



**FUTURE  
ECONOMY  
SCOTLAND**

# Scottish Budget 26/27 Analysis

Tough Choices Delayed, Not Avoided

SURF - People in Place Practice Network

January 2026



DECARBONISE / DEMOCRATISE / DECOMMODIFY

# Presentation structure



1. Context
2. A bird's-eye view on the budget
3. Modelling of key policies
4. Looking ahead



Context



# 1. Political context

- Tuesday 13th January was the big fiscal event of the year:
  - 2026/27 Budget proposed, alongside a
  - Spending Review setting out plans for the next three years, and a
  - Infrastructure Delivery Plan
- Last budget pre-election - a mix of safe choices and voter-friendly policies expected.

## 2. Scottish policy context



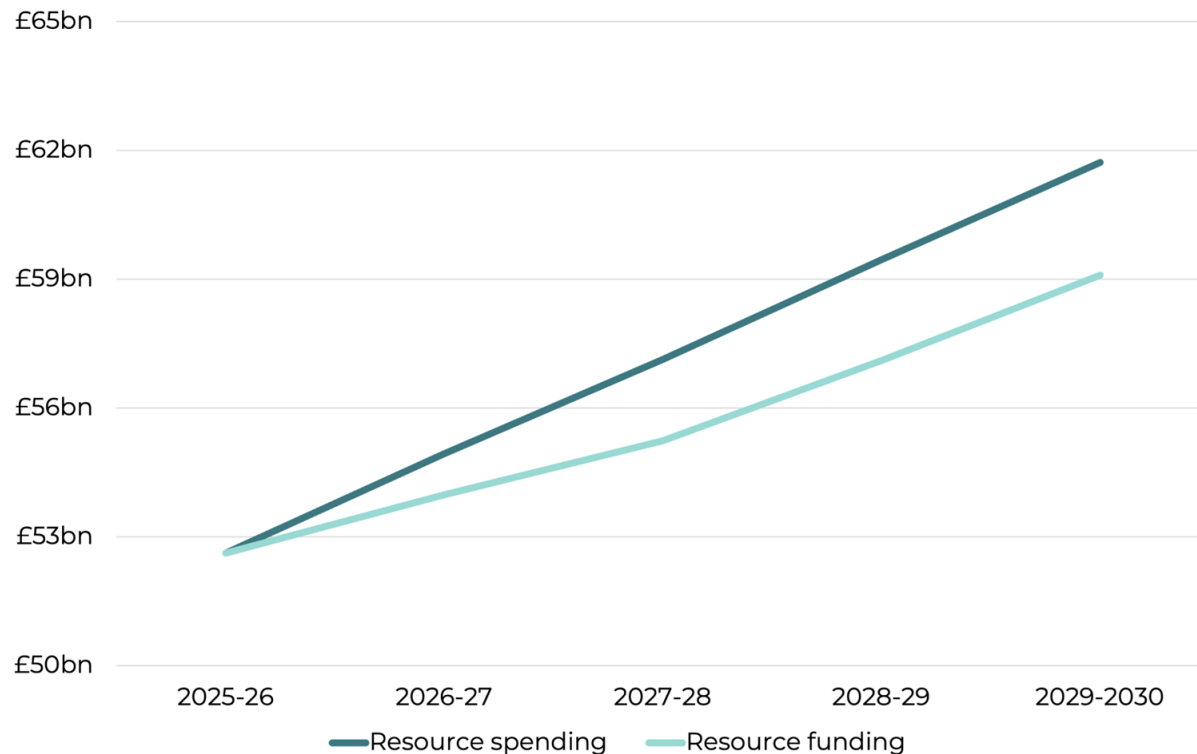
- Big policy ambitions in place, but delivery falling short?
  - Child Poverty - latest statistics missed the interim child poverty targets
  - Climate Change - the government has had to update it's emission reduction commitments
  - Living standards - inclusive growth, wellbeing economy, remain the government's stated ambition but the economy remains sluggish

3.

