The Jimmy Reid Foundation

BRIEFING

December 2025

UK to Scottish Budget 2026/27

Introduction
The UK Budget was published on 26 November 2025, with implications for next year's Scottish Budget, which is expected on 13 January 2026. In this briefing, we examine the impact of the UK Budget and the financial challenges facing the Scottish Government.

UK Budget and Scotland
The UK Budget was primarily fiscal, with the Chancellor focusing on repairing the public finances in small bites rather than a coherent reform of taxation or fixing public services. Attempts to placate the bond markets could also be undermined by the Bank of England's sales from quantitative tightening. Overall, it was broadly welcomed by trade unions.

The UK Budget has direct and indirect impacts on Scotland. Reserved powers directly impacted through measures like the electric vehicle mileage charge, alcohol duties increasing with inflation, cross-border rail fares freeze, energy bills, the income tax personal allowance freeze, salary sacrifice schemes, and taxes on savings and dividends. There is also direct spending (£81m), such as economic zones, Grangemouth and Pride in Place funding, although some of this may be replacing previous funds.

Indirect impacts arise mainly out of the Barnett consequentials of UK Government spending on public services in England. These provide £510m in resource funding over four years and £309m in capital funding over five years. It is also front-loaded, and longer-term financial plans are often changed.

Consequentials (£m)	25-26	26-27	27-28	28-29	29-30	Total
Resource Block Grant	45	307	185	-26	Outside SR period	510
Capital Block Grant (including FTs)	0	23	200	4	83	309

The Scottish Government will no longer need to spend the £155m it had set aside for mitigating the two-child limit. There may also be an impact due to property income being taxed at a different rate by the UK Government, as it is part of Scottish Income Tax. The Scottish Government could simply follow suit or take the hit through the block grant adjustment.

The abolition of the two-child limit to Universal Credit from April 2026 has a massive impact on child poverty (the biggest on record) and saves the Scottish Budget. The Treasury estimates 95,000 children in Scotland will benefit, taking 20-27,000 out of poverty. The policy change will have knock-on costs for Scottish Government benefits that FoA estimates at around £121m.

Overall, the UK Budget was progressive, as the measures benefited lower-income households. However, the average household will still be £850 worse off over the course of the parliament.

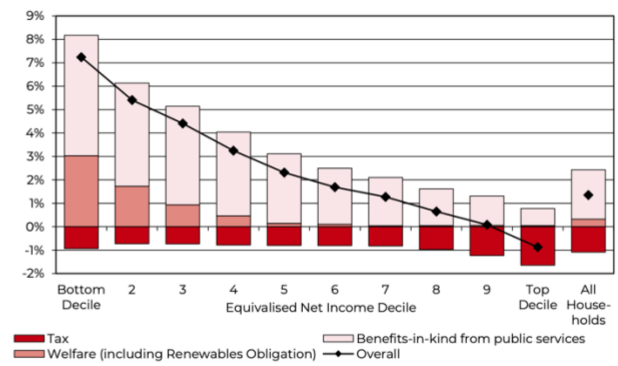

1.7 Figure 1.A shows that, on average, households in the lowest income deciles in 2028-29 will benefit the most from policy decisions as a percentage of net income and increases in tax will be concentrated on the highest income households. On average, all but the richest 10% of households will benefit as a percentage of income from policy decisions in 2028-29.

Figure 1.A Impact of decisions from Autumn Budget 2024 onwards on households in 2028-29, as a percentage of net income, by income decile

However, the Chancellor didn't adopt many of the wealth taxes that we and others urged, including a windfall tax on banks, capital gains equalisation, and a wealth tax.

Weak economic growth remains the biggest challenge. This matters because it holds back living standards and is crucial for improving the fiscal position. This includes welfare to work polices, which the inadequate Mayfield report fails to achieve, as we warned earlier this year.

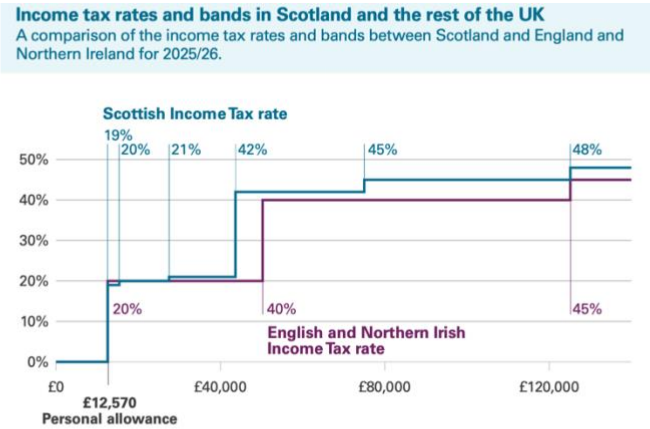
The impact on pension savings from salary sacrifice schemes is unlikely to be as significant as some claim. We highlighted this in our pensions paper.

