plans and the operation of the Barnett formula to provide our consequential share each year.[11]

The UKSR was published on 11 June 2025, setting the UK Government's resource (day-to-day) departmental budgets until 2028-29 and capital departmental budgets until 2029-30. The funding outlook in this MTFS reflects the impact of these spending announcements on Scotland's Block Grant position.

We use projections of funding, taxation and spending to establish the medium-term fiscal outlook. This helps us to understand the challenges facing Scotland's finances, and to plan effectively with the funding that is likely to be available. The outlooks presented here are informed by the latest Scottish Fiscal Commission (SFC) Economic and Fiscal Forecasts, published on 29 May and updated on 25 June 2025. These projections can, and do, change at each annual budget and the uncertainty in the outlook increases over time.

Chapters 1 to 3 cover the economic, funding and spending outlooks to 2029-30. Chapter 4 provides an update on the fiscal strategy and progress across the three pillars since 2023.

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[10] Scottish Government (2024), Fiscal pre-budget update: Cabinet Secretary for Finance - 3 September 2024 - gov.scot – Accessed March 2025
[11] For further information on how the Scottish Government is funded, visit Scottish Budget 2025 to 2026: Your Scotland, Your Finances - a guide - gov.scot

Chapter 1: Scotland's Economic Outlook

This chapter provides an update on the state of the Scottish economy, incorporating the latest economic forecasts from the SFC and the Office for Budget Responsibility. There is a focus on Scotland's economic performance and how this impacts the fiscal outlook, as the Scottish Government's funding outlook is in part determined by how relative tax revenues in Scotland and the rest of the UK are forecast to perform.

1.1 Economic context

There has been a marked rise in global macroeconomic and geopolitical uncertainty in 2025, in particular due to a range of tariff announcements from the United States this Spring, many of which have since been paused or amended. Rising energy prices, inflation, and growing geopolitical instability contribute to an uncertain outlook.

Despite these challenges there have been encouraging signs for Scotland's economy at the start of 2025, with Scottish Gross Domestic Product (GDP) growing 0.4 per cent in the first quarter of 2025, picking up from 0.1 per cent growth in the final quarter of 2024, buoyed in particular by the Services and Production sectors[12].

More recent business survey data has indicated a slight improvement in business activity going into the second quarter of 2025. The Royal Bank of Scotland Growth Tracker[13] reported that business activity in May increased for the first time in six months, although indicators for new business orders remained slightly negative. Furthermore, weakening demand remains a key concern for business and the recent fall in consumer sentiment[14] in April to its lowest level in two years underlines this risk.

After falling last year, inflation has increased at the start of 2025 following increases in regulated prices as well as impacts from employer National Insurance Contributions, and was 3.4 per cent in May[15]. However, the Bank of England has gradually reduced interest rates from their peak of 5.25 per cent last year to 4.25 per cent in May, although uncertainty remains about the outlook for inflation and interest rates, with ongoing global trade disputes and uncertainty over the persistence of domestic prices pressures.

Despite this, the Scottish labour market remains robust with unemployment at 4.2 per cent[16] and earnings continuing to grow faster than inflation, although the

[12] Scottish Government (2025), GDP First Quarterly Estimate 2025 Q1 (January to March) – Accessed May 2025
[13] Royal Bank of Scotland (2025), Royal Bank of Scotland Regional Growth Tracker report for May 2025 – Accessed June 2025
[14] Scottish Government (2025), Scottish Consumer Sentiment Indicator – Accessed April 2025
[15] Office for National Statistics (2025),Consumer Price Inflation, UK: May 2025 – Accessed June 2025
[16] Office for National Statistics (2025), HI11 Regional Labour Market: Headline Indicators for Scotland – Accessed June 2025

number of payrolled employees fell slightly over the past year[17]. This correlates with evidence of weaker labour demand from business survey data in recent months, although the latest data does indicate a broader stabilisation in this measure.

1.2 Latest economic forecasts for Scotland

Our analysis is underpinned by the latest forecasts from the SFC[18].

The SFC has downgraded its short-term outlook for the Scottish economy, forecasting 1.2 per cent growth in 2025-26, down from 1.6 per cent forecast in December 2024. This reflects poorer than expected economic data in the second half of 2024 when Scottish economic growth stalled (0.1 per cent in the fourth quarter, down from 0.3 per cent in the third quarter).

Despite a weaker outlook for growth in the short term, the medium-term outlook has slightly improved with the SFC incorporating new population data published by the Office for National Statistics (ONS). The size of the population in Scotland was revised upwards, and consequently the overall size of the economy as well.

Table 1.01: Key economic indicators from the latest SFC and OBR forecasts

Table 1.01(a): GDP growth forecast

%	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
SFC - May 2025	1.2	1.2	1.8	1.7	1.6	1.6	1.6
OBR - Mar 2025	1.0	1.2	1.9	1.7	1.7	1.8	-

Table 1.01(b): GDP per capita growth forecast

%	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
SFC – May 2025	0.5	0.6	1.3	1.3	1.3	1.4	1.4
OBR – Mar 2025	0.0	0.7	1.5	1.4	1.3	1.4	-

Table 1.01(c): Employment growth (%) forecast

%	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
SFC - May 2025	0.2	0.1	0.6	0.5	0.4	0.4	0.4
OBR - Mar 2025	1.2	0.8	0.6	0.7	0.6	0.7	-

Table 1.01(d): Nominal average earnings growth (%) forecast

%	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
SFC - May 2025	4.5	3.7	2.9	3.0	2.9	3.0	3.0
OBR - Mar 2025	4.7	3.7	2.2	2.1	2.3	2.5	-

[17] Office for National Statistics (2025), Earnings and employment from Pay As You Earn (PAYE) Real Time Information (RTI), seasonally adjusted – Accessed June 2025
[18] Scottish Fiscal Commission (2025), Scotland’s Economic and Fiscal Forecasts – May 2025 – Accessed May 2025

Table 1.01(e): Inflation and Bank Rate (%) forecast

%	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
CPI* Rate (%)**	2.3	3.2	1.9	2.0	2.0	2.0	-
Interest Rate (%)**	4.9	4.0	3.8	3.8	3.8	3.8	-

* Consumer Price Index (CPI)
**The SFC aligns its inflation and monetary policy outlook to that of the OBR
Source: Office for Budget Responsibility (OBR); Scottish Fiscal Commission (SFC)

The SFC's economy assumptions are aligned with the Office for Budget Responsibility's central forecast. This includes the economic impact of the increased trade policy uncertainty in the run-up to January 2025, without directly adjusting for any specific tariffs introduced since January. Similarly to the OBR, the SFC have used scenario analysis to highlight the impact of increasing trade tariffs as a potential downside risk to their economic outlook.

The latest inflation forecast for 2025-26 is now 0.6 percentage points higher than previously forecast at the time of the UK Budget in October 2024. Business and consumer confidence has weakened, and increased geopolitical tensions on global trade restrictions are viewed as key short-term risks.

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

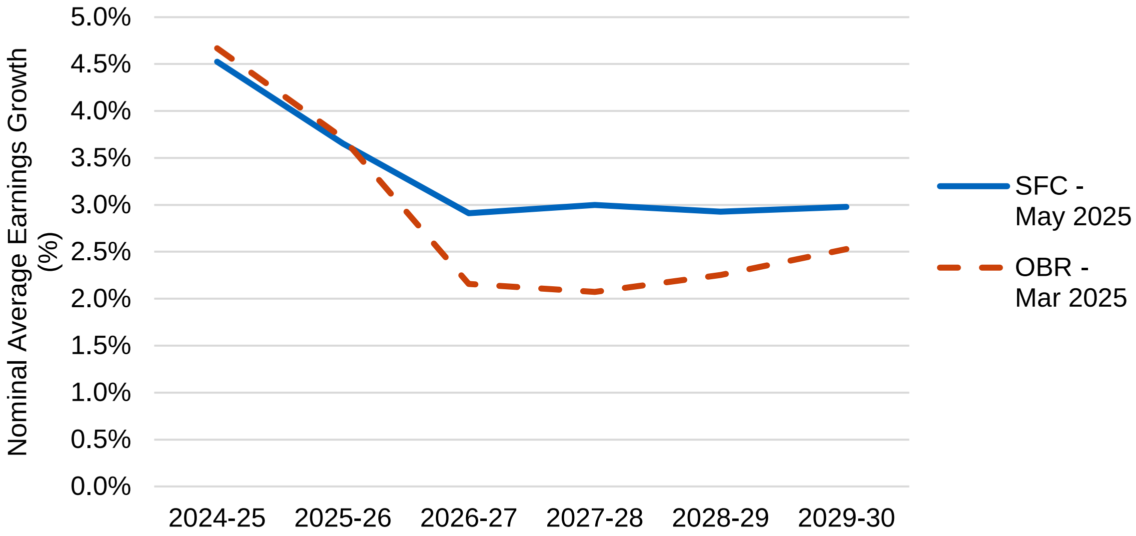
1.3 Fiscal implications of the economic outlook

Since the devolution of further tax and social security powers in 2016, the Scottish Government's funding is more closely linked to the economy through the performance of the Scottish tax base. In particular, the Scottish Budget is affected by relative tax performance in Scotland compared to the rest of the UK.

The outlook for earnings

Earnings are a key factor in shaping the funding outlook for the Scottish Government, as they help determine future levels of Income Tax receipts. The latest forecasts from the SFC and OBR show a sustained gap in nominal average earnings growth between Scotland and the rest of the UK over the medium term, as can be seen in Figure 1.01 below. Both the OBR and SFC are forecasting similar earnings growth in 2025-26, but the SFC forecasts higher growth from 2026-27 onwards.

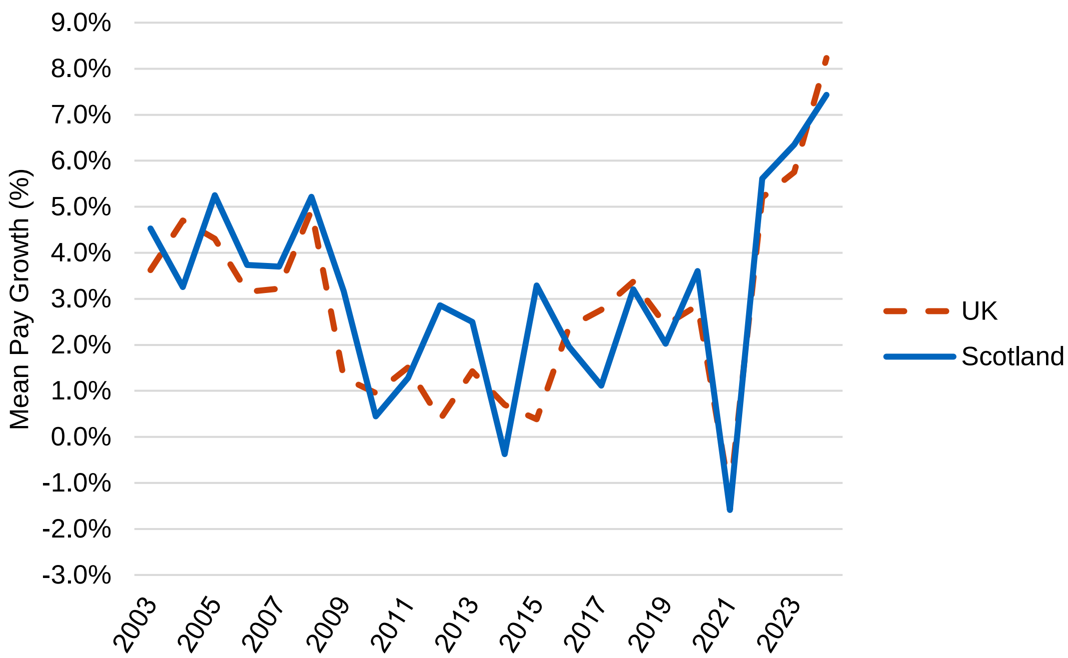
Figure 1.01: Latest forecasts of nominal average earnings growth (%)



Source: Office for Budget Responsibility (OBR); Scottish Fiscal Commission (SFC)

As shown in Figure 1.02 below, such a sustained divergence in earnings growth would be unusual, and the SFC have flagged that this means that it is more likely than not that the net tax position will be weaker than projected.

Figure 1.02: Historic annual growth rates (%) in Scottish and UK mean pay



Source: Annual Survey of Hours and Earnings

Tariffs

As noted earlier, the SFC's economy assumptions are aligned with the OBR's central forecast, which includes the economic impact of the increased trade policy uncertainty in the run-up to January 2025 without directly adjusting for any specific tariffs introduced since January. In a similar approach to the OBR, the SFC have produced a separate piece of scenario analysis to examine the potential effects of tariffs on the Scottish economy[19].

The results show that the level of Scottish GDP could be around 0.4 per cent lower than their central forecast in 2025-26, 0.6 per cent lower in 2026-27 and around 0.3 per cent lower towards the end of their forecast horizon and are broadly similar in magnitude to the OBR's own comparable scenario analysis.

Although the SFC flags the impact of tariffs as a potential downside risk to their forecasts in isolation, the SFC also show there is currently no strong evidence that there could be an asymmetric impact on Scotland relative to the rest of the UK. Consequently, as long as the economic impact of tariffs is broadly similar in magnitude for both Scotland and the rest of the UK, the current Fiscal Framework will help mitigate this risk to the long-term funding outlook.

[19] Scottish Fiscal Commission (2025); Scotland's Economic and Fiscal Forecasts - May 2025 – Box 3.1 - Accessed May 2025

Chapter 2: Scotland’s Funding Outlook

2.1 How Scotland’s funding outlook is determined

This chapter outlines the Scottish Government's central funding outlook over five years from 2025-26 to 2029-30. It sets out the policy decisions and assumptions that underpin this, and how the outlook has changed compared to the last MTFS in 2023.

The Scottish Government's funding outlook is affected by decisions by both the UK and Scottish Governments, as well as Scotland's economic performance relative to the rest of the UK. The projections combine independent forecasts of tax and spending provided by the SFC and OBR, alongside forecasting judgements and policy decisions made by the Scottish Government.

The Block Grant forecast presented incorporates the outcome of the UK Government’s Spending Review on 11 June 2025. While this increases the level of certainty in the funding outlook, other drivers of uncertainty remain. Therefore, the chapter also includes potential alternative scenarios, setting out a more optimistic and pessimistic outlook.

2.2 Summary of Scotland’s funding outlook

The Scottish Government's funding outlook is comprised of five high-level categories, each of which is discussed in detail in this chapter:

- The **Block Grant** is the single largest source of funding for the Scottish Government. The Barnett formula determines the Block Grant received from the UK Government. Annual growth is dependent on the UK Government's overall fiscal plans and spending priorities.
- **Devolved taxes** provide revenue to the Scottish Government, the largest of which is Scottish Income Tax. The Scottish Budget is then reduced based on how quickly revenues of the corresponding tax have grown in the rest of the UK on a per person basis.
- **Non-Domestic Rates (NDR)** are revenue raised by Local Authorities on non-domestic properties. All revenue raised is ultimately returned to Local Government via the Local Government Finance Settlement.
- **Social Security Block Grant Adjustments** (BGAs) is funding provided by the UK Government for devolved social security payments and is grown in line with how expenditure on comparable social security benefits grows per person in the rest of the UK.
- **Other income and expenses** covers revenue and costs including resource borrowing and associated costs, and Crown Estate Scotland revenues.

The Scottish Government’s central funding outlook forecasts total funding to grow by an average of 2.6 per cent a year in nominal terms over the period 2025-26 to

2029-30, 0.7 per cent a year in real terms. Table 2.01 shows the central funding outlook covering both resource and capital funding.

Resource funding is expected to grow by an average of 2.9 per cent in nominal terms, or 1.0 per cent in real terms, a year to 2029-30. Within this, the Block Grant is expected to grow by an average of 0.8 per cent a year in real terms. The Block Grant accounts for the majority of the increase in the total resource funding, followed by increases in the net tax position and Social Security BGAs.

Total capital funding, including FTs, is expected to remain broadly constant in nominal terms and fall by 1.8 per cent a year in real terms over this period. Within this the capital Block Grant is set to fall in real terms, while FTs are set to increase in both nominal and real terms.

Table 2.01: Central outlook for Scotland's funding sources (figures in £million, current prices)

Resource Funding	2025-26	2026-27	2027-28	2028-29	2029-30
Block Grant	41,622	42,714	43,840	45,018	46,215
Net tax position	1,207	1,361	1,762	2,067	2,314
Of which:					
Devolved tax revenue	21,544	23,019	24,301	25,398	26,554
Tax Block Grant Adjustment	(20,336)	(21,657)	(22,540)	(23,331)	(24,239)
Non-domestic rates distributable amount	3,114	3,549	3,480	3,534	3,861
Social Security Block Grant Adjustment*	5,725	6,191	6,440	6,680	7,001
Non-tax income & Block Grant Adjustments	(4)	(4)	(4)	(4)	(4)
Other income/expenses	959	163	(283)	(195)	(288)
Total resource funding, incl. NDR	52,623	53,975	55,235	57,100	59,099

Capital Funding	2025-26	2026-27	2027-28	2028-29	2029-30
Total Capital Block Grant	6,256	6,689	6,595	6,640	6,665
Ringfenced funding and City Deals	122	120	110	119	102
Capital borrowing and other funding per policy	472	300	300	300	300
ScotWind	341	-	-	-	-
Other	40	-	-	-	-
Total capital funding (excl. FTs)	**7,230**	**7,109**	**7,004**	**7,059**	**7,067**
Financial Transactions (incl. reserve)	192	245	252	311	361
Total Capital Funding (incl. FTs)	**7,422**	**7,354**	**7,256**	**7,370**	**7,429**
Total funding from all sources	**60,045**	**61,329**	**62,491**	**64,470**	**66,528**

*Of which around £120 million each year is anticipated increase in funding from the UK Government Winter Fuel Payment policy change. Updated OBR forecasts alongside the UK Government autumn fiscal event will confirm the forecast funding impact.

It is useful to compare the current multi-year outlook with the one presented in the previous MTFS (May 2023) and the 2025-26 Scottish Budget.

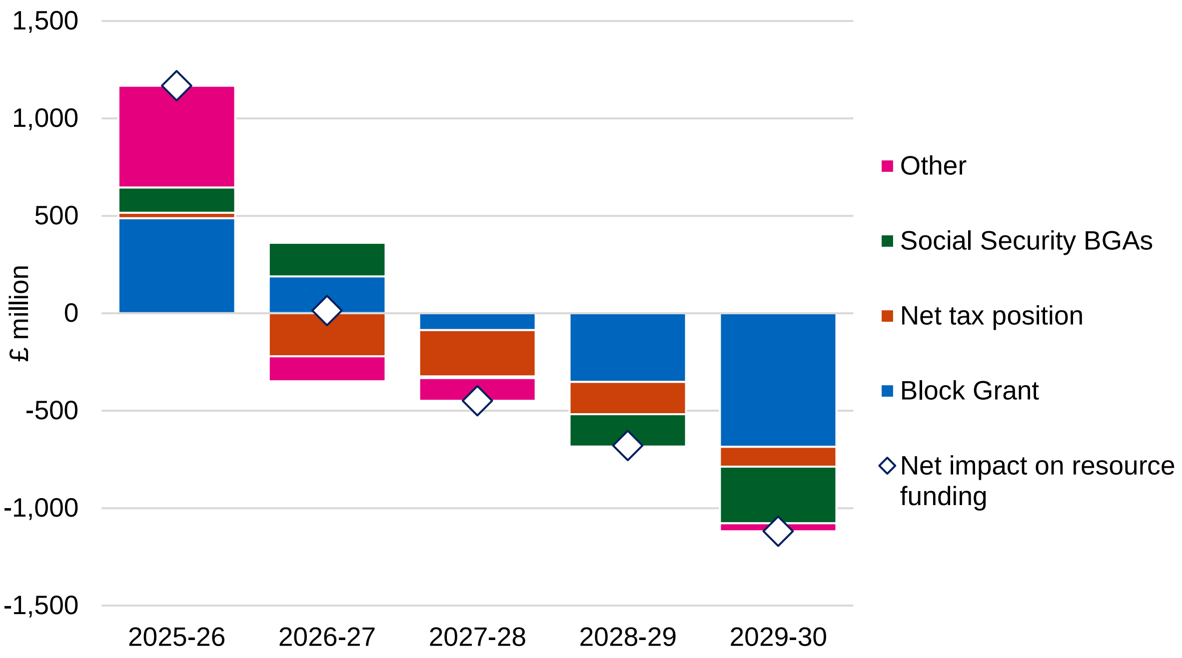
Table A.01(a) (Annex A) shows the change in the outlook compared to the figures presented in the previous MTFS publication. The change is presented for the years where forecasts overlap between the two publications.

The funding outlook has improved substantially in nominal terms since the previous MTFS, by an average of £6.0 billion over the three years. This increase is mostly driven by an improvement in resource funding and mainly reflects changes in UK Government spending, announced at fiscal events over the last two years.

For example, the UK Autumn Budget (October 2024) increased the Block Grant by £1.4 billion in 2024-25 and by £1.5 billion in 2025-26,[20] and there was a further £28 million increase to the core resource and capital Block Grants at the UK Spring Statement on 26 March 2025 and an additional £117 million in non-recurring resource consequentials at the 2025-26 Main Estimates. The 2025 UKSR confirmed the multi-year UK Government funding, which again changed the forecast resource and capital position.

Figure 2.01 and Table A.01(b) (Annex A) compare the current funding outlook to the one presented in the 2025-26 Scottish Budget.[21] The comparison with the forecasts included in the most recent Budget reflects changes announced in the UK Spring Statement, at the 2025-26 Main Estimates and the UK 2025 Spending Review, as well as changes in the SFC and OBR forecasts and the Scottish Government's own provisional outturn figures for 2024-25.

Figure 2.01 – Change in the resource funding outlook since the 2025-26 Scottish Budget



Source: Scottish Government

The position set out in the 2025-26 Scottish Budget was based on the SFC forecasts available at the time and on forecast Block Grant settlements. In the absence of further information, the Barnett-based funding was assumed to grow broadly in line with the OBR's forecast for the total UK Resource Departmental Expenditure Limit (RDEL) and Capital Departmental Expenditure Limit (CDEL) envelopes. However, the 2025 UKSR has since confirmed a lower Block Grant as illustrated by the blue bars in the figure above.

[20] Scottish Fiscal Commission (December 2024, revised January 2025), Scotland's Economic and Fiscal Forecasts (SEFF) – Accessed January 2025

[21] For 2025-26 the current funding outlook is compared with the funding position after Stage 3 of the Budget Bill

The total funding position is now forecast to improve in the short term (by £1.2 billion in 2025-26) but worsen over the medium term (by £1.2 billion in 2029-30) relative to projections set out in December 2024.

The short-term increase is largely explained by the higher amount of RDEL carried forward through the Reserve (included in category 'Other' in Figure 2.01) and higher Block Grant compared to the December 2024 position. The increase in the Block Grant in part reflects Barnett consequentials relating to employer National Insurance Contributions (NICs) which were not confirmed until the 2025 Main Estimate.

The medium-term impact is largely driven by the confirmed UKSR Block Grant settlement being lower than had been expected (£685 million lower by 2029-30). In addition, UK Government policy on disability benefits announced in the Spring Statement, as well as other factors, led to lower Social Security BGAs (£408 million lower by 2029-30). However, HM Treasury indicated to the Scottish Government that the UK Government's decision to expand eligibility for the Winter Fuel Payment (announced in June) is likely to increase the corresponding BGA by around £120 million in 2029-30, partially offsetting the overall reduction compared to the December 2024 funding position. Furthermore, the net tax position has been revised downwards (£102 million lower by 2029-30), following updated forecasts from the OBR and SFC. These changes are discussed in more detail in the individual sections later in this chapter.

