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‘Sting in the tail’ coming for Scotland’s finances as tax revenue lags

By: Kerry Lorimer | 27 Aug 25

The next Scottish Government will face a budget hit of more than £850m as growth in income tax revenue fails to keep pace with the rest of the UK, according to warnings from the nation’s official forecaster.



In its **latest analysis**, the Scottish Fiscal Commission warned that relatively poor performance on income tax north of the border will mean an £851m negative reconciliation is applied to the 2027-28 Scottish budget, exceeding the resource borrowing limit allowed in the fiscal framework.

Strong outturn data for 2023-24 that showed faster revenue growth in Scotland than the rest of the UK – better than originally forecast – would contribute to a positive £406m reconciliation to the 2026-27 budget, the SFC said.

But the “sting in the tail” would be large negative reconciliations the two following years.

“What we’ve seen is projected faster growth elsewhere in the rest of the UK which means Scottish revenues are not keeping pace as much as we thought they’d have done, and that suggests there’s going to be a negative reconciliation,” said commission chair Graeme Roy.

“That’s something to keep an eye on and it will be a concern for whoever wins the election in May that there could be quite a big hit... that they need to find in their first budget.”

The commission’s work suggested that despite tweaks made to the income tax system by the Scottish Government to boost revenues, the tax is raising less than it could have done because of, for example, slower aggregate earnings and employment growth, differences in the sectoral make-up of the Scottish economy and behavioural responses from taxpayers.

“The government is... increasing tax rates and adjusting bands to try to get more revenue in but they’re not raising the full amount they could do, because since tax devolution, Scotland’s tax base has not been keeping pace with the rest of the UK,” Roy said.

The Scottish Government faces major budgetary pressures over the next five years, with gaps for both resource and capital expected to top £2bn by 2029-30, representing about 4% of planned resource spending in 2029-30, and about 23% of planned capital spending.

It is also braced for significant longer-term challenges, with an ageing population expected to increase demand for health-related spending and substantial investment required to hit new climate change targets.

In June, it said it **planned to shed** thousands of public sector jobs as part of a package of measures to plug a projected annual budget gap of £4.7bn.

A reduction in the payroll would require a significant departure from recent trends, which have seen the devolved public sector workforce expand each year since 2018-19.

The Scottish Spending review, to be published alongside the 2026-27 Scottish Budget in December, would be crucial in setting out in detail the government’s planned approach to the challenges ahead, Roy said.

Whichever party won the Scottish parliamentary elections next May would face “really difficult choices” as it sought to balance the books against a highly strained fiscal backdrop.

“They may quite rightly have different policy priorities,” he said.

“But they’re going to do that [while] inheriting a fiscal position that has seen funding lagging behind the spending commitments that they will inherit, so they’re going to [face] a really difficult balancing act to ensure the public finances remain sustainable.”

Kerry Lorimer

Freelance journalist

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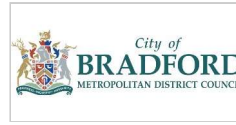


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