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IFS Report

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Recent changes and the future outlook for Scottish Government funding

Economic and Social Research Council

The Robertson Trust

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Executive summary

The funding available to a government determines the choices available to it – including what public services and benefits to provide, whether to charge co-payments for services, and if so at what level. Such choices especially affect households on low and middle incomes, and particularly those in poverty or with higher needs, for whom public services and benefit payments generally represent a larger share of their overall consumption. This makes government spending – and the funding which pays for it – a more important determinant of low- and middle-income households' living standards and life chances.

In contrast with most of the 2010s, the period since 2020 has seen real-terms increases in the Scottish Government's funding for both day-to-day (resource) spending and investment (capital) spending. But the so-called 'Barnett squeeze' means that funding has grown less quickly than in England, somewhat narrowing the funding advantage from which Scotland has historically benefited. Looking ahead to the coming parliament, funding increases are set to slow, while the squeeze on funding relative to England will continue. If the next Scottish Government wishes to maintain the more comprehensive set of public services and benefits that residents of Scotland have enjoyed relative to their counterparts elsewhere in the UK, this will require some combination of higher devolved revenues and/or marked improvements in public service productivity.

Key findings

Funding for day-to-day (resource) spending

1. In 2025–26, Scottish Government funding for day-to-day (resource) spending is forecast to amount to £52.2 billion. Just over half of this (51%) is provided by the UK government, largely in the form of a block grant that the Scottish Government is free to allocate across devolved services and benefits in line with its own priorities. Devolved funding sources – the most significant of which is revenues from the Scottish rates of income tax – make up the remaining 49% of Scottish Government funding. While devolved revenues make up a growing share of funding, changes in UK government funding continue to be the biggest factor in driving trends in the overall level of resources available to the Scottish Government.

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2. Adjusting for changes in responsibilities over time, Scottish Government funding in 2025–26 is set to be 14.3% higher in real terms than in 2019–20, just prior to the COVID-19 pandemic. This is equivalent to a 10.9% increase per person, after accounting for population growth.

3. Funding for the benefits newly devolved to Scotland has grown more quickly than has overall funding, but spending on these benefits has grown more quickly still. Since the devolution of significant benefit spending responsibilities in 2020–21, the 'block grant adjustments' to help pay for these benefits have increased by 49.6% in real terms, driven by significant increases in spending on disability benefits in England and Wales (which generates equivalent additional funding for the Scottish Government). Scottish Government spending on benefits has increased by 58.5% in real terms over the same period, as it has introduced new benefits to help reduce poverty, and reformed disability processes to aid access and reduce stress for claimants. This faster growth in spending has absorbed around £0.6 billion of the increase in the Scottish Government's other funding.

4. The increase in Scottish Government funding since 2019–20 follows cuts to funding during the 2010s. Bearing in mind that long-run comparisons should be seen as indicative rather definitive, we estimate that, on as close to a like-for-like basis as possible, Scottish Government resource funding in 2025–26 will be 12.4% higher in real terms than in 2010–11, or 6.0% higher per person after accounting for population growth.

5. The biggest driver of these changes has been changes in UK government funding. We estimate it was cut by 3.2% in real terms between 2010–11 and 2019–20 as the UK government cut spending as part of efforts to reduce a large budget deficit following the late 2000s financial crisis. We estimate it has subsequently increased by around 12.7% in real terms.

6. Devolved revenues have made a growing contribution to Scottish Government funding, driven by increases in income tax on higher-income taxpayers. The Scottish Fiscal Commission estimates that holding all else fixed, Scotland's income tax system raises £1.7 billion more in 2025–26 than if the main UK system still applied. But part of these potential revenues is offset by behavioural responses to the changes in tax rates. And slower earnings growth in some years since the devolution of income tax powers and revenues has also reduced the underlying tax base. As a result, the net revenue raised by devolved income taxes in 2025–26 is currently forecast to be £0.9 billion.

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7. Looking ahead, increases in Scottish Government resource funding are set to slow, driven by UK government decisions to hold down spending growth in order to reduce a sizeable budget deficit. Official forecasts show real-terms growth averaging 1.0% over the next three years, or 0.3% focusing on funding for public services (i.e. stripping out spending on benefits). As explained in the IFS Scottish Budget Report, increases in funding for health and social care services within this total mean that other services are due to face cuts averaging 1.7% a year in real terms in 2027–28 and 2028–29.

8. These forecasts for spending are based on current UK policy and official forecasts for devolved revenues. If the UK government tops up its spending plans – as it may feel pressure to do as the UK general election approaches – that would generate more funding for the Scottish Government. On the other hand, official forecasts for devolved revenues effectively assume that earnings will grow faster in Scotland than in the rest of the UK, boosting revenue growth. If earnings instead grow in line with those in the rest of the UK, growth in devolved tax revenues would be slower and, all else equal, the resource funding available for public services would be flat rather than rise over the next three years.

Funding for investment (capital) spending

9. The Scottish Government funds its investment (capital) spending through a combination of UK government funding and devolved borrowing and reserves powers. After falling in the early 2010s, capital funding has grown substantially: on as close to a like-for-like basis as possible, we estimate it to be 27.6% higher in 2025–26 than in 2010–11, and 16.8% higher than in 2019–20. The biggest driver of changes in overall capital funding over time has been changes in UK government funding, although the Scottish Government has used borrowing to boost capital spending every year since it has had the power to do so.

10. After growing in 2026–27, capital funding is set to fall in real terms over the following three years, driven by a reduction in UK government funding and a reduction in annual capital borrowing as the Scottish Government gets closer to the total debt limit set out in its fiscal framework agreement with the UK government. However, as discussed in the IFS Scottish Budget Report, the winding-up of major prison construction programmes should allow funding to be channelled to other priorities, including investment in social housing and transport.

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Comparisons with England

11. The Scottish Government received around 26% more UK government funding per resident than is spent on comparable services in England as of 2024–25. Devolved funding sources provided a further 2.8 percentage points, reflecting the aforementioned higher income tax paid by high-income taxpayers. There are no up-to-date official estimates of Scotland's spending needs relative to England. But it seems highly likely that the additional funding received is greater than could be justified by differences in needs alone: an assessment by the Holtham Commission using data from the late 2000s suggested Scotland's needs were around 5% higher than England's at that time. Additional funding on top of this is likely a key factor enabling more generous service provision in Scotland, including free university tuition and free personal care.

12. After growing during the 2010s, this funding advantage is now shrinking. We estimate that UK government funding per person in Scotland has fallen from 32% higher than in England in 2019–20 and will fall to 23% higher than in England by 2028–29. This is the result of the so-called 'Barnett squeeze': the tendency of the Barnett formula to deliver smaller percentage changes in funding for Scotland given Scotland's baseline higher levels of funding. Without substantial increases in devolved revenues, improvements in public sector efficiency or cuts to other spending, it will therefore become increasingly difficult for future Scottish Governments to continue to maintain (let alone improve) service provision and provide a wider range of free services than their counterparts elsewhere in the UK.

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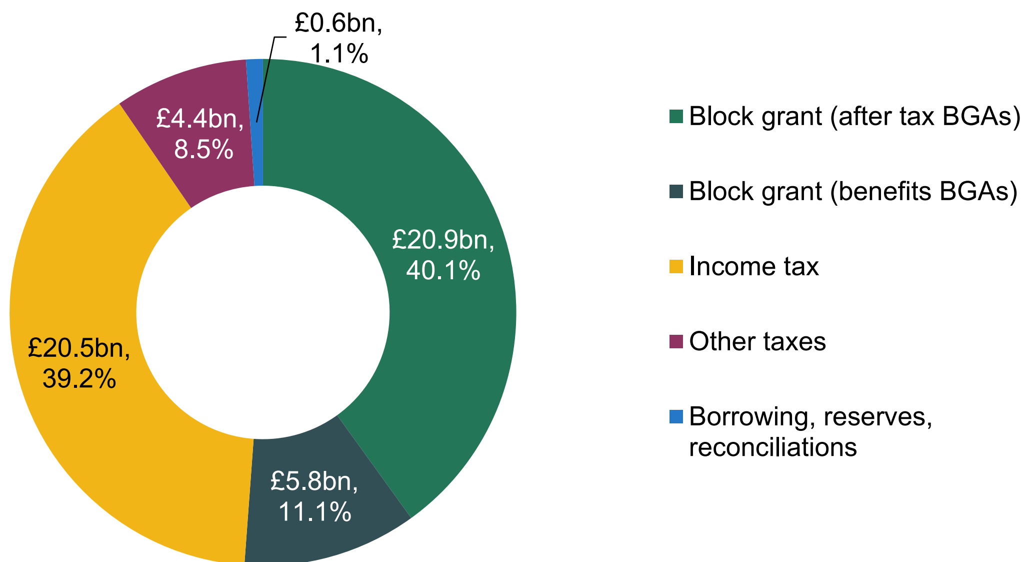
1. How is Scottish Government resource spending funded?

When it was set up in 1999, the Scottish Government received almost all its funding for both day-to-day (resource) spending and investment (capital) spending in the form of a block grant from the UK government. This reflected the fact that nearly all the taxes paid by people and businesses in Scotland went to the UK government, which used the revenues to help pay for the block grant and its own spending in or on behalf of Scotland (such as on UK-wide working-age social security, state pensions and defence).

However, fiscal devolution in the mid-to-late 2010s has resulted in the Scottish Government setting and keeping more of its own taxes – including land and buildings transaction tax (paid on the purchase of real estate), Scottish landfill tax, and most but not all of income tax. Figure 1 shows that together with business rates, which have been devolved since 1999, these taxes are forecast to contribute around 47.8% of the Scottish Government's funding for resource spending in 2025–26, with the vast majority of this (39.2 percentage points) coming from income tax. The use of other devolved revenues (including borrowing and reserves powers) provided the remaining 1.1%. We discuss the sources of funding for capital spending in Section 4.

Figure 1. Sources of Scottish Government resource funding, 2025–26



Note: Block grant (after tax BGAs) = main block grant *minus* tax BGAs.

Source: Authors' calculations using HM Treasury (2025a) and Scottish Fiscal Commission (2026).

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It remains the case that just over half of funding comes in the form of a block grant from the UK government though: 51.2% after accounting for the block grant adjustments (BGAs) made to reflect the devolution of tax revenues and benefit spending to the Scottish Government. And despite fiscal devolution, it is changes in this block grant that are the most significant factor in determining the Scottish Government's overall funding, and hence how much it can spend on devolved public services and benefits.

