Scottish Parliament Social Justice and Social Security Committee

Budget scrutiny 2026-27, Future Social Security Spending in Scotland

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1. The affordability of Scotland's social security system

Since 2018 the Scottish Parliament has had responsibility for a range of social security benefits, including disability assistance, the Scottish Child Payment (SCP) and a variety of smaller grants. Spending on devolved benefits has grown rapidly as the Scottish Government (SG) pursues statutory child-poverty targets and a rights-based approach to disability assistance. Details of the expected spend on social security until 2029-30 were set out by SG in its Medium-term Financial Strategy (MTFS), published in June 2025. A summary of this forecast is shown in Table 1 below. SG uses the Scottish Fiscal Commission (SFC) forecasts[1] of spending on social security.

Table 1: Projected Resource Spending 2025-26 to 2029-30

	2025-26	2026-27	2027-28	2028-29	2029-30	Increase 2025-26 to 2029-30
Social Security Assistance	6772	7544	7976	8379	8825	30.3%
Social Security Block Grant Adjustment	5725	6191	6440	6680	7001	22.3%
Social Security Shortfall	-1047	-1353	-1536	-1699	-1824	
Total resource spending	52623	54938	57132	59453	61723	17.3%
Block Grant	41622	42714	43840	45018	46215	11.0%
Devolved tax revenue	21544	23019	24301	25398	26554	23.3%
Total resource funding, incl. NDR	52623	53975	55235	57100	59099	12.3%
Overall Budget Shortfall		-963	-1,897	-2,353	-2,624	
Shortfall as % of resource funding		-1.8%	-3.3%	-4.0%	-4.3%	
Social Security as share of total resource spend	12.9%	13.7%	14.0%	14.1%	14.3%	

Source: Scottish Government Medium-term Financial Strategy[2]

The forecast for social security spending is that it will rise from £6.77 bn in 2025-26 to £8.83 bn in 2029-30, an increase in money terms of 30.3%. It will grow more rapidly than *overall* resource spending, which is only expected to rise by 17.3% between now and 2029-30. Social security will therefore account for an increasing share of SG resource spending, rising from 12.9% in 2025-26 to 14.3% in 2029-30. The share of spending on other government responsibilities, taken together, must therefore decline. And given that spending on health and social care will increase by 22.8%, also faster than overall spending, spending on remaining SG responsibilities

[1] Scottish Fiscal Commission (2025) Scotland's Economic and Fiscal Forecasts Update – June 2025
[2] Scottish Government (2025) Scotland's Fiscal Outlook: medium term financial strategy

will grow much more slowly - local government by 10.8% and all other areas by 8.2%.

SG is compensated by the Westminster Government for its spending on social security through the Block Grant Adjustment (BGA). If the BGA is as large as Scotland's social security spending, then the addition to the block grant exactly cancels out the social security spend in Scotland and there is no effect on the rest of the SG budget. If the BGA exceeds Scottish social security spending, SG can use the additional resources to boost other programmes. If it is less, then resources must be taken from other programmes to make good the shortfall or additional resources raised through the tax system.

A great deal therefore hinges on how the BGA is calculated. The calculation uses the "indexed per capita method" set out in the Fiscal Framework agreement of 2023. The method treats each social security benefit separately. It calculates the average spend per person in England and Wales for each such benefit. It then multiples that average spend in England and Wales by the size of the Scottish population to give an overall figure (the BGA) that ensures that the Scottish Budget would be no better or worse off if it spends the same amount per person as is spent on that benefit in England and Wales. Where SG introduces new benefits, such as the SCP, that have no equivalent in England and Wales, it receives no BGA since average expenditure in England and Wales is zero and therefore SG must bear the costs entirely from within its budget.

For those benefits where there is an equivalent in England and Wales, whether the spend per person in Scotland is higher or lower depends both on the average spend per case caseloads and on the total number of cases. This issue is discussed subsequently, but it is first worth exploring the consequences of the forecast difference between the BGA and Scottish social security spending shown in Table 1.

