



**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



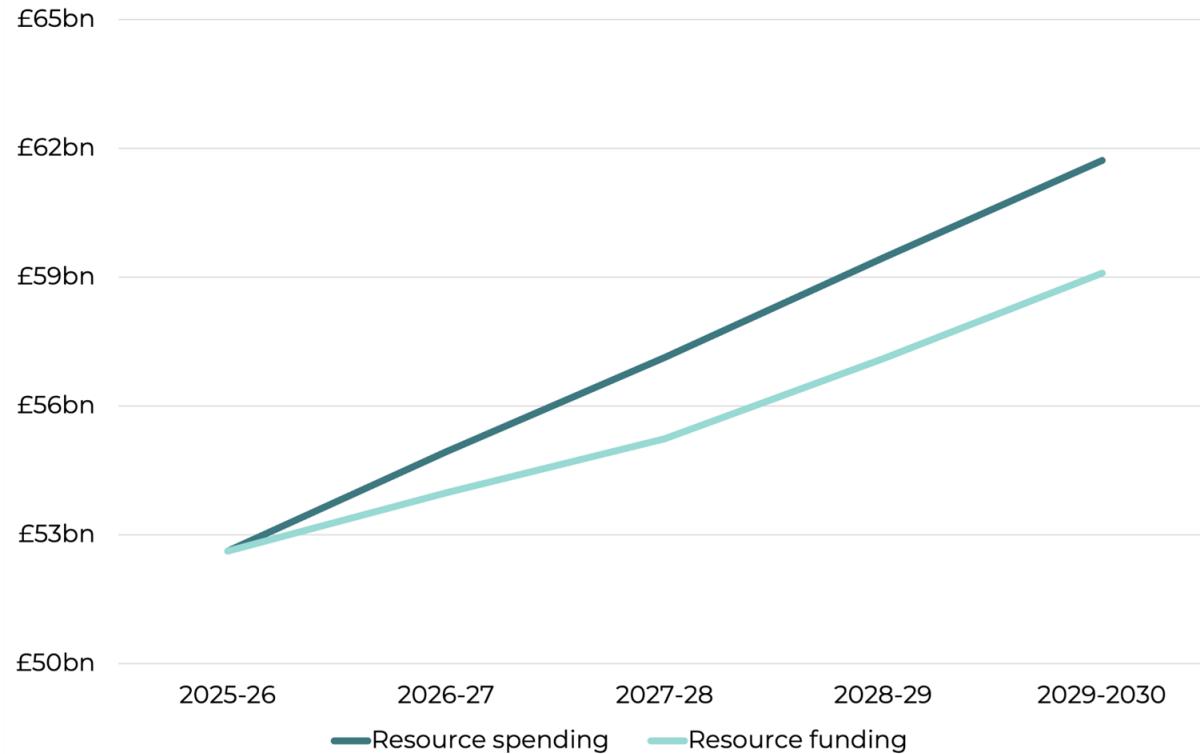
- Big policy ambitions in place, but delivery falling short?
 - Child Poverty - latest statistics missed the interim child poverty targets
 - Climate Change - the government has had to update it's emission reduction commitments
 - Living standards - inclusive growth, wellbeing economy, remain the government's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



