The Scottish Parliament
Pàrlamaid na h-Alba

Social Justice and Social Security Committee

Shona Robison MSP
Cabinet Secretary for Finance and Local Government
Scottish Government
Edinburgh
EH99 1SP

19 January 2026

Dear Cabinet Secretary,

Fiscal Framework Review

Thank you for your letter and for inviting the Committee to share its views on scope ahead of the upcoming Fiscal Framework review.

As part of the Committee's recent pre-budget scrutiny, Members heard that social security spending now constitutes the fastest-growing element of the Scottish Budget. However, the Committee recognises that the current Fiscal Framework may not provide sufficient flexibility to support the sustainability of this demand-led expenditure.

Evidence presented to the Committee highlights that Scotland's benefits system is currently funded from a fixed Department Expenditure Limit (DEL)-style envelope. This is different from arrangements in England and Wales, where demand-led benefits are funded through Annually Managed Expenditure (AME), flexing automatically in line with factors such as caseload and economic conditions.

The Adult Disability Payment (ADP) exemplifies this challenge. It has generated significant upward spending pressure due to higher award rates, lower rates of removal, and longer case durations compared to the Personal Independence Payment (PIP). The Scottish Fiscal Commission projects that the ADP/PIP net cost gap will rise from £209m in 2026/27 to £299m in 2028/29. The impact of this on the Scottish Government's budget means that choices may need to be made about which other budgets to reduce in other portfolios.

We draw your attention to the Committee's work on third sector funding. For example, organisations have emphasised the need for multi-year funding to provide stability and confidence in delivering vital services for households requiring financial support. In this context, it may be helpful for the Scottish Government to have as much certainty and flexibility over its budget as possible.

In line with your invitation, the Committee wishes to highlight the following priorities for the upcoming Fiscal Framework review:

Devolution of Taxes

The Committee believes the review should consider further devolution of fiscal levers to Scotland, to enable the Scottish Government to better manage short-term fluctuations in demand or where outturn differs from forecasts, such as more options for raising tax revenue.

Additional Flexibilities to Mitigate Risk

The Committee suggests consideration of full conversion to AME funding for devolved social security benefits. Whilst the “Economic Responsibility” principle in the 2023 Framework precludes this, the current arrangements are inconsistent with the practice in England and Wales, which means that the Scottish Government does not have the same flexibility to respond effectively to short-term changes in economic conditions and demand for social security benefits.

If full AME conversion is not possible, hybrid systems could be explored, where the UK Government takes on some additional risk. Scotland’s population is ageing faster than the UK average, which increases the financial impact on the Scottish Government. Consideration should be given to sharing the fiscal risk as a result of this. For example, responding to disability prevalence rising faster in Scotland than rUK.

Mechanisms to smooth reconciliations between forecasts and outturn over longer periods could also assist in reducing immediate impacts on Scottish spending departments.

Improvements to Current Arrangements

The review must consider how Scotland is affected when England and Wales diverge from the baseline agreed at devolution. If Scotland maintains its rules whilst others change theirs, this should be fiscally neutral for Scotland. The principle of bearing the costs of divergence should apply symmetrically.

According to Professor David Bell, administrative costs associated with Social Security Scotland are significantly higher than those of the DWP for equivalent benefits, yet these are not covered by the Block Grant Adjustment. If so, this matter could be considered in the review.

Enhancements to the current system could include higher borrowing limits to manage negative reconciliations, increasing the size of the Scotland Reserve, and more frequent and sophisticated estimates of the Block Grant Adjustment. Greater flexibility in borrowing powers should be looked at.

The Committee agrees with the view provided by our predecessor Committee in its letter of 21 September 2022:

> […], the Committee is clear that a key principle must be transparency. It is crucial that interested stakeholders are able to track how funding is transferred from UK to Scottish Government. The current calculation has the advantage of being (relatively) simple. However, other issues around different timings of UK and Scottish budgets, reliance on different forecasting organisations and the time lag from forecast to outturn, contribute to a process that over-all is complex and difficult to follow.

The Committee considers that the review must have a strong focus on the mechanisms underpinning the funding of social security in Scotland. Evidence from the Scottish Fiscal Commission, Audit Scotland, and academic experts makes clear that the existing arrangements make it challenging to manage demand-led expenditure sustainably.

The Committee notes the response to your letter from the Finance and Public Administration Committee on 19 December 2025.

We are eager to continue constructive dialogue with you as this work progresses over the coming months.

I am copying this letter to the Cabinet Secretary for Social Justice.

Yours sincerely,

Collette Stevenson MSP
Convener
Social Justice and Social Security Committee

<u>This letter represents the view of the majority of the Committee. Claire Baker MSP and Carol Mochan MSP asked to have their dissent from the letter recorded.</u>