2.2.1 Resource Block Grant

The Block Grant is the main component of the Scottish Government's funding. The UK Government's spending decisions fully shape the size of the Block Grant. The Block Grant comprises the baseline Block Grant established through a Spending Review and the 'Barnett consequentials' flowing from any changed spending decisions set out at subsequent UK Government fiscal events, using the Barnett formula. It is also impacted by Block Grant Adjustments (BGAs) which involve changes to funding that reflect the devolution of some tax and social security powers to Scotland. The baseline Block Grant and subsequent Barnett consequentials reflect a population share of changes in comparable spending in devolved areas in the rest of the UK, and the level of BGAs is tied to UK policy decisions affecting taxes and benefits that are devolved in Scotland.

The 2024 UK Autumn Budget set out the overall departmental spending for 2025-26 to 2029-30. These plans were updated in the Spring Statement in March 2025. The 2025 UKSR confirmed the allocation of spending between departments for 2026-27 to 2028-29 for resource and for 2026-27 to 2029-30 for capital.

The UK Government allocated a higher share of spending to the Department for Health and Social Care which is a devolved area in Scotland and therefore feeds through to the Block Grant. However, it also increased spending on reserved areas, retained local growth funding and set out efficiency and reform plans. Some departments face increases in real terms and others face real-terms reductions over the Spending Review period. Some of those facing real-terms reductions have a material impact on the Scottish Block Grant as a result of relatively high comparability factors under application of the Barnett formula.

For example, reductions to Department for Transport and Home Office settlements have contributed to lower overall growth in the Scottish Block Grant. The Home Office's budget is seeing a real-terms decrease of 1.7 per cent per annum across the Spending Review period as the UK Government intends to significantly reduce the cost of the asylum programme.

Despite being a reserved matter, this reduction in asylum spending is directly impacting the Scottish Government's Block Grant. This is because the application of the Barnett formula at a UKSR is undertaken on a departmental basis rather than at a programme level. Due to a high comparability factor of 73.3 per cent on the Home Office for Scotland, we're seeing a large impact of these decisions flowing through at the UKSR. Similarly, the Department for Transport's resource budget will see an average 5 per cent real terms cut across the Spending Review.

Another factor which has driven a lower settlement for the Scottish Government is the interaction with UK Government Business rates and non-domestic rates, which are fully devolved to Scotland. In England 50% of business rate revenues are retained by local government while 50% are passed back to HM Treasury to support spending on public services. To avoid the Scottish Government receiving Barnett on spending supported by a revenue source that's fully devolved, we see a reduction in funding equivalent to any increases to the amount retained. Over this SR period that reduction will be £200 million higher per annum than the 2025-26 baseline figure. This reflects an end to a UK policy whereby several councils enjoyed a 100% retention agreement with HMT, and were not required to pass back funding.

Taken together, these spending allocations have led to a small 0.8 per cent real-terms growth on average up over the UKSR period, less than the 1.2 per cent real-terms average growth in total UK day-to-day spending. For the purposes of projecting the funding outlook into 2029-30, we assume a constant rate of spending growth into 2029-30 but that is subject to decisions by the UK Government at future Spending Reviews. These assumptions are the basis of the central Block Grant forecast used in this chapter.

The UK Government committed to providing additional funding for higher employer NICs costs for public sector employees. The Scottish Government has had confirmation through the Mains Estimates process that the Barnett consequentials will be £339 million in 2025-26. This additional funding does not cover the full costs of NICs rises to the Scottish public sector, with the full costs estimated to be significantly higher at over £700 million.[22] This means that the additional funding will need to be found elsewhere in the budget to cover these costs, which represents an additional risk.

2.2.2 Devolved taxes and Block Grant Adjustments

The Scottish Government receives revenues from Income Tax, Land and Buildings Transactions Tax (LBTT) and Scottish Landfill Tax (SLfT). Table 2.02 provides

[22] Scottish Government (2025), National Insurance Contributions: public sector costs - gov.scot – Accessed February 2025

forecasts for the revenues, Block Grant Adjustments and the net position for each tax.

Forecasts of devolved tax revenue are produced by the SFC, and are influenced by Scottish tax policy and the growth and composition of the Scottish tax base.

The Block Grant Adjustments are calculated based on the forecast growth in equivalent tax revenues in the rest of the UK, on a per person basis. They are forecast by the Office for Budget Responsibility, and are driven by UK Government tax policy, population growth, and the growth and composition of the tax base in the rest of the UK.

The net tax position is the difference between devolved tax revenue and the Block Grant Adjustments. This represents the spending power available to the Scottish Government as a result of tax devolution. In general, it will improve when tax revenue grows faster, on a per person basis, in Scotland than in the rest of the UK, or vice versa.

Table 2.02 shows the positive contribution that the net tax position makes to the Scottish Government's funding position. Income Tax is the largest component of the overall net position, based on the latest forecasts.

Table 2.02: Impact of devolved taxes on the Scottish Budget – Resource funding

(Figures in £million, current prices)	2025-26	2026-27	2027-28	2028-29	2029-30
Income Tax Revenue	20,477	21,901	23,139	24,186	25,288
Income Tax BGA	(19,639)	(20,830)	(21,614)	(22,287)	(23,107)
Net Income Tax Position	**838**	**1,072**	**1,526**	**1,899**	**2,182**
LBTT Revenue	1,029	1,093	1,138	1,187	1,240
LBTT BGA	(637)	(773)	(892)	(1,010)	(1,096)
Net LBTT Position	**393**	**320**	**246**	**177**	**144**
SLfT Revenue	38	24	24	25	25
SLfT BGA	(60)	(55)	(35)	(34)	(36)
Net SLfT Position	**(23)**	**(31)**	**(10)**	**(9)**	**(11)**
Total Net Tax Position	**1,207**	**1,361**	**1,762**	**2,067**	**2,314**

Source: Scottish Fiscal Commission, Office for Budget Responsibility.
Note that Income Tax figures are locked in for 2025-26 funding position (based on the position set out in the 2025-26 Scottish Budget).

Income Tax: Overall, Income Tax revenue and BGA forecasts have continued to increase, with the net position currently set at £838 million in 2025-26, rising to £2.2 billion by the end of the forecast period. However, there is substantial downside risk associated with the net position in later years. The sharp rise in the net position over the forecast horizon is driven by the divergent earnings growth assumptions of the SFC and OBR. The implied earnings divergence comparing the forecasts from the two Independent Fiscal Institutions is greater than has historically been the case (Figure 1.01 in Chapter 1), suggesting the sharp increase in the net position after 2025-26 is unlikely to be fully realised. In their publication, 'Scotland's Economic and Fiscal Forecasts – December 2024'[23], the SFC described it as an asymmetric downside risk. The potential scale of this risk is explored as part of the wider downside scenario for the Scottish Government's resource funding (Section 2.3 and Annex B). To illustrate the scale of the risk, were earnings growth in the rest of the UK to converge with earnings growth in Scotland over the forecast period, that would result in a reduction to the net position of around £950 million in 2029-30.

Land and Buildings Transaction Tax (LBTT): Both Land and Buildings Transaction Tax revenue and the corresponding BGA are forecast to increase in 2025-26, reflecting the overall expected positive growth in property prices and transactions that generate LBTT and Stamp Duty Land Tax (SDLT) respectively.

The net position for the Land and Buildings Transaction Tax is estimated to remain positive over the forecast period, although there is variance across the period. The net position is currently forecast to be £393 million in 2025-26 but is expected to decrease to £144 million by 2029-30. This net position is impacted negatively from

[23] Scottish Fiscal Commission (2024), Scotland's Economic and Fiscal Forecasts – December 2024 | Scottish Fiscal Commission – Accessed March 2025

2026-27 onwards because of a number of factors, such as the OBR forecasting faster growth in transactions in the rest of the UK than those being forecast for Scotland; a higher assumed rate of sales turnover in the UK dwelling stock; and the assumed effects of planning reforms in England, which are forecast to increase SDLT revenues and thus help boost BGAs relative to LBTT revenues.

The task of forecasting activity in UK and Scottish residential and commercial property markets involves many inherent risks as property markets are subject to several external, uncontrollable factors such as the behaviour of consumers and businesses who may have the choice to postpone, cancel or bring forward property transactions in response to wider economic changes. Additional risks include the possibility of further UK Government tax and housing or commercial property policy divergence, which could pose a fiscal risk for the Scottish Budget.

Scottish Landfill Tax (SLfT): The net position for the Scottish Landfill Tax is estimated to be negative over the forecast horizon, levelling out at around -£10 million per annum from 2027-28. This position is mostly driven by an explicit waste policy choice that the Scottish Government has made – the Biodegradable Municipal Waste ban which will prevent most types of waste from being landfilled from 31 December 2025. This ban does not apply in the rest of the UK. The SFC have stated previously (for example in their December 2024 forecast) that uncertainties remain around the impact of the Biodegradable Municipal Waste ban in terms of the volume of waste post-ban that will be legally landfilled and cannot be incinerated. There is further uncertainty (and therefore fiscal risk) around the waste industry's response to the recent increases in incineration capacity in Scotland as well as to the ban itself.

Scottish Aggregates Tax (SAT): This will replace the UK Aggregates Levy (UKAL) in Scotland. This new tax will increase the number of devolved taxes, and the proportion of the Scottish Budget raised in Scotland.

The Aggregates Tax and Devolved Taxes Administration (Scotland) Act received Royal Assent on 12 November 2024, and the Scottish Aggregates Tax will come into force on 1 April 2026.

During the transfer of powers, the Scottish Aggregates Tax rate in 2026-27 will align with the UK Aggregates Levy 2026-27 rate, to ensure stability and certainty. The Scottish Aggregates Tax rate beyond the first year of introduction will be a decision for the next session of the Scottish Parliament. Future decisions on the tax rate will be taken as part of the annual Scottish Budget process.

Discussions regarding the BGA arrangements for SAT are underway between the UK and Scottish Governments, and will be agreed in advance of SAT introduction.

Box 2.01: Forecasting Scottish Aggregates Tax

The UK Government is not able to estimate the Scottish share of UK Aggregates Levy revenue from existing tax returns due to the limited nature of the information gathered from current taxpayers. Up until their published forecasts of 25 June 2025, SFC have therefore provided illustrative forecasts for SAT based on the production of aggregates in Scotland as laid out in the Minerals Year Book[24]. These forecasts did not, however, allow for the export (and import) of aggregate from (or to) Scotland and thus included exported aggregate for commercial exploitation that takes place either in the rest of the UK or overseas. Such material would, however, not be subject to SAT from 2026-27 and as a result it must be excluded from SAT revenue forecasts.

Based on survey information from the British Geological Survey, expected to be published in mid-2025, the updated SAT forecast now accounts for estimates of both exported (and imported) material. SFC have updated their approach, and their latest forecast is for SAT revenue in 2026-27 to be £37 million. In 2026-27, the first year of SAT, the tax rate will align with UKAL and rise to an assumed (but not actual) £2.15 per tonne. Revenue in 2026-27 is expected to be £37 million (rounded to the nearest £1 million). The SFC has assumed under their policy baseline that the tax rate will be uprated in line with forecast inflation, giving a rate of £2.41 per tonne in 2030-31. SAT revenue is expected to increase to £38 million by the end of the forecast period.

Table A.02 (Annex A) shows how the components of the net tax position have changed since the last published MTFS (May 2023). Both the SFC and OBR Income Tax forecasts have increased substantially over this period, although the BGA has risen by more, largely as a result of an increase in earnings growth forecasts from the OBR between the two Budget events. The 2024-25 Scottish Budget introduced the Advanced rate and raised the Top rate by 1 pence, while the 2025-26 Scottish Budget contained some smaller policy changes affecting the Starter and Basic rate bands, with other bands remaining frozen. The SFC has changed their approach to baselines, meaning that from 2027-28 onwards Higher, Advanced and Top rate Income Tax bands are no longer assumed to be frozen. This is consistent with their published approach to setting policy baselines[25]. This states, “we interpret neutrality with respect to policy baselines to mean that price inflation alone does not lead to changes in real tax revenue, real take-home pay, or the real value of social security payments as a result of our policy baseline assumption.”

Compared to the forecasts at the 2025-26 Scottish Budget, in 2025-26, the net **Income Tax** position has worsened, reflecting further convergence in the earnings growth forecasts from the OBR and SFC. From 2026-27 onwards there is an average reduction in the net position of around £180 million.

For **LBTT**, the net position has improved relative to 2023 MTFS, reflecting higher revenues across three years than previously forecast. This is largely driven by 2023 forecasts assuming a much lower growth in property prices. In part, this stronger performance is also driven by an increase in the Additional Dwelling Supplement

[24] British Geological Survey (2025), UK Minerals Yearbook 2024 released - British Geological Survey – Accessed May 2025
[25] Scottish Fiscal Commission (2024), How we set policy baselines – Accessed March 2025

(ADS) tax rate. The forecast for 2025-26 has risen modestly by £11 million since the December 2024 forecasts to £1.029 billion. This forecast increase is due to an increase in expected non-residential property LBTT. This, together with a more favourable BGA forecast in the Spring Statement, means the net position for LBTT has improved by £37 million since the December 2024 forecasts, though the overall net position is expected to reduce significantly after 2025-26.

The **SLfT** forecast for 2025-26 has fallen by £3 million since the December 2024 forecasts to £38 million. It is expected to stabilise at £24 to £25 million thereafter as the Biodegradable Municipal Waste ban will be fully in place. This reduction, together with a less favourable BGA forecast in the Spring Statement, means the net position for SLfT has fallen by £7 million since the December 2024 forecasts. No significant movement in the net position is expected from 2027-28 onwards.

2.2.3 Social Security Block Grant Adjustments

The Social Security BGAs reflect the funding from the UK Government to the Scottish Government to recognise the costs incurred by the Scottish Government for benefits that have been devolved. This transfer is based on what the benefits would cost the UK Government in Scotland, if they had not been devolved. Table 2.03 provides an outlook for the Social Security BGAs across devolved benefits.

The BGA forecasts in Table 2.03 are based on the OBR's March 2025 forecasts, except for Winter Fuel Payment, which reflects the UK Government's policy change on Winter Fuel Payment announced on 9 June 2025 and includes an anticipated additional £120 million per year BGA funding. BGAs are principally driven by UK Government policy decisions and trends in social security spending in the rest of the UK at the time of the Spring Statement 2025. Updated BGAs will be calculated alongside the UK Government's autumn fiscal event, which will inform in-year changes to the BGAs for 2025-26 and the BGAs for 2026-27.

Table 2.03: Impact of Social Security Block Grant Adjustments on the Scottish Budget

(Figures in £million, current prices)	2025-26	2026-27	2027-28	2028-29	2029-30
Attendance Allowance	803	859	890	920	955
Personal Independence Payment	3,271	3,608	3,787	3,982	4,270
Disability Living Allowance	984	1,031	1,064	1,078	1,065
Carer's Allowance	422	451	460	466	480
Industrial Injuries Disablement Scheme	84	83	81	79	76
Severe Disablement Allowance	5	5	4	3	3
Cold Weather Payment	6	6	6	6	6
Winter Fuel Payment	150	149	147	146	147
Of which anticipated BGA funding from UKG Winter Fuel Payment policy change	120	120	119	118	119
Total Social Security BGA	**5,725**	**6,191**	**6,440**	**6,680**	**7,001**

Changes in either UK Government policy relating to devolved benefits, or the OBR's forecasts of benefit demand in the rest of the UK, can affect the funding available to the Scottish Government in either direction, and the impact of social security spending on the wider spending priorities. Such changes can include the eligibility for certain benefits, changes to the generosity of certain payments or decisions on how payments are uprated over time.

The total Social Security BGA has increased relative to MTFS 2023 – most BGAs have increased. However, as shown in Table 2.04, compared to the BGA forecasts from the UK Government's Autumn Budget in October 2024, the updated Social Security BGA funding forecast, including the anticipated funding increase from the UK Government Winter Fuel Payment policy change, shows an increase in funding of £129 million in 2025-26 and £173 million in 2026-27, followed by a decrease in funding of £7 million in 2027-28 reaching a decrease of £290 million in 2029-30.

The main reason for the decreased funding from 2027-28 onwards relates to the expenditure forecast for Personal Independence Payment (PIP) and Carer's Allowance in England and Wales being revised downwards as a direct result of the welfare reforms announced by the UK Government in the 2025 Spring Statement.

These reforms include changes to the eligibility criteria for PIP in England and Wales from November 2026 and impact the projected PIP BGA. As changes to PIP eligibility affect the number of people eligible for Carer's Allowance in England and Wales, there will also be a reduction to the Carer's Allowance BGA from 2027-28 onwards.

Table 2.04: Changes in the Social Security BGA forecasts

(Figures in £million)	2025-26	2026-27	2027-28	2028-29	2029-30
Scottish Budget 2025-26: December 2024 *	5,596	6,018	6,447	6,846	7,291
Latest forecasts: March 2025 **	5,605	6,071	6,321	6,562	6,882
Anticipated BGA funding from UKG Winter Fuel Payment policy change: June 2025***	120	120	119	118	119
Change in funding forecast	**129**	**173**	**(7)**	**(166)**	**(290)**

Figures may not sum due to rounding
* Based on the OBR's October 2024 forecast
** Based on the OBR's March 2025 forecast
***Based on the indication from HM Treasury.

Overall, the total Social Security BGA is expected to grow by 5.2 per cent per annum in nominal terms, or by 3.2 per cent per annum in real terms. The total value of the Social Security BGAs in 2025-26 is currently 85 per cent of Social Security Assistance spending and this is forecast to reduce to around 79 per cent by 2029-30 mainly as a result of the welfare policy reforms announced by the UK Government in July 2024 and then again in the March 2025 Spring Statement. Prior to this it was expected to remain fairly steady over the next five years.

Uncertainty arising from UK Government welfare reforms in turn leads to uncertainty over the level of funding relating to devolved social security benefits. The UK Government announced on 9 June a change to its position on the Winter Fuel Payment, which we anticipate will increase the BGA funding we receive relating to the devolved Pension Age Winter Heating Payment by around £120 million per year. However, until the OBR cost and forecast the policy change alongside the UK Government's autumn fiscal event, at which point updated BGAs will be calculated, the potential impact on the BGAs cannot be confirmed. The UK Government recently published the Universal Credit and Personal Independence Payment Bill which sets out the first set of proposed changes to ill-health and disability benefits. However, there remains uncertainty over the pace and scale of the reforms the UK Government will deliver on Personal Independence Payment with the next update from the OBR alongside the UK Autumn Budget. There is therefore higher uncertainty in the BGAs than normal.

2.2.4 Non-Domestic Rates

Non-Domestic Rates are administered and collected by councils. NDR revenue raised is pooled centrally at a Scottish Government level in the NDR Rating Account or 'NDR pool', and may be in deficit or surplus at any point in time, but all revenues are ultimately distributed back to Local Authorities over time. The Scottish Government guarantees the sum of General Revenue Grant funding and NDR income, thereby bearing any volatility risk with NDR revenue between forecast and outturn. NDR policy decisions including the poundage rates that apply and reliefs that are available, are made annually by Scottish Government at the Budget.

The central estimate of the NDR Distributable Amount – the amount guaranteed to Local Authorities each year – is based on the SFC's forecasts of NDR revenues (the Contributable Amount) adjusted to reflect the closing balance of the NDR pool from the previous financial year and estimated prior-year adjustments, and takes into account Scottish Government policy on clearing the NDR pool deficit in a phased manner by 2028-29, as set out at the 2025-26 Scottish Budget.

The NDR revenues are forecast by SFC to grow over the forecast period, reflecting the fact that the tax rate is forecast to grow in line with inflation and the tax base is forecast to continue to grow. The SFC forecasts reflect policies announced at relevant budgets. Decisions on rates, reliefs and distributable amount are made at each Budget and future decisions will be accounted for in associated forecasts of income and distributable amount. Table 2.05 shows the forecasted distributable amount set by the Scottish Government.

The next NDR revaluation is scheduled for 1 April 2026, based on rental values as at 1 April 2025. Revaluation years bring increased forecasting risks and can introduce a degree of volatility to public finances. While the SFC expects to be able to use an imputed valuation roll in their forecasts ahead of the 2026-27 Scottish Budget, a draft valuation roll is expected to be made available from 30 November 2025 and is likely to be too late to form the foundations for these forecasts.

Table 2.05: Impact of Non-Domestic Rates on the Scottish Budget

(Figures in £million, current prices)	2025-26	2026-27	2027-28	2028-29	2029-30
Non-Domestic Rates - distributable amount	3,114	3,549	3,480	3,534	3,861

2.2.5 Other income and expenses

Other income and expenses consist of funding elements which together form a relatively small share of the total funding. The Scottish Government has a greater degree of discretion over some of these, allowing some limited flexibility to manage funding volatility. The most significant items in the category include:

- **Reconciliations** – these relate to OBR and SFC forecast errors in past years. Estimates of future reconciliations are derived from the latest SFC and OBR forecasts from which the latest net position can be calculated. They reflect forecast error and do not reflect the performance of the Scottish Tax base or Social Security expenditure. They are a normal part of the Fiscal Framework operations and ensure that the Scottish Government's funding is based on actual tax revenues and social security expenditure, rather than forecasts.

  As an example, the Income Tax net position in 2022-23 varied significantly over time, from as low as -£428 million to as high as +£542 million before the final net position came in at +£260 million, resulting in a forecast reconciliation of positive £451 million. Outturn data for 2023-24 will be published in July this year and outturn data for 2024-25 is expected in July 2026.

The Scottish Government will continue to borrow to cover net negative reconciliations to smooth the impact on the funding position. The forecast 2023-24 income tax reconciliation to be applied to the Scottish Budget 2026-27 is positive £279 million. There is a forecast £851 million negative reconciliation for 2024-25 income tax to be applied to the Scottish Budget 2027-28. The main driver of this is stronger Income Tax revenue growth in the rest of the UK since the original forecast. This has led to a sharp increase in the Income Tax BGA for 2024-25. There is also a provisional forecast reconciliation in 2028-29 which shows a £222 million negative reconciliation.

- **Resource borrowing** – the Scottish Government has some ability to borrow for resource spending, but this is limited in practice to borrowing against forecast errors including reconciliations. The current policy is to borrow against net negative reconciliation which smooths the impact of the reconciliations in the funding position. No borrowing is assumed in 2026-27 as there is a large net positive forecast reconciliation. Borrowing in 2027-28 is set at the maximum of £663 million which is insufficient to fully mitigate the current forecast reconciliation with a £168 million shortfall. Borrowing in 2028-29 is set to £222 million to offset the corresponding forecast negative reconciliation.

- **Borrowing costs** – these are incurred by past and forecast resource and capital borrowing.

- **Migrant surcharge** – this is income derived from charges on migrants for using the National Health Service (NHS) and is redistributed to devolved governments on a Barnett basis. It is forecast to be £210 million across all years with the actual income confirmed in-year.

- **Crown Estate Scotland Revenues** – this revenue relates to option fees for the first round of offshore wind leasing (‘ScotWind’) and for Innovation and Targeted Oil and Gas (INTOG). The Scottish Government retains the flexibility to determine how this funding is deployed and at the 2025-26 Scottish Budget allocated revenues to a range of projects for longer-term benefit, including actions to tackle climate change, investments in economic growth and job creation, and projects to drive forward reform. Beyond the amounts included in the 2025-26 Scottish Budget, £350 million in Crown Estate Scotland income has been realised but not yet allocated. These amounts have not been profiled across the forecast period with decisions on their deployment to be taken at individual Budgets, in line with Scottish Government priorities.

- **Scotland Reserve** – the Scotland Reserve provides the Scottish Government limited ability to manage spending across financial years. A £501 million Scotland Reserve carry forward is forecast for 2025-26 based on provisional outturn position following the end of the 2024-25 financial year. The reserve assumption is set to zero in each future year.

Table 2.06: 'Other income' assumptions used in the resource central funding estimate

(Figures in £million, current prices)	2025-26	2026-27	2027-28	2028-29	2029-30
Reconciliations*	500	272	(851)	(222)	-
Resource Borrowing	-	-	663	222	-
Resource Borrowing Costs	(142)	(121)	(67)	(117)	(193)
Capital Borrowing Costs	(160)	(198)	(232)	(262)	(280)
ScotWind	23	-	-	-	-
Scotland Reserve	501	-	-	-	-
Migrant Surcharge	210	210	210	210	210
King's and Lord Treasurer's Remembrancer (KLTR)	5	5	5	5	5
Other**	22	(5)	(11)	(31)	(31)
Total	**959**	**163**	**(283)**	**(195)**	**(288)**

* Note that for 2026-27 the total reconciliation includes a forecast income tax reconciliation of £279 million and a social security reconciliation deferred from 2024-25.
** Other category includes items such as Machinery of Government and Budget Transfers and other funding lines.