First, any extra spending on social security over the social security BGAs must be made good by equivalent cuts in other parts of the Scottish budget, by increasing tax revenue of drawing down from the very limited funds available in the Scotland reserve. Table 1 shows that the difference between Scotland's overall spend on social security and the sum of the equivalent BGAs will rise from £1.0bn to £1.8bn between 2025/26 and 2029/30. This extra spending on social security makes up a very large share of the projected overall funding shortfall for SG which is also show in Table 1 as rising from £963m in 2025/26 to £2.6bn in 2029/30. Throughout the period, this suggests that SG will be unable to meet its spending commitments from the revenues it is expected to accrue. This would mean that SG would be unable to meet its legal requirement to balance its budget. Note that if this occurs, Audit Scotland has suggested that "the money could be clawed back from the following year's budget". In practice this would mean that the UK Treasury would reduce the next year's block grant to recover the excess, leaving less funding for SG to provide services in future years.

Second, spending on social security benefits is volatile. Whereas resource spending on programmes such as education or transport is reasonably predictable, spending on social security can vary substantially and unexpectedly. The very substantial increase in reported ill-health and disability that followed the pandemic across the whole of the UK were largely unpredicted.

This unpredictability explains the UK Government use of "Departmental Expenditure Limits" (DEL) for spending programmes such as education, which can be more easily controlled, and a separate budget category - "Annually Managed Expenditure" (AME) - for social security spending. This distinction is intended to ensure that a short-term spike in AME does not require immediate cuts in education, local government etc. Unexpected increases in AME can then be dealt with by borrowing. SG has limited borrowing powers and thus cannot easily insulate DEL spending from its social security spending, meaning that the budgetary response to social security overspends may require previously unplanned cuts to spending programmes or short-term revenue raising, neither of which is conducive to programme development in either the private or the public sector.

Another way to describe the Scottish social security system is that it is "demand-led" – claims for benefit cannot be controlled in the same way that, for example, spending on transport can be. Thus individuals assessed as meeting the conditions necessary for a payment from Social Security Scotland (SSS) must receive that payment. SSS cannot control the inflow of claims though it can which of these to accept using its filtering procedures, which are underpinned by a human-rights approach to assessment. It is not clear how well this approach sits with the argument by Audit Scotland that the sustainability of SSS requires a robust planning approach[3].

Those who have had their claims refused may challenge this refusal through the redetermination and appeal process set out in the Social Security (Scotland) Act 2018. Adopting a legalistic approach to determine awards may create expectations that outstrip available resources. Ultimately resources are finite: rationing decisions around claims on government resources cannot be avoided. Current claims are also likely to take precedence over those of future generations, which may not be in the long-run interest of society.

Returning to Table 1, note that the forecasts are expressed in *money* terms. The *real* change in allocations to different government spending programmes depend on rates of price inflation and earnings growth. The Office for Budget Responsibility (OBR) and SFC assume that inflation will average 2% over the next four years, while the SFC forecasts that earnings will grow at around 3% each year over the period. If these forecasts are correct, then the overall change in prices will be less than the projected increase in the overall SG resource budget (12.3%). These forecasts therefore imply some real growth in public service provision in Scotland over the next four years, but the only significant increases will be concentrated in social security and in health and social care. Other areas of government are likely to experience real declines in the resources available to them. And if these forecasts significantly underestimate inflation and earnings growth, which is quite possible, the likelihood of any real growth in programmes outside social security, health and social care are extremely low.

What drives increased spending on social security? The total spend depends on the number of cases in receipt of payment and on payment rates. SG sets the rates for ADP by mirroring UK PIP rates and then applying an annual inflation uprate under section 86A of the Social Security (Scotland) Act 2018. This uprate aligns with the September CPI and implemented through regulations. The fact that payments grow

[3] Audit Scotland (2022) Progress on Implementing the Devolved Benefits

at the same rate across the UK implies that changes to the BGA will match those in Scotland's social security payments if their respective caseloads stay the same or change at the same rate. It is when caseloads north and south of the border change at *different* rates that the BGA and Scottish social security spend also diverge, leading to the social security shortfall shown in Table 1.

The shortfall also changes when SG introduces new benefits such as the SCP which has no UK equivalent; its design and the setting of the initial value and subsequent increases to £20 and then £25 per week were policy choices designed to tackle child poverty. From 2025-26 onward the SCP will also be uprated annually for inflation as set out in the Social Security (Amendment) (Scotland) Act 2025. Again, this will put upward pressure on the social security shortfall.