The level of the block grant is determined as follows, and as shown in Figure 2.

- First, the amount of block funding that would be due in the absence of fiscal devolution is calculated using the Barnett formula. This is equal to the block grant from the previous year plus an amount equal to Scotland's population share of any change in planned UK government spending on services in England (or England and Wales) that in Scotland's case are devolved.[1]
- Second, an adjustment is made for the taxes that are devolved to the Scottish Government. When these taxes were first devolved, an amount equal to the revenues being devolved was deducted as a BGA. Subsequently, these BGAs have been updated each year according to the change in Scotland's population and the change in revenues per person in the rest of the UK. Together, this means that the Scottish Government receives more revenue that it would in the absence of tax devolution if revenues per person grow faster than in the rest of the UK, and vice versa – whether these differences are the result of policy changes or underlying economic performance. The aim of this is threefold:
    - to help ensure that tax changes applying only in the rest of the UK do not increase or decrease the amount spent on residents of Scotland;
    - to give the Scottish Government a stronger financial incentive to boost economic performance – it retains the additional revenue generated from devolved taxes resulting from better economic performance, and bears the losses resulting from poorer economic performance;
    - to insulate the Scottish Government's funding from the ups and downs of economic cycles and shocks affecting the whole of the UK – the resulting ups and downs in Scottish revenues are offset by changes in the BGAs.
- Third, an adjustment is made for the new benefit spending responsibilities that have been devolved alongside the new tax powers. The BGAs were initially set equal to the amount of benefit spending being devolved and, as with the tax BGAs, have subsequently been updated

[1] It is based on the change in planned spending in England and Wales for services that in Scotland's case are devolved but in Wales's case are not. This includes policing and justice spending, for example.

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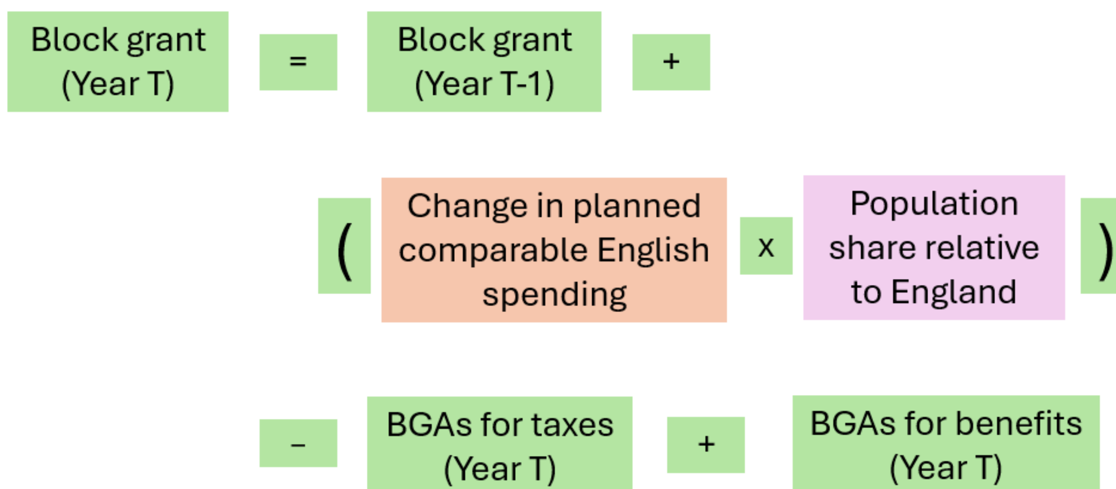
in line with changes in the Scottish population and changes in comparable benefit spending per person in the rest of the UK.

Figure 2. Calculation of Scottish Government block grant funding



Source: Authors' summary of block grant calculations.

Even though this 'fiscal framework' offers protection from economic cycles and shocks affecting the whole of the UK, the Scottish Government is still exposed to more funding risk than before fiscal devolution. To help it address these risks, the Scottish Government is able to pay money into, and draw down from, its reserves. It is also able to borrow if revenues turn out to be lower, or benefits spending higher, than forecast, and if the associated BGAs also turn out to differ from forecasts (e.g. because tax revenues grow more strongly than expected in the rest of the UK, meaning a higher-than-expected BGA).

The total amount that can be held in the Scotland Reserve is currently capped at £734 million. This limit is uprated each year in line with inflation.

Borrowing is also subject to strict limits. The Scottish Government can currently borrow up to £629 million in a year to cover forecast errors, subject to a cap on outstanding debt of just over £1.8 billion. The annual limit is equivalent to 1.2% of the Scottish Government's resource funding, and 2.2% of the devolved tax revenues and social security spending the borrowing powers relate to. Both limits are again uprated each year in line with inflation.

Finally, the Scottish Government is also able to draw down funding from the ScotWind offshore windfarm licence fund, part of the Crown Estates in Scotland. £713 million was available at the start of 2025–26, from which the Scottish Government plans to draw down £153 million.

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Further information on the Scottish Government's devolved tax powers, funding, the Barnett formula, BGAs, and borrowing and reserves powers can be found in our online explainers.[2]

The key takeaway is that UK government decisions on public service spending, benefit spending and taxation in the rest of the UK are still the main determinant of Scottish Government funding, via the Barnett formula and the social security benefit BGAs. Devolved tax powers give the Scottish Government some flexibility at the margin to increase or decrease overall funding – but expose it to additional revenue risks. Borrowing and reserves powers help it respond to these risks, but not run a fundamentally different fiscal policy from the UK as a whole.

[2] The explainers can be accessed via our devolved election website at https://ifs.org.uk/devolved-elections.

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2. How and why has funding for resource spending changed?

All told, the Scottish Government's resource funding is set to amount to £52.2 billion in 2025–26. In principle, the Scottish Government could access a further £0.7 billion in funding by drawing down reserves and ScotWind funding in full – but the plan is to utilise these in future years instead, as discussed in Sections 3 and 4 of this report.

Figure 3 shows how this funding compares with previous years, separating out funding received during 2020–21 and 2021–22 to help respond to the COVID-19 pandemic, and funding for new responsibilities (such as certain social security benefits and post-Brexit agricultural payments). Amounts are adjusted for inflation and are indexed to 100 in 2010–11 so that it is easier to see the real-terms changes that have taken place over the last 15 years. A number of adjustments have been made to make the figures more consistent over time – for example, attempting to strip out the effect of changes in accounting definitions – although it is not possible to guarantee figures are fully consistent, so they should be treated as indicative rather than definitive. Further information on the data we use and adjustments we make can be found in the appendix.

The figure shows that after falling in the early 2010s, Scottish Government resource funding started increasing from 2017–18 onwards. However, on the eve of the COVID-19 pandemic in 2019–20, adjusting for changes in responsibilities, resource funding was 1.7% lower in real terms than in 2010–11. Because the Scottish population grew by 2.8% during the 2010s, resource funding per person in 2019–20 was 4.4% lower than in 2010–11. The 2010s were, therefore, a decade of austerity.

The 2020s, so far, have been different.

In 2020–21 and 2021–22, there was a surge in funding in response to the COVID-19 pandemic. Including this, but excluding money for new responsibilities, funding was 19.0% higher than 2010–11 levels in the first full year of the pandemic (2020–21) and 14.9% higher in the second full year (2021–22).

While temporary COVID funding was withdrawn at the start of 2022–23, core resource funding increased between 2021–22 and 2025–26. By 2025–26, core resource funding is set to be 14.3% higher in real terms than in 2019–20 and 12.4% higher in real terms than in 2010–11. This

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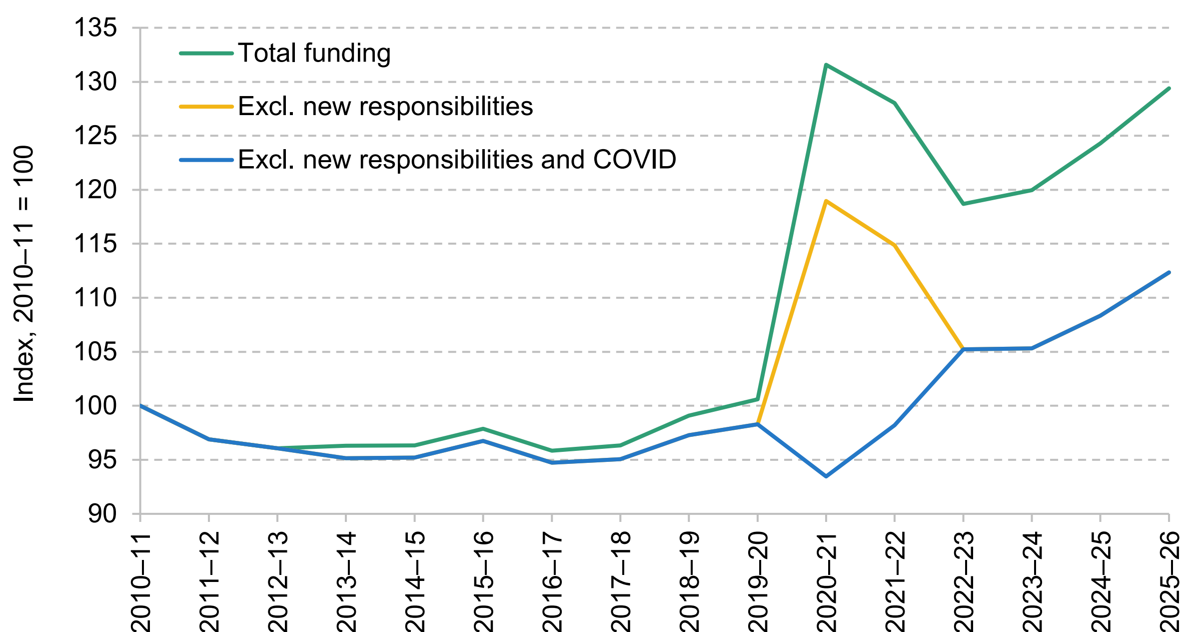
means that after accounting for population growth, funding per person in 2025–26 is set to be 10.9% higher than in 2019–20 and 6.0% higher than in 2010–11.

Figure 3. Scottish Government resource funding, 2010–11 to 2025–26, adjusted for inflation (2010–11 = 100)



Note: See the appendix for adjustments.

Source: Authors' calculations using HM Treasury (2014, 2018 and 2025a), Office for Budget Responsibility (2025a), Scottish Fiscal Commission (2025 and 2026) and Scottish Government (2016, 2019, 2024, 2025 and 2026b).