## Fiscal context



The Medium Term Financial Strategy painted a challenging fiscal picture  
Resource fiscal position 2025-26 to 2029-30, Medium Term Financial  
Strategy 2025



### 3. Fiscal context



- The UK Budget improved the fiscal picture slightly:
  - The abolition of the Two Child Limit frees up SG from planned mitigation.
  - Additional UKG spending lead to more funding for Scotland in 2026/27-2028/29 through Barnett consequentials.
  - Policy 'openings' - mansion tax and tax on income from property.



# The 2026/27 Scottish budget

# Overall spending and funding position



- What happened?
  - The budget was more action packed than expected
  - Framed as a cost-of-living budget
  - Speech focused on headline-grabbing policies, but often without details...
- The big picture
  - Capital spending has been cut by 10% (£860 million) for 26/27 compared to plans laid out this past June.
  - Day-to-day Spending grows in real-terms but falls by half a billion pounds relative to plans set out in June.

# Key reforms

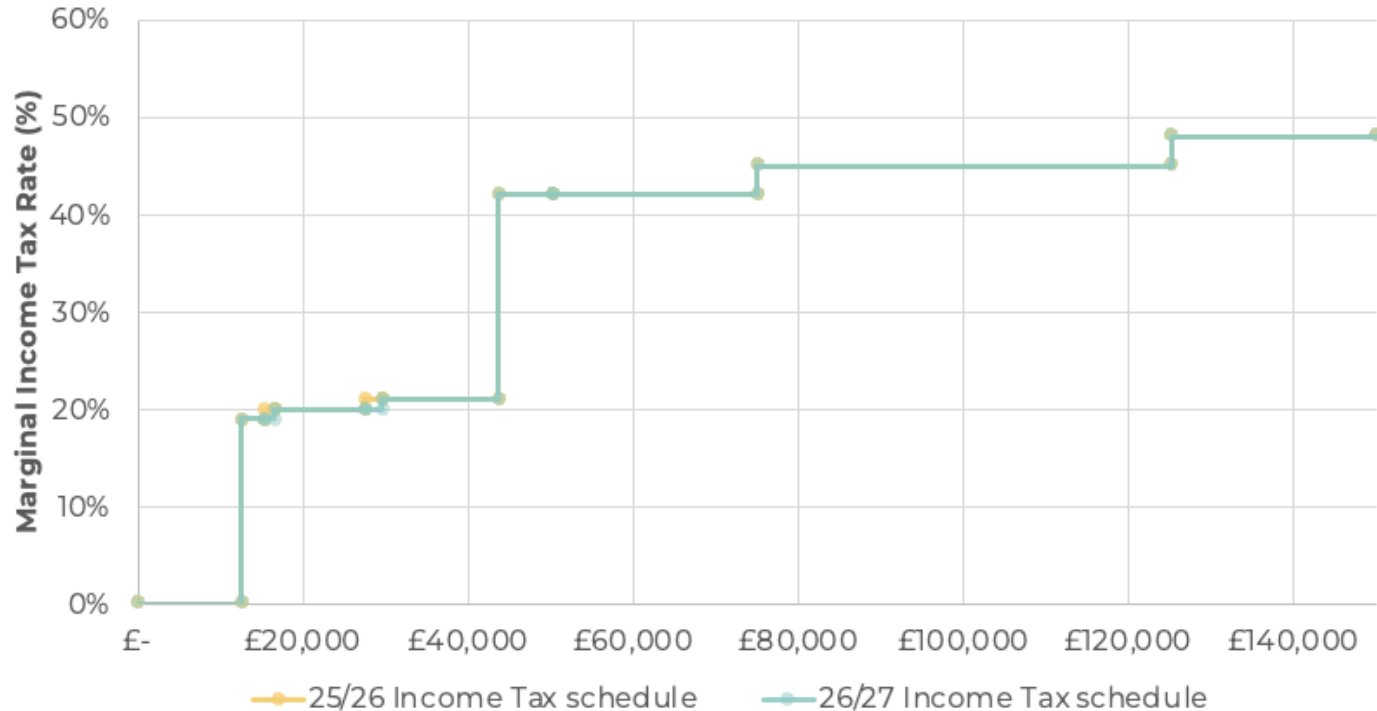


1. Decisions on income tax thresholds
2. Expanding the Scottish Child Payment
3. 'Mansion tax'
4. Private Jet Tax surcharge to Air Departure Tax

