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Convener
Finance and Public Administration Committee
The Scottish Parliament
By email to: FPA.committee@parliament.scot

16 February 2026

Dear Kenneth,

REPORT ON BUDGET SCRUTINY 2026-27

Thank you for the Committee's 2026-27 Budget Scrutiny report. I am pleased to provide my response ahead of Stage two of the Budget Bill.

I have considered the Committee's recommendations and provided a detailed response to each in Annex A.

I look forward to engaging with the Committee again at the Stage 2 session.

Yours sincerely

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Scottish Budget 2026-27			
Section	Paragraph	Recommendation	SG Response
Taxation Plans Income Tax	31	The Committee repeats its calls for the Scottish Government to work with the UK Government to address the anomalies arising from how Scottish income tax rates interact with UK national insurance and personal allowance policies. This work should include understanding and resolving potential behavioural impacts.	<p>The Scottish Government accepts this recommendation. We have previously called on the UK Government to devolve responsibility over National Insurance Contributions to the Scottish Parliament. It is our view this would allow for design of a personal tax system that best fits Scotland's needs. These asks have been rejected to date, however.¹</p> <p>We are currently working with HMRC to publish an evaluation of changes to Scottish Income Tax policy in 2023-24. This was committed to as part of the Tax Strategy. We anticipate this will provide a valuable source of new information regarding how Scottish taxpayers have responded to changes to Income Tax in recent years, informing policy and the public debate.</p>
	32	While we recognise the fiscal pressures in the Scottish Budget, we ask the Scottish Government in place after the election to consider the most effective way to ensure a fairer, more gradual and transparent approach to raising income tax revenues than continuing to use 'fiscal drag'.	We note the committee's view on tax policy priorities for the next Scottish Government. Decisions taken in recent years have balanced the need to raise revenue for vital public services, with the impact on taxpayers. Costings of any tax policy decisions – including freezing thresholds – are set out by the independent Scottish Fiscal Commission. This provides a transparent account of any decisions taken, enabling open debate among the public and in Parliament.

¹ [UK Spring Budget 2024: letter to the UK Government - gov.scot](#)

Council Tax	39-40	<p>The Committee welcomes the Scottish Government's decision that revenues gathered through the new higher-rate council tax bands will remain within local government.</p> <p>We, however, seek assurances that the local government core funding settlement will not be adjusted downward to reflect these additional funds and look forward to receiving further details on how the revenues will be distributed, as and when this becomes available.</p>	<p>The Scottish Government is clear that any additional revenue raised through this targeted measure will be retained locally to support the services communities rely on. We recognise that the distribution of high-value properties varies across Scotland and agreement on distribution and any wider impacts will be developed jointly with Local Government and will ultimately be determined through established governance and settlement processes. No decisions have yet been taken in relation to that interaction.</p> <p>We will continue to work in partnership with COSLA in the spirit of the Verity House Agreement and the Fiscal Framework to determine the detailed arrangements, distribution approach, and financial implications of the reforms.</p>
	41	<p>While the Committee wanted to see much greater progress towards reform of local government taxation in recent years, we urge the next Parliament at the start of the session to consider this.</p>	<p>The Scottish Government believes that sustainable reform of Council Tax requires a consensus. The current programme of engagement on Council Tax reform, developed in partnership with COSLA, has focused on building that consensus. This includes a public consultation, town-hall events, and expert roundtables. The consultation has now closed, and a final report will be published. This will support the next Parliament in considering next steps.</p>
Other Taxes	47	<p>The Committee seeks clarity on how the additional funding arising from recently announced NDR reliefs for pubs in England will be used for a similar purpose.</p>	<p>We committed to pass on in full to the hospitality sector in Scotland any Barnett consequentials from this change and following engagement with the Non-Domestic Rates Consultative Group, on 12 February I announced an additional 25% relief for licensed hospitality and music venues, including pubs, restaurants, hotels, night clubs and licensed clubs, liable for the Basic or Intermediate Property Rate (properties with a rateable value up to and including £100,000). This relief will be offered for three years, from 2026-27 until 2028-29, capped at £110,000 per business per year.</p> <p>This additional support means that together with the 15% Retail, Hospitality and Leisure relief announced at the Budget for properties liable for the Basic or Intermediate Property Rate, the total relief for eligible licensed hospitality premises will be 40%, capped at £110,000 per business per year.</p>

We have also listened to concerns raised by the self-catering sector and recognising the large increases in rateable values for some properties in the self-catering sector, we will offer a specific Revaluation Transitional Relief for this sector. This will apply, instead of the Revaluation Transitional Relief announced at Budget 2026-27, to self-catering premises most affected by revaluation and will cap increases in gross bills up to the next revaluation in 2029 at 15 per cent year-on-year.

We estimate these reliefs will provide over £9 million of additional support for eligible businesses in 2026-27, which is additional to the package of reliefs already announced worth an estimated £864 million in 2026-27.