Table A.03 (Annex A) shows the change in the outlook for 'Other income' since the last published MTFS (May 2023). The change in outlook in 2025-26 is primarily driven by increased Scotland Reserve funding relative to the MTFS 2023 assumption as well as higher income tax reconciliation. The higher reconciliations in 2025-26 and 2026-27 reflect stronger performance for Scottish Income Tax than forecast at the 2022-23 and 2023-24 Budgets. However, the difference in the outlook for reconciliations in 2027-28 is negative as explained earlier in this section. The forecast reconciliations in 2027-28 and 2028-29 have worsened, with the difference being offset by increased resource borrowing, where this is possible within the borrowing limits available to the Scottish Government.

2.2.6 Capital funding outlook

This section outlines the key assumptions underpinning the central capital funding outlook presented in Table 2.01. It covers in detail the following elements of the capital outlook:

- The capital Block Grant
- Capital Borrowing
- Ringfenced funding and City Deals
- ScotWind
- Scotland Reserve
- Financial Transactions (FTs)

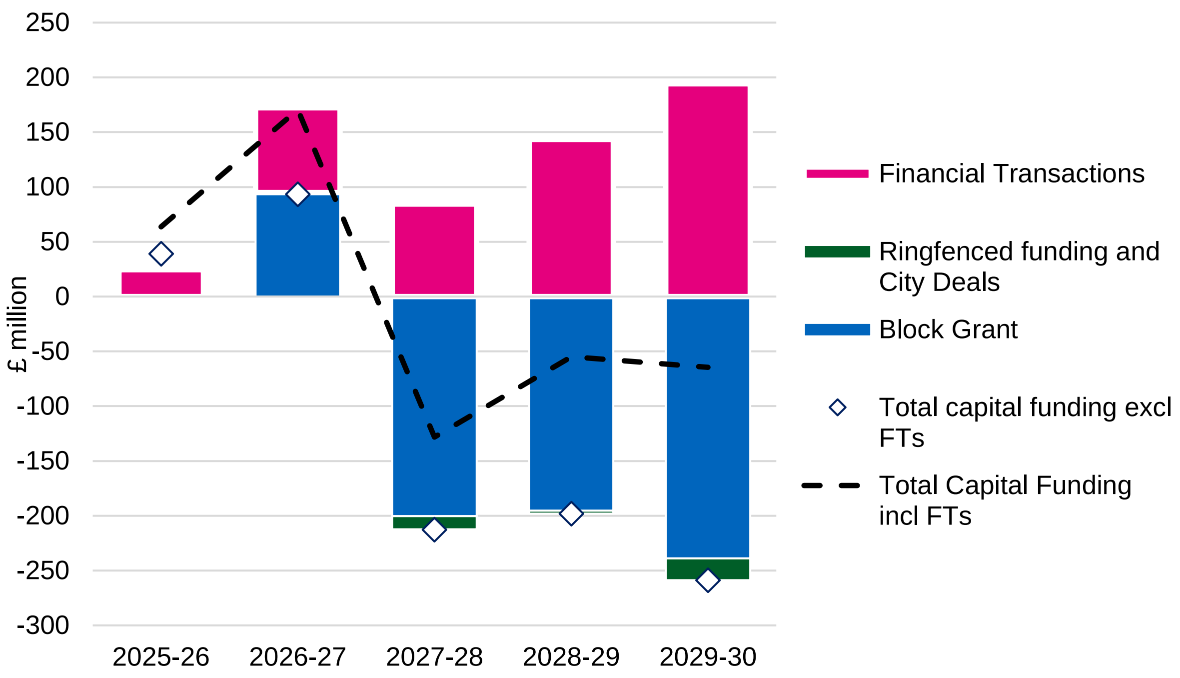
As shown earlier, total capital funding is forecast to remain broadly constant in nominal terms and reduce in real terms by 2029-30, an average real terms decrease of 1.8 per cent a year between 2025-26 and 2029-30.

The core capital Block Grant is set to grow by an average of 1.6 per cent a year in nominal terms over the period 2025-26 and 2029-30, falling by 0.3 per cent a year in real terms. The forecast capital Block Grant is lower than the estimate included in the multi-year outlook set out at the 2025-26 Scottish Budget,[26] which was informed by the OBR's forecasted growth in the total CDEL envelope for the UK as a whole.

As with the resource Block Grant, the 2025 Spending Review provided clarity over the multi-year settlement for the capital Block Grant. However, the Scottish Government's Block Grant for capital (including non-Barnett funding and FTs) is set to grow at a lower rate of 0.3 per cent a year in real terms compared to the 1.8 per cent rate for UK Departments on average.[27]

The UK Government has allocated a higher share of capital spending to Defence, which grows at an average annual rate of 7.3 per cent in real terms between 2025-26 and 2029-30. In contrast, total UK CDEL expenditure (including FTs) grows at 1.8 per cent a year over the same period. As a result, the share of total capital expenditure allocated to Defence rises from 18 per cent of the total to 22 per cent by 2029-30. The Scottish Government does not receive any additional funding from this increase, as Defence capital expenditure is a reserved matter. However, the Scottish Government benefits from increased capital spending on Transport.

Figure 2.02 – Change in the capital funding outlook since the 2025-26 Scottish Budget



Source: Scottish Government

The central capital funding outlook also includes UK Government funding for City Deals in each year, averaging £115 million between 2025-26 and 2029-30 as set out

[26] For 2025-26 the current funding outlook is compared with the funding position after Stage 3 of the Budget Bill
[27] HM Treasury (2025), Spending Review 2025 (HTML) - GOV.UK – Accessed June 2025

in the UKSR. This is lower than the previously estimated flat £122 million. City Deals funding is ring-fenced and there remains flexibility on the timing of its utilisation.

In contrast to the capital Block Grant, the FTs funding grows by over 20 per cent a year in nominal and real terms between 2025-26 and 2029-30, reflecting allocations confirmed in the 2025 UK Spending Review. FTs include loans or equity investment by the devolved governments into the private sector. FTs are £25 million higher in 2025-26 compared to the 2025-26 Scottish Budget position and £194 million higher in 2029-30. However, the level of FTs still remains below 2022-23 levels in nominal terms, and the Scottish Government's share of the overall uplift in FTs funding is relatively low. This is because much of UK FTs funding is allocated to departments such as the Department for Energy Security and Net Zero (DESNZ), which are largely reserved, and have relatively low Barnett formula comparability factors. For example, DESNZ will see a £4.5 billion increase in FTs funding in 2029-30, against which the Scottish Government will only receive a £72 million uplift. The second largest recipient of FTs funding is Department for Housing, Communities and Local Government, which is predominantly devolved and generates the largest FTs consequentials for the Scottish Government.

2.2.7 Capital borrowing

For capital expenditure the Scottish Government can borrow up to £450 million annually, and £3 billion cumulatively, in 2023-24 prices. This means for the purposes of the 2025-26 Scottish Budget the limits are calculated as £471.7 million and £3,144.5 million respectively.

Following the Fiscal Framework Review, the Scottish Government reviewed its capital borrowing policy to ensure the facility could continue to support the capital budget over the medium term in a fiscally sustainable way. In the Scottish Government Borrowing memorandum,[28] published alongside the 2025-26 Scottish Budget, the following guidelines were adopted to assess any capital borrowing decision:

- Use £300 million of capital borrowing per annum as the default assumption;
- This will be amended as necessary to meet budget specific or in-year requirements; and
- Ensure, by way of a fiscal test, that at least £1.5 billion of capital borrowing headroom remains available for the subsequent parliamentary term.

Terms of borrowing, such as the tenor (the duration of the repayment period), will be determined when annual borrowing decisions are finalised and adjusted as necessary to ensure there remains sufficient headroom, as set out in the policy. This policy is reflected in funding assumptions for the forecast period as presented in Table 2.01. This capital borrowing policy will apply to all Scottish Government decisions on borrowing, irrespective of the source of borrowing.

[28] Scottish Government (2024), Scottish Budget 2025 to 2026: Scottish Government borrowing - gov.scot – Accessed March 2025

The Scottish Government is progressing its due diligence on Scottish Government Bonds. This continues to suggest bonds offer a valuable tool to support the capital borrowing policy and broader fiscal and economic objectives. Preparations continue to define the structure and policy parameters for a successful inaugural bond issuance and a sustainable framework for future years. An update on progress will be provided ahead of the 2026-27 Scottish Budget.

2.3 Funding risks and alternative scenarios

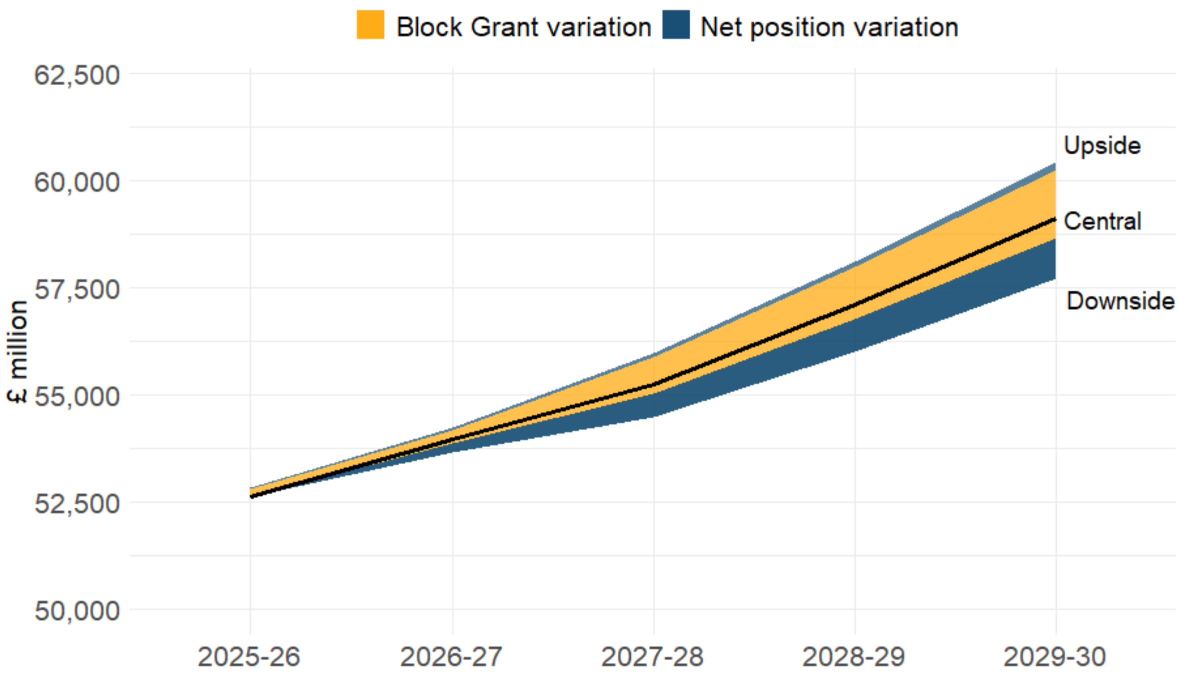
2.3.1 Alternative funding scenarios

The central funding outlook presented earlier in this chapter is subject to several risks and uncertainties. While the multi-year Block Grant settlement from the UKSR has provided some certainty over the level of funding from the UK Government, some uncertainty remains over the forecast period. Risks due to unanticipated changes in UK Government spending, allocation of spending between devolved and reserved areas, volatility due to forecast errors and differences in economic performance all remain.

This section presents illustrative upside and downside scenarios for the funding envelope to demonstrate the scale of possible outcomes, with further detail of these set out in Annex B. Other elements of funding not considered in this modelling may also lead to divergence from the central scenario over time.

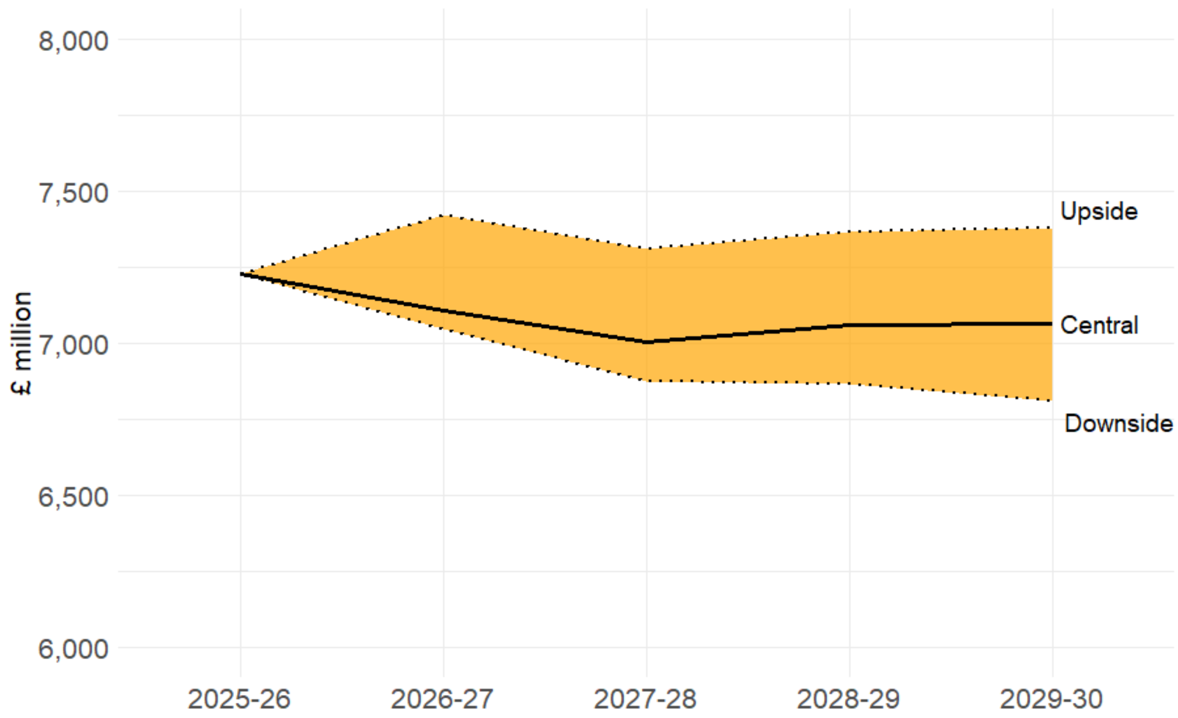
Overall, the analysis provides an indication of the direction and the magnitude of the impact if specific risks materialise for the Block Grant and the net income tax position. For resource funding, changes in both the Block Grant and the net tax position are modelled. Downside risks are assumed to be greater for the net income tax position, while for the Block Grant, the risk is greater on the upside – reflecting past trends that show higher outturns compared to Spending Review settlement. When taken together, the overall risk for resource funding is slightly skewed to the downside. For capital funding, the risk is assumed to be slightly more on the upside but the outlook is considered more volatile, reflecting historical trends.

Figure 2.03 - Resource funding outlook and alternative scenarios



Source: Scottish Government

Figure 2.04 - Capital funding outlook (excl. FTs) and alternative scenarios



Source: Scottish Government

2.3.2 Funding risk management

In the 2023 MTFS we set out a revised approach to the use of the Government's resource borrowing and Scotland Reserve funding tools. This was to achieve the following objectives in order of priority:

a. Ensure a balanced budget by the end of each financial year;
b. Mitigate volatility in the medium-term resource funding outlook.

This approach remains in place.

By necessity, decisions on the level of borrowing and use of the Scotland Reserve are finalised at the end of each financial year. As such, best estimates are used at the time of in-year and future year funding positions.

The Fiscal Framework provides the Scottish Government with some tools to manage volatility and risk. The first review of Scotland's Fiscal Framework was published in August 2023 and the Scottish Government outlined the changes secured through the review and their benefits alongside the 2024-25 Scottish Budget.[29]

As a result of changes agreed in the revised Fiscal Framework, borrowing and reserve limits increased as follows:

Table 2.07: Borrowing and Reserve Limits

(Figures in £million)	2023-24	2024-25	2025-26*
Capital Borrowing (Annual)	450	457.5	471.7
Capital Borrowing (Cumulative)	3,000	3,050.3	3,144.5
Resource Borrowing (Annual)	600	610.1	628.9
Resource Borrowing (Cumulative)	1,750	1,779.4	1,834.3
Reserve	700	711.7	733.7

*2025-26 cumulative limits are subject to The Scotland Act 1998 (Increase of Borrowing Limits) Order 2025 coming into force, which is anticipated to happen by June 2025.

These limits will continue to be annually uprated in line with inflation. The limits for the 2026-27 Scottish Budget will be calculated when the Office for Budget Responsibility publishes its updated deflator forecast alongside the UK Government fiscal event in the autumn of this year.

The changes to the borrowing and reserve limits improve the Scottish Government's ability to manage fiscal risk and support infrastructure spending now and in the future. However, borrowing limits remain low in the context of the overall size of the Scottish Budget and the level of volatility that the Scottish Government is required to manage.

[29] Scottish Government (2023), Scottish Budget 2024 to 2025: implementing the renegotiated fiscal framework - gov.scot – Accessed March 2025

In the case of capital borrowing, as set out above, these changes enabled the sustainable level of capital borrowing to be increased by £50 million to £300 million per annum, to be stretched beyond this level in some years as necessary, and allow alternative sources of borrowing to be considered.[30]

The 2024-25 financial year provides an illustration of the benefits of the changes to the resource borrowing and Scotland Reserve limits. At the start of the year the Scottish Government could assign resource borrowing to offset the negative tax reconciliation in full; then when the tax and social security positions improved over the course of the year the Scottish Government was able to reduce borrowing to nil and carry forward additional funds into 2025-26. This would not have been possible to the same extent under the previous restrictions.

This ability to reduce borrowing and use the Reserve when circumstances allow demonstrates the Scottish Government's commitment to responsible use of these increased powers. But these borrowing powers, while improved, remain heavily restricted and there is a clear case for them to be further enhanced to ensure the Scottish Government can address any tax or social security reconciliation and provide further support for infrastructure spending.

The Scottish Government continues to face the risk of negative reconciliations greater than its annual limit for resource borrowing to address forecast error. The current forecast reconciliation for 2024-25 income tax alone is negative £850 million, which is £187 million more than the forecast annual limit for 2027-28 of £663 million. Reconciliations are the product of forecast error and not the result of Scottish Government action. There is a strong argument for expanded resource borrowing to address forecast error to sufficiently mitigate against these risks. The Scottish Government has demonstrated its prudent approach to borrowing, which it would continue to apply should it be afforded strengthened borrowing powers.

The Fiscal Framework agreement calls for a formal review every five years with the next review due to take place in 2028. However, in view of the issues outlined above, the Scottish Government has called on the UK Government to agree to an earlier review.

[30] Scottish Government (2023), Scottish Government capital borrowing and bonds: memorandum - gov.scot – Accessed March 2025

Chapter 3: Scotland’s Spending Outlook

This chapter will explore the drivers of growth in public spending in Scotland from the starting point of the 2025-26 Scottish Budget. This approach assumes, for the purpose of illustrating the drivers of public spending and pressures on the Scottish Budget, that the Scottish Government’s current policies and services continue.

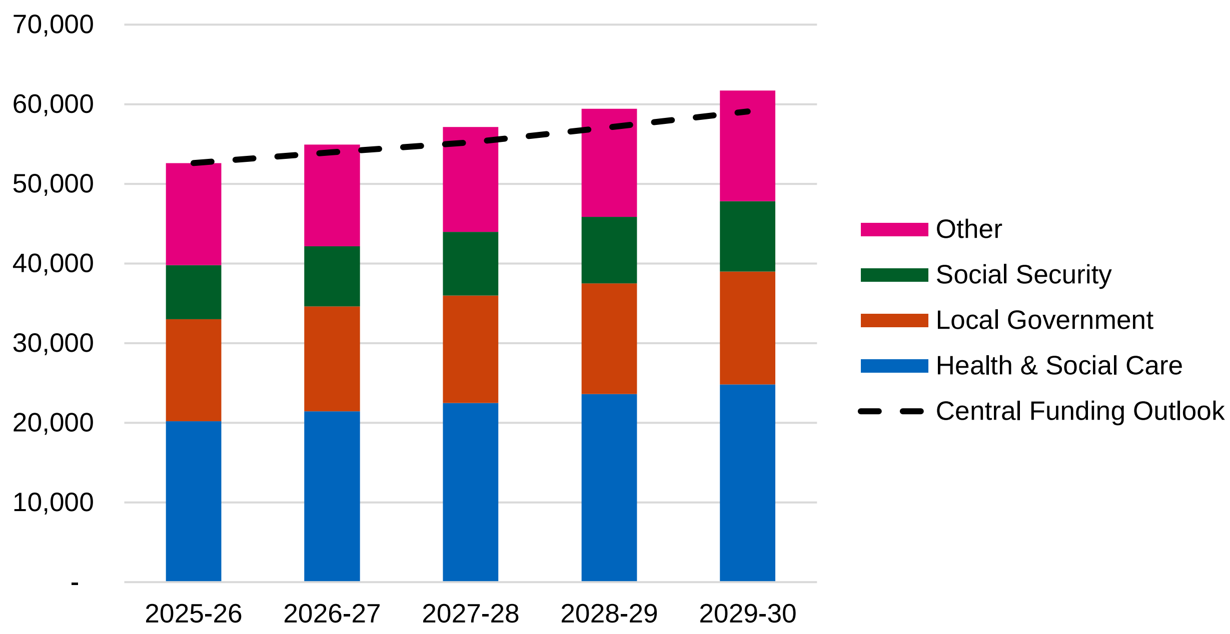
3.1 Summary of resource spending position and fiscal gap

The 2025-26 Scottish Budget was set at a total value of £58.6 billion for resource and capital spending combined.[31] Resource spending comprises nearly 90 per cent of this, with spending on Health and Social Care, Local Government and the public sector paybill being the largest components of spending, as well as some of the main drivers of the expected growth in future spending.

We take the 2025-26 Scottish Budget as the baseline position for resource spending and apply specific growth assumptions to each of the different areas of spend, as set out in Section 3.3 Resource Spending Outlook. When combined, resource spending increases from £52.6 billion[32] in 2025-26 to £61.7 billion in 2029-30.

Forecast growth in spending is 4.1 per cent per year in nominal terms on average over our medium-term horizon. This is between 1.7 per cent and 2.0 per cent higher than forecast inflation each year, and, more significantly for the public finance outlook, higher than forecast funding growth, which averages 2.9 per cent per year in nominal terms under the central funding scenario for the period.

Figure 3.01: Forecast Resource spending by category (£million)



Source: Scottish Government

[31] This figure excludes Financial Transfers (£167 million), Non-Cash (£807 million) and UK AME (£3,904 million).

[32] This is higher than the resource position detailed in the 2025-26 Budget due to increased funding received at the UK Spring Statement and Main Estimates alongside underspends carried forward through the Scotland Reserve from 2024-25 reported at Provisional Outturn.

The Scottish Government has made a conscious decision to invest in the people of Scotland through policy choices such as concessionary travel, free prescriptions and free university tuition. We have chosen to implement a person-centred social security system to invest in improved outcomes for the people of Scotland, provide vital assistance to enable older people to heat their homes and to help disabled people live independent lives. We have also invested to drive forward progress in eradicating child poverty, including through our Scottish Child Payment, devolved employability services and the supply of affordable homes.

We do, however, recognise the additional costs of this investment, as well as the additional cost of Scotland's proportionately larger public sector workforce and comparatively higher public sector pay, as drivers of growth in the public spending over the medium-term horizon. This divergence in the growth in spending relative to the growth in funding, set out in Chapter 2, increases the challenge we face each year, from a balanced budget in 2025-26, to a gap of £2.6 billion in 2029-30, which is why we are setting out the actions in our sustainability delivery plan to mitigate this.