Figure 3 also shows that funding associated with new responsibilities (the difference between the blue and green lines) makes up a significant part of the Scottish Government's overall funding – 13.2% as of 2025–26. Most of this relates to the BGAs for devolved social security benefits (£5.8 billion out of £7.0 billion), with the largest element of the remainder being for post-Brexit agricultural support (£0.6 billion). The BGAs for devolved social security benefits have increased by 49.6% in real terms since most of them were introduced in 2020–21, reflecting rapid growth in disability spending in England and Wales.

Devolved benefit spending has grown 58.5% over the same period, and the Scottish Government spends more on devolved benefits (£6.8 billion) than it receives in associated BGA funding from the UK government (£5.8 billion). The difference is covered by drawing on the other funding the Scottish Government receives – including revenue from increased income tax rates on higher-income individuals (see below). The difference reflects the fact that the Scottish Government has reformed the application and assessment processes for the disability benefits that have been devolved, with the aim of improving access and reducing stress for applicants (increasing caseloads somewhat), as well as the introduction of a number of new payments, mainly to boost

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low-income families' incomes and reduce child poverty. These changes will be discussed in more detail in a future election briefing. The additional benefit spending means that funding available for public services has increased by 11.6% since 2019–20, somewhat less than the 14.3% increase in funding received via the main block grant and devolved revenue sources. There is therefore to some extent a trade-off between public service and benefit spending, although well-targeted spending on one of these can have beneficial spillovers on the need for spending on the other. (Well-targeted education spending may, for example, boost future earnings and reduce means-tested benefit spending, while well-targeted benefit spending that helps improve children's home environment might boost their educational attainment).

Changes in UK government funding

The biggest factor underlying these changes in funding is changes in the funding received from the UK government, mainly via the resource block grant.

The early-to-mid 2010s saw substantial cuts to UK government funding – albeit less so in Scotland than in England and Wales due to a flaw in the Barnett formula which accidentally excluded some of the cuts to local government funding in England from the formula in the case of Scotland and Northern Ireland (Phillips, 2014).

Starting in the late 2010s, UK government funding began to increase in real terms again – in part because initial spending plans have been topped up as demand and cost pressures have become clearer (or less avoidable). This includes the period following the 2015 Spending Review (covering 2016–17 to 2019–20), the 2019 and 2020 Spending Rounds (covering 2020–21 and 2021–22, respectively, during which the UK government provided £14.2 billion of top-ups to address the COVID-19 pandemic), and the 2021 Spending Review.

Top-ups made by both the Conservative and Labour UK administrations increased the size of the resource block grant in 2024–25 by around 10% compared with the figure originally announced in the 2021 Spending Review (Scottish Fiscal Commission, 2025). These increases compensated – albeit only just – for higher-than-expected economy-wide inflation over this period.[3] However, parts of the public sector seem to have faced increases in input costs significantly exceeding economy-wide inflation over this period, not least because of big increases in the National Living Wage: Ogden and Phillips (2024) show this for English councils, for example, and it seems reasonable to expect the same to be true for Scottish councils.

[3] Based on comparison of October 2021 and December 2025 GDP deflator out-turns and forecasts available from https://www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp.

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Overall, funding from the UK government is forecast to have increased by 12.7% in real terms between 2019–20 and 2025–26, excluding that provided for new responsibilities such as devolved social security benefits and post-Brexit agricultural support. This makes up £5.0 billion of the £5.7 billion real-terms increase in funding for existing responsibilities over this period.

The role of devolved policies and powers

While it is changes in UK government funding that have had the biggest impact on Scottish Government funding, devolved policies and powers have also contributed to increases in funding over the last few years – although perhaps not quite as the Scottish Government would have initially hoped given changes made to the largest devolved tax: the Scottish rates of income tax.

Revenues from business rates are forecast to have fallen by 14% in real terms between 2019–20 and 2025–26, reflecting freezes for some or all ratepayers in some years over this period (the cost of reliefs peaked during the COVID-19 pandemic, but has returned to pre-pandemic levels).[4] This is a real-terms reduction of £0.5 billion.

Figure 4 shows the net contribution of the other devolved funding sources in 2019–20 and 2025–26. This includes the contribution of: increases in revenues from the Scottish rates of income tax; revenues from other devolved taxes (land and buildings transaction tax and Scottish landfill tax); and other devolved funding sources, including the use of borrowing and reserves powers, and the drawdown of proceeds of auctions of offshore windfarm rights (ScotWind) to help fund resource spending. The figures for the devolved taxes included are net of the associated BGAs subtracted from the resource block grant; they therefore account for how much more (or less) the Scottish Government raises from these taxes relative to how much is subtracted from its block grant to account for the devolution of these taxes.

The graph shows that in 2019–20, these other devolved funding sources contributed a net £0.5 billion to the Scottish Government's resource funding. This year, they are forecast to contribute a net £1.7 billion, an increase of £1.2 billion or 242% in real terms. The yellow bars show that this increased contribution is the result of an increased contribution of net revenues from the Scottish rates of income tax (up by £0.6 billion), as well as from land and buildings transaction tax and Scottish landfill tax (up by £0.2 billion). Other changes – driven by a significant positive reconciliation payment in 2025–26 for past under-forecasting of net tax revenues – also contribute £0.4 billion.

[4] See https://www.gov.scot/publications/non-domestic-rates-income-statistics/.

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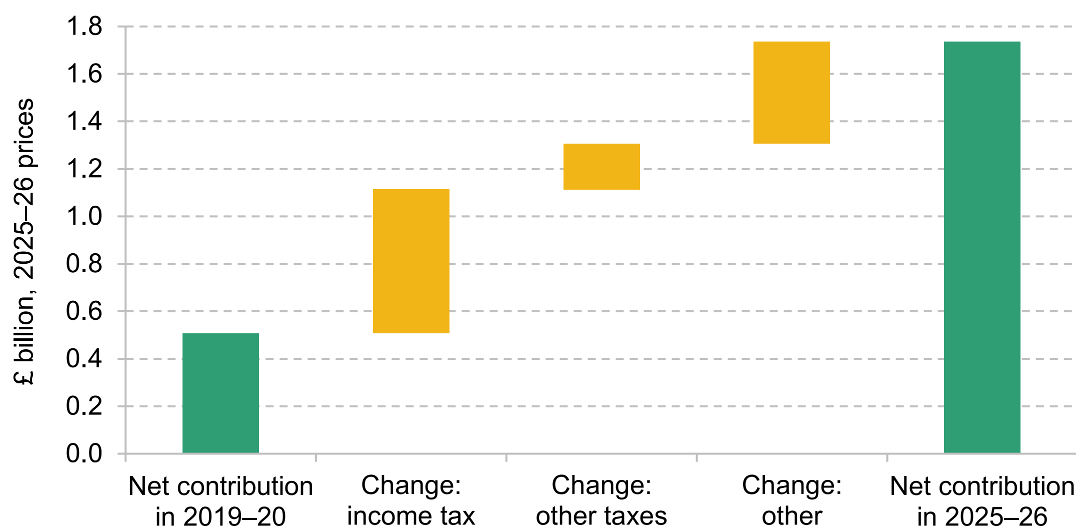
Figure 4. Net contribution of devolved funding sources (excluding business rates) to Scottish Government resource funding (£ billion, 2025–26 prices)



Note: 'Other' change includes changes in: new resource borrowing minus debt servicing costs; net reserve drawdowns; reconciliations for past forecast errors; King's and Lord Treasurer's Remembrancer; and utilisation of ScotWind income.

Source: Authors' calculations using HM Treasury (2025a), Scottish Fiscal Commission (2025 and 2026) and Scottish Government (2024, 2025 and 2026b).

The increased contribution from net income tax revenues reflects changes to income tax policy made by the Scottish Government since 2019–20. Building on previous changes in 2017–18 and 2018–19 (Adam and Phillips, 2021), the Scottish Government has over the last few years slightly further reduced income taxes for low-income taxpayers while increasing them more significantly for high-income taxpayers. We will discuss these changes in more detail in a future election briefing, but here the key point is that the changes are revenue-raising. The Scottish Fiscal Commission (2026) estimates that the direct mechanical effect of the changes in income tax policy will raise £1.7 billion in 2025–26, up from £0.6 billion in 2019–20 (an increase of around £1.1 billion). However, the actual net income tax revenue position is lower and has increased from £0.2 billion to £0.9 billion over the same period (the aforementioned £0.6 billion real-terms increase). This reflects a combination of behavioural responses to Scotland's higher tax rates and slower growth in earnings and employment in some years (Boileau and Phillips, 2023a). The changes to income tax are therefore generating funding to help fund Scottish Government resource spending. But behavioural responses are reducing the yield somewhat,[5] and part of the remaining revenue increase has been offset by slightly slower growth in employment and earnings since income tax was partially devolved in 2016–17.

[5] Evidence suggests these responses are especially large for the increases in the top rate of income tax, although this is subject to significant statistical uncertainty. See Phillips (2024).

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3. What is the outlook for resource funding?

After several years during which resource funding has grown at a decent pace, growth in funding is set to slow significantly over the next few years, posing budgetary challenges for the next Scottish Government. These must be borne in mind when assessing the spending and policy proposals set out by both current ministers and opposition parties.

UK government funding

The main contributor to this slowdown is again UK government funding.

As discussed in the previous section, the Labour government elected in July 2024 topped up the spending plans it inherited substantially, leading to substantial increases in funding for the Scottish Government in 2024–25 and 2025–26. Spending plans – and hence Scottish Government funding – for 2026–27 onwards were topped up too, but the year-on-year rate of increase is slowing substantially. As in the 2010s, this is as part of an effort to reduce borrowing and slow the rise in UK government debt – although tax increases (such as increases in employers' National Insurance contributions and freezes in tax thresholds) are playing a larger role now than in that previous period of fiscal tightening.

Figure 5 shows the year-on-year real-terms changes for the Scottish Government's different funding sources over the next few years, based on the latest UK government spending plans and Office for Budget Responsibility and Scottish Fiscal Commission forecasts. The change in UK government funding (excluding the benefits BGAs) is in green,[6] while the change in funding via the benefits BGAs is in blue.

The first thing to note is how small the real-terms increases in UK government funding are: just 1.0% in real terms in 2026–27, an average of 0.3% in 2027–28 and 2028–29, and 0.2% in 2029–30. In contrast, the benefits BGAs are set to continue to increase significantly, reflecting forecast increases in disability benefit spending in England and Wales: an average of 4.7% a year in real terms over the next four years. Together, this means total funding from the UK government is

[6] Note that the UK government has only published planned funding (other than via the benefit BGAs) up to 2028-29. The figure for 2029-30 is instead based on Scottish Government assumptions and is therefore subject to more uncertainty.