<p>Spending Plans Local Authority funding</p>	<p>61</p>	<p>The Committee has significant concerns that the pressures on local government finance may lead to large council tax rises and some local authorities struggling to meet their statutory obligations. We therefore ask the Scottish Government to discuss with local government how and where further support might be provided to ease such pressures, including if additional funds become available through revenues or the block grant. An update on the Scottish Government's discussions with local government should be provided ahead of the Stage 1 debate.</p>	<p>Please see 11 February 2026 letter to Committee</p>
	<p>62</p>	<p>While it is encouraging that the Scottish Government is exploring different ways to fund the delivery of complex social care, we do not consider the current model of funding to be sustainable given current and future demand. The Committee therefore urges the Scottish Government to explore with local government how a more sustainable model can be put in place that can meet the significant demographic challenges ahead.</p>	<p>We note the Committee's recommendation and recognise the increasing demand for social care, increasing complexity and the demographic challenges ahead. Given the scale of these challenges and the trajectory for public finances set out in the UK Spending Review, it will not be possible to meet those challenges through additional finances alone and further reform of services will be necessary. Our Service Renewal Framework (SRF) provides a high-level guide for change, to ensure the sustainability, efficiency, quality, and accessibility of health and social care services in Scotland. Importantly, the <u>SRF</u> builds on the <u>Operational Improvement Plan (OIP)</u> and <u>Population Health Framework (PHF)</u>. The <u>SRF</u> sustains and builds on the immediate improvements set out in the <u>OIP</u>, and it maximises the contribution health and social care services can make to improve population health as described in the <u>PHF</u>. We are working collaboratively with partners, including local government, to progress the SRF.</p>

Social Security Spending	71	<p>The Committee remains of the view that the Scottish Government has not provided sufficient evidence of the sustainability of the social security budget. It is disappointing that the Scottish Government has not carried out the work we asked for, which would have provided much more data on this issue. We therefore urge the new Scottish Government to carry out these reviews as a matter of urgency when coming into office after the election.</p>	<p>Social security expenditure is determined through the annual Budget process and the Scottish Government balances its Budget every year. This fully-funded investment will help keep children out of poverty, support disabled people and their carers and help pensioners with winter heating payments.</p> <p>The Scottish Fiscal Commission projects that by 2029-30 the funding requirement for our additional social security investment has reduced from £1.8 billion to £1.0 billion, which is 45% less than was forecast in June 2025.</p> <p>We do have a strategy and an approach, which are outlined in the Medium Term Financial Strategy and related Fiscal Sustainability Delivery Plan to ensure the sustainability of Scottish public finances over the medium-term.</p> <p>Our ongoing programme of analytical work assesses the short, medium and long-term impacts of devolved social security investment. Our evaluations across the disability benefits show that our approach is reducing barriers to applying for benefits, such as improving support and applications processes, and by supporting clients and offering ways to apply that work for them.</p> <p>The Office of the Chief Social Policy Adviser published a report in 2024 which set out early evidence that benefits administered by Social Security Scotland, including ADP, support a number of outcomes, such as: reducing child poverty; household poverty, material deprivation and debt; and health and wellbeing.</p> <p>Analysis published by the Chief Economist in March 2024 highlighted the role of Social Security spending in supporting the broader economy, providing short-term benefits during economic downturns and improving long term economic outcomes by reducing financial distress.</p> <p>The causes of increased demand for disability benefits are analysed in a detailed report published in January 2026 by the Chief Social Policy Adviser.</p> <p>Importantly, the report sets out that the evidence currently available does not indicate that the conscious policy decisions taken in Scotland to deliver a better system of disability benefits are the primary driver of increased spending.</p>
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	72	The Committee also has continuing concerns regarding the impact of spending on social security on other areas of the Scottish Budget which are being squeezed. We therefore seek further information on the Scottish Government's 'public value' work and how it will assess which social security programmes deliver the best outcomes, including in relation to universal payments. We would also like to see a clear timetable for when this approach will be fully in place.	<p>The Scottish Government recognises that the economic and fiscal environment remains challenging, and furthermore that demand for public services continues to grow. The Government's approach to this is set out in the MTFS and related FSDP, as well as the Public Service Reform Strategy. Improving efficiency and taking forward reforms that reduce costs will play a key role in ensuring funding can be prioritised on the services people require. However, it is likely that allocative choices will also be required to ensure the sustainability of public finances with further reviews of spending over the medium term.</p> <p>To support this the Scottish Government is developing an approach to public value which, following the Scottish Spending Review, will provide a framework for assessing spending proposals across the Scottish Government. This will consider delivery of government outcomes, delivery risks, impact assessments, financial implications and other key factors to inform spending decisions.</p> <p>The public value approach will also include undertaking strategic crosscutting reviews in key spending areas, including universal payments and services. This will build from existing evidence – the pre Budget Scrutiny response highlighted both completed and in-train analyses of the outcomes of social security spending, for example.</p> <p>A timeline for public value activity is being developed as part of the planning work currently underway.</p>
	75	The Committee asks the Scottish Government to discuss with the UK	The Scottish Government recognises concerns about the limited fiscal flexibilities available to it. The next Fiscal Framework Review provides an opportunity to discuss with the UK Government how the current flexibilities can be improved and we welcome the Committee's input to this process.