# 1. Income Tax



## The income tax thresholds changes are minuscule

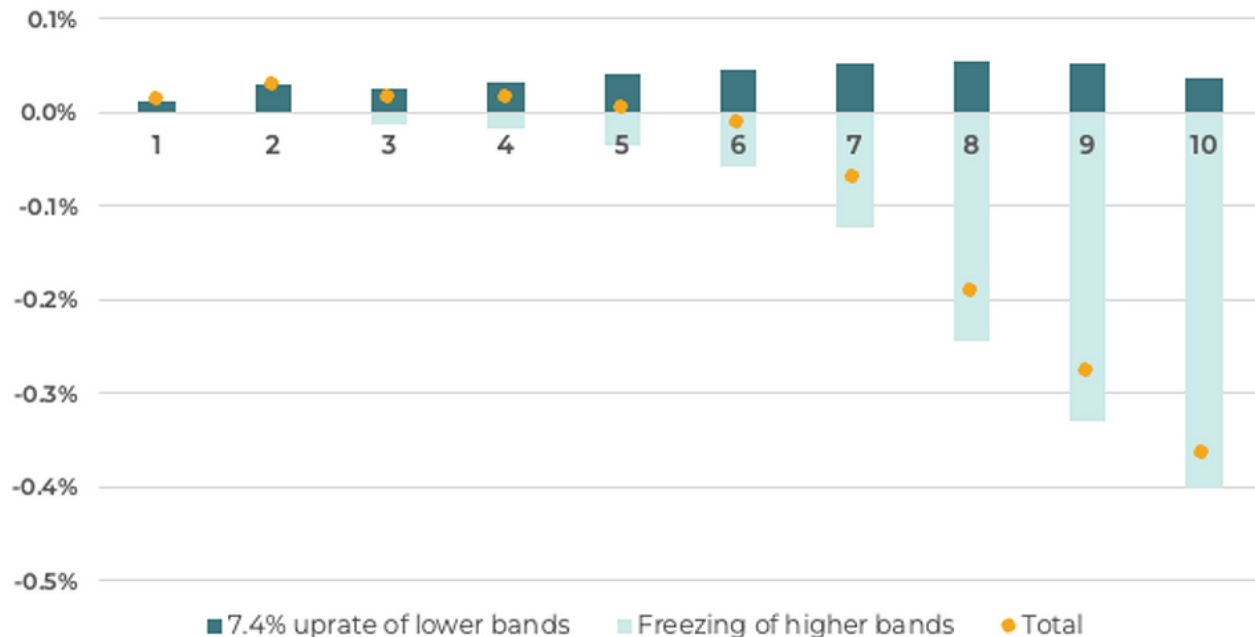


## 1. Income Tax



**The Budget's changes to income tax are progressive overall, but raising lower tax thresholds benefits higher-income households the most**

*Average percentage change in equivalised disposable income by decile as a result of changes to income tax, 2026/27*