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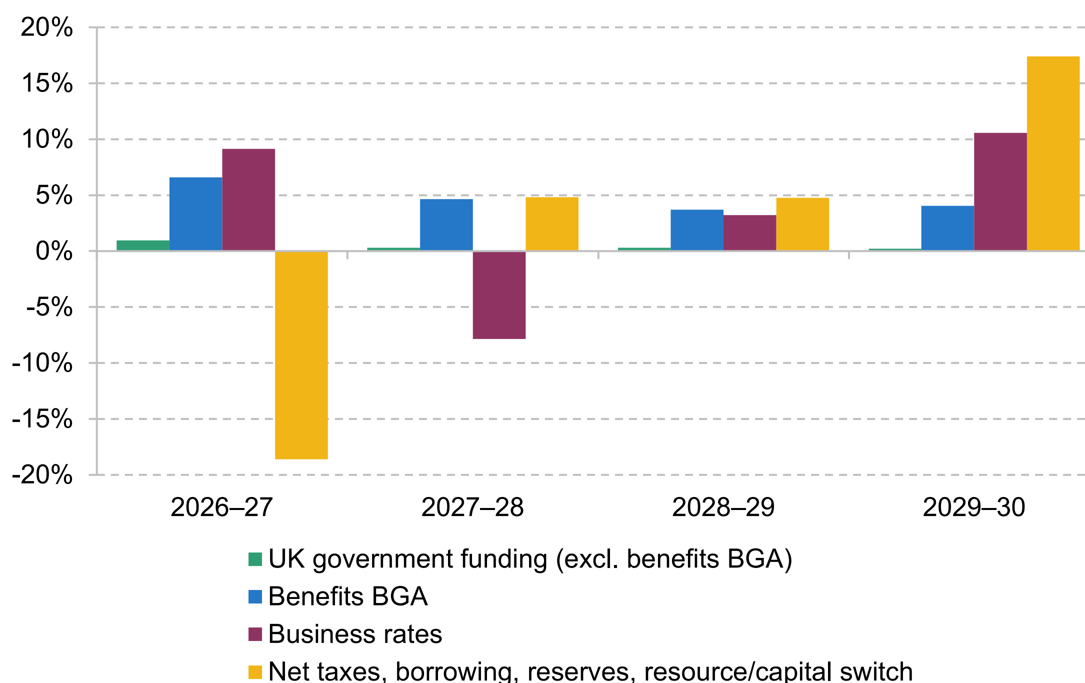
currently forecast to increase by 1.7% in real terms in 2026–27, an average of 0.8% in real terms in 2027–28 and 2028–29, and 0.7% in real terms in 2029–30.

Figure 5. Forecasted year-on-year real-terms changes in funding components



Note: 'Net taxes, borrowing, reserves and other' includes: net revenues from income tax, land and buildings transaction tax and Scottish landfill tax; new resource borrowing minus debt servicing costs; net reserve drawdowns; reconciliations for past forecast errors; resource/capital switches; King's and Lord Treasurer's Remembrancer; and utilisation of ScotWind income.

Source: Authors' calculations using Scottish Fiscal Commission (2026).

The role of devolved policies and powers

Official forecasts show increasing devolved tax revenues partially offsetting the slowdown in UK government funding.

After falling over the last six years, business rates revenues (in purple in Figure 5) are forecast to increase in real terms from £3.1 billion this year to £3.6 billion in 2029–30, with notable real-terms increases in 2026–27 and 2029–30. The reason for such a substantial increase is not fully clear, although several factors will play a role. First, the Scottish Government plans to utilise more business rates revenue than will actually be raised in 2026–27, running a deficit on its business rates account. Second, revaluations, while designed to be revenue-neutral in the long run, typically raise revenue in the short term as rates bills are initially set to be higher, on average, after the revaluation, in anticipation of subsequent appeals. And some reliefs (such as for the hospitality sector) are currently due to end in March 2029, boosting revenues the following year.

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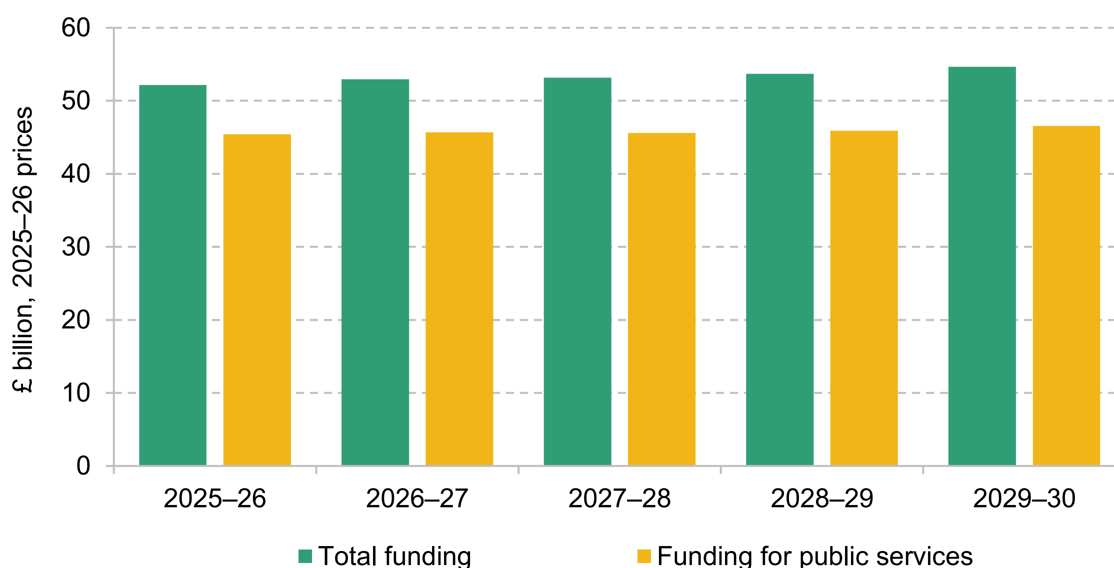
The contribution of net funding from other devolved sources is set to be fairly similar in 2029–30 to that in 2025–26 – approximately £1.8 billion in real terms. This reflects several different moving parts: net revenues from devolved taxes are set to grow, driven by income tax (see below); but offsetting this are growing debt servicing costs, and the fact that in the current financial year, 2025–26, the Scottish Government is making use of several one-off sources of funding (large reserve drawdowns and positive reconciliation payments for past underestimates of tax revenues) to boost spending. These are not available in future years (explaining the large year-on-year decline in funding from devolved sources in 2026–27).

Overall funding outlook – and risks to it

Accounting for these devolved funding sources, Figure 6 shows that overall Scottish Government resource funding is currently forecast to increase from £52.2 billion to £53.7 billion in real terms between 2025–26 and 2028–29 – an average annual increase of 1.0% a year. The funding available for public service spending (i.e. after subtracting benefit spending) is forecast to increase from £45.4 billion to £45.9 billion in real terms over the same period – an annual average increase of just 0.3%.

Figure 6. Forecast total resource funding and resource funding available for public services, 2025–26 to 2029–30 (£ billion, 2025–26 prices)



Note: Funding for public services = total funding minus forecast social security benefit spending, including discretionary housing payments and employability services.

Source: Authors' calculations using Scottish Fiscal Commission (2026).

As we highlight in the 2026–27 IFS Scottish Budget Report (Boileau, Brogaard and Phillips, 2026), the current Scottish Government plans to address this difficult outlook by allocating its Health & Social Care portfolio only a very small real-terms increase in resource in 2026–27

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(0.2% in real terms) and then cutting most other portfolios in 2027–28 and 2028–29 (by an average of 1.7% in real terms per year), in order to boost health spending in those years (by an average of 2.4% a year in real terms). The next government may make different choices but they will involve difficult trade-offs between different areas of spending and taxation.

The picture for 2029–30 looks a little brighter, with total funding increasing by 1.8% in real terms and funding for public services increasing by 1.5% in real terms given current Scottish Government assumptions and Scottish Fiscal Commission forecasts.

It is important to note that the funding outlook could change substantially. The UK government may change its spending plans, in turn affecting the funding the Scottish Government receives via the Barnett formula. IFS researchers have previously highlighted how tight UK government plans in 2028–29 and indicative overall spending totals in 2029–30 look, especially in the context of a UK general election taking place in Summer 2029 at the latest.[7] If the UK government topped up its spending plans, that would help ease the fiscal trade-offs facing the next Scottish Government.

On the other hand, official forecasts likely overstate the contribution devolved revenues will make to the Scottish Government's resource funding over the next few years. This presents an important downside risk to the funding outlook.

The issue arises because forecasts of the future net contribution of devolved taxes to Scottish Government funding depends on forecasts of both revenues from the taxes and forecasts for the associated BGAs. The official forecasts of revenues are made by the Scottish Fiscal Commission (SFC), whereas the official forecasts for the BGAs are made by the UK's Office for Budget Responsibility (OBR). Forecasts for the net contribution of devolved taxes are therefore driven not only by SFC judgements on how the Scottish economy and hence tax bases will evolve over time, but also by more general differences in economic judgements between the SFC and OBR. The SFC, for example, is relatively more optimistic on average earnings growth from 2027–28 onwards, forecasting growth averaging 2.7% a year in cash terms, compared with the 2.2% assumed by the OBR (Scottish Fiscal Commission, 2026). The SFC's higher forecasts feed into its forecasts for devolved tax revenues, while the OBR's lower forecasts feed into forecasts for the BGAs. In effect, the official forecasts for the net income tax revenue position assume Scottish earnings will outpace earnings in the rest of the UK from 2027 onwards.

Figure 7 shows the impact that this has on the forecast net tax revenue position for income tax. The blue bars show the official forecasts based on SFC forecasts for income tax revenues and

[7] See Helen Miller's opening remarks to our Autumn 2025 Budget analysis event here: https://ifs.org.uk/collections/autumn-budget-2025.