		<p>Government the merits of Scotland's social security budget being reclassified as AME to provide more flexibility to meet unexpected increases in demand.</p>	<p>It should be noted that under the terms of the UK's Statement of Funding Policy, where the Scottish Government is funded through AME, this is for expenditure that is broadly similar to the UK Government's expenditure. Where the Scottish Government chooses to take a different approach, as we have in delivering benefits such as the Scottish Child Payment, then it would be required to fund the cost of the additional expenditure.</p>
78	-	<p>The Committee urges the Scottish Government to work with Social Security Scotland, the DWP and HMRC with a view to enabling data on devolved benefits to be included in the UK RAPID project in the future. This is important in enabling policymaking on social security to be based on the most reliable and up-to-date information.</p> <p>Should there be a time lag on Scottish data being included in the UK RAPID project, options should be explored to release as much administrative</p>	<p>The Registration and Population Interactions Database (RAPID) is a Department for Work and Pensions (DWP) project that captures an annual summary of employment, benefit and pension activities.</p> <p>Social Security Scotland benefits data are now included in RAPID, mainly disability and carers benefits. The most recent RAPID data, RAPID Release 9, was made available on 23 October 2025 by DWP and included the following Social Security Scotland data for 2024-25:</p> <ul style="list-style-type: none"> • Child Disability Payment • Adult Disability Payment • Carer Support Payment • Pension Age Disability Payment <p>Child Disability Payment and Adult Disability Payment data were included in previous releases of RAPID, and Social Security Scotland continues to work with DWP to improve the range of data included in RAPID.</p> <p>The Scottish Government is refreshing the evaluation strategy for Social Security and are exploring how best to use RAPID and data linking generally to evidence the impact for clients and their families.</p>

		data on devolved social security payments as possible, to allow more analysis to be undertaken.
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Scottish Government's Approach to financial planning			
Section	Paragraph	Recommendation	SG Response
Prioritisation	88	<p>The Committee welcomes the SFC's decision to present tables showing arithmetically which portfolios are being prioritised and deprioritised for funding. We request that in future Scottish budgets, an explanation should be included on why these decisions have been taken in the context of the Government's key priorities.</p>	<p>The first chapter of the Budget offers a detailed strategic narrative which explains the decisions made to ensure that the Budget will support delivery of the Government's four central priorities. Chapter 1 is framed around those priorities of eradicating child poverty, growing the economy, tackling the climate emergency and improving public services.</p> <p>The Committee will also be aware of the Strategic Integrated Impact Assessment (SIIA), which has been published to show the impacts that decisions made in the Budget, Spending Review and Infrastructure Delivery Pipeline are likely to have on different groups of people in Scotland.</p> <p>As SPICe noted in a recent assessment of the SIIA:</p> <p><i>There is a detailed strategic overview of top-level fiscal plans, which, rather than simply setting out a list of priorities and aspirations, takes steps to illustrate the data underlying decisions, what steps have been taken, and the impact expected based on the distributional analysis. It also highlights intersectional impacts and demonstrates how decisions relate to the Scottish Government's obligations, such as the UN Convention on the Rights of the Child (as incorporated into Scots Law)...</i></p> <p><i>There is a detailed assessment of impact of decisions against the Scottish Government's four priority areas, along with an acknowledgement that there have been trade-offs and as a result, some portfolios have not kept pace with inflation. A recognition of the impacts of these decisions, and mitigating factors, is a welcome addition.</i></p>

	89	<p>Given our ongoing concerns regarding the significant financial pressures on Scotland's colleges and the vital role they play in driving economic growth, we welcome the increased funding for this sector.</p>	<p>For Scotland's colleges, the budget delivers a combined increase of £70m in resource and capital funding, equivalent to 10% uplift on last year's budget, taking our total investment in core college funding to £764m.</p> <p>Overall, this budget will support sustainability and reform, protect free tuition, advance widening access and support learners to progress into and through work, helping address poverty and cost of living pressures.</p>
	90	<p>The Committee however remains unclear why some spending decisions, such as reductions to funding for SNIB and the enterprise agencies, do not appear to align with the Scottish Government priority of growing the economy</p>	<p>Our Enterprise Agencies and the Scottish National Investment Bank (SNIB) are critical drivers of economic growth and resilience. To unlock growth across Scotland the 2026-27 Budget provides over £325.5m funding for the Enterprise Agencies to continue to improve business and community resilience, protect and create jobs, and a further £200 million to the Scottish National Investment Bank to support their mission-aligned investments across Scotland to grow our economy, building on the near £1 billion of commitments it has achieved over the last five years.</p> <p><u>Enterprise Agencies</u></p> <p>In recognition of their key role in promoting economic and business growth and supporting capital investment in Scotland's places and industries of the future, we have <u>increased</u> the opening budget allocated to our enterprise agencies from £321 million in 2025-26 to £325.5 million in 2026-27.</p> <p>It is worth noting that the enterprise agencies receive additional funding from Scottish Government at ABR and SBR to deliver specific projects and programmes. This means that figures published in the Budget relating to their 2024-25 outturn, 2025-26 ABR position and 2026-27 Budget allocation are not comparable.</p>

