

2026 Election Policy Insights: Fiscal

This Policy Insights piece was published by the University of Glasgow Centre for Public Policy on 29 April 2026. If you would like more information, contact public-policy@glasgow.ac.uk.

Policy Insights by Professor Graeme Roy

The fiscal reality facing Scotland's next Parliament

Party manifestos for the 2026 election set out a familiar set of ambitions. The harder question – one that will dominate the next Parliament – is how these ambitions can be reconciled with an increasingly constrained fiscal position.

Once the election is over, whoever forms the next government will face that reality. The central challenge will not simply be how to deliver new commitments, but how to do so while sustaining those already in place, within a fiscal environment that is under strain.

The next group of MSPs will inherit a budget shaped by decisions taken over many years. Spending commitments have accumulated. Expectations – both political and public – have grown. At the same time, the resources available to meet those expectations are tightening. The result is a gap – not unique to Scotland – between what any government would like to do and what they can sustainably afford to do.

A more complex fiscal landscape

So, what are the sources of these constraints?

Firstly, since the 2016 Fiscal Framework, Holyrood has taken on [greater responsibility](#) for both taxation and spending. The most [significant source](#) of taxation is income tax, worth around £21½ billion next year. At the same time, the Scottish Government is now responsible for around £7½ billion of new social security powers.

On the one hand, this provides policymakers with more levers to shape outcomes. On the other, it [exposes the Scottish Budget](#) more directly to relative economic performance and the fiscal costs of policy decisions. This creates both opportunity and risk. Since 2016, Scotland's tax base has grown more slowly than in the UK overall. At the same time, policy choices – most notably efforts to tackle child poverty and to deliver a more inclusive social security system – have increased some spending faster than funding. All this must now be managed within a fixed budget constraint.

Secondly, despite these changes, the biggest source of funding for the [Scottish Budget](#) remains the block grant from Westminster. But we know that this is [under pressure](#) too. UK Government debt remains high, with the costs of servicing that borrowing increasingly expensive. This means that there are only limited resources available for new investment in public services across the UK. Moreover, an increasing portion of the growth resources that are available is being redirected towards higher spending on defence and security and away from devolved services.

The immediate pressures

The most immediate challenges facing the next Parliament are set out clearly in the Scottish Government's recent [Spending Review](#).

While overall funding is projected to grow modestly in nominal terms, real-terms growth is especially weak. Once inflation is taken into account, the increase in available resources for day-to-day spending is expected to average just over 1% each year.

Within that constrained envelope, the previous Scottish Government set out to prioritise certain areas. Health and social care, along with social security, are expected to continue to grow. These are large and politically sensitive areas of spending, and the pressures within them - particularly from demographics and growing demand - are well understood. Whilst a new government *might* do something different, radical shifts to spending in these areas would impact outcomes in areas which have been long-term priorities of the Scottish Parliament.

It is a simple fact therefore that, with a tight Budget outlook, prioritisation has consequences elsewhere. The Spending Review implies that many other areas of public spending will face real-terms reductions. Local government, justice, and parts of the education and skills budget are all under pressure.

In practice, this means that the next Scottish Government will begin its term with limited flexibility. Even before any new policies are introduced, difficult trade-offs are already embedded within spending plans.

There is some short-term relief. Additional funding for the coming financial year – announced in the [UK Government's Spring Forecast](#) – will help ease immediate pressures next year and reduce the need for abrupt adjustments. But this should not be overstated. Such support is currently projected to be temporary. It does not address the underlying imbalance between spending commitments and the resources available.

Pay, workforce and the limits of efficiency

A central feature of recent fiscal debates is the reliance on efficiency savings and workforce management to bridge this gap.

The previous Scottish Government set out plans to deliver around [£1.5 billion in efficiencies](#) over the next three years, with a significant share expected to come from health. At the same time, there are ambitions to reduce the size of the public sector workforce.

These are not trivial adjustments. Public sector pay and employment account for a large share of overall spending - over half of day-to-day resource expenditure. This means that even small changes in pay settlements or workforce numbers can have a material impact on the fiscal position.