Scottish Budget

The Finance Secretary can breathe a little easier thanks to the Barnett consequentials and the abolition of the two-child cap. The tricky consequences of an increase in UK income tax have been avoided. However, other UK measures will require a policy response.

For example, the permanent lowering of business rates in England for retail, hospitality and leisure properties, at a cost of around £900 million per year, is to be funded by higher rates on larger properties. There will be business pressure to replicate this, but FoA analysis suggests it will cost roughly £220m to replicate in Scotland, compared to the £147m generated by the decision in England through Barnett. The Mansion Tax wouldn't generate much revenue in Scotland, even at a lower threshold, but it highlights the disproportionate impact of the council tax here.

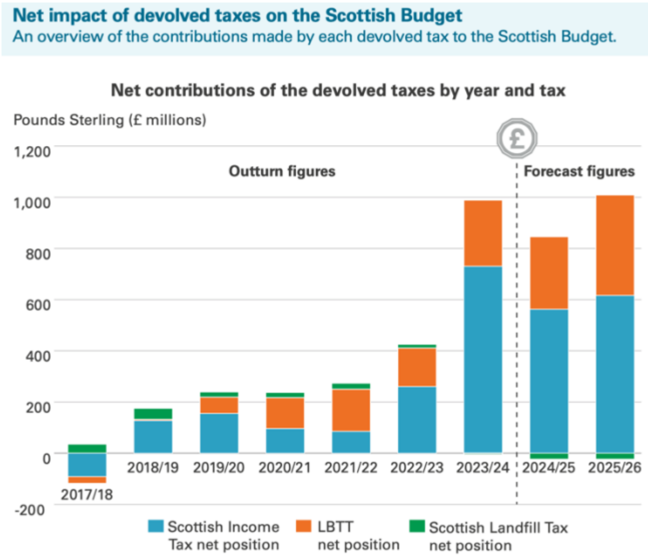
While the income tax personal allowance freeze is reserved, it will be for the Scottish Government to address higher rate bands for the tax in Scotland.



She will have some extra room for borrowing due to the uprating of borrowing limits. £491 million in capital in 2026-27, while the cumulative capital borrowing limit rises to £3,275 million. The annual limit on resource borrowing increases to £655 million, with the cumulative cap rising to £1,910 million.

The Scottish Budget for 2026-27 will have around £330m more than anticipated in resource and capital funding due to Barnett consequentials. Plus, the two-child cap saves £151m. However, the Scottish Government's latest medium-term financial strategy projected that there would be a shortfall of £963m in resource funding and £1,070m in capital funding in 2026-27. Hence, the Scottish Government still faces difficult decisions in next year's Budget. This could grow to a £2.6 billion funding gap by 2029/30.

Sluggish economic growth is not only a UK concern. As Audit Scotland has recently highlighted, Lower earnings and employment growth in Scotland compared with the rest of the UK is reducing the impact of devolved taxes on the country's Budget. In 2025/26 alone, the Scottish Government expects to raise up to an additional £1.7 billion from its Scottish Income Tax rates and bands. However, the Budget is only projected to benefit by £616 million. This is partly because of how the fiscal framework operates, something we warned would happen, and lower wages and employment growth in Scotland compared to the UK. The Scottish Government needs to explain how its economic strategies will help grow the tax take.



The scope to significantly increase existing devolved taxes may be limited. This is why more needs to be done on issues like Council Tax, which have been kicked into the long grass with yet another consultation. Tax Justice Scotland explains what needs to be done.

Conclusion

There is a lot for the Finance Secretary to consider before January. Still, as the STUC says, "The Scottish Government can ill afford to trail the coattails of Labour, nor more importantly ignore the demands of our movement, on property taxes, energy support and uprating wages for workers." This requires bold reform rather than tinkering at the edges.

Jimmy Reid Foundation

The Jimmy Reid Foundation is a think tank which brings together different voices from across Scotland to make the case for economic, environmental, political and social equity and justice in Scotland and further afield.

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