If social security payments to individuals are adjusted for inflation, then their value is constant in real terms. Hence increases in overall spending on social security above the rate of inflation must reflect increases in the number of cases receiving benefits. Caseloads have increased dramatically in recent years. The ADP caseload increased from 55,535 in April 2022 to 476,290 in April 2025. This partly reflected the changeover from Personal Independence Payments (PIP) paid by the Department for Work and Pensions (DWP) to ADP paid by SSS. It also reflected the large increase in claims that occurred throughout the UK after the pandemic. In consequence, by April 2025, there were 381,945 individuals of working age in Scotland, implying that around 10.9% of Scotland's working age population were receiving ADP. Recent estimates of the share of the working age population of England and Wales receiving PIP are around 8%, implying possible differences in the prevalence of disability in Scotland and/or differences in the process by which claims are accepted.

The ADP is the largest of the benefits currently provided by SSS. It is intended to help working-age adults (aged 16 to State Pension age, currently 66) with the extra costs associated with a long-term disability or health condition that affects their daily living or mobility. One can appeal to objective evidence to determine whether there have been significant changes to work limiting disabilities and health issues in recent years using the ONS Labour Force Survey (LFS). This helps distinguish the extent to which differences in claims may be due to differences in prevalences rather than in the processing of claims. Table 2 is drawn from the LFS and compares the proportions of working-age individuals who claim to have a work-limiting disability or health issue that has lasted more than 12 months. These data are presented for Scotland and the rest of the UK both for 2016, when the Scotland Act was passed, and for 2024. The table also includes details of the principal type of disability or health issue.

Table 2: Prevalence of Disability among the Working Age population 2016 and 2024, Scotland and rUK

	rUK		**Scotland**	
	2016	**2024**	**2016**	**2024**
No disability or health issue	70.73%	63.06%	70.05%	58.31%
problems or disabilities (including arms, hands)	4.10%	3.71%	4.77%	3.62%
legs or feet	3.13%	3.17%	2.97%	3.75%
back or neck	2.76%	2.73%	2.21%	2.85%
difficulty in seeing	0.47%	0.54%	0.47%	0.64%
difficulty in hearing	0.56%	0.54%	0.65%	0.47%
a speech impediment	0.07%	0.08%	0.14%	0.01%
severe disfigurements, skin conditions,	0.91%	1.03%	1.15%	1.26%
chest or breathing problems, asthma, bronchitis	3.39%	3.80%	3.49%	4.78%
heat, blood pressure or blood circulation	3.25%	3.58%	3.17%	3.63%
stomach, liver, kidney or digestive pro	1.45%	1.91%	1.35%	2.17%
diabetes	1.57%	1.90%	1.41%	2.08%
depression, bad nerves or anxiety	2.89%	5.54%	3.52%	6.78%
epilepsy	0.41%	0.37%	0.36%	0.59%
severe or specific learning difficulties	0.40%	0.30%	0.48%	0.36%
mental illness, or suffer from phobia,	0.78%	1.53%	1.05%	2.05%
progressive illness not included elsewhere	0.73%	1.08%	0.80%	1.16%
other health problems or disabilities	2.39%	4.05%	1.97%	3.93%
autism (including autism spectrum condition	0.00%	1.08%	0.00%	1.58%

Source: Office for National Statistics

What is striking is the dramatic reduction in the proportion of Scottish residents reporting that they do not have any disability or health problem between 2016 and 2024 – from 70.05% to 58.3%. Concomitantly, it is also noticeable that the increase in reported disability has been larger in Scotland than in other parts of the UK. And while most conditions report some increase, there are particularly dramatic increases in the share of Scotland's working age population reporting depression and anxiety, mental illness and autism. This data is independent of any claims procedures and hence provides some evidence of very substantial increases in disability within Scotland's working age population in recent years, the net effect of which is to increase ADP payments and to reduce tax revenues to SG. In turn, this development itself bears very heavily on the affordability of the Scotland's social security system.

It is worth noting that the Institute for Fiscal Studies[4] has pointed out that the UK as a whole experienced a more rapid rise in reported disability among the working-age population following the pandemic than most other European countries. Again using the LFS, it estimated that the UK disability rate rose by 4.8% between 2019 and 2023, while equivalent rates for France (1.7%), Germany (1.9%) and the European Union as a whole (1.8%) increased much more slowly. Reasons for the more rapid rise in the UK as a whole and in Scotland are not yet fully understood, but should be of substantive research interest, both in relation to the welfare of the individuals involved and to the effect on claims for disability benefits and thus indirectly on the

[4] Institute for Fiscal Studies (2023) Health-related benefit claims post-pandemic: UK trends and global context

public finances.