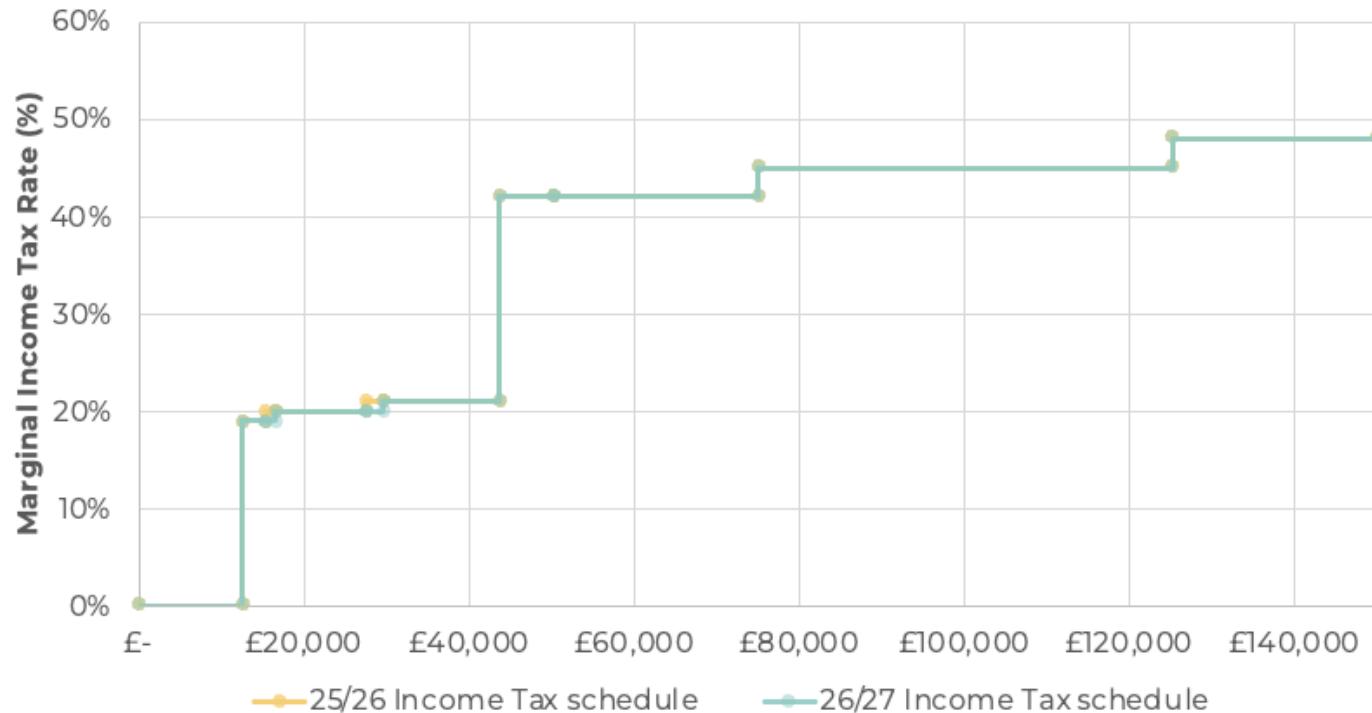
1. Decisions on income tax thresholds
2. Expanding the Scottish Child Payment
3. 'Mansion tax'
4. Private Jet Tax surcharge to Air Departure Tax

1.

