Kenneth Gibson MSP
Convener
Finance and Public Administration Committee

The Scottish Parliament
Edinburgh
EH99 1SP

13 January 2026

Dear Convener,

Today the Scottish Fiscal Commission published Scotland's Economic and Fiscal Forecasts – January 2026, presenting our latest forecasts for the economy, tax revenues and social security. We also published our assessment of the Government's funding plans and some commentary on the spending plans announced in the Budget and Spending Review.

The Scottish Government's Medium-Term Financial Strategy published in June 2025 identified significant gaps between spending and funding over the next four years. Since then, there has been a modest increase in funding because of decisions by the Scottish and UK Governments, as well as forecast changes.

In our report we show how, with limited growth in funding, the Scottish Government is using the flexibilities at its disposal to smooth funding over the next four years of the Spending Review as well as seeking ambitious savings, including through public service reforms, efficiencies, and cuts to the public sector workforce.

The publication of portfolio efficiency plans is welcome and builds on commitments made last June. But delivering on these plans will be key to managing future spending pressures on public sector pay and further growth in demand-led social security payments, as well as the longer-term pressures associated with an ageing population and net zero targets.

If and how these plans are delivered will have implications for future public services and shape the fiscal context beyond May's election.

The Scottish Government has made several tax changes in its Budget. For Income Tax, the Scottish Government has announced there will be an above-inflation increase of 7.4 per cent to the 2025-26 basic and intermediate rate thresholds in 2026-27, reducing revenues by £50 million in 2026-27.

It has also announced further freezes in the higher rate, advanced rate, and top rate thresholds in 2027-28 and 2028-29. The combined effect of the threshold changes is an increase in revenues of £72 million in 2027-28 and around £200 million from 2028-29 onwards.

For social security, we now forecast the new higher rate of Scottish Child Payment for children under one, to be launched during 2027-28. It will have annual costs of around £7 million from 2028-29. The UK Government's removal of the two-child limit from Universal Credit, and the resulting cancellation of the Scottish Government's planned Two Child Limit Payment, reduces the forecast of Scottish Government spending by £126 million in 2026-27 compared to June 2025. The UK Government's reversal of PIP eligibility restrictions increases forecast funding received by the Scottish Government through BGAs by £476 million by 2029-30.

In my letter to you on 12 November 2025, I outlined the key deadlines in the forecast timetable. During the forecasting process we agreed with the Scottish Government to change the final deadline for policy from 18 December 2025, which had been agreed at the start of the process, to 19 December 2025. This was consistent with our Protocol for engagement with the Government which provides for extensions to deadlines if mutually agreed.

The Scottish Government informed us of one additional policy after this revised deadline. That additional policy was received within an agreed limited extension to the deadline to 22 December 2025 and was included in our forecasts.

I look forward to giving evidence on our report on 20 January 2026 when I will be happy to discuss any aspect of our report.

Yours sincerely

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