Data is also available from SSS on the condition category of those in receipt of ADP. What is most striking about the most recent data (April 2025) is that those with mental and behavioural disorders are by far the largest group, accounting for 40% of the current caseload. The LFS data suggested that of Scottish residents reporting a long-term limiting condition in 2024, 21.2 percent attributed its main cause to mental illnesses such as depression or phobias. ADP benefits where mental illness is the main condition represent a higher proportion of the disabled than seems to be the case with the population as a whole, as estimated from the LFS, though it is important to note there is no assessment process involved for those responding to the LFS.

To conclude this section on the affordability of the Scottish social security system, it appears to me, having observed the Scottish budget since 1999, that Scotland's current fiscal position poses the most significant challenge to SG financial stability yet experienced. Increases in social security spending are partly responsible for this challenge. If SG wishes to prioritise such spending it can clearly do so – but there will be a cost in terms of other governmental policy objectives. The next section deals with SG proposals to deal with its forecast budgetary shortfall.

2 Scottish Government's plans to fund the level of spending forecast

Along with the 2025 MTFS, SG published its "Fiscal sustainability delivery plan"[5] (FSDP), which is described as bringing together key actions required to deliver the fiscal strategy. Actions to enhance fiscal sustainability are gathered under three pillars. The first sets out a range of actions intended to contain the costs of delivering SG policies while the second and third commit to enhancing economic growth and maintaining an effective tax system respectively. Pillars 2 and 3 contain messages relating to economic growth and the tax system which tend to repeat past policy commitments. Actions under these pillars do not have specific revenue targets that might be used to offset the predicted budget shortfall whereas Pillar 1 contains the main messages relating to how SG proposes to control public spending, accompanying these with savings targets.

Pillar 1 thus commits to making efficiencies in the public sector. These include workforce reductions of 0.5% per annum over the next five years and enhanced public sector efficiencies. The workforce reduction is expected to result in savings rising from £0.1bn to £0.7bn over 5 years, while public sector efficiencies will save £0.5bn in the first year rising to £1.5bn over 5 years and a further £0.3bn rising to £0.7bn from increased public value. The intention must be that these savings will be sufficient to offset the projected budget shortfall previously highlighted in Table 1.

The operation of SSS is also highlighted under Pillar 1, but the focus is on process improvement and combatting fraud rather than seeking any savings. Specifically, it argues that in respect of social security:

> *"We are committed to protecting benefits spending, recognising that this does therefore have an impact on the wider Scottish Budget. Through the actions*

[5] Scottish Government (2025) Fiscal Sustainability Delivery Plan

set out in Pillar 1, we will continue the ongoing work to make improvements to the way we process and deliver benefits, and we will consider improvements to the way we manage reviews of clients' awards."

The impression is that Scotland's social security system will not be affected by the cost-saving and efficiencies that will be imposed on other parts of the public sector such as education, local government, etc. The shortfall between social security spend and the equivalent BGA will therefore likely continue to grow, meaning that cuts must be imposed on other areas.

There is high potential for forecast error associated with Scotland's future fiscal position. Remedial action taken by SG as proposed in the FSDP may be less than, or more than, that necessary to achieve budgetary balance. Some of the uncertainty is associated with the performance of the UK economy as a whole and what fiscal changes are made by the Westminster Government. But there is also uncertainty around issues such as Scotland's own economic performance which will affect revenue generation, estimated to increase by 23% between 2025-26 and 2029-30 (Table 1). Actions within the public sector, such as the voluntary severance schemes need to bring about workforce reduction as proposed in the FSDP are also subject to doubt: the speed of their introduction and their effectiveness cannot be guaranteed. Given that public sector pay accounts for more than half of SG resource spending according to the IFS[6], pay settlements will also have an important bearing on the fiscal position and are a further important source of uncertainty.

Under the FSDP, the Scottish social security system appears to be insulated from immediate cost-cutting action. But there is huge uncertainty around the effectiveness of the remedial actions listed in the FSDP to bring down the budgetary shortfall that is primarily driven by the difference between social security spending in Scotland and the BGA that it receives from the UK Government. The coincidence of these various factors makes Scotland's budgetary position particularly perilous at this time.

[6] Institute for Fiscal Studies (2024) "Scottish Public Sector Employment and Pay"