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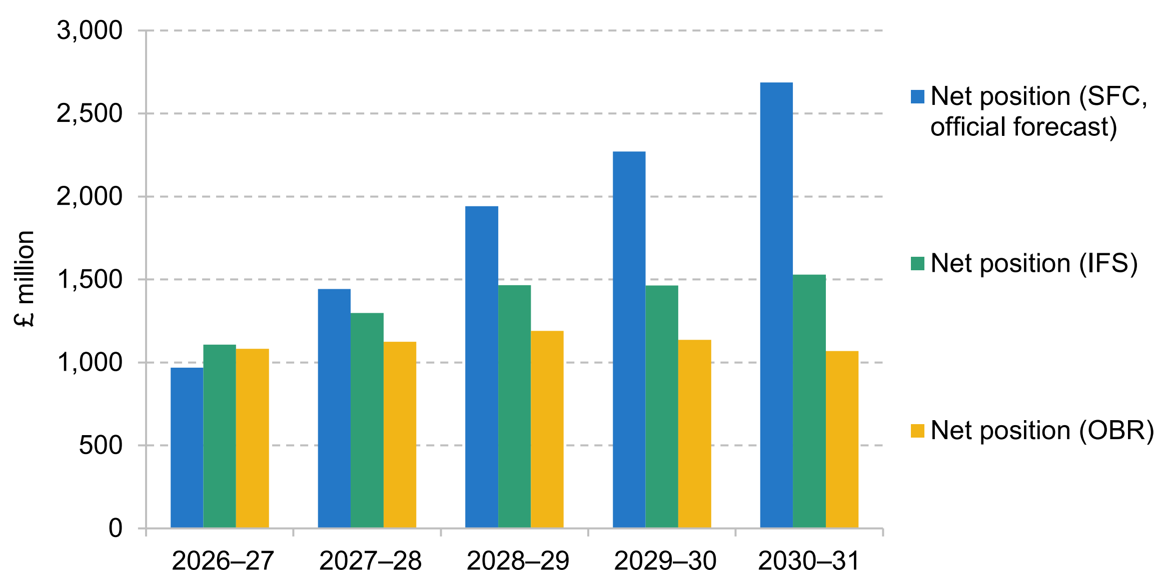
OBR forecasts for the income tax BGA. The yellow bars show the OBR's forecasts for the net revenue position using its forecasts for revenues (based on lower earnings growth forecasts) as well as the BGA.[8] The green bars show our own forecasts, which are based on the SFC's but assume earnings grow in line with those in the rest of the UK rather than outpacing them.[9]

Figure 7. Official and variant forecasts for the net contribution of devolved income tax revenues to Scottish Government resource funding



Note: OBR forecasts adjusted to include the effect of income tax policy decisions announced in the 2026–27 Scottish Budget.

Source: Authors' calculations using Office for Budget Responsibility (2025a) and Scottish Fiscal Commission (2026).

The official forecasts show the net income tax revenue position increasing strongly from 2026–27 onwards as a result of the higher earnings growth assumed for Scotland, reaching £2.7 billion by 2030–31. In contrast, the OBR forecasts and our forecasts show the net income tax revenue position growing a little between 2026–27 and 2028–29, and then either levelling off (IFS) or falling a little (OBR) over the following two years to £1.5 billion and £1.1 billion, respectively, in 2030–31. The small initial increases reflect the fact that even if earnings grow in line with the rest of the UK, Scotland's higher tax rates generate slightly faster revenue growth. The levelling-off or small decreases after 2028–29 reflect the fact that whereas the UK government has announced a freeze in all income tax thresholds until April 2031, the Scottish Government has said that only its top three income tax thresholds will be frozen, and then only until April 2029. The current policy of unfreezing thresholds at that point in Scotland would reduce revenues

[8] See Office for Budget Responsibility (2025a). We have adjusted these OBR forecasts to account for the tax policies announced in the Scottish Budget in January 2026.

[9] More precisely, we adjust the SFC's forecasts using SFC estimates that each 0.1 percentage point of earnings growth generates £46 million in revenues as of 2026–27, rising to £56 million by 2030–31.

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relative to the rest of the UK – and hence reduce the net tax revenue position compared with continuing to freeze thresholds.

The potential revenue consequences are significant if earnings grow in line with, rather than outpace, those in the rest of the UK: the net tax revenue position would be £0.5 billion lower in 2028–29 than current official forecasts suggest, and £1.2 billion lower in 2030–31. Rather than being 1.0% higher in real terms than in 2025–26, resource funding for public services in 2028–29 would be essentially the same as in 2025–26 under such a scenario.

It is possible that earnings in Scotland will outpace those in the rest of the UK; if they do, the net income tax position could improve by even more than the official forecasts suggest. But the SFC is clear that its judgement on earnings is more general rather than Scotland-specific (Scottish Fiscal Commission, 2026). And the budgetary effects of the SFC being right about earnings across the UK as a whole are similar to the effects if the OBR is right. For example, if the OBR is right and earnings grow relatively slowly UK-wide, Scottish income tax revenues will be lower than the SFC forecasts, reducing the net income tax position. On the other hand, if the SFC is right and earnings grow relatively more quickly UK-wide, revenues in the rest of the UK and hence the income tax BGA will be higher than the OBR forecasts, again reducing the net income tax position.

This opens up the possibility that the next Scottish Government might have to cut back the spending plans it inherits from the current government for the next three years. That is the case if SFC and OBR forecasts for earnings converge (reducing the forecast net income tax position) *before* the formal budgets for those years are set: the fiscal framework prevents the Scottish Government from borrowing for shortfalls in revenues that are forecast in advance. If forecasts converge after the formal budgets are set, the then Scottish Government could borrow to cover the shortfall in revenues in the short term, spreading the cost over several years as it pays back this borrowing. In either case, there is a downside risk to the future funding outlook.

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4. What about funding for capital investment?

So far we have focused on the Scottish Government's resource funding – that is the funding it uses to pay for the day-to-day operation of public services and to pay benefits to households. Capital funding for investment in buildings, equipment, infrastructure and research has followed a different path over the past 15 years. And it is set to fall slightly over the next few years – although it will still remain at historically high levels.

This section focuses on standard capital funding, which can be invested in new infrastructure, facilities, equipment, and research and development. In addition, since 2012–13, the Scottish Government has received 'financial transactions capital', which is ring-fenced for lending to the private sector, including via the Scottish National Investment Bank, and schemes to support homebuyers and developers (such as the former Help to Buy Scotland scheme). The total financial transactions capital funding received between 2012–13 and this year is £4.1 billion in real terms. Of this, 80% will have to be repaid to the UK government, while the remainder can be recycled indefinitely into further loans as loans are repaid. Current plans imply an additional £1.1 billion of funding between 2026–27 and 2029–30, but changes in rules mean that this will all be able to be recycled into further loans in future (Feeney-Seale, 2026). This change in rules will therefore enable the Scottish Government to make increasingly large loans over time to the private sector (albeit subject to state aid rules) – which could be used to provide additional support to business and housing investment, for example.

Recent trends in capital funding

As with resource funding, Scottish Government capital funding was reduced in the (early) 2010s and has increased since the late 2010s – again driven largely by changes in UK government funding. Figure 8 shows that:

- Large cuts to capital spending by UK government departments meant block grant capital funding was reduced by 22% in real terms between 2010–11 and 2015–16 (with the vast majority of this cut taking place in just one year, 2011–12).

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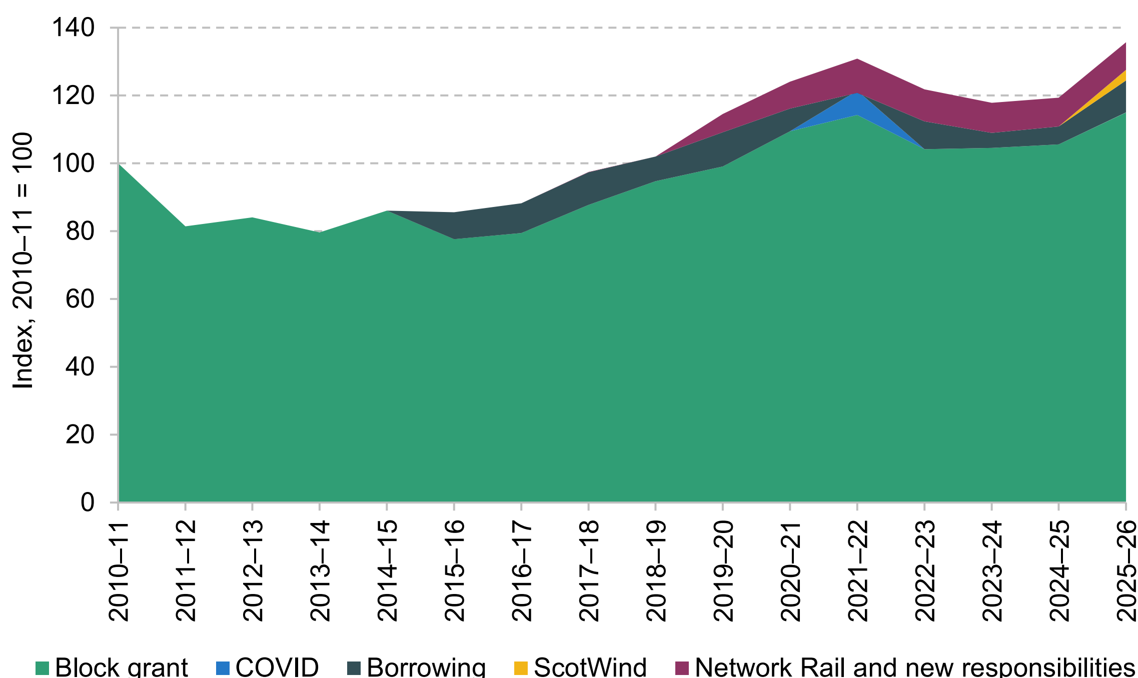
- As the UK government ramped its investment spending back up in the late 2010s, block grant capital funding returned almost to its 2010–11 level by 2019–20.[10]
- Increases over the last six years mean that block grant capital funding in 2025–26 is set to be around 15% higher than in both 2019–20 and 2010–11 – although as the figure illustrates there was a bit of a dip in capital funding between 2022–23 and 2024–25. This may reflect the unexpectedly high inflation over this period: whereas UK government resource spending, and hence the resource block grant, was topped up to compensate for this, the same was not true for capital spending and funding. This will have stymied public investment, but topping up UK capital spending and capital block grant funding over this period would have increased UK government borrowing further.

Figure 8. Scottish Government capital funding, 2010–11 to 2025–26, adjusted for inflation (2010–11 = 100)



Note: 'Block grant' includes City Deals and adjustments made for IFRS16 accounting changes.

Source: Authors' calculations using HM Treasury (2014, 2018 and 2025a), Scottish Fiscal Commission (2025 and 2026) and Scottish Government (2016 and 2026a).