But it also means that delivering savings in this area is inherently difficult. Pay agreements are often negotiated in a context of wider labour market pressures and cost-of-living concerns. Workforce reductions, meanwhile, raise questions about capacity and service delivery. The new economic backdrop – and spike in inflation – provides a challenging context for any such reform.

There is also the question of timing. In some cases, current pay agreements already run ahead of stated pay policy ambitions, implying real-terms reductions in later years if budgets are to be maintained. Whether that is achievable remains uncertain.

The reliance on efficiency savings is therefore understandable, but it carries risk. Efficiency can and should play a role in improving public service delivery. But at the scale envisaged, and in already stretched systems, it may become harder to distinguish between efficiency gains and reductions in service provision.

This is a key issue for the next Parliament. If planned savings are not delivered in full, the adjustment will have to come from elsewhere - either through further spending restraint, higher revenues, or a reconsideration of existing commitments.

Long-term pressures are now immediate

Alongside these short-term challenges, there are a set of longer-term pressures that are increasingly shaping the fiscal outlook.

The first is [demographic change](#). Scotland's population is ageing, and the proportion of older people is projected to rise significantly over the next decade. This has implications for spending, particularly in health and social care, where demand increases sharply with age.

At the same time, the working-age population is expected to grow more slowly, placing constraints on the tax base. This combination - rising demand and slower revenue growth - creates a structural pressure on the public finances.

The second is the rise in [disability prevalence](#). The number of people receiving disability-related payments has increased substantially in recent years and is projected to continue rising. Although not unique to Scotland, this adds to the upward pressure on social security spending (particularly as disability prevalence increases with age) and, by extension, the overall budget.

The third is the transition to [net zero](#). Achieving Scotland's climate targets will require significant and sustained investment over many years. Estimates suggest that additional public spending of around £0.7 billion per year may be required, on average, through to 2050.

These are not distant challenges. They are already feeding into current spending plans and fiscal projections.

The need for clearer choices

Taken together, these trends point to a clear conclusion. The next Scottish Parliament will need to be more explicit about priorities and trade-offs.

There is unlikely to be a single solution. The economy, managing spending growth, and using the tax system effectively will all play a role. But none of these options is without cost or constraint.

This is why a more transparent discussion is essential.

Strengthening fiscal scrutiny and understanding

To help that discussion of trade-offs, the Finance and Public Administration Committee of the last Scottish Parliament [highlighted](#) a number of areas they wanted to see reformed in the current budget process.

They argued that while the overall framework remains sound, its operation in practice can be improved. Concerns included the quality of information available, the timing of key decisions, and the ability of Parliament to scrutinise spending plans effectively.

A recurring theme in that work is the need to strengthen fiscal literacy – both among MSPs and more widely.

This is not about turning every parliamentarian into a technical expert. But it is about ensuring a shared understanding of the key constraints, the trade-offs involved, and the implications of different policy choices.

Outside observers – including the [OECD](#) – have reached a similar conclusion. Improving fiscal literacy can support more informed debate, better scrutiny, and ultimately more sustainable decision-making.

Conclusion

The next Scottish Parliament will operate in a more demanding fiscal environment than its predecessors. The combination of constrained funding, rising spending pressures, and accumulated commitments means that the scope for easy choices is limited.

That does not diminish the importance of political and policy debate. But it does change its nature.

The key question is not simply what governments would like to do, but how those ambitions can be delivered in a way that is sustainable over time.

Meeting that challenge will require clear prioritisation, a recognition of trade-offs, and a continued effort to strengthen the quality of fiscal debate and scrutiny.

In the end, the success of the next Parliament will depend not just on the policies it adopts, but on its ability to align ambition with the realities of Scotland's public finances.

Author

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Policy Insights

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This Policy Insights piece was published by the University of Glasgow Centre for Public Policy on 29 April 2026. If you would like more information, contact public-policy@glasgow.ac.uk.



ELECTIONS
2026

The University of Glasgow, charity number SC004401