The 2026-27 budget allocation will facilitate the work the enterprise agencies do to: help businesses to start and scale, be more productive, access finance and attract investment, develop new products and services, enter new markets, and positively impact on their communities; and deliver transformational projects across Scotland.

Our enterprise agencies play an important role in delivering funding allocated in the Budget to other projects and programmes which support economic growth. For example, they will be key to delivery of our £93 million investment in the offshore wind sector in 2026-27, with funding to be transferred at ABR and SBR as appropriate. This support will maintain our momentum in building critical offshore wind infrastructure and developing the supply chain, leveraging significant private investment to maximise economic impact and create thousands of jobs across Scotland.

We have also agreed a package of financial flexibilities for Scottish Enterprise to allow it to maximise the impact of its budget, manage its volatile income streams and generate more income for reinvestment in the economy, boosting jobs and tax take.

Scottish National Investment Bank (SNIB)

SNIB remains central to the Scottish Government's economic growth priority. It is a permanent, long-term institution for the benefit of the people of Scotland. The Budget therefore provides the Bank with a starting budget of a further £200 million in 2026-27, building on the near £1 billion of commitments it has achieved over the last five years.

The Budget does not reflect a reduction in spending power on previous years. The 2026-27 budget explicitly allows SNIB to reinvest up to £10m of Financial Transactions (FT) income to give an overall spending power of at least £200 million. This level of FT income is based on Bank forecasts. If the forecast for

investment income changes, the Bank can request to reinvest this, which would increase the spending power further. In addition, the Bank will continue to be a key delivery partner in Offshore Wind and will have access to ringfenced funding on top of its £200m core budget – as it has in 2025-26.

The Scottish Government has also agreed financial flexibility which allows the Bank to maximise the impact of its funding and manage the volatility of its investment portfolio across financial years; in each and any year SNIB will have access to up to £25 million of the Scotland Reserve to deposit funding that can be carried forward to the next financial year, ensuring that undeployed capital or investment income which has been generated by the Bank in one year can be reinvested in a future year.

Finally, FT funding is very important to the Scottish Government as it is used to support investment in affordable housing as well as underpinning SNIB. However, the FT uplift received from the UK Spending Review through Barnett was proportionally small – around £500 million, only around 3.4% of the total of £14.4 billion that the UKG Departments got over the same time period.

91	<p>We also seek further clarification regarding its decision not to provide an uplift in funding, as part of the significant increase in culture spending, to Scotland's National Performing Companies, which are clearly providing demonstrable economic, wellbeing and social impacts.</p>	<p>The Scottish Government recognises the concerns raised by the NPCs and the Cabinet Secretary for Constitution, External Affairs and Culture has discussed this with the Cabinet Secretary for Finance and Local Government. However it should be noted that maintaining funding at £24.6m for the five NPCs in 2026-27 follows funding increases of £700k in 2024-25 and £1m in 2025-26, with a view to them receiving further funding in future years as part of the commitment to an additional £100m per year by 2028-2029.</p> <p>Scottish Opera will receive £8.64m through this budget, followed by Scottish Ballet on £4.86m, the National Theatre of Scotland on £4.53m, the RSNO on £4.398m and the Scottish Chamber Orchestra on £2.187m. For context, the Creative Scotland multi-year funding for 2026-27 is £74m shared among 263 organisations. The largest amount of funding that goes to performing arts companies through this route is to the Dundee Rep and Scottish Dance Theatre at £2.86m, the Royal Lyceum Theatre at £1.7m, and the Citizens Theatre at £1.6m.</p>
92	<p>The Committee welcomes the Cabinet Secretary's commitment to discuss with the Cabinet Secretary for Constitution, External Affairs and Culture what level of clarity and certainty can be provided on the trajectory of funding the NPCs can expect over the Scottish Spending Review period. We look forward to receiving an update on the outcome of these discussions at the earliest opportunity.</p>	<p>The Cabinet Secretary for Constitution, External Affairs and Culture has explained to the CEEAC Committee that further funding for the NPCs will be made available in 2028-29 and that will follow discussions with the NPCs to determine the level of funding required and what will be delivered as a result of additional funding.</p> <p>The Cabinet Secretary will be happy to update the Committee in due course.</p>