[10] It is important to note that changes to accounting rules mean that since 2019–20, all of Network Rail's capital investment is funded via up-front block grant funding whereas historically only part of it was. This means that in order to make meaningful like-for-like comparisons of capital funding over the last decade, it is important to try to adjust for this. We do this by subtracting from capital funding, in 2019–20 and beyond, the uplift allocated in 2019–20, largely to address this change in accounting rules. However, part of this uplift is likely to have represented a genuine increase in investment spending too – but how much is impossible to estimate using published data.

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Figure 8 also shows that the Scottish Government has made use of its capital borrowing powers each year since it obtained them in 2015–16. On average, capital borrowing has boosted the Scottish Government's overall capital funding by around 7% a year since then (disregarding the associated borrowing costs), enabling an additional £3.9 billion in capital investment over the 11 years between 2015–16 and 2025–26. This financial year has also seen the Scottish Government make use of ScotWind proceeds to fund capital investment for the first time. It had initially planned to utilise £341 million of such funding this year, but the Spring Budget Revision published in January 2026 reduced this to £153 million. This reflects slippage in project timelines (and hence underspends), but leaves more ScotWind funding to draw down over the next few years.

The outlook for capital funding

Looking to the future, Scottish Government capital funding (excluding financial transactions funding) is set to increase by 2.3% in real terms in 2026–27.[11] This is driven by an increase in UK government funding (5.1% in real terms), which is partially offset by the fact that the Scottish Government does not currently intend to use ScotWind proceeds to fund capital investment in the coming year.

From 2027–28 onwards, capital funding is projected to decline – driven by real-terms reductions in UK government funding, and a reduction in Scottish Government borrowing as it seeks to maintain a degree of headroom against its overall debt cap under the fiscal framework. Based on current plans, overall capital funding (excluding financial transactions funding) will be 6.5% lower in real terms in 2029–30 than in 2026–27.[12]

However, as discussed in the 2026–27 IFS Scottish Budget Report (Boileau, Brogaard and Phillips, 2026), the expected completion of HMP Highland and HMP Glasgow prison construction programmes is set to free up capital funding for other purposes. This is illustrated in Figure 9 (originally included in our Budget Report). This shows that whereas overall capital spending (including financial transactions capital in this instance) is set to fall by 5% in real terms between 2026–27 and 2029–30, spending on areas outside the Justice & Home Affairs portfolio is set to increase by 1% in real terms over the same period. Housing (+23% in real terms) and transport (+3% in real terms) are set to be the biggest beneficiaries of this pivot.

[11] Including financial transactions capital, the increase is 3.0%.
[12] Including financial transactions capital, the decrease is 5.0%. This is the change featured in Figure 9.

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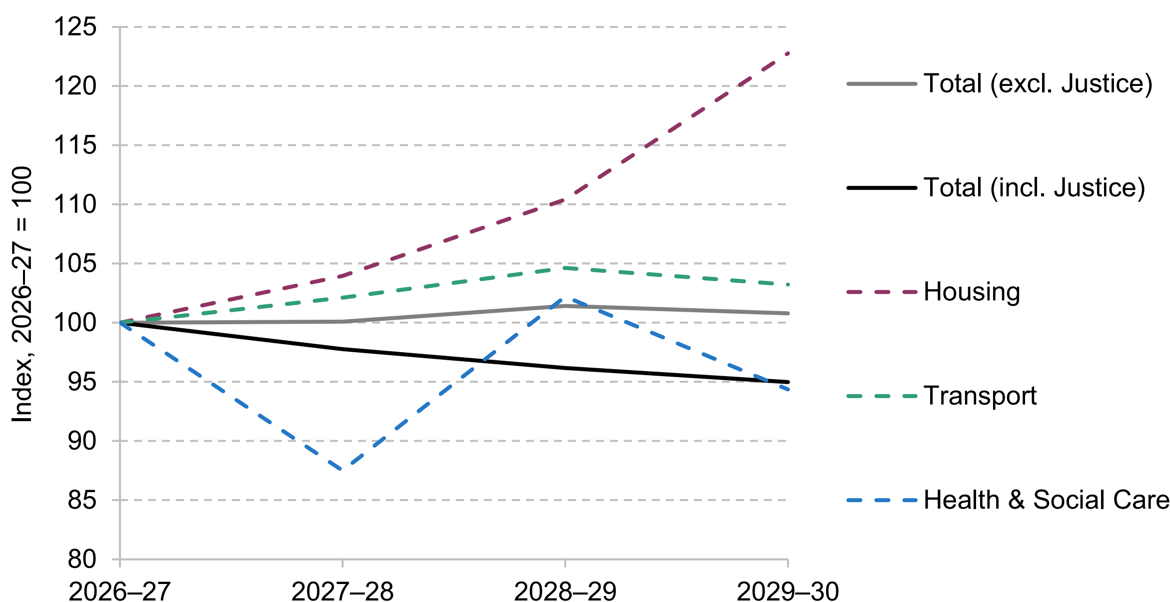
Figure 9. Scottish Government capital spending plans, 2026–27 to 2029–30 (2026–27 = 100)



Note: The figure includes financial transactions capital funding.

Source: Boileau, Brogaard and Phillips, 2026.

Off-budget borrowing via public–private partnerships

As discussed in our Budget Report, the Scottish Government is also exploring using the so-called 'Mutual Investment Model' to utilise private sector borrowing to boost capital investment. Under this model, which shares some similarities with historical programmes such as the Private Finance Initiative (PFI), the private sector borrows to pay for new infrastructure and facilities, with the government covering the cost of this investment and annual service charges through resource budgets. Initial plans being scoped include the development of 12 community health centres in deprived areas of Scotland, with an initial construction and fit-out cost of £0.5 billion.

Given constraints on direct government borrowing under the Scottish fiscal framework, use of the Mutual Investment Model could help deliver such facilities more quickly. However, the official assessment (Scottish Futures Trust, 2019) is that this model is likely to entail higher costs than investments funded via either capital grant funding (1.7–2.2 times higher for an example educational building) or direct Scottish Government borrowing (1.0–1.6 times higher). These higher costs would need to be covered using future resource budgets, squeezing the amount of funding available for other purposes. The Mutual Investment Model is therefore suitable for use if there are a sufficiently large number of investments with high enough returns to justify the additional cost. And it only makes sense at all in the context of the limits on the Scottish Government's direct borrowing, which prevent further use of this (generally cheaper) source of investment.

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Why not provide the Scottish Government with substantially greater capital borrowing powers?

That begs the question as to whether limits on Scottish Government borrowing should be raised or even abolished. The Scottish Government has, for instance, called for a 'prudential' borrowing regime for capital borrowing, allowing it to set its own limits based on its assessment of affordability – similar to the regime councils operate under throughout Great Britain.[13]

Bell, Eiser and Phillips (2021) consider in depth the case for significantly increased borrowing powers for the Scottish Government and other devolved governments. They conclude that the impact of additional devolved government borrowing on overall UK fiscal policy and sustainability is likely to be limited given the fact that England represents almost 85% of the UK population and more than 85% of the UK economy.[14] More important though is fairness between Scotland (and the other devolved nations) and England.

The key point here is that there is no England-only borrowing, on top of that undertaken by English local government. UK government borrowing pays either for UK-wide services and benefits (such as defence or the state pension), or for England-only services (such as health and education) which generates funding for the devolved governments too under the Barnett formula. In addition, higher levels of funding per person than in England (see Section 5) mean that the devolved nations effectively benefit from a higher-than-population share of existing UK government borrowing (Office for National Statistics, 2024). One might argue that as long as the costs of the borrowing are borne only by the devolved governments and devolved taxpayers, these fairness issues are minor. However, the ability to borrow is in itself valuable and the fact that the option to capitalise on it would be available only to some but not other UK residents could be seen as unfair.[15]

These fairness issues could be addressed with significant constitutional and fiscal reform – for example, separate England-only (or regional) budgets and borrowing. But in that case, additional borrowing on top of existing levels of UK government borrowing would pose more of a risk to overall fiscal sustainability (100% rather than 15% of the UK would have this power). Moreover, if it was expected that the UK government would step in and bail out a devolved or regional government facing severe fiscal difficulties, to prevent default and significant spending cuts or tax rises in that nation or region, devolved or regional governments may be tempted to

[13] This was most recently restated in a letter from the Scottish Finance Minister to the UK House of Commons Scottish Affairs Committee chairwoman, available here: https://committees.parliament.uk/publications/46344/documents/233832/default/.

[14] See Office for National Statistics (2025a and 2025b).

[15] While voters in England could elect a UK government that was willing to borrow more, such borrowing would necessarily be UK-wide, as discussed above. Thus it would not be possible to borrow more only for England in the way that it would be possible for there to be more borrowing only for Scotland or the other devolved nations.

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over-borrow. Overall borrowing and the risk of fiscal crises are higher where subnational governments expect to be bailed out (Singh and Plekhanov, 2005).

As IFS researchers have highlighted in analysis of the UK fiscal outlook, there is already a risk of borrowing and debt ratcheting up due to asymmetric responses to ‘good’ and ‘bad’ fiscal news (Emmerson et al., 2023). And an ageing population and rising demands for and costs of service provision will (without reductions in spending or increases in taxes) likely put significant upwards pressure on borrowing and debt in the coming decades (Office for Budget Responsibility, 2025b). Reform of the UK’s fiscal architecture would therefore likely rebalance borrowing between tiers of government rather than create genuine fiscal space for additional borrowing.

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5. How does funding compare with the rest of the UK?

Comparisons of funding levels between Scotland and the other nations of the UK are complicated by the facts that UK government departments often spend money on both England-only and UK-wide responsibilities, and that different services are devolved to the Scottish, Welsh and Northern Irish governments. For example, while justice and policing are devolved to the Scottish Government and Northern Ireland Executive, the UK Home Office and Ministry of Justice are responsible for these services in Wales as well as England. Despite assessments of relative funding levels being a key part of the Northern Irish and Welsh fiscal frameworks (the operation of the Barnett formula for these countries depends on the level of relative funding), HM Treasury does not publish either its estimates of relative funding levels or the methodology it uses to assess relative funding levels.