Table 3.01: Resource fiscal gap

(Nominal figures in £million)	2025-26	2026-27	2027-28	2028-29	2029-30
Resource spending	52,623	54,938	57,132	59,453	61,723
Resource funding (central scenario)	52,623	53,975	55,235	57,100	59,099
Resource Fiscal Gap	-	(963)	(1,897)	(2,353)	(2,624)

The rest of this chapter examines the key drivers of the forecast growth in spending.

3.2 Resource spending outlook

Underpinning the pre-measures spending outlook presented in this chapter is the OBR forecast of inflation, consistent with the UK Spring Statement. Growth in public spending is usually measured against the GDP deflators published quarterly[33] by HM Treasury and we have assumed that, in general, public spending is constant in real terms, meaning it grows in line with the GDP deflators.

Table 3.02: GDP deflators

(Figures in £million)	2025-26	2026-27	2027-28	2028-29	2029-30
Year-on-year growth	2.65%	1.66%	2.04%	1.95%	1.88%

Source: Office for Budget Responsibility Spring Forecast, March 2025

There are elements of the Scottish Budget where GDP deflators may not fully capture the inflationary pressures experienced by the Scottish public sector, and where we expect greater pressure on public spending. These are set out below.

[33] HM Treasury (2025), GDP deflators at market prices, and money GDP - GOV.UK – Accessed April 2025

3.2.1 Pay

The Scottish Government is committed to delivering high-quality services across Scotland, and values investment in our public sector workforce. Spending on workforce pay across the devolved public sector in Scotland (including Local Government) is estimated to account for 55 per cent of the entire Scottish resource budget in 2025-26.[34]

The 2025-26 Public Sector Pay Policy (PSPP), published in December 2024, set pay metrics that are fair, sustainable and realistic within a multi-year pay envelope of 9 per cent over 2025-26, 2026-27 and 2027-28. This was informed by an expected CPI inflation forecast of 6.9 per cent across the same period at the time of publication. There is flexibility for employers to configure three-year proposals within the 9 per cent pay envelope, provided they have a fiscally sustainable approach.

In the absence of any policy measures on workforce, the total public sector paybill (including Local Government) is estimated to reach approximately £29 billion in 2025-26. The expected trajectory of this pre-policy paybill is set out in Table 3.03. Public sector pay is assumed to grow by 3 per cent in 2025-26, and 2.9 per cent per year in 2026-27 and 2027-28, to remain within the overall 9 per cent multi-year envelope, except for workforces where pay deals have already been agreed.[35] Thereafter, pay is assumed to grow in line with CPI inflation of 2.0 per cent while workforce growth is assumed to be flat over the five-year period.

Table 3.03: Paybill – pre-policy baseline

(Figures in £million)	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Pre-policy baseline	27,449	28,952	29,887	30,754	31,396	32,036

Source: Scottish Government

To quantify the scale of the fiscal risk associated with pay deals settling above the pay metric, an alternative scenario shows pay growth at 4 per cent per annum for the first three years, returning to 2 per cent pay growth from 2028-29 onwards.

This scenario, set out in Table 3.04, excludes Health workforces, as the MTFS resource spending trajectory uses a separate spending growth assumption for total Health and Social spending (see Section 3.2.3 below).

[34] This only includes funding provided to Local Government from the Scottish Government and does not take account of other sources of funding available to Local Government, such as council tax and other forms of income.

[35]Pay deals that have been settled as of 13 June 2025 have been included. Pay awards are settled for Further Education Colleges at 4.14 per cent in 2025-26; Agenda for Change and Scottish Prison Service both at 4.25 per cent in 2025-26 and 3.75 per cent in 2026-27; ScotRail and Caledonian Sleeper at 3.6 per cent in 2025-26 and 3 per cent in 2026-27; and Fire service at 3.2 per cent in 2025-26. For selected workforces (mainly SG core), an additional 1.5 percentage points is added to growth in basic pay awards to account for other factors affecting average pay, such as pay progression. Further work is required to improve our understanding and evidence of pay drift, and how this changes over time, and the methodology will be reviewed further for the Budget.

Table 3.04: Comparison of illustrative pay award scenario relative to pre-policy baseline, excluding Health workforces

(Figures in £million)	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
4% pay growth per year	-	132	314	524	554	566

Source: Scottish Government
Note: Where emerging pay deals have been agreed as of 13 June 2025, no adjustment to the illustrative scenarios has been applied as these are already included in the pre-policy baseline.

Multi-year pay deals provide certainty for the public sector workforce and an opportunity for the Scottish Government, employers and Trade Unions to plan for and transform our public services to improve outcomes for the people of Scotland. As of 13 June 2025, not all workforces within the devolved public sector have agreed pay deals for 2025 to 2026 or beyond. Where pay deals have been agreed, costs are estimated to be around £122 million higher, compared to the costs expected under the Public Sector Pay Policy published in December 2024.

Box 3.01: Inflation protection clauses in public sector pay deals

There are currently three pay awards, as of 13 June 2025, that include inflation protection clauses. Both **NHS Agenda for Change (AfC) and Scottish Prison Service (SPS)** have agreed a two year pay award with 4.25 per cent in 2025-26 followed by 3.75 per cent in 2026-27. It includes an Inflation Guarantee which states that the pay deal will be 1 percentage point higher than annual average CPI inflation. For 2025-26, the Inflation Guarantee will be triggered if average inflation over 2025 exceeds 3.25 per cent.

The OBR's March 2025 CPI inflation forecast is 3.2 per cent for 2025-26, dropping below the Bank of England's 2 per cent inflation target from 2026-27.[36] The Bank of England also forecast inflation at 3.25 per cent in 2025-26 but with a slower return to the target.[37] As a general measure, and everything else being equal, every 0.1 percentage point increase in the pay award would cost an extra £9 million for AfC and £0.3 million for SPS in 2025-26.

ScotRail and Caledonian Sleeper have accepted a two-year pay award with 3.6 per cent in first year followed by 3 per cent in second year. This includes Retail Price Index (RPI) inflation protection for year two where the pay deal will be either 3 per cent or January 2026 RPI, whichever is higher. As a general measure, and everything else being equal, every 0.1 percentage point increase in the pay award for Scotrail, over and above the current pay offer, would cost an extra £0.4 million in 2026-27.

Inflation outlook and risks

If CPI inflation continues in line with current forecasts[38], there would be no additional costs associated with the inflation guarantee for AfC and SPS. However, inflation protection clauses carry some financial risk. The outlook for inflation remains highly uncertain, with both upside and downside risks driven by factors such as global energy prices, domestic wage pressures, the broader economic environment and ongoing global trade tensions.

3.2.2 Workforce

The devolved public sector full-time equivalent workforce (FTE) stood at 469,100 FTE in March 2025, and 550,000 by headcount. While it has grown by around 1.8 per cent per annum, on average, over the last five years, there has been a marked slowdown over the past year (March 2024 to March 2025) where the total workforce number was broadly flat on an FTE basis.

Scotland's public sector is proportionately larger and better paid when compared to the rest of the UK. The larger size of the workforce is both in terms of the share of the economy and share of total employment. As the Scottish Government's budget is primarily dictated by the levels of spending in the rest of the UK and with proportionately more public sector workers in Scotland, as well as higher pay for

[36] Office for Budget Responsibility (2025), Economic and fiscal outlook – Accessed March 2025
[37] Bank of England (2025), Monetary Policy Report – Accessed May 2025
[38] It is noted that there are no available forecasts for January 2026 RPI inflation.

public sector workers in Scotland on average, this places a structural pressure on our budgets.

As set out above in Table 3.03, the pre-policy baseline assumes that growth in the devolved public sector workforce has now plateaued and will continue to be broadly flat. As a general measure, and everything else being equal, a 1 per cent reduction in the workforce results in around £160 million of savings in the first year and recurring savings of around £300 million in subsequent years once fully achieved.

To quantify the potential costs or savings from faster, or slower workforce growth, two alternative scenarios are illustrated in Table 3.05. It shows the fiscal impact of the workforce declining or increasing by 1 per cent per year respectively over the next five years while pay award assumptions are unchanged from the pre-policy baseline.

Table 3.05: Illustrative workforce scenarios - Additional costs + or savings (-) relative to pre-policy baseline

(Figures in £million)	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Workforce reduces by 1% per annum	-	(157)	(459)	(775)	(1,098)	(1,429)
Workforce grows by 1% per annum	-	+157	+463	+788	+1,127	+1,481

Source: Scottish Government

We recognise the importance of being transparent around the data sources used to make decisions on the public sector workforce. Annex D contains a Pay and Workforce factsheet that sets out the main sources of data that are used, providing breakdowns by broad workforces.

3.2.3 Health and Social Care

Scotland is facing various population health challenges – our population is ageing, demand for health and social care services is rising and health inequalities are widening. In addition, the impacts of inflation, rising energy costs and Brexit mean that the finite funding is worth less in real terms but is expected to deliver more. NHS Boards have set ambitious recurring savings plans while seeking to manage ongoing operational and demand pressures. We have spending challenges in new medicines, procurement and in workforce pay.

In the 2023 MTFS, we forecast that Health and Social Care (HSC) spending would grow by 4 per cent in nominal terms each year. In reality, HSC spending has grown at a faster rate than this, averaging 5.6 per cent nominal growth over the last four years.[39] In their latest Fiscal Sustainability Report, the SFC projected an average of 3.3 per cent real growth in Health resource spending (between 5.0 per cent and 5.4 per cent nominal) for the first ten years of their period, from 2030 onwards.[40]

[39] Based on Budget Bill data between 2021-22 and 2025-26.
[40] Scottish Fiscal Commission (April 2025) Fiscal Sustainability Report – April 2025 | Scottish Fiscal Commission – April 2025

Consequently, we have updated our HSC spending forecast to reflect the observed growth in HSC spending in recent years and anticipated future costs. We forecast 3.3 per cent real-term average growth per annum. This represents higher growth in spending than the anticipated associated funding that the Scottish Government will receive from the UK Government. This is, however, before required savings and efficiencies, as set out in Chapter 4 and the Fiscal Sustainability Delivery Plan, are taken into account.

Box 3.02: Health & Social Care scenario analysis

We assume that Health and Social Care spending increases on average by 3.3 per cent real growth a year without intervening measures. As HSC constitutes almost 40 per cent of the Scottish Budget, our resource spending forecast is very sensitive to this assumption. If HSC spending was to grow by 1 per cent more or less than we assumed, it would have the following impact on the Scottish Government's resource spending trajectory and fiscal position:

Table 3.06: Scenarios – Impact on HSC spending trajectory

(Figures in £million)	2025-26	2026-27	2027-28	2028-29	2029-30
Central resource forecast	**52,623**	**54,938**	**57,132**	**59,453**	**61,723**
HSC growth +1%	-	225	477	757	1,065
HSC growth -1%	-	(225)	(473)	(742)	(1,035)

There are a range of factors that affect Health and Social Care spending in Scotland. Some of these, such as pay and demographics, have specific and more pronounced impacts on spending in Scotland than in the rest of the UK, due to a larger and better paid workforce in Scotland, and an older and sicker population. However, other factors such as increasing costs of prescriptions and medical supplies have similar impacts on Health and Social Care spending in the rest of the UK. Where this is the case, we would anticipate equivalent spending pressures in the UK which would result in funding for the Scottish Government of a proportionate amount.

3.2.4 Social Security

Social Security is an investment in the people of Scotland. The Scottish Government is building a modern Social Security system with dignity, fairness and respect at its heart, where people receive the support to which they are entitled. This investment is key to our national mission to eradicate child poverty and our commitment to help low-income families, support older people and unpaid carers, and enable disabled people to live full and independent lives.

The SFC's June 2025 forecasts show overall expenditure on Social Security Assistance increasing from £6.8 billion in 2025-26 to £8.8 billion by 2029-30. This is mainly due to factors common across the UK such as the projected increasing demand for disability payments, increased cost of living, and rises in payment rates due to uprating. The increase in expenditure is also due to the success in benefit take-up, as well as new benefits only available in Scotland, such as the Scottish Child Payment and Two-Child Limit Payment from March 2026.

In addition to their headline social security forecast, the SFC have produced an illustrative costing of the recent change to the Pension Age Winter Heating Payment from Winter 2025-26. This costing, incorporated into our resource spending forecast, reflects the Scottish Government's decision to mirror the UK Government's extension to Winter Fuel Payment eligibility in Scotland.[41] The SFC estimate that these changes will add £53 million in 2025-26, increasing to £65 million per year by 2029-30, to their forecasts (increasing with inflationary uprating).

As part of the Social Security (Amendment) (Scotland) Act 2025, all Social Security Assistance delivered under the 2018 Act will be uprated in line with inflation. To maintain their value as prices rise in the economy, the Scottish Government uprated all Scottish Social Security payments by 1.7 per cent in April 2025, in line with the 12 months to September 2024 Consumer Price Index – a leading measure of inflation.

Disability benefits account for the majority of devolved Social Security Assistance (81 per cent in 2025-26). Eligibility for these benefits has historically been less sensitive to macroeconomic changes than for income replacement benefits, such as Universal Credit,[42] with demand for disability benefits tending to fluctuate more directly with changes in the "health of the nation". However, in their December 2023 forecast the SFC highlighted that the higher demand for disability benefits observed across the UK was driven by factors such as the role of the cost of living crisis and the number of people with long-term health conditions. The same factors apply to the demand for Scottish disability benefits.

Table 3.07 presents the SFC's forecast of the total additional investment in Social Security Assistance, which is funded from the Scottish Budget. The SFC include spending on Discretionary Housing Payments and Employability Services within their Social Security forecast, however, these are not part of the Social Security Assistance budget, so are not shown in our headline Social Security spending figures.[43]

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[41] All pensioners in Scotland will receive £203.40 or £305.10 per household, depending on age, and we are in discussion with the UK Government to extend the proposed arrangements in England and Wales to recover payments from those pensioners with an individual income of more than £35,000 through the tax system.

[42] Mainly delivered by the Department for Work and Pensions (DWP) in Scotland.

[43] The SFC do not include Young Carers Grant, Job Start Payment or Care Leavers Payment in their forecasts for materiality reasons, so these are not included in our Social Security Assistance forecast.

Table 3.07: Additional investment being made in Social Security Assistance

(Figures in £million)	2025-26	2026-27	2027-28	2028-29	2029-30
SFC June 2025 forecast of Social Security Assistance expenditure	6,772	7,544	7,976	8,379	8,825
Expenditure on social security payments with funding from BGAs	6,132	6,730	7,129	7,505	7,928
BGAs*	5,725	6,191	6,440	6,680	7,001
A: Difference (forecast benefits expenditure funded by BGAs minus BGAs)	407	538	689	825	926
B: Payments Unique to Scotland	567	738	770	795	817
C: Other Social Security payments**	73	76	78	79	80
Total additional investment (A+B+C)	**1,048**	**1,353**	**1,537**	**1,700**	**1,823**

*Based on the UK Government Spring Statement, March 2025, and includes anticipated BGA funding of £120 million per annum from the UK Government's Winter Fuel Payment policy change.
** These are payments that have replaced a corresponding UK Government payment and do not have a Social Security BGA, such as the Scottish Welfare Fund and Funeral Support Payment.

The additional investment in social security compared to England and Wales represents just over 3 per cent of the Scottish Government's resource budget by 2029-30. This investment results from conscious policy choices made by Ministers and the Scottish Parliament, including a different approach to fast-tracking support for people with terminal illness and providing short-term assistance, a client-centred approach, and encouraging take-up of benefits.

Payments that are unique to Scotland, for which there are no UK equivalents, are forecast to total £817 million by 2029-30. Almost two-thirds of this delivers a Scottish Child Payment to low-income families with children, which modelling estimates will keep 40,000 children out of relative poverty in 2025-26. This is a significant public policy intervention, which is key to helping us substantially reduce levels of child poverty in Scotland and drive progress toward the 2030 targets.

As announced in the 2025-26 Scottish Budget, payments will also be made from March 2026 onwards to mitigate the impact of the UK Government's two-child limit policy through the Two Child Limit Payment, at an estimated cost of £11 million in 2025-26 and rising to £194 million by 2029-30. However, recent media reporting suggests that the UK Government may make changes to the two-child limit policy in the Autumn Budget. Any resultant UK Government policy change may change the level of spending required through the Two Child Limit Payment.

Box 3.03: Social Security scenario analysis

We use the SFC's forecasts for Social Security spending in the Scottish Budget and MTFS. These are, however, only forecasts and the Scottish Government must fund actual demand for these payments.

The SFC publish a Forecast Evaluation Report (FER) each Autumn, in which they evaluate how accurate their forecasts from previous years were compared to outturn. Table 3.08 shows the impact on forecast Social Security Assistance spending if we apply the SFC's most recent forecast error.[44]

Table 3.08: Scenarios – impact on spending (figures in £million)

	2025-26	2026-27	2027-28	2028-29	2029-30
SFC June 2025 forecast of Social Security Assistance	6,772	7,544	7,976	8,379	8,825
SFC forecast error, 1% cumulative error (FER 2024)[45]	-	+75	+155	+239	+327

This forecast error is positive, meaning that the SFC underestimated spending on Social Security Assistance, largely due to higher than forecast demand for disability payments partly linked to UK-wide trends.[46] This analysis does not reflect the financial risk of policy changes and future forecast errors could be negative rather than positive.

3.2.5 Local Government

The Local Government scenario in the MTFS reflects forecast expenditure in relation to the funding made available to Local Government by the Scottish Government through the combination of the General Revenue Grant, including Specific Revenue Grants, and forecasts of income raised locally by Non-Domestic Rates. This reflects approximately 85 per cent of actual expenditure by Local Government, which is otherwise funded by service fees, charges and council tax.

The scenario assumes that Local Government is subject to similar spending pressures as the rest of the public sector. Our underlying forecast assumptions therefore reflect that the same demographic pressures experienced by health and social care apply to social care services delivered by Local Government. As a result, the illustrative modelling applies above inflation growth to social care non-pay

[44] Scottish Fiscal Commission (2024), Forecast Evaluation Report – August 2024 | Scottish Fiscal Commission – Accessed May 2025
[45] Scottish Fiscal Commission (2024), Forecast Evaluation Report – August 2024 | Scottish Fiscal Commission – Accessed May 2025
[46] Note: forecast errors used for the scenario analysis here are one-year forecast errors, which we have then applied to the full forecast period cumulatively for illustrative purposes. It is to be expected that the final outturn for outer forecast years may display greater volatility from the currently forecast spend levels, given the increased uncertainty over an extended timeframe and given that new payments are still being rolled out or in early years of implementation.

spending, Public Sector Pay Policy to social care pay and real-terms growth to remaining Local Government spending.

3.2.6 Other above-inflation spending

As well as the main areas of above-inflation spending detailed earlier, we include some targeted above-inflation growth in specific spending commitments in the MTFS forecast. These include the 2025 Programme for Government commitment on peak rail fares, the Scottish Government's concessionary travel policies, the costs of hosting Euro 2028 and the Scottish Parliament Elections in 2026. Including targeted growth on commitments such as these ensures that we are more fully capturing expected medium-term spending on specific commitments.

3.3 Capital spending outlook

Over the past couple of years our capital budget has faced significant challenges. The average cost of construction materials has increased by over 27 per cent when compared to pre-Covid levels. This was coupled with a 4.3 per cent real-term reduction in our UK capital Block Grant over the period 2022-23 to 2024-25. This reduction in our spending power has meant that we have had to change the delivery timescales for some of the projects and programmes within the 2021 Infrastructure Investment Plan (IIP) pipeline and has led to an increase in backlog maintenance that needs to be addressed in the upcoming years.

Despite the significant real-term cuts and the economic challenges, we have delivered many of the projects set out in the 2021 IIP pipeline including:

- Levenmouth Rail Project
- Reston and East Linton Rail Stations
- Barrhead Rail Enhancement
- A92/A96 Haudagain Junction Improvement, Aberdeen
- Inverness Airport Station
- Elective Orthopaedic Centre, Fife
- National Treatment Centre, Inverness
- North East Health and Social Care Hub, Glasgow
- Golden Jubilee Surgical Centre, Clydebank
- Oncology Enabling Projects, Edinburgh Cancer Centre
- National Facility for Women Offenders, Stirling

For the 2025-26 Scottish Budget, we received an increase to our Block Grant from the UK Government, however this only restored funding to 2023-24 levels in real terms and was insufficient to meet all our infrastructure investment needs. To boost this, the Scottish Government maximised capital borrowing and drew down over £300 million of ScotWind revenues to invest in activities that deliver on our net zero ambitions and have a long-lasting benefit for the people of Scotland.

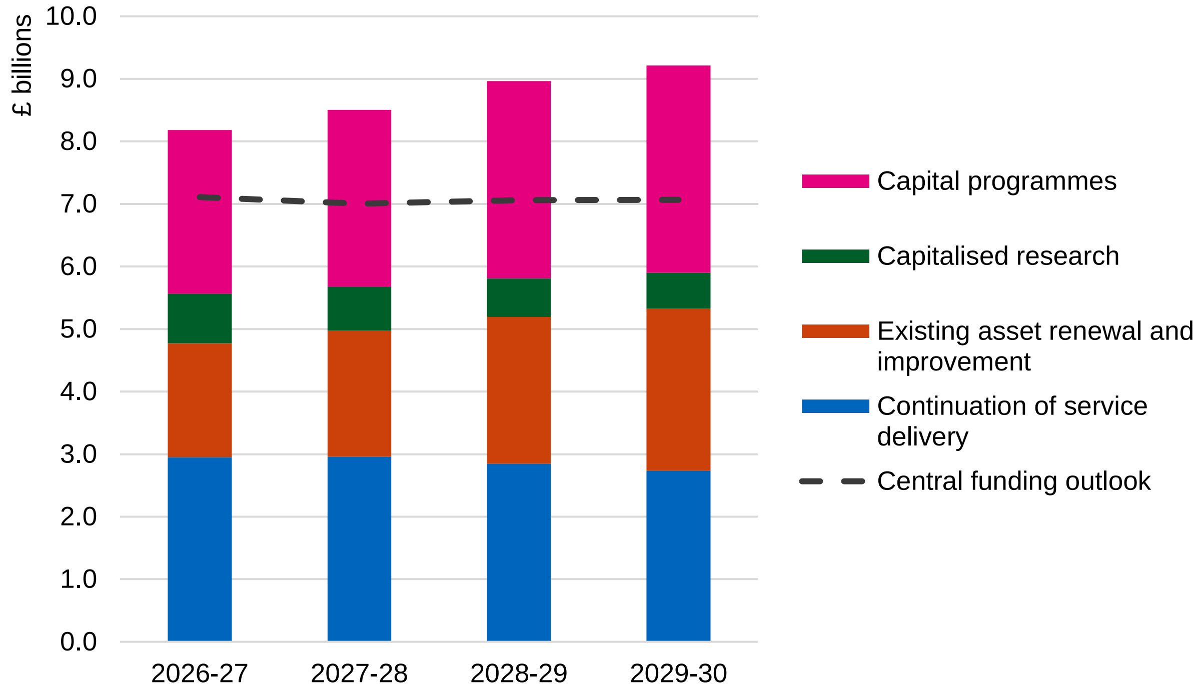
This increase in funding means that we have met our National Infrastructure Mission (NIM) target to increase the budget for infrastructure investment to £6.86 billion in 2025-26. We will set out our long-term vision in the next Infrastructure Investment Plan which will include a refreshed target.

Looking ahead, the UKSR shows that our capital Block Grant is expected to remain broadly flat around £6.65 billion between 2026-27 and 2029-30 which will equate to a decrease by 1.1 per cent in real terms between 2025-26 and 2029-30. However, when accounting for the Scottish Government's capital borrowing policy and the one-off nature of ScotWind revenues, our overall CDEL budget is forecast to fall by 9.3 per cent over the same period.

This further real-terms reduction is compounded by the real-term cuts in previous years and sustained high levels of inflation which reduced our spending power. As such our capital spending is forecast to exceed our available budget by £1.1 billion in 2026-27, rising to £2.1 billion in 2029-30 without further action. There are risks associated with these forecasts, for example, the significant public and private sector investment required to achieve a just transition to net zero.