<p>Transparency Baselining in-year transfers</p>	<p>101 - 103</p>	<p>The Committee recognises the improvements made by the Scottish Government throughout this parliamentary session on presenting budgetary information. However, like our witnesses and other experts, we are frustrated and disappointed that despite repeated requests, the Scottish Government has fallen short of baselining all routine in-year transfers.</p> <p>We cannot understand the Scottish Government's continued resistance to carrying out this request, when it would bring much-needed transparency, clarity and understanding to its spending plans.</p> <p>The Committee therefore recommends that the Protocol currently under negotiation between the Scottish Government and SFC is updated to include agreement on how regular in-year transfers should be presented, in time to be implemented in the Scottish Budget 2027-28. Agreement should also be reached in the Protocol on a suitable timetable for the Scottish Government to provide COFOG data to the SFC for inclusion in its Budget forecasts.</p>	<p>It is important to recognise the significant progress that has been made in this budget to baseline recurring transfers - nearly £800 million worth of funding that was previously transferred in-year is now included in the opening budgets for delivery portfolios. This builds on amounts that have been baselined in previous years – almost £1 billion was baselined in the Scottish Budget 2024-25 and over £500 million in the Scottish Budget 2025-26. We remain committed to reviewing all in-year transfers to identify where further baselining can take place to aid transparency and review of budget documents. It is important to recognise that there are instances where the separation of policy and delivery makes sense and baselining may not always be possible -we need to ensure that the right outcomes are achieved against funding provided.</p> <p>We worked closely with the SFC throughout the budget process and officials discussed the approach to the presentation of the 2026-27 Scottish Budget document with SFC Commissioners and officials at routine meetings throughout the preparation of the Budget. This has already brought greater transparency, however it is ultimately for Ministers to decide on how any figures should be presented.</p> <p>We will continue to discuss issues around transparency of presentation and discuss with the SFC any areas where we can strengthen the process of information-sharing ahead of the next Scottish Budget. This includes the potential for revisions to the jointly-agreed Protocol for Engagement between the Scottish Fiscal Commission and the Scottish Government.</p> <p>In addition, the new parliamentary term might be an appropriate point for Ministers and the Committee to consider an update to the written agreement on the Budget process, which could consider presentation and transparency.</p>
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Public Private Partnership funding	106	<p>The Committee would welcome further clarification on why some PPP repayments are clearly shown within portfolios while others do not appear in the Scottish Budget at all. We also ask the Scottish Government to consider how it can present information on the profile of PPP repayments more transparently in future years</p>	<p>Annual cost figures including future projections for each PPP contract across the Scottish Public Sector are published online and can be accessed here.</p> <p>The Budget sets out funding allocations rather than recording specific expenditures. The level of budget disaggregation is variable across portfolios.</p> <p>In response to previous feedback from the Committee, action has been taken to present Public Private Partnership (PPP) allocations more consistently and transparently throughout the Budget Level 4 Workbook.</p> <p>Where <u>specific allocations</u> exist for PPP contract repayments, these have been highlighted in the Level 4 workbook using consistent language across portfolios.</p> <p>The 'What it buys' column of the Level 4 workbook highlights Budget lines that <u>include</u> funding available to procuring authorities for PPP contract repayments. This indicates that the public body has annual contractual PPP obligations and may allocate part of its baseline funding toward repayments. In portfolios such as Health and Justice, funding available for PPP repayments is incorporated into the baseline budgets of the procuring authority (e.g. Health Boards and the Scottish Prison Service).</p>
New money?	111	<p>The Committee requests that the Scottish Government makes absolutely clear in future budgets what elements of funding is 'new money', to provide certainty for public bodies and local government and avoid the unhelpful and necessary confusion that has occurred this year.</p>	<p>As the Committee has acknowledged, there have been significant improvements in the presentation of budgetary information over the course of this parliamentary term. We remain committed to making further improvement and agree that confusion around the extent of any uplifts is not helpful.</p>

Use of Flexibilities ScotWind funds	119	<p>The Committee recognises that the Scottish Government faces significant financial pressures and has limited flexibilities to manage cash flow across years. However, we continue to be concerned that one-off ScotWind funds are being used to plug funding gaps rather than allocated to net zero projects as intended.</p>	<p>As the Committee notes, ScotWind is one of the few fiscal levers available to the Scottish Government to manage the profile of funding across years. The 2026-27 budget allocated £50 million of ScotWind funding to support the 2026-27 resource position. The majority of the remaining balance - a further £488 million - is planned to be deployed across the rest of the Spending Review period, with £191 million invested in the Capital programme. As the funding outlook evolves, it is expected that future utilisation of Crown Estate income for day-to-day spending can be reduced, thereby freeing up further funding for longer term capital investment.</p>
	120	<p>The Committee notes that the Cabinet Secretary appears to be relying on additional funds becoming available through the block grant ahead of the UK general election to avoid drawing down the allocated ScotWind funds. We are not convinced this is the most effective and efficient way of managing Scotland's finances and we therefore urge the Scottish Government to develop plans that ensure ScotWind funds are in future protected for their intended purpose.</p>	<p>The funding assumptions in the Scottish Government Spending Review are based on the Barnett funding set out at the UK Spending Review and in subsequent UK fiscal events, together with all other sources of funding available to the Scottish Government. For the resource block grant this is set out for the period up to 2028-29 and for capital and financial transactions for the period up to 2029-30.</p> <p>The Spending Review allocations in these years are not based on expectations of additional Barnett funding beyond the levels already confirmed. Future UK fiscal events can be expected to change the funding provided through the Barnett Formula. Should that occur, the Scottish Government will adjust its budget allocations and funding decisions at future budgets in line with the updated funding position.</p>