However, the UK government does publish estimates of what fraction of each of its departments' spending is devolved to each nation for certain specific years in its Statement of Funding Policy, published alongside Spending Reviews (HM Treasury, 2010, 2020 and 2025b). We can use this information to estimate funding for comparable areas of spending in England, and compare this with funding for the Scottish and Welsh Governments – making some further adjustments to the figures for Wales so that they better reflect the services devolved to Scotland.[16]

Figure 10 shows funding per person for the Scottish and Welsh Governments, measured as a percentage of comparable spending per person in England as of 2024–25. The darker shaded sections represent UK government funding and non-domestic rates revenues, while the lighter shaded sections represent the net contribution of other devolved revenues and borrowing. The figure shows that UK government funding per person in Scotland was an estimated 26% higher than comparable spending in England in 2024–25. Devolved funding sources provide the equivalent of an additional 2.8 percentage points – with this largely reflecting the aforementioned increases in devolved income tax rates and revenues. For Wales, after adjusting figures so that they are more comparable to the set of services devolved to the Scottish Government, we estimate that UK government funding was 22% higher than in England in

[16] In particular, we add an assumed amount of Home Office and Justice funding to Welsh Government funding (and to the comparable English spending) on the assumption that Wales benefits from a population-shared share of England-and-Wales home office and justice funding.

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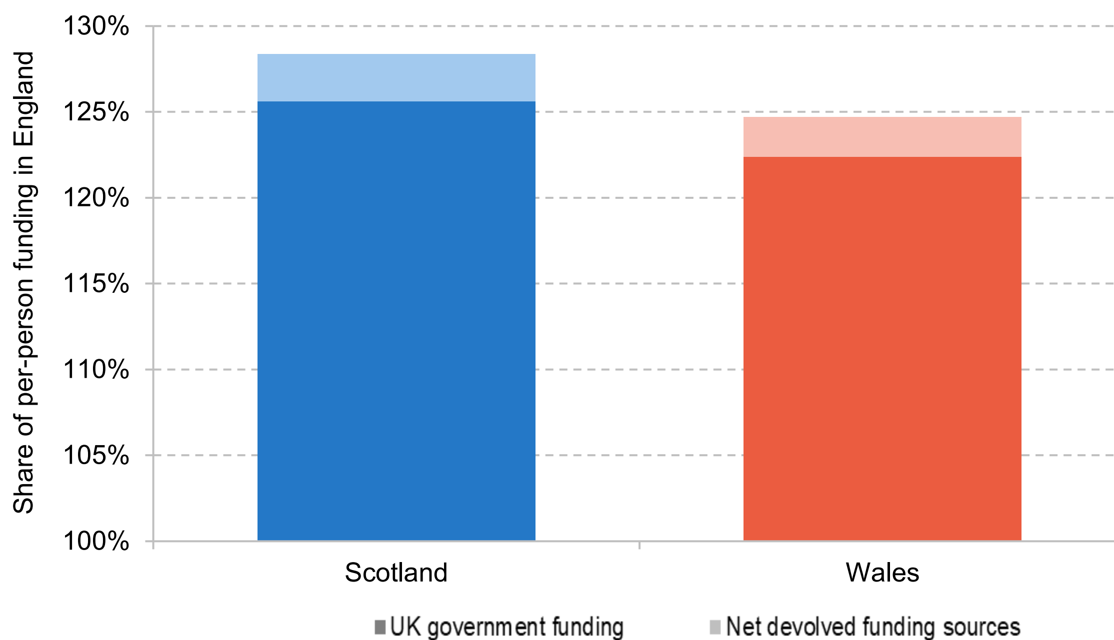
2024–25, and 4% lower than in Scotland. Devolved funding sources provide the equivalent of an additional 2.3 percentage points – slightly less than in Scotland, reflecting the fact that the Welsh Government has yet to increase its devolved income tax rates.

Figure 10. Scottish and Welsh Government funding per person as a share of comparable spending in England, 2024–25



Note: Both Scottish and Welsh figures exclude post-Brexit agriculture funding. Welsh figures also adjusted to better reflect the responsibilities devolved to Scotland to be more comparable (under the assumption that spending per person in Wales on these services is equal to the England-and-Wales average).

Source: Authors' calculations using HM Treasury (2025a, 2025b and 2025c), Office for National Statistics (2025a), Scottish Fiscal Commission (2025), Scottish Government (2024) and Welsh Government (2024).

How do the higher levels of per-person funding provided to the Scottish and Welsh Governments relative to England compare with the relative needs of the populations of Scotland and Wales?

Unfortunately, there are no official, up-to-date estimates of the relative spending needs of the Scottish and Welsh Governments to undertake this comparison. But we can compare them using estimates produced by the Holtham Commission (2010) which, while set up by the Welsh Government, is widely recognised as being an objective and comprehensive assessment of relative needs (Royal Society of Edinburgh, 2025). It estimated relative spending needs for the different nations of the UK using the relationship between spending and a set of geographic and

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socio-economic characteristics for 159 local areas (local authorities or groups of local authorities) across England, Scotland and Wales.[17]

Doing so, it estimated that the Welsh Government's relative spending needs per person as of the late 2000s were 14–17% higher than England's. For Scotland, the estimate was 5% higher – far below the 26% in additional funding that we estimate Scotland received in 2024–25.

Some caveats to these needs estimates are required, especially for Scotland. First, being based on data almost two decades old means they may not fully reflect current patterns of relative need. Second, as the Commission noted, the analysis was based on the services devolved to Wales rather than Scotland – although the main services thus excluded (justice and policing) are ones where Scottish spending is likely closer to English levels than average. Third, it is also possible that the characteristics included in the analysis did not fully capture the particular spending needs of Scottish highlands and islands. But with just 6% of Scotland's population defined as living in remote rural areas (defined as being more than 30 minutes' drive from a settlement of more than 9,999 people) and just 2% living on the islands, the impact on Scotland's overall needs would be relatively modest.[18]

It therefore seems highly unlikely that such factors would increase Scotland's additional needs (relative to England) by a factor of five (from the 5% estimated to the 26% difference in UK government funding in 2024–25). And higher levels of relative funding than relative needs would explain how the Scottish Government is able to provide a more comprehensive set of free services – such as free tuition and free personal care – as well as pay higher public sector wages (Cribb, Domínguez and O'Brien, 2025) than its counterparts elsewhere in the UK. Of course, opinions will differ as to whether the Scottish Government is overfunded or governments in the rest of the UK are underfunded. But it is unambiguously true that Scotland enjoys a relative funding advantage presently.

[17] The characteristics are: the ratios of the number of children and number of pensioners to working-age adults; the share of families claiming a range of benefits; the share of the population belonging to an ethnic minority; the share of the population living outside settlements with at least 10,000 people; and the share of the population with a limiting long-term illness. In addition, controls were included to adjust for the fact that funding for Scotland and Wales was allocated not on a needs basis but via the Barnett formula. The approach therefore used information on how funding was allocated within England, Scotland and Wales (typically via needs-based formulas) to predict needs for the nations themselves. See annex 4 of Holtham Commission (2010).

[18] Authors' calculations using data available at: https://www.gov.scot/publications/scottish-government-urban-rural-classification-2022/documents/scottish-government-urban-rural-classification-2022---census-2022-population-estimates-tables/ and https://www.gov.scot/publications/scottish-islands-data-overview-2025/documents/.

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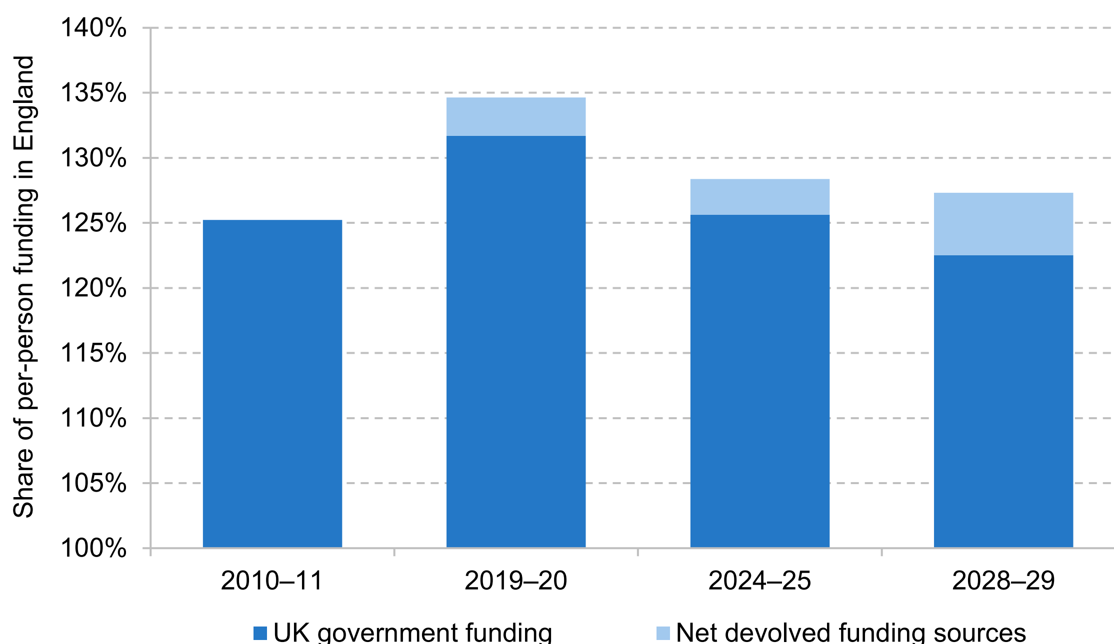
How is relative funding changing over time?

That funding advantage is now being eroded though.

Comparing the Scottish Government's relative funding over time is difficult given changes in responsibilities and in accounting rules. Bearing this in mind, Figure 11 repeats the analysis for Scotland for four years – 2010–11, 2019–20, 2024–25 (as above) and 2028–29 – adjusting as best we can for these factors.

Figure 11. Scottish funding per person as a share of comparable spending in England, selected years



Note: Figure excludes post-Brexit agricultural funding for better comparability over time.

Source: Authors' calculations using HM Treasury (2010, 2020, 2025a, 2025b and 2025c), Office for National Statistics (2025a and 2025d), Scottish Fiscal Commission (2025 and 2026) and Scottish Government (2024).

The graph shows that relative UK government funding per person increased during the 2010s: from 25% more than comparable spending in England in 2010–11 to 32% more in 2019–20. During the 2020s, however, it has been falling: to the aforementioned 26% higher in 2024–25 and a projected 23% higher in 2028–29. Devolved funding sources have offset part of this 'squeeze' in relative funding, with official forecasts implying that this boost will further increase to the equivalent of an additional 4.8 percentage points of comparable spending in England in 2028–29.