Income Tax



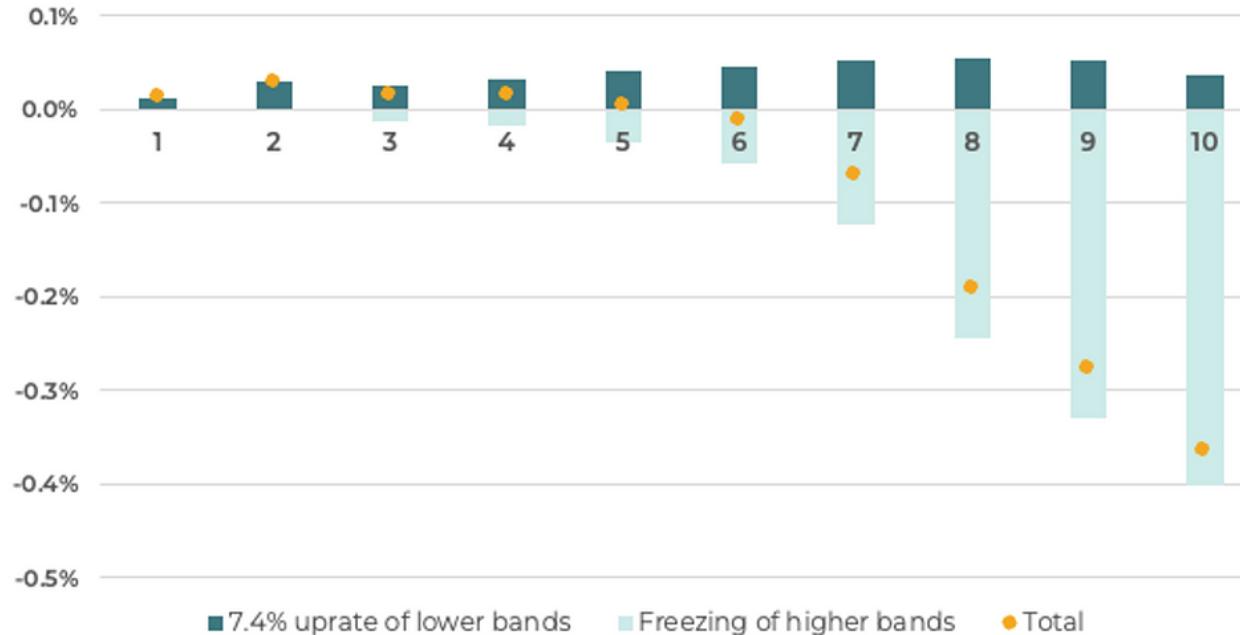
The income tax thresholds changes are minuscule





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

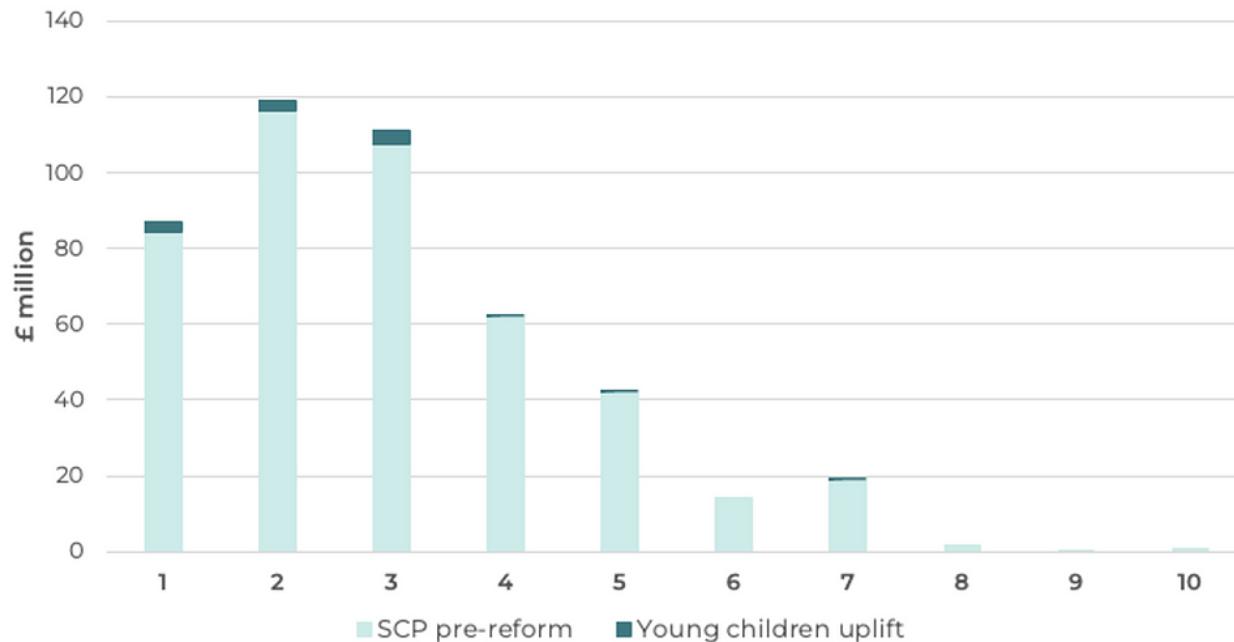


2.

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.