Bonds	123	<p>The Committee seeks further information on the Scottish Government's approach to delivering a Scottish Bonds Programme, how it will ensure due diligence, cost comparisons with other borrowing options, and value for money are at the heart of this Programme, and on what areas it plans to spend the £2.1 million fund allocated for 2026-27.</p>	<p>The Scottish Government published a summary outline business case in November which is available from Scottish Government bonds programme: outline business case summary - gov.scot. This sets out the project rationale and provides a detailed value for money assessment of the programme relative to other forms of borrowing. A final business case will be concluded before any bond issuance occurs to reflect changes in market conditions and other factors which will influence the assessment of the bonds programme.</p> <p>£2.1 million is the estimated requirement for transaction costs and other fees required to complete the first issuance in 2026-27. These costs are currently subject to the outcome of competitive tender processes. Bookrunner fees in particular will only be incurred if and when a Bond issuance occurs.</p>
Fiscal Framework	134-135	<p>The Committee believes that a comprehensive review of the fiscal framework is now urgent. We urge the UK Government to work with the Scottish Government to develop a consultative approach for the review while balancing the need for early resolution.</p> <p>We also ask that the views of witnesses on the need for greater fiscal flexibilities heard during our Scottish Budget 2026-27 scrutiny are reflected in the scope of the review, along with the recommendations in our letter of 19 December 2025.</p>	<p>The Scottish Government agrees that the next review of the Fiscal Framework must be broad in scope and the Cabinet Secretary for Finance and Local Government has set this out to the Chief Secretary to the Treasury. The Cabinet Secretary has also called for an early review, rather than waiting for the next review point of 2028 and it is hoped that progress is made on the scope of the review with the Chief Secretary to the Treasury before the dissolution of Parliament.</p> <p>Parliamentary and stakeholder views on the Fiscal Framework are valued by the Scottish Government and will be considered during the negotiations with the UK Government on scope. The Government appreciates the contribution made by this Committee in its letter of 19 December 2025. The format for Parliamentary and stakeholder engagement for the substantive phase of the review will require the agreement of the UK Government. While it is important that the format must allow for gathering the views of Parliament, a confidential space for negotiations between the governments will also be necessary.</p>

Long Term financial planning	142	<p>The Scottish Government recognises the significant fiscal sustainability challenges and remains committed to addressing those in the longer-term.</p> <p>The Scottish Government welcomes the SFC's analysis, which chimes with the Government's own clear understanding that Scotland faces inter-related, long-term challenges – including anticipated changes in Scotland's demographics, rising health and social care costs, and growing social security costs, and that there will be a resulting cost to address these issues.</p> <p>The Medium-Term Financial Strategy (MTFS) and accompanying Fiscal Sustainability Delivery Plan (FSDP) focus on the next five years, but both documents also acknowledge the longer-term drivers of fiscal pressure and risk and set out how this Government will address challenges for the longer-term.</p> <p>The MTFS makes clear that fiscal sustainability is central to improving outcomes for the people of Scotland by transforming how services are delivered, protecting our natural environment and reducing inequalities. The Scottish Spending Review further strengthens our approach to managing public spending by providing greater certainty on future funding and reinforces our commitment to efficiency and reform through the publication of the Portfolio Efficiency and Reform Plans. Driving out significant reform is essential to putting the delivery of public services on a more sustainable footing in the longer term.</p> <p>Additionally, the Scottish Government is responding to the anticipated impact of future trends through the delivery of:</p> <ul style="list-style-type: none"> • The Population Strategy • Scotland's Migration Service; and • Health and Social Care Service Renewal Framework. <p>The Scottish Government also published the Future Trends for Scotland reports in June 2025, focused on informing and improving long-term decision-making and setting out the best available Scotland-specific evidence on future trends.</p>
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143	<p>We look forward to receiving the Cabinet Secretary's reflections on the Lithuanian approach to collectively developing and implementing Lithuania 2050, that nation's vision for the future, with a parliamentary committee monitoring progress towards achieving the vision.</p>		<p>Please see 11 February 2026 letter to Committee</p>