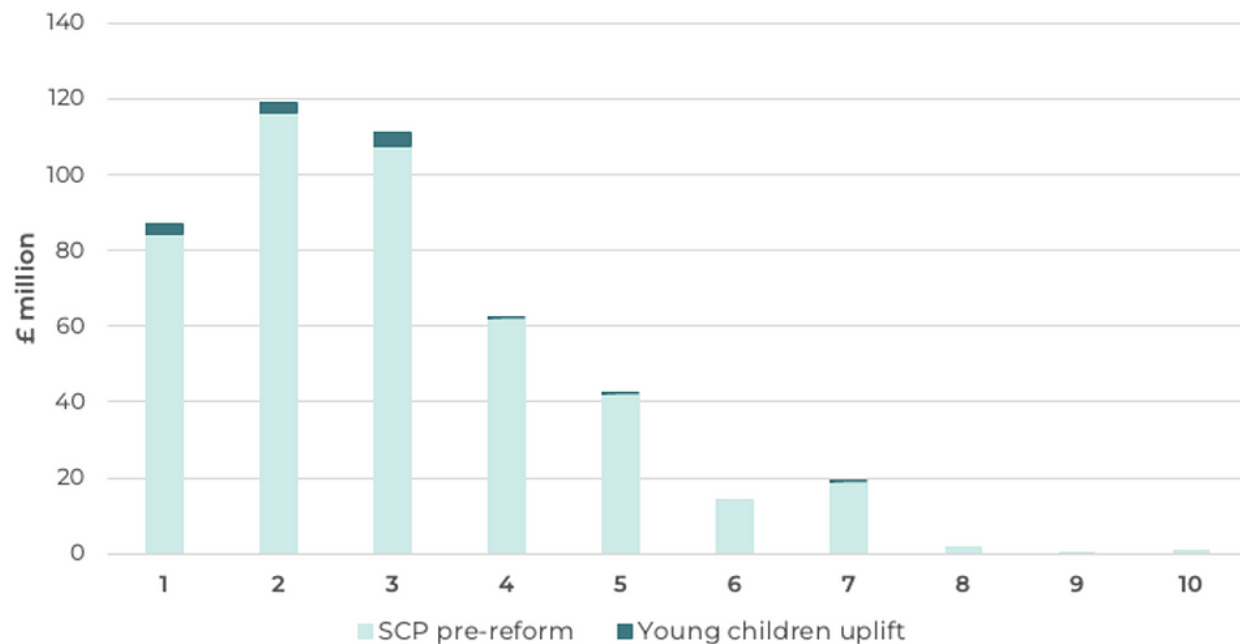


## 2. Scottish Child Payment



**The uplift in the Scottish Child Payment for children under one directs additional resources to low income families, but is small in comparison to existing provision**

*Aggregate value of yearly SCP transfers by decile, 2026/27*





### 3. A 'mansion tax'?

- The Government announced two new Council Tax bands on properties valued more than £1 million, mimicking the UK Government's 'mansion tax'.
- Much remains unclear:
  - What are the multipliers for those two new bands,
  - How will the additional revenue interact with General Revenue Grant calculations?
- In any case, the change is small. Less than 0.5% of houses affected, and expected to raise £14 million a year.
- Politically-driven tinkering with Council Tax, rather than substantial reform

## 4. Private Jet Tax



- The Government will roll out Air Departure Tax in April 2027, and a Private Jet Supplement from 2028/29.
- The rates have not yet been announced.
- Follows the common sense principle that heavy-polluters should pay more tax. Tackles inequality, climate at the same time. But overall impact expected to be small.



## Summing up the budget



- A challenging fiscal situation is already leading to tighter budgets, but the bigger impacts are not yet obvious.
- Many announcements will not be fully rolled out in the coming budget year.
- The Government hopes to find £1.5 billion of efficiency savings in the next three years.



Looking ahead

# The fiscal situation facing the next government



- Difficult choices delayed, not avoided.
- Given the tightness of the budgets, and at times heroic assumptions, there is a risk the government will not be able to deliver on commitments.
- SG funding is vulnerable to changes in forecasts and UK Government policies.
- The options are clear: raise more revenue, or face a return to austerity.
- If taxes are to raise... which taxes? And on whom?
  - Many devolved taxes are ripe for reform - council tax, LBTT, etc.
  - Income tax will have to play a role, and median earners might have to pay a little bit more tax.