Scottish Ministers plan to consult on a draft version of the next Climate Change Plan in Autumn 2025, once carbon budgets have been set in regulations by Parliament. Scottish Ministers welcome the UK Climate Change Committee's (CCC) advice on how to stay within these limits, however, as they make clear, it is always for Scotland to decide whether those policies are right for Scotland. We recognise that the public and private sectors must work together to achieve our climate and biodiversity ambitions. The purpose of the next Climate Change Plan is to outline policies and proposals to deliver carbon budgets up to 2040. Information will be provided on the costs and benefits of the policies and this will be taken into account by Ministers in the Scottish Spending Review. Further detail is set out in the Spending Risks section.

Figure 3.02: Forecast trajectory for capital spending compared to the funding outlook (£billion)



Source: Scottish Government

Table 3.09: Capital fiscal position, excluding Financial Transactions, 2025-26 to 2029-30

(Figures in £million)	2025-26	2026-27	2027-28	2028-29	2029-30
Central capital funding	7,230	7,109	7,004	7,059	7,067
Central capital spending	7,230	8,180	8,501	8,962	9,213
Capital Fiscal Gap	**-**	**(1,070)**	**(1,497)**	**(1,903)**	**(2,146)**

Scotland invests its capital budget in several key areas. First, capital investment is required to maintain the existing public sector asset base to ensure the continued delivery of high-quality public services. For example, maintaining our road, rail and ferry networks and maintaining the asset base of our emergency services. Over the four years, current modelling assumes a slight reduction in this spending area, reflecting a reduction in International Financial Reporting Standard 16 (IFRS16) requirements and a change in maintenance requirements across the period as older assets are replaced.[47]

Second, some assets require improvement or replacement to ensure they remain fit for purpose, for example HMP Glasgow is replacing HMP Barlinnie. This increase over the period reflects the Scottish Government's ambitions to remove the backlog of maintenance facing the public sector estate, replace our ageing assets, for example Monklands Hospital, and deliver several major improvement projects, such as dualling the A9.

Capitalised research supports Research & Development across a number of sectors, including funding for higher education grants to support world leading research in Scottish universities.

Finally, Scotland has several major programmes of capital investment, including in Affordable Housing, Heat in Buildings and supporting Local Government through their General Capital Grant. The increasing spending outlook over the period reflects the Scottish Government's ambitions across a number of policy areas.

Alongside our capital Block Grant, Scotland receives a Financial Transactions allocation from the UK Government, which we invest in various schemes, including supporting the Scottish National Investment Bank. Between 2022-23 and 2025-26, our FTs allocation has decreased significantly to just £167 million. The UKSR has given us clarity over future years FTs allocations and an increase up to 2029-30. However, this is not enough to compensate for the lack of growth in the block CDEL grant.

Following the UK Government publishing their Spending Review, we have clarity over our future capital and FTs funding envelopes for the next four years and we will undertake a review of all capital spending to reprioritise our programme of work. The Cabinet Secretary of Finance and Local Government intends to publish an

[47] International Financial Reporting Standard 16 (IFRS16) is a technical change to the budgeting and accounting treatment of leases. There is now a requirement to capitalise the value of leased assets. These costs fluctuate as new leases are signed.

infrastructure investment pipeline in December 2025, alongside the 2026-27 Scottish Budget and the Scottish Spending Review. This will provide clarity over the projects and programmes which will be prioritised over the medium term and where commitments will be paused, delayed or rescoped.

Given the fiscal challenges, and particularly the capital funding settlement from the UK Government, we are currently exploring the use of revenue finance models to bring additionality to our capital funding envelope to deliver the infrastructure needed across the country. We will ensure any investment remains affordable for both the resource and capital budgets and that they represent good value for money. We will set out more options at the Scottish Spending Review about projects that could be funded through revenue financed investment.

In our constrained fiscal environment, it is also important that the private sector plays a role in supporting infrastructure investment, particularly in areas such as housing (through the Housing Investment Taskforce for example) and offshore wind. We continue to work with private investors to support investment into Scotland's infrastructure as we look to deliver effective public services from assets that are fit for purpose.

The Scottish Government remains committed to infrastructure investment as a key lever in securing economic growth, tackling the climate crisis, and delivering high-quality public infrastructure across Scotland. As such, we are doing all we can to maximise the impact of our capital investment towards spend that delivers on the outcomes of this government.

3.4 Spending risks

In addition to the main drivers of spend discussed above, there are a number of potential spending risks that the Scottish Government has to consider when analysing medium-term spending plans and the fiscal sustainability of these. On resource spending, pressures resulting from demand-led spending and demographic changes are the main sources of uncertainty. For the first time we are also presenting information on the Scottish Government's contingent liabilities and present a fuller picture of the spending risks over the medium term.

As set out in the capital spending section, the real-terms reduction to our capital funding in previous years, coupled with high inflation, has resulted in delays to several infrastructure projects and an increase in backlog maintenance. These pressures are exacerbated by new or more complex commitments, alongside the significant investment required to adapt to the changing climate and achieve our emissions reduction targets.

3.4.1 Demand-led spending

Demand-led expenditure appears across the public sector and will always carry a degree of forecast risk. Budgets reflect expected levels of demand. Actual expenditure depends on the eligible population choosing to use the service and is affected by behavioural and economic factors. Areas where we experience volatility include for example social security benefits, concessionary travel and legal aid.

This has become a more significant feature of the Scottish Budget since the devolution of Social Security, which is now the third largest area of public spending in Scotland, after Health and Local Government. Under the Fiscal Framework, all demand-led policies must be managed within the resource budget available and the limited fiscal levers available to the Scottish Government.

For example, expenditure on Social Security benefits is determined by the number of eligible people who apply for support, all of whom must be paid at the rate set in legislation. This is undertaken in accordance with the principle that social security is an investment in the people of Scotland, set out in the 2018 Social Security Act.

Budget allocations are based on independent forecasts, but the Scottish Government must meet social security expenditure as it arises, even if it differs from forecasts used to set the initial medium-term spending plans or the Budget. This can result in the Scottish Government spending more or less than expected at the time the budget is set.

There is uncertainty in the related BGAs, which relate to Social Security policy as it exists in the rest of the UK. Changes in either UK Government policy relating to devolved benefits, or the OBR's forecasts of benefit demand in the rest of the UK, can affect the funding that the Scottish Government is expected to receive in either direction, and the impact of social security spending on wider spending priorities.

As set out in Chapter 2, existing borrowing and reserve powers can help manage in-year forecasting risk for social security and tax, however, these powers are limited and as demonstrated in the position for 2027-28, the scale of adverse movements can exceed the applicable annual limits for any one year.

3.4.2 Climate change and biodiversity

Delivering a just transition to net zero, and restoring and regenerating biodiversity will require sustained action from all sectors of society, and significant revenue spending and capital investment from governments.

Given the scale of these costs and the investment barriers faced, it is clear that public sector spending alone will not be sufficient. The public and private sectors must work together to achieve our climate and biodiversity ambitions. New and innovative investment models are needed to enable public and private finance to combine (blended finance) to achieve long-term value for our communities and environment. These models are already being developed in a number of areas, for example to support private investment in natural capital for peatland restoration and woodland creation.

Climate change places greater pressure on our public spending in three ways: mitigation costs to reduce greenhouse gas emissions and limit further global warming; adaptation costs to reduce climate impacts; and the cost of damages from severe weather events.[48]

[48] Scottish Fiscal Commission (2024), Fiscal Sustainability Perspectives: Climate Change | Scottish Fiscal Commission – Accessed March 2025

One key risk is that funding for the Scottish Government will largely depend on UK Government policy decisions, including whether the response to climate change in some areas involves greater use of spending or non-spending levers, and how the costs of the net zero transition are ultimately split between the private and public sectors.

Additionally, the fiscal risk is not distributed evenly across the UK. In their report on Climate Change (March 2024)[49], the SFC concluded the expected level of per capita public investment required for net zero is higher in Scotland than the rest of the UK, largely as a result of the disproportionate investment required in woodland creation and peatland restoration.

The costs of mitigation are significant. The Climate Change Committee published advice on Scotland's Carbon Budgets in May 2025[50]. The cost profile of the Balanced Pathway over the period 2025 to 2045, shows an average net cost of £1.4 billion per year, which comprises an average investment cost of £3 billion per year and an average operating cost saving of £1.6 billion per year. The CCC advise that delaying this investment in decarbonisation will delay the benefits, including operating cost savings, improved resilience, and energy security.

As with mitigation, early investment in adaptation can bring greater benefits. Evidence suggests that investing in preventative adaptation can generate savings in the long term, when compared to the costs of recovering from climate damages, with a cost-benefit ratio in the region of £2-10. The Scottish National Adaptation Plan[51] outlines actions to build resilience to climate impacts over the period to 2029.

3.4.3 Demographic change

Scotland's population is ageing. The recent SFC Fiscal Sustainability Report[52] projects the median age of the Scottish population to increase from 43 in 2029-30 to 49 by 2074-75, with a growing share of the population expected to be over the age of 65. The ageing of the Scottish population is also forecast to happen earlier than the rest of the UK which creates funding and spending risks which will need to be managed.

The Scottish share of the UK population aged 75 and over peaks in the 2030s, and Scotland's share of people aged 85 and over rises from 7.6 per cent in 2029-30 to 8.3 per cent in 2049-50. The SFC notes that this poses a relative risk to the sustainability of the public finances as health-related expenditure rises, but faster than the related additional funding we may receive from similar increases in age-related health spend in the rest of the UK via the Block Grant.

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[49] Scottish Fiscal Commission (2024), Fiscal Sustainability Perspectives: Climate Change | Scottish Fiscal Commission – Accessed March 2025
[50] Climate Change Committee (2025), Scotland's Carbon Budgets - Climate Change Committee – Accessed May 2025
[51] Scottish Government (2024), Climate change: Scottish National Adaptation Plan 2024-2029 - gov.scot – Accessed March 2025
[52] Scottish Fiscal Commission (2024), Fiscal Sustainability Report – April 2025 | Scottish Fiscal Commission – Accessed April 2025

Over the longer term, the SFC project this trend may reverse, and the Scottish population over the age of 65 as a share of the UK population will actually decrease – meaning we may receive relatively more funding from age-related healthcare spend in the rest of the UK than we have to spend in Scotland – acting as an upside risk to the sustainability of the public finances.

The recent SFC report focuses on population health and the impact on health spending and the future gap between funding and spending. It sets out scenarios based on improved overall population health and worsened health, noting that improved health would have a positive effect on the public finances. The Scottish Government's recently published Population Health Framework sets out the Government's plan to improve the overall health of the Scottish population. This sits alongside the longer-term plans for the future of the NHS which are discussed in more detail in Chapter 4.

3.4.4 Contingent liabilities

The Scottish Government's potential exposure to contingent liabilities has increased over recent years and will continue to do so in the coming years. This is mainly driven by an increase in the exposure to decommissioning projects. This is where the Scottish Government acts as funder of last resort in the event that offshore wind developers are unable to meet their decommissioning obligations at the end of a site's operational period and all other mitigations such as security packages have been exhausted.

Contingent liabilities are financial obligations that the government may face if certain future events were to happen. The Scottish Government's contingent liabilities can be split into two categories – those that arise unavoidably out of the ordinary functions of government, for example, commitments to fund pension deficits, or legal claims; and those arising from discretionary policy decisions, such as decommissioning with the policy aim of stimulating the development of the provision of clean energy from offshore wind. The Scottish Parliament is required to approve any proposals for contingent liabilities that relate to discretionary policy decisions over £2.5 million and the Scottish Government must notify the Parliament of any between £300,000 and £2.5 million.

The Scottish Government's annual accounts provide further detail on a number of our contingent liabilities, including their gross exposure, which represents a worst-case scenario if the contingent liability was called in full. In reality, very few contingent liabilities present a significant exposure once the risk of crystallisation and available mitigations and security packages are taken into account (known as net exposure).

The Scottish Government has robust processes in place to monitor and manage our contingent liabilities within the parameters of in-year financial management and annual budget setting processes. In addition, contingent liabilities are reviewed in-year and as part of the year-end accounts process.

Whilst we consider that the risks are manageable within the current controls, we are looking to strengthen these processes with the establishment of the contingent liabilities group, and we are developing our approach to assess net exposure so that we can more closely monitor potential risks going forward. There are also a range of actions available to mitigate our exposure such as ensuring a diverse range of contingent liabilities across different sectors and developers, and calling on security packages. We deem it unlikely that the whole portfolio of contingent liabilities would crystallise at one time, and financial exposure in the event of any crystallisation may be spread over a number of financial years.

3.4.5 Ageing assets

Infrastructure underpins the public services that the Government delivers. Higher construction costs in a constrained funding environment means that fewer new investments are affordable, and maintenance budgets are under strain. The asset base of the Scottish public sector is ageing and without adequate maintenance and renewal there is a risk that public services are becoming less accessible and available. Strategic prioritisation of capital allocations and the infrastructure pipeline is required to ensure that the public asset base is fiscally sustainable and makes service delivery resilient to changing demand and delivery risks.

3.4.6 Management of unanticipated risks

There are a range of risks which cannot be anticipated with any certainty, but which must be managed should they arise. These include epidemics, financial crises, adverse weather impacting people and infrastructure, and geopolitical conflict. The extent to which these events impact the Scottish Budget depends on relative impacts to the wider UK. The SFC report on Climate Change noted the increasing risk of climate change damage could make the Scottish Budget more vulnerable to volatility and create pressures on spending that require reprioritisation of commitments within the financial year[53].

We have seen increasing instances of unanticipated events in recent years and the Scottish Government must be prepared to take action where there is an impact on Scotland. Responding to these risks creates challenges for in-year financial management when additional spending, which was not budgeted for, is required. The additional costs must be met through in-year savings from elsewhere in the budget. The Scottish Government has robust in-year financial management practices in place to manage in-year risks should they occur, and to ensure that Parliament and the public are kept up to date with any changes to the public finances. The Scottish Government reviews expenditure including on workforce, in line with spend controls with accountable officers assessing this against overall budgets.

The Budget Act is typically amended twice a year through a Scottish Statutory Instrument (SSI), known as the Autumn and Spring Budget Revisions. These budget revisions allocate any additional funding and reflect spending patterns emerging from monthly budget monitoring. This is part of the usual process to support financial scrutiny and to allow the Scottish Parliament to authorise any changes to the Budget Act. The Scottish Government publishes a provisional and final outturn statement

[53] Scottish Fiscal Commission (2024), Fiscal Sustainability Perspectives: Climate Change - Summary – Accessed March 2025

each year. This sets out the changes between the published budget and actual spending. The latest Outturn Report was published on 24 June 2025.

Chapter 4: Our strategic approach to the public finances

In 2023, we set out our strategy aimed at ensuring we continue to deliver a balanced budget each year alongside strengthening the public finances over the medium term. Recognising the limited fiscal powers the Scottish Government has, the strategy was built around the three pillars of public spending, economy, and tax. These are the key areas where we have some level of influence over policy choices to mitigate known fiscal pressures and prepare for future shocks.

This year, we are reinforcing our commitment to deliver the strategy, ensuring the public finances remain sustainable over the medium term, to support delivery of this Government's priorities. We retain the focus on the three pillars (Box 4.01), updating them to recognise where progress has been made and where further action is needed.

As previous chapters have set out, the fiscal and economic environment is very challenging and is likely to remain so into the foreseeable future. Our MTFS reflects this and recognises that fiscal sustainability must be a core part of our drive across government to improve outcomes for the people of Scotland, by changing how we deliver services, protecting our natural environment, and reducing inequalities.

In recognition of this, we are strengthening our approach by publishing a Fiscal Sustainability Delivery Plan alongside the MTFS. The FSDP brings together the range of activity currently underway, and further actions this Government will take, to deliver the fiscal strategy.

All three pillars of the strategy play an important role in strengthening the public finances. In the short to medium term, the most immediate lever by which we can improve fiscal sustainability is in public spending and this is reflected in the scale and scope of activity under this pillar.

Box 4.01: Three pillars of the 2025 MTFS

Pillar 1: Ensuring public money is focused on delivering government objectives, underpinned by reform and prioritisation to maximise impact.

Pillar 2: Supporting sustainable, inclusive, economic policies with the greatest potential to grow Scotland's economy, expand and broaden the tax base to fund public services.

Pillar 3: Ensuring a strategic approach to tax revenues, which considers the longer-term impact of our tax choices and competitiveness.

4.1 Pillar 1: Public Spending

Ensuring public money is focused on delivering government objectives, underpinned by reform and prioritisation to maximise impact.

4.1.1 Achievements since 2023

Considerable work has been undertaken since the 2023 MTFS to ensure public finances are focused on delivering the Scottish Government's priorities, underpinned by public sector reform. Actions across the 2024-25 and 2025-26 Programmes for Governments and associated Scottish Budgets have streamlined commitments and prioritised spending, while ensuring a balanced budget each year.

Achievements include:

- Ensuring citizens are protected from rising living costs by maintaining free prescriptions and eye examinations; free bus travel for 2.3 million people; free university tuition for Scottish students; free early learning and childcare support for all three and four year olds, and a social security system based on dignity and respect.

- The 2025-26 Scottish Budget delivered a record increase in frontline NHS spending; set out plans to lift 15,000 children out of poverty through the Two Child Limit Payment to mitigate the UK Government's actions; allocated funding for universal winter heating payments for older Scots, and £4.9 billion of action on the climate and nature crises.

- Driving efficiencies within government and the wider public sector through programmes such as National Collaborative Procurement; Single Scottish Estate; and Commercial Value for Money of Grants, to secure cost avoidance and nominal releasing savings which are expected to reach £280 million by the end of 2024-25.

We have delivered major capital projects in transport, health and justice since 2023, despite real-terms cuts to our capital budget, including:

- Reopening of a passenger railway in Levenmouth; completion of the New East Linton Rail station; and electrification of Barrhead railway line, improving economic and green travel opportunities.

- A Health and Social Care Hub facility at Parkhead; a Surgical Centre at Clydebank, and a new Cancer Assessment Unit and oncology ward at the cancer centre in the Western General Hospital.

- A National Facility for Women Offenders, situated in Stirling, and improvement works at HMP Barlinnie.

4.1.2 Our strategy

Building on our 2023 aim to focus spending on our priorities, our approach is based on four key measures (Box 4.02) and is closely integrated with the recent Public

Sector Reform Strategy (June 2025). Improving the public finances requires effort right across the public sector, over the medium to longer term. This year, we are setting out the level of savings we aim to make across key areas over the medium term. By making these savings, we will strengthen our ability to make positive investments in our priorities while mitigating the fiscal risks we face.

Box 4.02: Four key measures to ensure public money is focused on delivering government objectives, underpinned by reform and prioritisation to maximise impact

1. **Increasing public value** – ensuring funding is fully focused on delivering the Scottish Government's priorities and maximising the impact of available investment. This includes identifying and prioritising higher impact spending; considering options for public bodies to more effectively raise revenue, and improving the evidence base for existing spend and new spend proposals, to drive up public value from spending through the Scottish Government Centre of Expertise on Appraisal and Evaluation.

2. **Efficiencies and productivity** – driven through the PSR Strategy and aligned with a public sector workforce reduction target. This includes focusing on business improvement and increased productivity through workstreams such as scaling intelligent automation, service redesign, and reviewing the public service delivery landscape.

3. **Service Reform** – changing the way we deliver services to secure the same or better outputs for lower cost in the longer term, enabled and driven through the PSR Strategy and reform programmes already in train. This includes actions in Health and Social Care service reform, Social Security benefits, Justice reform, Education and Skills reform and joined up models of service delivery for those most in need.

4. **Prevention** – investing in the most impactful preventative spend to reduce service demand in the medium to long term. This includes actions to tackle child poverty and poverty more generally, homelessness, supporting young people not to enter the criminal justice system, minimising reoffending, and the actions under the Population Health Framework.

The Scottish Spending Review (SSR) delivers our strategic approach to public spending, allocating multi-year budgets to deliver the core priorities of this government. The SSR will set out the contribution expected from individual Scottish Government portfolios, and specific policy measures that will be taken to achieve savings. We intend to publish the conclusions of the SSR alongside the 2026-27 Scottish Budget. The SSR Framework is included in Annex E and sets out the Scottish Government's approach and timeline to the Spending Review.

The SSR will reflect the overall envelope confirmed by the UK Government for spending by the Scottish Government in both resource and capital. Our public spending approach set out above will ensure that funding is allocated in a fair and proportionate way, while recognising the wider context, with all UK departments required to deliver at least 5 per cent savings and efficiencies by 2028-29 and reductions in administration budgets of at least 16 per cent in real terms by 2029-30.

The Cabinet Secretary for Finance and Local Government intends to publish the infrastructure investment pipeline reset in December 2025, alongside the 2026-27 Budget and the Scottish Spending Review. This will provide clarity over the projects and programmes that will be prioritised in the medium term. In addition, we will set out our long-term trajectory for infrastructure in the next Infrastructure Investment Plan.

Our strategic approach and measures focus on the key drivers of public spending outlined in Chapter 3. These are as follows:

- **Pay and Workforce**: planning for a managed downward trajectory for the devolved public sector workforce of 0.5 per cent on average per annum over the next five years, as part of a shift in workforce plans and operating models because of service re-design, automation, process improvement, re-prioritisation, mergers, and shrinking corporate functions. Frontline services will remain protected as this is taken forward.

- **Health and Social Care**: we will continue to focus on delivering efficiencies and service reform, through the NHS Operational Improvement Plan[54], the Population Health Framework[55], and the Health and Social Care Service Renewal Framework[56]. We have a commitment to delivering 3 per cent recurring savings against core funding for NHS Boards, supported by a continuous programme of efficiency and productivity improvement. This will be done while ensuring all Health resource consequentials from the UK Government are passed on in full.

- **Social Security:** we will protect the current benefits offer while improving the efficiency of how we deliver benefits through improving communication to clients, investment in digital and automation of some payments, and continuing to pursue initiatives which increase the ability to tackle fraud and error where it does occur. We will also consider improvements to the way we manage reviews of clients awards.

4.2 Pillar 2: Economic Growth

Supporting sustainable, inclusive, economic policies with the greatest potential to grow Scotland's economy, expand and broaden the tax base to fund public services.

4.2.1 Achievements since 2023

Many of the levers that influence macroeconomic activity are reserved to the UK Government. This includes, but is not limited to, monetary and fiscal policy,

[54] Scottish Government (2025), NHS Scotland operational improvement plan - gov.scot – Accessed April 2025
[55] Scottish Government (2025), Scotland's Population Health Framework - gov.scot – Accessed June 2025
[56] Scottish Government (2025), Health and Social Care Service Renewal Framework - gov.scot – Accessed June 2025

employment law, and non-devolved taxation. In these areas we rely on the UK Government making the right decisions to enable growth in Scotland.

The UK Government's current approach to immigration is an example of where failure to address Scotland's distinct demographic and economic needs exacerbates labour supply issues. We have taken action where we can to address this, including launching Scotland's Migration Service in 2024, which helps employers navigate the UK immigration system to fill their skills and labour gaps.

While we are not in full control of all economic levers, growing the economy is a priority for this government, and we are taking action to leverage our significant strengths and opportunities, to boost Scotland's long-term economic prospects. We have prioritised policies and actions with the greatest potential to grow Scotland's economy, now and for the long term.

The National Strategy for Economic Transformation[57] set out our long-term objectives to create a fair, green and growing economy. Three years into its 10-year delivery, we have achieved 39 per cent of our actions. These include:

- Over 74,000 connections delivered through the Reaching 100% (R100) broadband programme;
- Employability support provided for almost 72,000 people (between April 2022 to September 2024);
- Investment in our enterprise agencies in 2023-24 enabled Scottish Enterprise to support the creation or safeguarding of over 16,700 jobs and help companies unlock a record £1.89 billion planned capital investment.
- Fair Work conditionality applied to over £2.6 billion of public sector grants (between July 2023 and March 2024).

Our National Innovation Strategy[58] (June 2023) sets out our vision for Scotland to be one of the most innovative small nations in the world and identifies the sectors in which Scotland's research and business base provides competitive advantage.