Scottish Spending Review			
Section	Paragraph	Recommendation	SG Response
Scottish Spending Review	153-154	<p>The Committee welcomes the Scottish Spending Review which should provide a greater level of certainty to portfolios, public bodies and local government on the trajectory of spending they can expect over the next three years. We however agree with witnesses that more detail could have been included, such as level 3 figures split by capital and resource funding throughout.</p> <p>The Committee therefore recommends that the incoming Scottish Government after the election prioritises updating the SSR as early as possible into the new parliamentary session</p>	<p>The Scottish Government recognises the importance of giving more certainty to the public sector, to support organisational planning throughout the spending review period. This is why we have gone further in this Spending Review, for the first time since 2011 setting out our resource and capital spending plans together, and providing more detailed plans for Local Government, Health Boards, and Social Security Assistance – for each of these key spending areas we have published Level 3 plans.</p> <p>It is important to balance the need for detail across the sector with the potential need to adapt and remain flexible to external circumstances and we believe that the level of detail published strikes that appropriate balance.</p> <p>It will be for the new administration to decide whether they wish to update the SSR.</p>

160	<p>The Committee is disappointed that the Scottish Government does not appear to have taken a zero-based budgeting approach to the SSR, despite our recommendations that it do so in autumn 2024 and 2025. Furthermore, there is very little detail in the document about the exact approach the Scottish Government did take. It is therefore not possible for the Committee to have any certainty that the Government took a comprehensive and credible approach.</p>	<p>The Scottish Spending Review was developed alongside the Scottish Budget and associated fiscal publications, through a detailed process which adopted elements of a zero-based approach and prioritised fiscal sustainability and delivery on our priorities.</p> <p>Throughout summer recess, Cabinet Secretaries and officials engaged with key internal and external stakeholders, gaining insights into expectations of the SSR, key issues across portfolios, views on investment priorities and potential areas of disinvestment. This included engagement within the Finance and Local Government portfolio with key finance stakeholders. This engagement informed the SSR process at both a portfolio and central level.</p> <p>In summer 2025 the Cabinet Secretary for Finance and Local Government held deep dive sessions with all Cabinet colleagues. These sessions adopted the principles of zero-based budgeting, with portfolio spending reviewed in detail. This included line-by-line reviews of material forecast spend for 2026-27 and 2027-28, discussion of reform and efficiency plans over the spending review period, and exploration of further options to deprioritise lower impact spending and increase value for money whilst continuing to deliver on our key priorities.</p> <p>Further reviews and Ministerial discussions followed these sessions, including strategic line-by-line reviews of multi-year spending and engagement with portfolios on reform and efficiency plans.</p> <p>As noted in response to question 72, following publication of the SSR, the Scottish Government is now looking to develop a public value framework which will enhance the link between spending allocations and outcomes and performance data. Beyond the detailed reviews undertaken as part of our usual budget processes, we plan to undertake more specific, focused scrutiny over the spending review period on areas of particular fiscal risk and areas of Ministerial priority.</p>
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	161	<p>The Cabinet Secretary during evidence to the Committee also made a number of references to the figures in the UK Spending Review changing in the run-up to the UK Government election. As we mention earlier in this report, the Scottish Government should be planning on the basis of the funding it knows it will have rather than what may or may not materialise.</p>	<p>The Scottish Government's block grant funding is determined by the UK Government's Spending Review, which reported in June 2025. Where UK allocations are available those are directly used in the funding positions which underpin the Scottish Budget and Spending Review. Block Grant figures for the latter years of the forecast period (2029-30 and 2030-31) are calculated by reference to the projections of UK Government spending set out by the Office of Budget Responsibility. The SFC have agreed that those projections are reasonable. As the Cabinet Secretary indicated in the Committee session it is reasonable to expect that there is scope for the funding envelopes set out in the UK Spending Review to change between now and the next UK General election. This would be in line with past experience.</p> <p>The Scottish Government spending plans are based on the expected funding outlook. Assumptions about that funding outlook are based on the information available to us. As noted in the Committee session, there can be considerable volatility in future funding envelopes as a result of changes in UK Government spending plans, changes in tax forecasts, as well as from reconciliations as a result of tax devolution.</p> <p>The SFC is required to comment on the reasonableness of all funding assumptions set out in budget publications.</p>
	162	<p>The Committee looks forward to considering the SSR in more detail in evidence sessions with a wider range of witnesses during February and March 2026.</p>	<p>I note that the Committee is considering the SSR in further detail and look forward to appearing before the Committee on 10 March 2026.</p>