As highlighted in Section 3 of this report, official forecasts of the net income tax revenue position assume that earnings will grow more quickly in Scotland than in the rest of the UK from 2027–28 onwards. If this were not the case, the net income tax revenue position in 2028–29

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would be £0.5 billion lower than under official forecasts. Under such a scenario, Scottish Government funding including devolved funding sources would fall to 26% higher than comparable spending in England, rather than 27% higher as under the official forecasts.

The erosion of the Scottish Government's relative funding advantage will make it financially more challenging for future governments to continue to maintain (let alone improve) current levels of service provision, including the provision of a wider range of free services and more generous benefits than in the rest of the UK. If future Scottish Governments wish to do this, that will increasingly require some combination of:

- higher devolved tax revenues – whether through changes to tax policy or through growth in underlying tax bases; and/or
- significant improvements in the efficiency of public service delivery, above and beyond improvements in the rest of the UK; and/or
- cuts to other services deemed lower priority.

In sum, if residents of Scotland wish to continue to enjoy a more generously funded set of public services and benefits than is provided in other parts of the UK, it will be increasingly necessary for them to contribute more towards the cost through higher devolved revenues.

What explains these relative funding trends?

The increase in the Scottish funding advantage during the 2010s and the decrease now taking place are a result of the design of the Barnett formula (the formula used to allocate funding to the devolved governments based on changes in planned spending in England). As discussed in Section 1, this provides the Scottish Government with a population-based share of the absolute (cash-terms) change in planned spending on comparable services in England (or England and Wales for things not devolved to the Welsh Government). This population-based change represents a smaller percentage change in funding for the Scottish Government than the percentage change in spending in England because Scotland has higher funding levels to begin with. For example, a £400 per-person change in funding/spending represents a smaller percentage change in funding/spending if your initial funding/spending levels are £10,000 per person (a 4% change) than if your initial funding/spending levels are £8,000 per person (a 5% change).

During the early 2010s, UK government spending was being reduced. During this period, while the Barnett formula allocated the Scottish Government a population-based share of this cut, this was a *smaller percentage decrease* in funding than for England. In addition, until 2015–16, the Barnett formula had a flaw in it which insulated the Scottish Government (and Northern Ireland Executive) from most of the cuts made to local government funding in England (Phillips, 2014) – meaning it did not face its full population-based share of overall spending cuts. And, while the

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Barnett formula takes account of population shares when allocating changes in funding, it does not update existing funding levels to account for differential population growth between Scotland and England. With population growth of 2.8% in Scotland between 2010–11 and 2019–20, compared with 6.8% in England, the Scottish Government's funding had to be spread over fewer additional people. This combination of factors therefore led to smaller reductions in funding per person than in England during the 2010s, leading to Scotland's relative funding advantage increasing.

Since 2019–20, as we have highlighted, spending in England and hence funding for Scotland have been increasing. The Barnett formula has therefore generated a *smaller percentage increase* in funding for the Scottish Government than the increase in comparable spending in England. The previous error in the Barnett formula has been fixed (although the Scottish Government still retains approximately £1 billion a year in funding as a result of the error being in place until 2015–16).[19] And while the Scottish population is projected to grow by less between 2019–20 and 2028–29 than the English population (3.7% versus 6.5%), the difference is expected to be smaller than during the 2010s. Therefore, the Barnett formula is generating smaller percentage increases in funding per person than England, leading to Scotland's relative funding advantage shrinking.

Previous research at IFS suggests that this squeeze on relative funding levels is likely to continue beyond 2028–29, potentially squeezing Scotland's funding advantage to below 15% by the middle of the century if Scotland's population continues to grow less quickly than England's (and below this if population growth converges) (Boileau and Phillips, 2023b).

The Barnett formula could be reformed to avoid this 'Barnett squeeze': indeed, changes have been made for the formula as applied to Wales and Northern Ireland with just this intent (HM Government and Welsh Government, 2016; HM Government and Northern Ireland Executive, 2024). Rather than receive a population-based share of planned changes in spending in England, they now receive 5% and 24% more than this, respectively. No such 'needs' factors have been added to the Barnett formula for Scotland, likely reflecting the evidence cited above that its relative funding level still remains significantly above its relative spending needs. The 'needs' factors for Wales and Northern Ireland were introduced in 2018 and 2024, respectively, in recognition that their relative funding levels were closer to their relative spending needs and the 'Barnett squeeze' could push relative funding below relative needs (see, for example, Northern Ireland Fiscal Council (2023)). The next Scottish Government could try to negotiate a similar arrangement – to slow or avoid the 'Barnett squeeze' – but may find the UK government less obliging given how much higher relative funding appears to be than relative needs presently.

[19] The Northern Ireland Executive also benefited from this until a new 'needs-based factor' was added to the Barnett formula for Northern Ireland in 2024 (HM Government and Northern Ireland Executive, 2024).

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6. Concluding remarks

Since 2019–20, the Scottish Government's real-terms resource funding has increased, undoing the cuts seen in the 2010s: the 2020s, so far, have not been a period of fiscal austerity. The report shows that the principal driver of overall funding increases has been increases in UK government funding. But Scottish Government decisions have also shaped both funding levels and the pressures on funding. Increases in income tax paid by higher-income taxpayers have boosted the total amount of funding available to the Scottish Government. Reforms to the Scottish benefit system have boosted lower-income households' incomes, but have meant that increases in devolved tax revenues cannot be used to boost public service spending. Different people will have different views on these decisions and the trade-offs they entail.

Looking forward, the funding outlook is markedly more constrained. Funding growth is expected to slow in the context of a new UK-wide fiscal consolidation. That points to even harder choices for the next Scottish Government. The outlook is also uncertain, with the potential for the squeeze to be eased if the UK government tops up its spending plans, but also a notable risk that devolved income tax revenues will underperform relative to official forecasts.

It is important not to forget though that the Scottish Government receives substantially more funding from the UK government than is spent on comparable services in England – and in Wales, for that matter, which has a poorer and older population (Office for National Statistics, 2025a and 2025c). However, after increasing during the 2010s, this gap has shrunk since 2019, reflecting the so-called 'Barnett squeeze', and looks set to shrink somewhat further in the coming years. This may make it harder for the Scottish Government to continue to offer a more generous set of universal services (such as free university tuition and personal care) than available elsewhere in the UK. If the next Scottish Government does want to continue to provide such services, it will have to find ways to boost revenues and/or increase the efficiency of public spending, or cut back other areas of spending – or risk a decline in the quality of services provided.

In our subsequent Scottish election briefings, we will look in more detail at which services the Scottish Government targets most of its additional funding towards, and how its priorities have changed over time and compare with those of the rest of the UK. Alongside this, we will assess the performance of key services, such as the NHS, the education system and the justice system. We will also look in more detail at the Scottish Government's devolved tax and benefits policies: who the winners and losers are; any common themes in the choices made; and the broader issues arising from these choices – and those choices ducked. And we will look more

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generally at how earnings, incomes and poverty have evolved in Scotland, highlighting how data shortcomings make it challenging to assess performance against key targets. Finally, as parties announce their plans and publish their manifestos, we will assess their proposals – who would win and lose from them, whether they are well designed to achieve the objectives they are aimed at, and whether they are consistent with the funding outlook for the Scottish Government.

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Appendix. Methodology

This appendix describes adjustments we make to published funding figures to produce long-run series of Scottish Government resource and capital funding on as close to a like-for-like basis as possible.

As the starting point for our long-run funding series is 2010–11, we aim as far as possible to adjust reported figures so that they are consistent with responsibilities and accounting treatments as of that year. This is our measure of consistent or 'core' resource and capital funding that we use for comparisons between 2010–11, 2019–20 and 2025–26.

Adjusting for changes in responsibilities

Our 'core' resource funding measure subtracts the following items:

- An estimate of the additional funding the Scottish Government received from 2013–14 onwards to cover the cost of localised council tax reduction schemes.
- The block grant adjustments (BGAs) for devolved social security benefits received from 2018–19 onwards.
- Associated additional 'fiscal framework administration' funding received from 2017–18 onwards.
- The additional funding the Scottish Government received to replace EU funding for agricultural support and fisheries support from 2020–21.

We have exact out-turns and forecasts for the BGAs for devolved social security benefits for all years in question. We use the latest cash-terms figure available for all later years for the other adjustments: £335 million for council tax reduction schemes; £66 million for fiscal framework administration; and £595 million and £14 million for agriculture and fisheries funding, respectively. We also subtract Machinery of Government changes and Spending Review top-ups for Sure Start maternity funding, forestry, funeral expense, devolution of specialist employability support (IPES), and cyber security.

We do not adjust for changes to pension costs or employer National Insurance contribution costs as these relate to existing responsibilities. But changes in these costs (and any associated funding provided to address them) will affect the Scottish Government's spending needs (and funding levels).

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Adjusting for changes in accounting treatments

We make two main adjustments to reflect changes to accounting treatments of certain kinds of spending that are not adjusted for in our source data:

- First, from 2019–20 onwards, Network Rail funding was reclassified so that spending was more fully captured up front in resource and capital departmental expenditure limits. To compare funding pre- and post-2019–20, we therefore subtract the uplift to resource and capital funding for Network Rail made in 2019–20. Part of these uplifts may have represented genuine changes in spending (rather than a change in how spending is classified) but it is impossible to separately identify this spending change too.
- Second, from 2022–23 onwards, the UK and Scottish governments moved to a new accounting standard (IFRS16) which records the cost of leasing agreements up front as capital spending, rather than over the duration of the lease as resource spending. To address this, additional capital funding has been provided since 2022–23, offset by reductions to resource funding. Specific adjustments have been made for the period 2022–23 to 2024–25, while the initial allocations for the year 2025–26 already account for this accounting change. To 'undo' the effect of this change and estimate funding on a consistent basis to previous accounting standards, we do the following:
  - Reverse the changes for the years 2022–23 to 2024–25 using the actual adjustments made by the government.
  - Reverse the changes for 2025–26 onwards by assuming that the resource IFRS16 adjustment is the same share of overall resource funding as between 2022–23 and 2024–25, adding this back into resource funding and subtracting the equivalent amount from capital funding.

Chain-linking historical data

We utilise data from two editions of the UK government's Public Expenditure Statistical Analysis (2018 and 2015) to construct longer-run series of funding prior to Block Grant Transparency data becoming available in 2016–17. Because of small changes in definitions between editions of PESA, the figures for a given year can differ slightly between editions. We use a chain-linking approach to construct a long-run series without a break (using 2013–14 and 2016–17 as the 'overlap' years for the chain-linking).

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