Our Green Industrial Strategy[59] (September 2024) sets out the economic growth opportunities for Scotland from the global transition to net zero with targeted actions to secure growth and investment; and our Natural Capital Market Framework[60] (November 2024) support values-led investment in natural capital.

Planning is key to unlocking new investment opportunities. We launched Scotland's Planning Hub with an initial focus on hydrogen planning applications and we are

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[57] Scottish Government (2022), Scotland's National Strategy for Economic Transformation - gov.scot – Accessed May 2025
[58] Scottish Government (2023), National innovation strategy 2023 to 2033 - gov.scot – Accessed May 2025
[59] Scottish Government (2024), Green industrial strategy - gov.scot – Accessed May 2025
[60] Scottish Government (2024), Natural Capital Market Framework - gov.scot – Accessed May 2025

building on this progress to support wider developments, including good quality homes and onshore wind.

4.2.2 Our strategy

Our main economic interventions to support economic growth and fiscal sustainability are set out in the National Strategy for Economic Transformation, Green Industrial Strategy, and the 2024[61] and 2025[62] Programmes for Government. The fiscal strategy focuses on the areas set out in Box 4.03 – delivered through economic interventions that are expected to grow the economy and expand and broaden the tax base.

Box 4.03: Three key measures to support economic growth, and expand and broaden the tax base

1. **Increasing aggregate business activity** – supporting Scottish businesses and making it easier to do business by providing regulatory certainty and stability.
2. **Increasing employment levels** – improving access to good, well-paid employment and attracting investment to start new and grow existing employment opportunities in Scotland.
3. **Increasing average wages** – improving skills and attracting and retaining high-wage sectors in Scotland.

Increasing aggregate business activity

By supporting businesses, we drive economic growth through job creation, increased innovation and investment, supply chain expansion, and trading and exports. Scotland has a thriving start-up ecosystem and excels in disciplines such as AI, life sciences and green technologies that carry transformational economic potential. Actions include developing business clusters in innovative markets; building on Scotland's expertise in critical technologies; boosting Scotland's profile as a modern, high-growth country and ensuring we sell our expertise on an international stage and attract inward investment.

Increasing employment

Scotland's population is ageing earlier than the rest of the UK. Increased demand for services and a proportionally smaller labour force creates challenges for the fiscal environment. With unemployment consistently low, a focus on boosting the size of our workforce by removing barriers to work and reducing economic inactivity is essential. Supporting those with long-term health conditions and disabilities to remain in, sustain and progress in work will have positive impacts for an older working age population. Our devolved employability programmes provide person-centred, place-based support. Our focused action to improve health and work

[61] Scottish Government (2024), Programme for Government 2024-25: Serving Scotland - gov.scot Accessed May 2025
[62] Scottish Government (2025), Programme for Government 2025 to 2026 - gov.scot – Accessed May 2025

services and promotion of fair and flexible working practices, supports a multi-sector approach. Our early learning and childcare offer improves outcomes for children and supports access to work, training or study for parents and carers. The Programme for Government sets out further actions including recognition of prior learning, skills needs in priority sectors and support for self-employment and entrepreneurship.

Increasing average wages

Increasing average wages supports improved living standards and reduces poverty. Wage growth is also critical to fiscal sustainability through higher tax revenues and increased spending power. We are supporting innovation and high-wage sectors in Scotland to create and expand opportunities for high-wage employment. We are ensuring people have the skills they need throughout their lives to enter and remain in productive work, and secure higher wages, through reform of our post-school education and skills system. Our Fair Work First approach includes promoting flexible and family-friendly working practices, and increasing the number of employers who pay at least the real Living Wage. The changes associated with this movement aim to reduce the number of people living in poverty, raise living standards and encourage people to progress in work.

4.3 Pillar 3: Taxation

Ensuring a strategic approach to tax revenues, which considers the longer-term impact of our tax choices and competitiveness.

4.3.1 Achievements since 2023

Since the devolution of greater tax powers, the Scottish Government has delivered a fair and progressive tax system by embedding our distinctive and ambitious Scottish approach to taxation in our policy choices. This has raised significant revenue with the limited tax powers that we have available, helping to pay for a range of services and social security payments that are not available elsewhere, such as the Scottish Child Payment and free prescriptions. The decisions the Scottish Government has made on Income Tax since devolution – distinct from those made by the UK Government – are estimated to have raised up to £1.7 billion in 2025-26 when compared to if we had implemented the same rates and bands as in the rest of the UK.

Since 2023, progress to ensure a strategic approach to taxation includes:

- Publishing ‘Scotland's Tax Strategy: Building on our Tax Principles’ (December 2024). This sets out the steps that will underpin this government’s approach to developing tax policy, ensure the tax system raises the revenue needed to achieve our priorities, and support our growing economy.

- Setting up a Tax Advisory Group[63], and providing a set of ready reckoners for all devolved taxes with Budgets in December of 2023 and 2024.

[63] The Tax Advisory Group provides strategic advice on tax policy and strategy to the Scottish Government. Further details, including membership and minutes, are available at Tax Advisory Group - gov.scot

In the 2025-26 Scottish Budget we supported lower-earning taxpayers while continuing to raise the revenue needed to protect our investment in public services. Our decisions:

- Ensured most taxpayers continue to pay less than in the rest of the UK, by raising Basic and Intermediate rate thresholds by 3.5 per cent, which reduced forecast revenue by £24 million in 2025-26.

- Maintained Higher, Advanced, and Top rate thresholds at current levels, raising £76 million in 2025-26.

The net impact of these decisions was to increase the Scottish Budget by an estimated £52 million in 2025-26, protecting and building on revenues already raised as a result of our policy choices.

On Non-Domestic Rates, decisions made in the 2025-26 Scottish Budget maintained a competitive non-domestic rates regime, estimated to raise over £3 billion to help fund local services. The Basic Property Rate (for properties with a rateable value up to and including £51,000) was frozen at 49.8 pence in 2025-26, delivering the lowest such rate in the UK for the seventh year in a row. Over 95 per cent of properties in Scotland (those with a rateable value up to and including £100,000) are liable for a lower property tax rate than anywhere else in the UK. We also continued to support businesses and communities with a competitive Non-Domestic Rates relief package worth an estimated £733 million in 2025-26.

On Land and Buildings Transaction Tax , we maintained the main LBTT rates and bands at their existing levels, and continue to make First-Time Buyer Relief available. We raised the Additional Dwelling Supplement from 6 per cent to 8 per cent with effect from 5 December 2024, supporting the Scottish Government's commitment to protect opportunities for first-time buyers in Scotland. In the May 2025 publication 'Scotland's Economic and Fiscal Forecasts', the SFC forecast that this change will raise £30 million in additional revenue in 2025-26.

On Scottish Landfill Tax, we chose to match the above-inflation increase in UK Landfill Tax rates. This avoids the risk of waste tourism which would exist if one nation in the UK had a substantially lower rate of tax. The increased rates are forecast to raise an additional £6 million in 2025-26.

4.3.2 Our strategy

A stable tax system allows taxpayers to better manage their finances and helps businesses to plan and make investment decisions with confidence – while also allowing time to assess the impacts of previous policy changes.

'Scotland's Tax Strategy: Building on our Tax Principles'[64] (the 'Tax Strategy') sets out this government's approach to developing tax policy, ensuring the tax system raises the revenue needed to achieve our priorities, and supports our growing

[64] Scottish Government (2024), Scotland's Tax Strategy: Building on our Tax Principles - gov.scot – Accessed December 2024

economy. Two of the key measures that will support fiscal sustainability are considered in further detail in the FSDP (Box 4.04).

Box 4.04: Two key measures to ensure a strategic approach to tax, and consider the longer-term impacts of tax choices

1. **Priorities to improve the operation and performance of the existing tax system** – in addition to stability for Income Tax as noted above, key areas of focus include working with Local Government, and completing the devolution of remaining taxes.

2. **Future tax reform to deliver sustainable and growing tax revenues** – exploring opportunities for reform and devolution of tax powers needed to continue to deliver sustainable and growing tax revenues in the future.

Our priorities for the existing tax system include working with Local Government and completing the devolution of remaining taxes.

Working in partnership with Local Government will enable us to ensure that local taxes are fair, inclusive and fiscally sustainable, and to explore the creation of more revenue-generating powers for local authorities.

Completing the devolution of remaining taxes is a key strategic priority for the Scottish Government. They will grow our tax base, increase the number of taxes collected and managed by Revenue Scotland, add to the accountability and fiscal powers of the Scottish Government, and demonstrate our ability to make good tax policy and legislation.

The Scottish Parliament has passed legislation for both the Scottish Aggregates Tax (SAT) and Air Departure Tax (ADT). The Aggregates Tax and Devolved Taxes Administration (Scotland) Act received Royal Assent on 12 November 2024. The SAT will come into force on 1 April 2026.

We are working with the UK Government to arrive at a solution for a Highlands and Islands exemption for ADT that protects connectivity and complies with subsidy control legislation. We have published the principles[65] that will inform further policy development, in line with the commitment set out in the Climate Change Action Policy Package in April 2024. We will engage with stakeholders to discuss how these principles will help shape ADT policy development.

We have also secured powers to create a new tax to fund building safety expenditure. The Building Safety Levy (Scotland) Bill was introduced on 5 June 2025 and the Levy is expected to come into force on 1 April 2027. When operational, the Levy will provide vital funding for action on cladding remediation.

Following the conclusion of the Fiscal Framework Review in August 2023, the Scottish and UK Governments have agreed to explore options for the future of VAT

[65] Further information on the principles can be found here: [Air Departure Tax - Taxes - gov.scot]

Assignment. We will take forward exploratory work, in line with our Tax Strategy principles, on options including full VAT devolution.

We plan to undertake a range of actions to examine the opportunities for future reform and further devolution of tax powers needed to continue to deliver sustainable and growing tax revenues in the future. The priority areas are set out in the FSDP and include work to learn from other countries to better understand different devolved arrangements internationally and the potential for the devolved tax system to encourage positive behavioural change; further analysis of existing evidence on the sustainability of our taxes, and actions undertaken by Revenue Scotland to increase understanding of fully devolved taxes and to streamline and ensure efficient tax collection.

4.4 Wider supporting actions

There are a range of areas where we will take forward further work as part of our MTFS. These are important underpinning elements to our work on fiscal sustainability.

4.4.1 Fiscal Framework

As set out in Chapter 2, the first review of Scotland's Fiscal Framework was published in August 2023. The Scottish Government outlined the changes secured through the review and their benefits alongside the 2024-25 Scottish Budget[66].

The authors of the Independent Report, jointly commissioned by the Scottish and UK Governments ahead of the Fiscal Framework Review, estimated that the ongoing use of the Indexed Per Capita methodology for calculating Income Tax Block Grant Adjustments alone could be worth around £500 million a year by 2026-27, when compared with other methodologies that were considered.

The Fiscal Framework agreement calls for a formal review every five years with the next review due to take place in 2028. However, in view of the issues set out in Chapter 2 including low borrowing limits in the context of the overall size of the Scottish Budget, and the restrictions on reserve limits, the Scottish Government has called on the UK Government to agree to an earlier review.

4.4.2 Areas of engagement with the UK Government

The Scottish Government sought engagement with the UK Government in the lead up to the UKSR across a range of priorities. We called for the UK Government to bring forward the funding required to put public services on a sustainable path and deliver the investment needed but the settlement fell short of our expectations for both resource and capital.

We were optimistic that the reset in relations promised by the UK Government would be built on through the UKSR but Ministerial engagement with Treasury was limited. Despite this, we approached our input to the UKSR in a cooperative spirit and were

[66] Scottish Government (2023), Scottish Budget 2024 to 2025: implementing the renegotiated fiscal framework - gov.scot – Accessed March 2025

pleased to see progress on the Acorn Project and a change in approach on the Winter Fuel Payment.

The Scottish Government welcomes the UK Government's £200 million commitment for the Acorn carbon capture project to bring it to a Final Investment Decision during this UK Parliamentary session. Further significant investment of circa £10 billion to £12 billion will be required for the delivery stage and that will not be considered until the next UKSR. The Scottish Government is now working with Acorn and the UK Government on next steps and where it can offer support. On welfare, we are seeking further detail on the policy and the way in which the funding model for the Winter Fuel Payment can be reconciled with the Fiscal Framework.

More broadly, we have set out in correspondence ahead of the UKSR, the capabilities that Scotland has to contribute to the Chancellor's growth ambitions, and what action is needed by the UK Government spanning artificial intelligence, offshore wind, hydrogen, carbon capture and storage, cross-border infrastructure, and tailored migration routes. While there has been marginal progress through the UKSR, we continue to press the UK Government to deepen cooperation and work collaboratively to maximise economic benefit through aligning reserved and devolved actions. We are disappointed that there remains a lack of clarity over the approach to local growth funding and continue to emphasise the need for the Scottish Government to have a role in its design and delivery.

The UKSR should have been an opportunity to improve the ways that the UK and Scottish Governments interact on financial matters. We continue to seek increased fiscal flexibilities, enabling the Scottish Government to better manage volatility, along with achieving a fair share of the FTs budget allocations and securing parity of treatment for Scottish bodies (such as the Scottish National Investment Bank) in light of HMT's new FTs Control Framework. The UK Government has committed to exploring these issues and working with Devolved Governments to reaching a resolution ahead of the Autumn budget.

4.4.3 Scrutiny, transparency and governance

Fiscal openness and transparency are important enablers of fiscal sustainability, helping to promote improved policies and strengthen accountability for fiscal management. The Scottish Government is committed to transparency, both in how it manages the public finances, in its wider work with civil society in Scotland's Open Government Partnership National Action Plans, and in its relationship with external stakeholders, including the SFC and Scottish Parliament.

The SFC plays an important role in enhancing fiscal scrutiny and transparency in Scotland. It provides the Scottish Government with the official independent economy, tax and social security forecasts that underpin the MTFS and the Scottish Budget and provides a commentary on the Scottish Government's funding position.

It also takes a longer-term view and published its second Fiscal Sustainability Report this year with a particular focus on health. The SFC's work on fiscal sustainability makes a valuable contribution to our understanding of the drivers and pressures on Scotland's public finances into the future.

The Scottish Government places great importance in the role of the SFC as Scotland's independent fiscal institution and welcomes the way in which it has built a strong reputation with the Scottish Parliament and wider stakeholders.

We welcome the findings of the recent OECD review of the SFC, which found that it had broadened the scope of its analysis and strengthened its relationships since the last review in 2019. It recognised that the SFC has a critical role to play in the understanding of fiscal challenges and informing the debate around budget choices, and proposed a number of recommendations for how it should develop in the future. We look forward to working with the SFC as it takes forward these recommendations.

The current protocol between the Scottish Government and the SFC sets out a process by which policies can be assessed as having potentially "economy moving effects" – whereby the policy itself has a further direct or indirect impact on the economy over time. This is an area that is becoming increasingly high profile. For example, the Office for Budget Responsibility have recently costed economy moving impacts of various UK Government policies including childcare, National Insurance Contributions changes and planning reform.

The SFC set out further details and rationale for their own process in their publication, 'Scotland's Economic and Fiscal Forecasts' (2023)[67]. As part of the regular review of the protocol, we are reviewing the formal framework around how these types of policies are captured within the SFC's Economic and Fiscal forecasts.

We recognise that delivering our MTFS and the accompanying actions in the FSDP will require appropriate governance and robust monitoring and evaluation arrangements. We will include progress updates in future MTFS publications.

[67] Scottish Fiscal Commission (2023); Box 3.3, page 73 – Scotland's Economic and Fiscal Forecasts – Accessed December 2023

List of Acronyms

ADS: Additional Dwelling Supplement

ADT: Air Departure Tax

AfC: Agenda for Change

AI: Artificial Intelligence

BGA: Block Grant Adjustment

CCC: Climate Change Committee

CDEL: Capital Departmental Expenditure Limit

CPI: Consumer Price Index

DESNZ: Department for Energy Security and Net Zero

DWP: Department for Work and Pensions

FER: Forecast Evaluation Report

FFFP: Fines, Forfeitures and Fixed Penalties

FSDP: Fiscal Sustainability Delivery Plan

FTE: Full time equivalent

FTs: Financial Transactions

GDP: Gross Domestic Product

HMP: His Majesty's Prison

HMT: His Majesty’s Treasury

HSC: Health and Social Care

IFRS16: International Financial Reporting Standard 16

IIP: Infrastructure Investment Plan

INTOG: Innovation and Targeted Oil and Gas

KLTR: King's and Lord Treasurer's Remembrancer

LBTT: Land and Building Transaction Tax

MTFS: Medium-Term Financial Strategy

NDR: Non-Domestic Rates

NHS: National Health Service

NICs: National Insurance Contributions

NIM: National Infrastructure Mission

OBR: Office for Budget Responsibility

OECD: Organisation for Economic Co-Operation and Development

ONS: Office for National Statistics

PfG: Programme for Government

PIP: Personal Independence Payment

PSPP: Public Sector Pay Policy

PSR: Public Service Reform

R100: Reaching 100% (broadband programme)

RDEL: Resource Departmental Expenditure Limit

RPI: Retail Price Index

SAT: Scottish Aggregates Tax

SDLT: Stamp Duty Land Tax

SFC: Scottish Fiscal Commission

SLfT: Scottish Landfill Tax

SSI: Scottish Statutory Instrument

SSR: Scottish Spending Review

UK: United Kingdom

UKAL: UK Aggregates Levy

UKG: UK Government

UKSR: UK Spending Review

Glossary

Barnett formula: the formula used by HM Treasury to allocate Block Grant funding to devolved governments in Scotland, Wales and Northern Ireland. The Barnett formula gives these governments a proportion (or consequential) of increased or decreased funding in UK expenditure on devolved policy based on our share of the UK population – currently around 9.52%.

Budget: a document prepared by the government to present its anticipated tax revenues and proposed spending plans for the coming financial year.

Block Grant: the grant received by the Scottish Government from the UK Government, consisting of consequentials calculated by the Barnett formula.

Block Grant Adjustment: deductions or additions to the Scottish Government's total Block Grant to reflect devolved tax receipts or social security expenditure.

Capital borrowing: funding which the Scottish Government can borrow under the Fiscal Framework Agreement to funding capital expenditure.

Capital funding (or **capital expenditure)**: a form of discretionary cash funding that is tightly constrained in its use. It can only be spent on assets, such as infrastructure and investments, which will create growth.

Consequentials (or **Barnett Consequentials**): the change to a devolved administration's assigned budget as a consequence of changes in spending in devolved areas by the UK Government.

Demand-led: expenditure which can be predicted at the beginning of the year but which will ultimately depend on variable factors. For example, the payment of benefits is expected but the total cost is dependent on the number of eligible claimants.

Financial Transactions: a subdivision of capital funding which is allocated by HM Treasury to the Scottish Government. It can only be used for the provision of loans or equity investment outside the public sector boundaries, and they are subject to repayment agreements with HM Treasury.

Fiscal resource or **Resource expenditure:** cash funding available to the Scottish Government, which represents the SG's discretionary spending power on day-to-day resources and administration.

Fiscal Framework: the Fiscal Framework Agreement was published alongside the Scotland Act 2016, setting out the funding arrangements, fiscal rules and borrowing powers for the Scottish Government. The agreement was reviewed and updated in 2023.

Funding outlook: the total level of potential funding, based on the forecasts for each element of funding combined.

Gross domestic product: a measure of the size and health of a country's economy, based on the total value of all goods made and services provided during a specific period of time.

Inflation: a sustained increase in prices of goods and services across the economy.

Nominal terms: value measured in terms of absolute monetary amount, without adjusting for inflation.

Non-Domestic Rates: A tax on non-domestic properties to help pay for local council services such as education, social care and waste management. Often also referred to as business rates.

Net zero: An overall balance between emissions produced and emission taken out of the atmosphere.

Outturn: Official statistics of actual revenues and expenditure, published in regular outturn reports.

Poundage: Non-Domestic Rates are levied on the basis of a national poundage multiplied by the Rateable Value of the property you occupy. If you are the ratepayer for a property with a rateable value in excess of £51,000 then you will be required to pay a supplement on the poundage. The poundage is set annually by the Scottish Government and covers the period 1 April to 31 March.

Rateable value: the notional rental value that a property could be expected to achieve from a tenant on the open market if vacant.

Real terms: value measured by taking account of inflation, to provide an accurate representation of purchasing power.

Reconciliations: Adjustments to address historical budgets' forecast errors.

Resource borrowing: funding which the Scottish Government can borrow under the Fiscal Framework Agreement to funding resource expenditure.

Scotland Reserve: a method which allows the Scottish Government to reserve funds for future financial years when revenues are higher than forecast. This is separated into resource, capital and financial transactions.

Social Security: a system of benefits and support in Scotland which are provided by the government to people in need.

UK Spending Review: a governmental process carried out by HM Treasury to set departmental budgets for future years.

Volatility: when circumstances are likely to change quickly and in an unpredictable manner. This can mean changes in economic indicators such as gross domestic product, inflation or price variation.

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Annex A: Funding Outlook Tables

Table A.01(a): Change in funding outlook since 2023 MTFS (figures in £million, current prices)

Resource Funding	2025-26	2026-27	2027-28
Block Grant	3,469	3,676	3,705
Net tax position	(33)	17	101
Of which:	-	-	-
Non-domestic rates (NDR) distributable amount	(44)	112	152
Social Security Block Grant Adjustments	290	494	437
Non-tax income and Block Grant Adjustments	1	1	1
Other income/expenses	1,022	259	(132)
Total resource funding (incl. NDR)	**4,706**	**4,560**	**4,264**

Capital Funding	2025-26	2026-27	2027-28
Block Grant	1,556	1,916	2,243
Ringfenced funding and City Deals	(610)	(612)	(622)
Capital borrowing and other funding per policy	22	(150)	(150)
Total Capital Funding (excl. FTs)	1,348	1,207	1,095
Financial Transactions (FTs)	192	245	252
Total Capital Funding (incl. FTs)	1,540	1,452	1,347
Total funding from all sources	**6,246**	**6,012**	**5,611**

Table A.01(b): Change in funding outlook since 2025-26 Scottish Budget (figures in £million, current prices)

Resource Funding	2025-26	2026-27	2027-28	2028-29	2029-30
Block Grant	489	189	(86)	(352)	(685)
Net tax position	28	(220)	(239)	(166)	(102)
Of which:					
Non-domestic rates (NDR) distributable amount	-	42	11	(3)	(18)
Social Security Block Grant Adjustment	129	173	(7)	(166)	(290)
Non-tax income and Block Grant Adjustments	-	-	-	-	-
Other income/expenses	522	(171)	(129)	8	(23)
Total resource funding (incl. NDR)	**1,167**	**14**	**450**	**(679)**	**(1,118)**

Capital Funding	2025-26	2026-27	2027-28	2028-29	2029-30
Block Grant	-	95	(200)	(195)	(239)
Ringfenced funding and City Deals	-	(2)	(12)	(3)	(20)
Capital borrowing and other funding per policy	-	-	-	-	-
Scotwind, Scotland Reserve and Other	40	-	-	-	-
Total Capital Funding (excl. FTs)	39	93	(213)	(198)	(259)
Financial Transactions (FTs) incl. reserve	25	77	84	143	194
Total Capital Funding (incl. FTs)	**64**	**171**	**(128)**	**(55)**	**(65)**
Total funding from all sources	**1,231**	**184**	**(578)**	**(734)**	**(1,183)**

Table A.02: Change in components of the net tax position since the 2023 MTFS – Resource funding

(Figures in £million, current prices)	2025-26	2026-27	2027-28
Income Tax Revenue	2,669	3,310	3,493
Income Tax Block Grant* Adjustment	(2,917)	(3,471)	(3,522)
Net Income Tax position	**(248)**	**(160)**	**(28)**
LBTT Revenue	237	188	146
LBTT Block Grant Adjustment	(25)	(50)	(83)
Net Land and Buildings Transaction Tax position	**168**	**141**	**63**
SLfT Revenue	(20)	8	8
SLfT Block Grant Adjustment	24	32	57
Net Scottish Landfill Tax position	**(15)**	**(5)**	**61**
Total Net Tax Position	**(96)**	**(24)**	**96**

Table A.03: Changes in ‘other income’ assumptions since 2023 MTFS

(Figures in £million, current prices)	2025-26	2026-27	2027-28
Reconciliations	412	186	(851)
Resource borrowing	-	-	663
Resource borrowing costs	24	53	53
Capital borrowing costs	(10)	(25)	(35)
Crown Estate Scotland Revenues	23	-	-
Scotland Reserve	501	-	-
Migrant Surcharge	50	50	50
King’s and Lord Treasurer’s Remembrancer (KLTR)	-	-	-
Other*	22	(5)	(11)
Total other income	**1,022**	**259**	**(132)**

*Other category includes items such as Machinery of Government and Budget Transfers and other funding lines.