Public Service Reform			
Section	Paragraph	Recommendation	SG Response
Public Service Reform - Overview	168	<p>The Committee welcomes the Scottish Government's progress towards tracking and measuring the outcomes of preventative spend through a budget-tagging approach. We seek further information on how this method will work in practice, including evaluating what has been achieved, even for very long-term programmes.</p>	<p>The preventative spend budget tagging approach is currently being developed as part of a pilot process across Scottish Government portfolios and wider public sector partners. The pilot process is expected to conclude in Q2 2026, after which a methodology will be agreed with partners that can be used as part of a wider approach across the full Scottish Budget.</p> <p>In piloting this approach, we will consider where possible available evaluation evidence that can be used to support the classification of preventative activities.</p>
	171	<p>The Committee notes the information provided in the Scottish Government's response to our pre-budget report on the measures in place to monitor progress and learn lessons from successful projects funded through the Invest to Save Fund.</p>	<p>Feedback from last year's application process, uptake and delivery is being used to inform the process for allocating 2026-27 funding, this will include best practice examples from successful bids for 2025-26 funding.</p>
	172	<p>We also welcome the extension of funding through the Invest to Save Fund for reform projects, although we question whether the level of funding will provide the transformational results as quickly as is required</p>	<p>The focus of the fund is on targeting projects where it can have a catalytic effect supporting shared capability across organisations, development of common platforms and changes to operating models that can be adopted more widely over time.</p> <p>Demonstrating best practice and encouraging adoption of successful approaches will support the wider rollout of transformation across the service delivery landscape.</p>

Portfolio Efficiency and Reform Plans	181 -183	<p>The Committee shares the view of witnesses who expressed concerns regarding the extent to which the targets set out in the Scottish Government's Portfolio Efficiency and Reform Plans, including for local government and the justice portfolio, are achievable within the timescales proposed.</p> <p>We, however, welcome the incentive provided to organisations to carry out reforms in the knowledge they will be able to retain their savings.</p> <p>However, we urge the Scottish Government to ensure that all savings made are reported regularly to allow scrutiny of progress towards its overall targets. These reports should also include details of any impact on public service delivery.</p>	<p>The Portfolio Efficiency and Reform Plans set out details of roughly £1.5 billion of cumulative savings over the Spending Review period, demonstrating we are on track to deliver the £2.2 billion of efficiency and reform savings by 2029-30 set out in the Fiscal Sustainability Delivery Plan in June 2025.</p> <p>These plans as published represent a snapshot of our progress against the reform agenda set out in the Public Service Reform Strategy and Fiscal Sustainability Delivery Plan. The plans will evolve as portfolios' reform activity matures. The savings in the plans will support portfolios in managing their overall local financial position.</p> <p>We are committed to providing updates on the progress against the Fiscal Sustainability Delivery Plan alongside the Medium Term Financial Strategy. The committee's recommendation regarding the impact on public service delivery is noted.</p>
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Integrated Pay and Workforce Policy	194-195	<p>The Committee is concerned that the SFC felt it had to use its own baseline assumptions rather than the Scottish Government's pay policy for its forecasts. We share the views of witnesses that there is little or no recognition by the Scottish Government that its current pay policy has "been blown to bits" and that it is "kicking the can down the road" rather than addressing the issue now.</p> <p>We understand that the Scottish Government plans to produce a new pay policy for 2027-28 and seek assurances on the steps it will take to ensure it develops a more sustainable pay policy in future</p>	<p>The pay policy remains credible. The two-year deals concluded to date operate within the overall pay metrics envelope and balance prudent financial management with securing early agreements, protecting service delivery and avoiding industrial action.</p> <p>The Cabinet Secretary for Finance and Local Government has acknowledged that many multi-year deals cover only two years of the three-year policy. To address this, the Cabinet Secretary has committed to review the pay policy as part of the 2027-28 Budget process.</p> <p>Looking ahead, any future Integrated Pay and Workforce Policy will give consideration to inflationary clauses, will continue to assess impact of progression (a key baseline assumption) and will build on the connection between public sector pay and workforce management as part of ensuring fiscal sustainability.</p>
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Infrastructure Delivery Pipeline 2026

Section	Paragraph	Recommendation	SG Response
Infrastructure Delivery Pipeline 2026	205-207	<p>The Committee has been requesting a detailed infrastructure plan for over two years. We therefore welcome publication of the IDP which provides more information on the Scottish Government's plans for future infrastructure projects.</p> <p>However, we share the view of witnesses that detail should have been provided on costs, timelines, and potential overruns for the projects and that the split between 'delivery' and 'development' casts some doubt on exactly what will be delivered and by when.</p> <p>We ask the incoming Scottish Government to update the plans as early as possible after the election</p>	<p>The Infrastructure Delivery Pipeline sets out projects and programmes that have business cases and funding committed to them; it includes projects and programmes that are already in train from the previous pipeline.</p> <p>Planned costs and delivery timetables are set out in the associated spreadsheet that was published on 13 January 2026 as a supporting document to the Infrastructure Delivery Pipeline publication.</p> <p>The Scottish Government will continue to report on the pipeline (as was done previously). This captures cost and delivery overruns.</p> <p>The split into 'delivery' and 'development' pipelines enhances transparency with regard to delivery certainty of the respective projects and programmes.</p>
	208	The Committee looks forward to discussing the IDP, including the level of confidence it provides for investment, with witnesses at a separate evidence session in March 2026.	I note that the Committee is considering the IDP in further detail and look forward to appearing before the Committee on 10 March 2026.