Annex B: Alternative Funding Scenarios – Further Details

Resource funding

The scenarios aim to provide an indication of the magnitude of the impact if the main upside and downside risks materialise for the two main drivers of resource funding – the Block Grant and the net Income Tax position. The Block Grant represents the largest element of funding, which means that even small changes can significantly impact total funding. In addition, as discussed earlier in Chapter 2, the net Income Tax position is currently forecast to increase sharply over the forecast horizon, and there are significant risks as to whether this will be fully realised.

- The upside resource scenario reflects higher growth in the resource Block Grant and the net Income Tax position. For the Block Grant, the upside risk reflects UK Government day-to-day spending growing at a higher rate than forecast and the potential for future positive consequentials. For the net Income Tax position, the upside risk provides an illustration of the impact of a small but sustained improvement in earnings growth (0.1 percentage points higher) relative to the rest of the UK in each year of the forecast. Resource funding grows at 1.5 per cent a year in real terms compared to 1.0 per cent in the central scenario.

- The downside resource scenario reflects lower growth in the Block Grant and a deterioration in the net Income Tax position. The Block Grant is assumed to be lower as a result of tightening of UK Government spending, for example in response to weaker economic growth or challenges related to fiscal headroom. The downside scenario for the net Income Tax position lowers the SFC's earnings growth forecasts to align them with the OBR, reducing the net position. The impact of this goes beyond simple alignment in earnings growth, as bringing down the forecast for earnings also reduces the improvement in the net tax position associated with Scotland's more progressive tax system. However, in general the larger downside risk for the net position reflects that the SFC earnings growth forecasts are already above the OBR in the central funding position. Resource funding grows at 0.4 per cent a year in real terms compared to 1.0 per cent in the central scenario.

Overall, total resource funding is 2.4 per cent (£1.4 billion) lower by 2029-30 in the downside scenario and 2.2 per cent (£1.3 billion) higher by 2029-30 in the upside scenario, compared to the central funding position. The larger downside risk reflects the balance of risks across the two main funding components, in particular the net Income Tax position.

Capital funding

The scenarios for capital funding consider uncertainty in the main element of funding, the capital Block Grant. Analysis focuses on the core capital Block Grant, and does not include Financial Transactions.

- The upside scenario captures a potential increase in the capital Block Grant relative to the allocation confirmed at the 2025 UKSR. Overall capital funding (excluding FTs) is assumed to fall by 1.3 per cent a year in real terms compared to a 2.4 per cent fall in the central scenario.

- The downside scenario assumes 1.0 percentage point lower growth in the capital Block Grant in each forecast year, reflecting the possibility of negative CDEL consequentials. Overall capital funding (excluding FTs) falls by 3.3 per cent a year in real terms compared to a 2.4 per cent fall in the central scenario.

Overall, total capital funding is 3.7 per cent (£0.3 billion) lower by 2029-30 in the downside scenario and 4.4 per cent (£0.3 billion) higher by 2029-30 in the upside scenario, compared to the central outlook. Upside risks are slightly larger than downside risks, although in general the capital outlook is more uncertain than the resource outlook.

Table B.01: Resource funding outlook and alternative scenarios

Resource	2026-27	2027-28	2028-29	2029-30
Central (£m)	**53,975**	**55,235**	**57,100**	**59,099**
Downside (£m)	**53,651**	**54,492**	**56,002**	**57,700**
Downside - difference from central (%)	(0.6%)	(1.3%)	(1.9%)	(2.4%)
Downside - difference from central (£m)	(324)	(743)	(1,098)	(1,399)
Upside (£m)	**54,242**	**55,975**	**58,120**	**60,411**
Upside - difference from central (%)	0.5%	1.3%	1.8%	2.2%
Upside - difference from central (£m)	267	740	1,020	1,313

Table B.02 - Capital funding outlook (excluding FTs) and alternative scenarios

Capital	2026-27	2027-28	2028-29	2029-30
Central (£m)	**7,109**	**7,004**	**7,059**	**7,067**
Downside (£m)	**7,047**	**6,877**	**6,865**	**6,809**
Downside - difference from central (%)	(0.9%)	(1.8%)	(2.7%)	(3.7%)
Downside - difference from central (£m)	(63)	(128)	(193)	(259)
Upside (£m)	**7,421**	**7,312**	**7,369**	**7,378**
Upside - difference from central (%)	4.4%	4.4%	4.4%	4.4%
Upside - difference from central (£m)	312	308	310	311

Annex C: Resource Spending Outlook

This annex provides a detailed breakdown of the resource spending forecast by spending area (Table C.01), and the key assumptions made in the forecast.

Table C.01: Resource spending outlook

(Figures in £million)	2025-26	2026-27	2027-28	2028-29	2029-30
Social Security Assistance	6,772	7,544	7,976	8,379	8,825
Health and Social Care	20,200	21,459	22,487	23,635	24,810
Local Government	12,824	13,164	13,516	13,861	14,207
Other	12,828	12,772	13,153	13,577	13,881
Total	**52,623**	**54,938**	**57,132**	**59,453**	**61,723**
Central funding outlook	52,623	53,975	55,235	57,100	59,099
Modelled shortfall	**-**	**(963)**	**(1,897)**	**(2,353)**	**(2,624)**

Key forecasting assumptions

Social Security Assistance

The Social Security Assistance forecast mirrors the SFC’s June 2025 forecasts, excluding Discretionary Housing Payments (DHPs) and Employability, but including the illustrative forecast for Pension Age Winter Heating Payment policy change, announced in June 2025.

Health and Social Care

The Health and Social Care forecast assumes 3.3 per cent real growth per year on average across the forecast period.

Local Government

The Local Government forecast assumes 3.3 per cent real growth per year on average for social care non-pay spending, Public Sector Pay Policy to social care pay and real-terms growth to remaining Local Government spending.

Other Scottish Government spend

All remaining Scottish Government spending is grown in line with GDP deflators, except for:

- Non-HSC, non-Local Government pay and workforce spending, where pay is grown in line with Public Sector Pay Policy unless pay deals have been agreed, and workforce growth of 0 per cent is assumed.
- Targeted above inflation growth for some specific spending commitments.
- SFC forecasts for Discretionary Housing Payments and Employability.

Annex D: Pay and Workforce Factsheet

This annex provides an overview of the size of Scotland's devolved public sector workforce, and the estimated costs associated with it.

Public sector workforce

Every quarter, the Scottish Government publishes statistics on the number of people employed in the public sector. This is based on administrative records and surveys of individual public sector bodies carried out by the Scottish Government and the Office for National Statistics (ONS).[68]

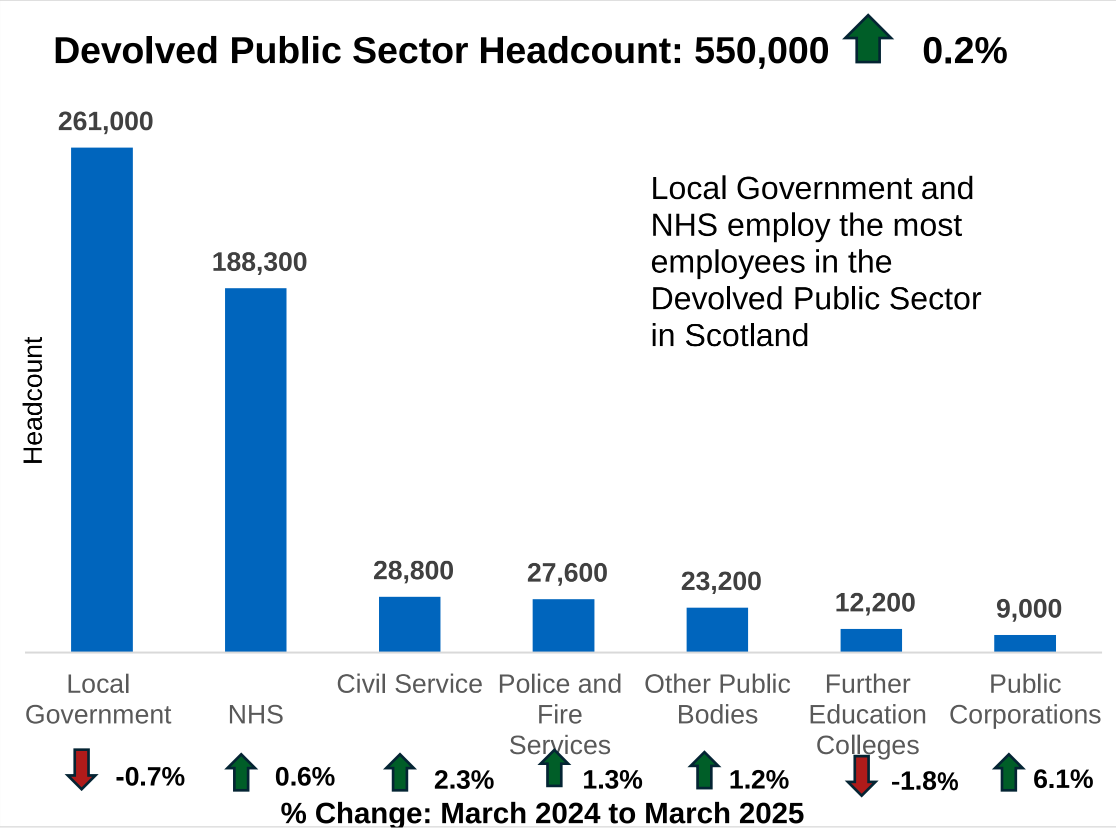
The latest available data[69] shows that in March 2025, there were 550,000 people employed in the devolved public sector in Scotland, see Figure D.01.

The devolved public sector workforce headcount increased by 0.2 per cent over the year. This increase is largely due to an increase in NHS employment of 1,160[70] (0.6 per cent).

Recruitment controls for all non-essential frontline posts across the devolved civil service and wider public bodies came into effect in August 2024.

[68]These are published at: Labour Market Statistics
[69] Scottish Government (2025),Public Sector Employment in Scotland Statistics for 1st Quarter 2025 - gov.scot – Accessed June 2025
[70] Scottish Government (2025), Public Sector Employment by Devolved and Reserved Responsibility - Public Sector Employment in Scotland Statistics for 1st Quarter 2025 - gov.scot – Accessed June 2025

Figure D.01: Estimated devolved public sector workforce numbers



Source: Infographic taken from Public Sector Employment in Scotland Statistics for Quarter 1 2025.[71] Numbers rounded to the nearest 100.

On a full time equivalent (FTE) basis[72], there were 469,100 people employed in the devolved public sector in March 2025.[73]

Local Government and the NHS account for 45.6 per cent and 34.4 per cent of the devolved public sector on an FTE basis, see Table D.01 below.

Public sector paybill

There is currently no statistical publication setting out the financial costs of Scotland's devolved public sector workforce.

Based on internal data collected at the beginning of 2025, the public sector paybill including Local Government is estimated to be around £27.4 billion in the financial year 2024 to 2025, see Table D.02 below.

Excluding Local Government and teachers, the paybill for the financial year 2024 to 2025 is estimated to be around £16.7 billion.

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[71] Scottish Government (2025), Infographic - Public Sector Employment in Scotland Statistics for 1st Quarter 2025 - gov.scot – Accessed June 2025
[72] Number of employees on a full-time equivalent (FTE) basis are based on converting part-time employees' hours into a full-time employee equivalent.
[73] See published statistical tables (Table 5) Public Sector Employment in Scotland Statistics for 1st Quarter 2025 - gov.scot

As expected, the NHS makes up the largest part of the paybill for the financial year 2024 to 2025, accounting for an estimated £11.6 billion of spending.

In 2024 to 2025, pay deals were around £600 million greater than planned under the public sector pay metric, recognising the Scottish Government's principles of fair, affordable and sustainable pay for the devolved public sector workforce in Scotland.

Multi-year pay deals provide certainty for the public sector workforce and an opportunity for the Scottish Government, employers and Trade Unions to plan for and transform our public services to improve outcomes for the people of Scotland. As of 13 June 2025, not all workforces within the devolved public sector have agreed pay deals for 2025 to 2026 or beyond. Where pay deals have been agreed[74], costs are estimated to be around £122 million higher, compared to the costs expected under the Public Sector Pay Policy published in December 2024. This assumes workforce levels remain similar to the previous year. It is expected that portfolios agreeing pay deals that exceed the pay metrics will deliver efficiencies through reform to ensure the paybill remains sustainable in the medium term and all deals are based on fairness and affordability. Accounting for these settled pay deals, the estimated paybill for the financial year 2025 to 2026 is estimated at around £29.0 billion.

Sources and Limitations

The data was primarily collected in March 2025 from Scottish Government departments, reflecting a "point in time"' and will not therefore reflect subsequent changes. Paybill estimates include on-costs, such as employer National Insurance Contributions.

There is also a degree of uncertainty about this cost estimate, given it covers a diverse range of workforces with different pay policies and a variety of public bodies. This might result in differences in how organisations estimate and report their full-time equivalent staffing and the associated staff costs.

Information on the Local Government estimate is presented separately. Councils operate independently of central government and are accountable to their electorates for the services they provide. The most recently available Local Government Finance Statistics[75] publication lists employee costs at £10.3 billion in the financial year 2023 to 2024. Local Government Finance Statistics for 2024 to 2025 will be published in February 2026. The figures presented in the table below are therefore estimated by applying average pay increases for the financial year 2024 to 2025 to the published outturn for the previous year.

The paybill data presented here remain subject to testing of quality, volatility and ability to meet user needs. Improving the data collection and the robustness of paybill estimates and publishing this in a transparent way is an ongoing programme of analytical activity.

[74] Agenda for Change, Scottish Prison Service, Scotrail and Caledonian Sleeper and Fire.
[75] Scottish Local Government Finance Statistics 2023-24 (2025), Scottish Local Government Finance Statistics 2023-24 - gov.scot – Accessed June 2025

Detailed Tables

Table D.01: Devolved public sector employment by sector; Scotland, full-time equivalent, March 2025

Workforce	Devolved public sector full-time equivalent staff
Local Government	214,000
NHS	161,300
Police and Fire services	27,000
Devolved Civil Service (includes Scottish Government and some public bodies)	27,400
Other public bodies	21,500
Public corporations	8,000
Further education	9,400
Total Devolved	**469,100**

Source: Public Sector Employment in Scotland Statistics for Quarter 1 2025, table 5.

Numbers are rounded to the nearest 100 and may not sum due to rounding.

Table D.02: Estimated paybill for financial year 2024 to 2025

Workforce	Paybill in £million for financial year 2024 to 2025
Local Government: excluding teachers*	6,800
Local Government: teachers*	3,900
NHS*	11,600
Police and Fire related services	1,500
Scottish Government	700
Other public sector workforces	2,300
Further education	700
Total (excluding Local Government)	**16,700**
Total (including Local Government)	**27,400**

Numbers are rounded to the nearest 100 and may not sum due to rounding.
Source: Internal Scottish Government data
* These are estimates based on Scottish Government modelling.

Annex E: The Scottish Spending Review Framework

Context

The allocation of public funds is one of the most impactful levers available to governments; it pays for the essential elements of our public services. Scottish Ministers are clear that public spending must be carefully prioritised to drive progress against the Scottish Government's core priorities and deliver for our citizens. Ministers are also clear of the benefits of setting out multi-year spending plans to support effective organisational planning across the public sector and more widely in Scotland.

The UK Government published a multi-year spending review on 11 June 2025. This provides the Scottish Government with key information to develop our own multi-year spending plans. Work has already begun on these plans, with the intention that Scottish Ministers publish the conclusions of the spending review exercise in December 2025, alongside the 2026-27 Scottish Budget. These conclusions will supplement the annual budget and we intend to set out the Scottish Government's indicative spending plans for 2027-28 and 2028-29 for resource, with an additional year (2029-30) for capital. We will confirm the exact timeframe covered in due course. Our aim is to provide as much certainty as possible to support planning by citizens and organisations across Scotland. As with the 2026-27 Scottish Budget, there is, however, a risk that these plans may be adjusted by the next administration, as well as needing to change as a result of changes in economic circumstances.

The Medium-Term Financial Strategy and Fiscal Sustainability Delivery Plan set out the financial and economic context for the next Scottish Spending Review. The Scottish Government faces a challenging financial settlement over the coming years and, given our current fiscal levers, we must make effective prioritisation decisions to balance the budget.

Approach

Our focus in the Scottish Spending Review will be allocating budgets in the best way to deliver against the four core priorities of government:

- Eradicating child poverty;
- Tackling climate change;
- Growing the economy; and
- Ensuring high quality and sustainable public services.

These four priorities will provide the basis for the analysis and prioritisation of spending plans and proposals. Our spending review will seek to allocate funding in ways that effectively and efficiently deliver on these core areas.

In addition, our approach will be underpinned by fiscal sustainability and will progress the actions set out in the Fiscal Sustainability Delivery Plan to ensure the medium-term security of our public finances. Using the four priorities as a basis, we intend to prioritise where funding is deployed to ensure the greatest impact, using evidence and performance data to support this decision-making.

We will integrate the Scottish Spending Review with the work to develop our 2026-27 Scottish Budget in order to ensure strategic coherence and streamline our processes. In line with our standard approach to the Scottish Budget, Scottish Ministers and their officials will undertake engagement with stakeholders to inform the development of our multi-year spending plans.

We will build on the impact assessment approach that we have deployed in previous Scottish Budgets and Spending Reviews to ensure that spending plans continue to be properly considered and our legal duties continue to be met.

Timeline

Our proposed timeline for the Scottish Spending Review is set out below:

- **June**: Fiscal Sustainability Delivery Plan and Medium-Term Financial Strategy (including the Scottish Spending Review Framework) published.

- **June – September**: Analysis of portfolio spending and development of proposed spending plans. Programme of stakeholder engagement.

- **October – November**: Ministerial discussions on the spending plans. Budgets will be reviewed in light of the UK Government Autumn Budget. Ministers will engage with Parliament on the Scottish Spending Review as part of the pre-budget scrutiny sessions.

- **December**: 2026-27 Scottish Budget and Conclusions of the Scottish Spending Review published, alongside supporting documents.

Annex F: Fiscal Framework – Data

This Annex sets out the implications of the Fiscal Framework for the Scottish Budget. More detail on how the Fiscal Framework operates is set out in the Fiscal Framework Technical Note[76]. This includes the evolution of the fiscal powers of the Scottish Parliament, the timelines for reconciliations and how they affect the Scottish Budget, the limits of the borrowing powers and Scotland Reserve, and the Fiscal Framework Review.[77]

This Annex outlines the latest BGAs which were published alongside the UK Spring Forecast 2025, and as updated to reflect the anticipated BGA funding resulting from the UK Government's policy change on Winter Fuel Payment, and the SFC's latest revenue and expenditure forecasts, which were published on 29 May 2025 and as updated alongside this Medium-Term Financial Strategy.

Tax

Table F.01 shows the latest forecasts for tax revenues from the SFC and the latest BGA estimates following the UK Spring Forecast 2025.

Forecasts of future years provide an indication of the level of revenues that the SFC anticipates, but these figures will not be used to set future budgets, which will draw upon updated SFC forecasts.

[76] Scottish Government (2023), Fiscal framework technical note: October 2023 - gov.scot – Accessed May 2025
[77] Scottish Government (2025), Fiscal framework: factsheet – Accessed May 2025

Table F.01: Forecasts of tax revenues and Block Grant Adjustments

Income Tax	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Revenue	17,072	18,992	20,495	21,901	23,139	24,186	25,288	26,428
BGA	(16,468)	(18,431)	(19,879)	(20,830)	(21,614)	(22,287)	(23,107)	N/A
Difference	**604**	**562**	**616**	**1,072**	**1,526**	**1,899**	**2,182**	**N/A**

LBTT[1]	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Revenue	784	898	1,029	1,093	1,138	1,187	1,240	1,297
BGA	(526)	(614)	(637)	(773)	(892)	(1,010)	(1,096)	N/A
Difference	**259**	**284**	**393**	**320**	**246**	**177**	**144**	**N/A**

SLfT[1]	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Revenue	68	53	38	24	24	25	25	26
BGA	(74)	(76)	(60)	(55)	(35)	(34)	(36)	N/A
Difference	**(6)**	**(23)**	**(23)**	**(31)**	**(10)**	**(9)**	**(11)**	**N/A**

Totals	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Revenue	17,925	19,943	21,562	23,019	24,301	25,398	26,554	27,751
BGA	(17,068)	(19,120)	(20,576)	(21,657)	(22,540)	(23,331)	(24,239)	N/A
Difference	**857**	**823**	**986**	**1,361**	**1,762**	**2,067**	**2,314**	**N/A**

Note 1: The 2023-24 LBTT and SLfT revenue and Block Grant Adjustment are outturn figures.
Note 2: Figures may not sum due to rounding.

Social Security

Table F.02 shows the SFC's latest expenditure forecasts for devolved social security benefits and the latest BGA estimates following the UK Spring Statement 2025.

Table F.02: Forecasts of devolved social security benefits expenditure and corresponding Block Grant Adjustments (figures in £million)

Attendance Allowance	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Expenditure	(759)	(844)	(917)	(961)	(999)	(1,038)	(1,078)
BGA	750	803	859	890	920	955	N/A
Difference	**(9)**	**(41)**	**(58)**	**(71)**	**(78)**	**(83)**	**N/A**

Personal Independence Payment	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Expenditure	(3,120)	(3,590)	(4,020)	(4,355)	(4,680)	(5,040)	(5,418)
BGA	2,980	3,271	3,608	3,787	3,982	4,270	N/A
Difference	**(140)**	**(320)**	**(412)**	**(568)**	**(698)**	**(770)**	**N/A**

Disability Living Allowance	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Expenditure	(942)	(979)	(1,012)	(1,010)	(999)	(991)	(983)
BGA	945	984	1,031	1,064	1,078	1,065	N/A
Difference	**2**	**5**	**19**	**54**	**79**	**74**	**N/A**

Carer's Allowance [1]	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Expenditure	(389)	(452)	(505)	(525)	(545)	(570)	(594)
BGA	400	422	451	460	466	480	N/A
Difference	**11**	**(30)**	**(54)**	**(65)**	**(80)**	**(91)**	**N/A**

Industrial Injuries Disablement Scheme	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Expenditure	(82)	(83)	(83)	(83)	(81)	(79)	(77)
BGA	86	84	83	81	79	76	N/A
Difference	**4**	**1**	**-**	**(2)**	**(2)**	**(3)**	**N/A**

Severe Disablement Allowance	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Expenditure	(5)	(5)	(4)	(3)	(3)	(3)	(2)
BGA	6	5	5	4	3	3	N/A
Difference	**1**	**1**	**1**	**-**	**-**	**-**	**N/A**

Cold Weather Payment	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Expenditure	(29)	(28)	(30)	(31)	(32)	(33)	(34)
BGA	4	6	6	6	6	6	N/A
Difference	**(25)**	**(22)**	**(24)**	**(25)**	**(26)**	**(27)**	**N/A**

Winter Fuel Payments[3]	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Expenditure	(29)	(151)	(158)	(160)	(166)	(174)	(182)
BGA	30	150	149	147	146	147	N/A
Difference	**-**	**(0)**	**(9)**	**(13)**	**(20)**	**(27)**	**N/A**

Total Social Security	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Expenditure	(5,356)	(6,132)	(6,730)	(7,129)	(7,505)	(7,928)	(8,298)
BGA	5,200	5,725	6,191	6,440	6,680	7,001	N/A
Difference	**(156)**	**(407)**	**(538)**	**(689)**	**(826)**	**(927)**	**N/A**

Note 1: Carer's Allowance Expenditure Forecast does not include Carer's Allowance Supplement expenditure.
Note 2: There are minor differences in the methodology used to calculate the SFC's spending forecasts and the BGA forecasts, which are based on expenditure outturn and OBR forecasts, so comparisons should be interpreted with caution.
Figures may not sum due to rounding.
Note 3: Winter Fuel Payment BGAs are based on the Spring Statement 2025 BGAs and include anticipated BGA funding of £120 million per annum from the UK Government's Winter Fuel Payment policy change.

Reconciliations and implications for the Scottish Budget

The forecasts for Scottish tax revenues and social security expenditure, and the corresponding BGAs, are based on the latest available information at the time of the Budget. Once outturn data are available, reconciliations are made to the Scottish Budget to ensure that the funding available ultimately corresponds to actual revenues and the BGAs based on the outturn data.

Reconciliations are made for both the revenues and the BGA for Income Tax. For Fully Devolved Taxes (LBTT and Scottish Landfill Tax) and Social Security, reconciliations are only made to the BGA element of funding.

Income Tax

For Scottish Income Tax, outturn data is normally available around 16 months after the end of the financial year. Given this long lag of availability of outturn data, the Income Tax revenue and BGA are fixed for three years from the time the Budget is set. A single reconciliation is then applied to the Budget three financial years after the Budget is set, e.g. the reconciliation for 2022-23 Income Tax was applied to the 2025-26 Scottish Budget. Updated forecasts in the interim have no direct impact on Scottish Government funding.

Outturn data for 2023-24 Income Tax is due to be published in Summer 2025, which will allow the Scottish and UK Governments to calculate and agree the final 2023-24 Income Tax reconciliation, which will be applied to the 2026-27 Scottish Budget.

Table F.03 shows that the latest forecast 2023-24 Income Tax reconciliation is positive £279 million. The final position will not be known until outturn receipts are available in Summer 2025.

Table F.03: Forecast Income Tax reconciliation applying to 2026-27 Budget (figures in £million)

2023-24 Income Tax	Revenues	BGA	Net Position	Forecast Reconciliation
Forecast as of 2023-24 Budget	15,810	(15,485)	+325	N/A
Outturn	17,072	(16,468)	+604	+279
Outturn against forecast	**1,262**	**(983)**	**N/A**	**N/A**

Figures may not sum due to rounding

The potential scale of the reconciliations applying to the 2027-28 and 2028-29 Scottish Budgets are shown in tables F.04 and F.05 using the latest forecasts.

Table F.04: Forecast Income Tax reconciliation applying to 2027-28 Budget (figures in £million)

2024-25 Income Tax	Revenues	BGA	Net Position	Forecast Reconciliation
Forecast as of 2024-25 Budget	18,844	(17,432)	+1,412	N/A
Latest forecast	18,992	(18,431)	+562	(851)
Change	**148**	**(999)**	**N/A**	**N/A**

Figures may not sum due to rounding.

Table F.05: Forecast Income Tax reconciliation applying to 2028-29 Budget (figures in £million)

2025-26 Income Tax	Revenues	BGA	Net Position	Forecast Reconciliation
Forecast as of 2025-26 Budget	20,477	(19,639)	+838	N/A
Latest forecast	(20,495)	(19,879)	+616	(222)
Change	**18**	**(240)**	**N/A**	**N/A**

Figures may not sum due to rounding.

Based on the latest forecasts, the reconciliation to the 2027-28 Scottish Budget for 2024-25 Income Tax is forecast to be negative £851 million. A reconciliation of negative £222 million is expected to apply to the Scottish Budget 2028-29 to account for 2025-26 Income Tax.

However, these forecasts are not certain and the final position will not be known for sure until outturn receipts are available for 2024-25 in Summer 2026, and for 2025-26 in Summer 2027.

Fully Devolved Taxes

Revenue Scotland manages and collects Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT) and these revenue streams feed in to the Scottish Budget as they are collected. There is no reconciliation required for these revenues; the Scottish Government manages any variance between what was forecast and actual revenues as part of its in-year budget management process. The latest 2025-26 revenue forecasts for LBTT and SLfT and the previous revenue forecasts are shown in Table F.06.

Table F.06: 2025-26 Revenue Forecast (figures in £million)

LBTT	Revenue Forecast
SFC Revenue Forecast – 2025-26 Budget	1,019
SFC Revenue Forecast – MTFS 2025	1,029
Change	**+11**

SLfT	Revenue Forecast
SFC Revenue Forecast – 2025-26 Budget	40
SFC Revenue Forecast – MTFS 2025	38
Change	**(3)**

Figures may not sum due to rounding

The BGAs for these taxes are reconciled in two stages. An in-year reconciliation is made within the same financial year. This is usually on the basis of OBR forecasts produced alongside the UK Autumn Budget. The forecast in-year reconciliations for 2025-26 LBTT and SLfT are shown in table F.07.

Table F.07: 2025-26 forecast in-year BGA reconciliations (figures in £million)

LBTT	Reconciliation
Forecast BGA – UK Budget December 2024	(660)
Forecast BGA – UK Spring Statement 2025	(637)
Forecast In-year reconciliation to 2025-26 Budget	24

SLfT	Reconciliation
Forecast BGA – UK Budget December 2024	(57)
Forecast BGA – UK Spring Statement 2025	(60)
Forecast In-year reconciliation to 2025-26 Budget	(4)

Figures may not sum due to rounding.

As set out in Table F.08, the forecast net effect on the 2025-26 Scottish Budget of the latest fully devolved revenue forecasts, when compared to the forecast in-year BGA reconciliations, is positive £28 million, (comprising positive £34 million for LBTT and negative £7 million for SLfT).

Table F.08: Change in net position for 2025-26 Scottish Budget

(Figures in £million)	Forecast In-Year BGA Reconciliation	Change in SFC revenue forecast from 2025-26 Scottish Budget	Forecast Net Position
LBTT	24	11	34
SLfT	(4)	(3)	(7)
Total	**20**	**8**	**28**

Figures may not sum due to rounding.

Outturn data becomes available in the Autumn following the end of each financial year. Using these outturn figures, a final reconciliation will be applied to the Block Grant in the financial year two years after the Budget was set. Table F.09 shows the forecast final reconciliations for 2024-25 LBTT and SLfT BGAs applying to the 2026-27 Scottish Budget.

Table F.09: 2024-25 forecast final BGA reconciliation

LBTT	Reconciliation
Forecast BGA – UK Budget October 2024	(574)
Forecast BGA – UK Spring Statement 2025	(614)
Forecast Reconciliation to 2026-27 Budget	(40)

SLfT	Reconciliation
Forecast BGA – UK Budget October 2024	(75)
Forecast BGA – UK Spring Statement 2025	(76)
Forecast Reconciliation to 2026-27 Budget	(1)

Note 1: Ultimately, the final BGA reconciliation will calculate the difference between the in-year forecast of the BGA (used to calculate the in-year reconciliation) and the outturn data (when available).
Figures may not sum due to rounding.

Table F.10 shows the forecast net effect on the budget for 2024-25 LBTT and SLfT by comparing the latest forecast revenues and BGAs to the forecast revenues and BGAs set at the time of the 2024-25 Scottish Budget. The final net position will not be confirmed until final outturn is published later in the year.

Table F.10: Latest forecast net position for 2024-25 LBTT and SLfT (figures in £million)

LBTT	Revenues	BGA	Net Position
Forecast as of 2024-25 Budget	730	(521)	+209
Latest Forecast – MTFS 2025	898	(614)	+284
Latest change in Forecast Net Position	167	(92)	+75

SLfT	Revenues	BGA	Net Position
Forecast as of 2024-25 Budget	58	(84)	(25)
Latest Forecast – MTFS 2025	53	(76)	(23)
Latest change in Forecast Net Position	(5)	8	+3

Figures may not sum due to rounding

Social Security

The latest 2025-26 expenditure forecasts for devolved Social Security benefits that have a corresponding BGA, and the previous expenditure forecasts, are shown in Table F.11.

Table F.11: 2025-26 Social Security expenditure forecast (figures in £million)

Pension Age Disability Payment	2025-26 Forecast
SFC Expenditure Forecast – 2025-26 Budget	(834)
SFC Expenditure Forecast – MTFS 2025	(844)
Change	**(11)**

Adult Disability Payment	2025-26 Forecast
SFC Expenditure Forecast – 2025-26 Budget	(3,605)
SFC Expenditure Forecast – MTFS 2025	(3,590)
Change	**+14**

Scottish Adult Disability Living Allowance and Child Disability Payment	2025-26 Forecast
SFC Expenditure Forecast – 2025-26 Budget	(1,012)
SFC Expenditure Forecast – MTFS 2025	(979)
Change	**+32**

Carer Support Payment	2025-26 Forecast
SFC Expenditure Forecast – 2025-26 Budget	(459)
SFC Expenditure Forecast – MTFS 2025	(452)
Change	**+7**

Employment Injury Assistance	2025-26 Forecast

SFC Expenditure Forecast – 2025-26 Budget	(83)
SFC Expenditure Forecast – MTFS 2025	(83)
Change	**-**

Severe Disablement Allowance	**2025-26 Forecast**
SFC Expenditure Forecast – 2025-26 Budget	(4)
SFC Expenditure Forecast – MTFS 2025	(5)
Change	**-**

Winter Heating Payment	**2025-26 Forecast**
SFC Expenditure Forecast – 2025-26 Budget	(28)
SFC Expenditure Forecast – MTFS 2025	(28)
Change	**-**

Pension Age Winter Heating Payment	**2025-26 Forecast**
SFC Expenditure Forecast – 2025-26 Budget	(101)
SFC Expenditure Forecast – MTFS 2025	(151)
Change	**(50)**

Total	**2025-26 Forecast**
SFC Expenditure Forecast – 2025-26 Budget	(6,125)
SFC Expenditure Forecast – MTFS 2025	(6,132)
Change	**(7)**

Figures may not sum due to rounding.

As with the fully devolved taxes, the BGAs for devolved benefits are reconciled in two stages. An in-year reconciliation is made within the same financial year. This is usually on the basis of OBR forecasts produced alongside the UK Autumn Budget. The forecast in-year reconciliations to the 2025-26 Social Security BGAs are shown in Table F.12. However, the spending decisions announced by the UK Government at the UKSR on 11 June 2025 are not factored into the BGA funding referenced throughout this chapter. These changes will be reflected in updated OBR forecasts alongside the Autumn UK Government fiscal event, at which point updated BGAs will be calculated.

Table F.12: 2025-26 forecast in-year BGA reconciliation for devolved Social Security benefits (figures in £million)

Attendance Allowance	2025-26 Forecast
Forecast BGA – UK Budget October 2024	783
Forecast BGA – UK Spring Statement 2025	803
Forecast In-year reconciliation to 2025-26 Budget	**+20**

Personal Independence Payment	2025-26 Forecast
Forecast BGA – UK Budget October 2024	3,290
Forecast BGA – UK Spring Statement 2025	3,271
Forecast In-year reconciliation to 2025-26 Budget	**(20)**

Disability Living Allowance	2025-26 Forecast
Forecast BGA – UK Budget October 2024	976
Forecast BGA – UK Spring Statement 2025	984
Forecast In-year reconciliation to 2025-26 Budget	**+8**

Carer’s Allowance	2025-26 Forecast
Forecast BGA – UK Budget October 2024	420
Forecast BGA – UK Spring Statement 2025	422
Forecast In-year reconciliation to 2025-26 Budget	**+2**

Industrial Injuries Disablement Scheme	2025-26 Forecast
Forecast BGA – UK Budget October 2024	84
Forecast BGA – UK Spring Statement 2025	84
Forecast In-year reconciliation to 2025-26 Budget	**-**

Severe Disablement Allowance	2025-26 Forecast
Forecast BGA – UK Budget October 2024	5
Forecast BGA – UK Spring Statement 2025	5
Forecast In-year reconciliation to 2025-26 Budget	**-**

Cold Weather Payment	2025-26 Forecast
Forecast BGA – UK Budget October 2024	6
Forecast BGA – UK Spring Statement 2025	6
Forecast In-year reconciliation to 2025-26 Budget	**-**

Winter Fuel Payment	2025-26 Forecast
Forecast BGA – UK Budget October 2024	31
Forecast BGA – UK Spring Statement 2025 plus anticipated BGA funding from UK Government policy change	150
Forecast In-year reconciliation to 2025-26 Budget	**+119**

Total Social Security	2025-26 Forecast
Forecast BGA – UK Budget October 2024	5,596
Forecast BGA – UK Spring Statement 2025	5,725
Forecast In-year reconciliation to 2025-26 Budget	**+129**

Figures may not sum due to rounding.

Table F.13 sets out the net effect on the 2025-26 Scottish Budget of the latest total devolved social security expenditure forecasts when compared to the total forecast in-year BGA reconciliations, is positive £122 million.

Table F.13: Change in net position for 2025-26 Scottish Budget (figures in £million)

	Forecast In-Year BGA Reconciliation	Change in SFC expenditure forecast from 2025-26 Scottish Budget	Net Position
Total social security benefits with a BGA[1]	+129	(7)	+122

1) Carer's Allowance, Attendance Allowance, Disability Living Allowance, Personal Independence Payment, Industrial Injuries Disablement Scheme, Severe Disablement Allowance, Cold Weather Payment and Winter Fuel Payment.
Figures may not sum due to rounding

Outturn data becomes available in the autumn following the end of each financial year. Using these outturn figures, a final reconciliation is applied to the Block Grant in the financial year two years after the Budget was set. Table F.14 shows the forecast final reconciliation for the 2024-25 Social Security BGAs applying to the 2026-27 Scottish Budget.

Table F.14: Forecast Social Security 2024-25 final BGA reconciliations (figures in £million)

Attendance Allowance	Reconciliation
Forecast BGA – UK Budget October 2024	740
Forecast BGA – UK Spring Statement 2025	750
Forecast Reconciliation to 2026-27 Budget[1]	**+9**

Personal Independence Payment	Reconciliation
Forecast BGA – UK Budget October 2024	2,984
Forecast BGA – UK Spring Statement 2025	2,980
Forecast Reconciliation to 2026-27 Budget[1]	**(4)**

Disability Living Allowance	Reconciliation
Forecast BGA – UK Budget October 2024	932
Forecast BGA – UK Spring Statement 2025	945
Forecast Reconciliation to 2026-27 Budget[1]	**+13**

Carer's Allowance	Reconciliation
Forecast BGA – UK Budget October 2024	397
Forecast BGA – UK Spring Statement 2025	400
Forecast Reconciliation to 2026-27 Budget[1]	**+4**

Industrial Injuries Disablement Scheme	Reconciliation
Forecast BGA – UK Budget October 2024	86
Forecast BGA – UK Spring Statement 2025	86
Forecast Reconciliation to 2026-27 Budget[1]	**-**

Severe Disablement Allowance	Reconciliation
Forecast BGA – UK Budget October 2024	6
Forecast BGA – UK Spring Statement 2025	6
Forecast Reconciliation to 2026-27 Budget[1]	**-**

Cold Weather Payment	Reconciliation
Forecast BGA – UK Budget October 2024	6
Forecast BGA – UK Spring Statement 2025	4
Forecast Reconciliation to 2026-27 Budget[1]	**(2)**

Winter Fuel Payment	Reconciliation
Forecast BGA – UK Budget October 2024	32
Forecast BGA – UK Spring Statement 2025	30
Forecast Reconciliation to 2026-27 Budget[1]	**(2)**

Total Social Security	Reconciliation
Forecast BGA – UK Budget October 2024	5,182
Forecast BGA – UK Spring Statement 2025	5,200
Forecast Reconciliation to 2026-27 Budget[1]	**+18**

Note 1: Ultimately, the final BGA reconciliation will calculate the difference between the in-year forecast of the BGA (used to calculate the in-year reconciliation) and the outturn data (when available).
Figures may not sum due to rounding.

Table F.15 shows the forecast net effect on the Scottish Budget for 2024-25 Social Security devolved benefits by comparing the latest forecast expenditure and BGAs to the forecast expenditure and BGAs set at the time of the 2024-25 Scottish Budget. The final net position will not be confirmed until final outturn is published later in the year.

Table F.15: Latest forecast net position for 2024-25 Social Security expenditure on devolved benefits[1] (figures in £million)

Attendance Allowance	Expenditure	BGA	Net Position
Forecast as of 2024-25 Budget	(755)	724	(30)
Latest Forecast – MTFS 2025	(759)	750	(9)
Latest Forecast Net Position	**(4)**	**+25**	**+21**

Personal Independence Payment	Expenditure	BGA	Net Position
Forecast as of 2024-25 Budget	(3,226)	2,927	(300)
Latest Forecast – MTFS 2025	(3,120)	2,980	(140)
Latest Forecast Net Position	**+107**	**+53**	**+160**

Disability Living Allowance	Expenditure	BGA	Net Position
Forecast as of 2024-25 Budget	(870)	877	7
Latest Forecast – MTFS 2025	(942)	945	2
Latest Forecast Net Position	**(72)**	**+68**	**(5)**

Carer’s Allowance	Expenditure	BGA	Net Position
Forecast as of 2024-25 Budget	(412)	389	(22)
Latest Forecast – MTFS 2025	(389)	400	11
Latest Forecast Net Position	**+23**	**+11**	**+34**

Industrial Injuries Disablement Scheme	Expenditure	BGA	Net Position
Forecast as of 2024-25 Budget	(87)	85	(2)

Latest Forecast – MTFS 2025	(82)	86	4
Latest Forecast Net Position	**+4**	**+1**	**+5**

Severe Disablement Allowance	**Expenditure**	**BGA**	**Net Position**
Forecast as of 2024-25 Budget	(5)	5	-
Latest Forecast – MTFS 2025	(5)	6	1
Latest Forecast Net Position	**-**	**-**	**-**

Cold Weather Payment	**Expenditure**	**BGA**	**Net Position**
Forecast as of 2024-25 Budget	(24)	6	(19)
Latest Forecast – MTFS 2025	(29)	4	(25)
Latest Forecast Net Position	**(5)**	**(2)**	**(6)**

Winter Fuel Payment	**Expenditure**	**BGA**	**Net Position**
Forecast as of 2024-25 Budget	(180)	178	(2)
Latest Forecast – MTFS 2025	(29)	30	-
Latest Forecast Net Position	**+151**	**(148)**	**+3**

Total Social Security	**Expenditure**	**BGA**	**Net Position**
Forecast as of 2024-25 Budget	(5,559)	5,191	(368)
Latest Forecast – MTFS 2025	(5,356)	5,200	(156)
Latest Forecast Net Position	**+203**	**+9**	**+212**

Note 1: There are minor differences in the methodology used to calculate the SFC's spending forecasts and the BGA forecasts, which are based on expenditure outturn and OBR forecasts, so comparisons should be interpreted with caution.

Non-Tax Revenue

Fines, Forfeitures and Fixed Penalties

Revenue from Fines, Forfeitures and Fixed Penalties (FFFP) is paid into the Scottish Consolidated Fund after being collected by the Scottish Courts and Tribunals Service. No reconciliation takes place for revenue, as the Scottish Government deals with any variation between forecast and receipts through in-year budget management. The SFC does not provide revenue forecasts for FFFP and instead the Scottish Government forecasts FFFP revenue at £25 million at each Scottish Budget.

Prior to the 2023 Fiscal Framework Review, FFFP BGAs were based on OBR forecasts and reconciled to outturn. Following the review, BGAs are set at £24.99 million each year. No reconciliation is made for outturn. The net position between the £24.99 million BGA for 2024-25 FFFP and the outturn BGA (either provisional or final depending on data availability) will be published in the next Scottish Government Fiscal Framework Outturn Report.

Proceeds of Crime

Revenue seized under the Proceeds of Crime Act 2002 is also subject to a BGA. The basis on which this is carried out is currently the subject of dispute between the Scottish and UK Governments and the BGA remains at -£4 million while the dispute remains unresolved.[78]

Outturn revenue for 2024-25 Proceeds of Crime will be published in Winter 2025. The Scottish Government receives all revenues recovered under the Proceeds of Crime Act, however, outturn revenues are hypothecated for spend on community projects.[79] Due to this hypothecation of funds and the negative £4 million BGA, the net position for the Scottish Budget is negative £4 million while this BGA remains in force.

Sources of Data

To view the various sources of data for Tax and Social Security that have been used to compile this Annex, please see the data annex in the Fiscal Framework factsheet.[80]

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[78] See the Fiscal Framework outturn report 2019 for further background.
[79] Further information can be found at the Cashback for Communities website
[80] Scottish Government (2025), Data annex and data update - Fiscal framework: factsheet - gov.scot – Accessed April 2025

Capital Borrowing

Table F.16: Capital Borrowing and repayment schedule (figures in £million)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Debt stock at start of Year	607	1,036	1,258	1,617	1,744	1,814	2,026	2,227	2,245	2,576	2,716	2,835	2,936	3,032
New Borrowing in year (incurred)	450	250	405	200	150	300	300	139	-	-	-	-	-	-
New Borrowing in year (forecast)	-	-	-	-	-	-	-	-	472	300	300	300	300	300
Principal Repayments	-	7	26	52	60	67	79	100	120	129	132	135	125	115
Interest Repayments	-	8	11	13	14	16	24	34	39	37	34	31	28	25
Resource Cost of Borrowing Incurred	**-**	**15**	**37**	**64**	**74**	**83**	**103**	**135**	**160**	**166**	**166**	**166**	**153**	**140**
Principal Repayments	-	-	-	-	-	-	-	-	-	11	29	43	59	75
Interest Repayments	-	-	-	-	-	-	-	-	-	21	38	53	68	82
Resource Cost of Forecast Borrowing	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**32**	**66**	**96**	**127**	**157**
Projected Total Resource Cost	**-**	**15**	**37**	**64**	**74**	**83**	**103**	**135**	**160**	**198**	**232**	**262**	**280**	**297**
Notional Borrowing Repayments	21	21	21	21	21	21	21	21	21	21	21	21	21	21
Debt Stock at end of Year	1,036	1,258	1,617	1,744	1,814	2,026	2,227	2,245	2,576	2,716	2,835	2,936	3,032	3,121
Dept Cap	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,050	3,145	3,249	3,316	3,380	3,444	3,513
Percentage of Debt Cap	35%	42%	54%	58%	60%	68%	74%	74%	82%	84%	86%	87%	88%	89%
Headroom	1,964	1,742	1,383	1,256	1,186	974	773	805	569	533	481	444	412	391

Resource Borrowing

Table F.17: Resource Borrowing and repayment schedule (figures in £million)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Debt stock at start of Year	-	207	505	480	476	353	219	103	702	837	683
New Borrowing in year (incurred)	207	319	47	104	-	-	-	-	-	-	-
New Borrowing in year (forecast)	-	-	-	-	-	-	-	663	222	-	-
Principal Repayments	-	21	72	108	123	135	116	64	27	11	-
Interest Repayments	-	0	4	6	9	7	5	3	1	0	-
Resource Cost of Borrowing Incurred	**-**	**21**	**77**	**114**	**132**	**142**	**121**	**67**	**28**	**12**	**-**
Principal Repayments	-	-	-	-	-	-	-	-	59	143	170
Interest Repayments	-	-	-	-	-	-	-	-	29	39	32
Resource Cost of Forecast Borrowing	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**88**	**181**	**202**
Projected Total Resource Cost	**-**	**21**	**77**	**114**	**132**	**142**	**121**	**67**	**117**	**193**	**202**
Debt Stock at end of Year	207	505	480	476	353	219	103	702	837	683	513
Dept Cap	1,750	1,750	1,750	1,750	1,779	1,834	1,895	1,934	1,972	2,009	2,049
Percentage of Debt Cap	12%	29%	27%	27%	20%	12%	5%	36%	42%	34%	25%
Headroom	1,543	1,245	1,270	1,274	1,426	1,616	1,793	1,232	1,135	1,326	1,536

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