

F/T: 0300 244 4000  
E: [scottish.ministers@gov.scot](mailto:scottish.ministers@gov.scot)

Collette Stevenson MSP  
Convener  
Social Justice and Social Security Committee  
The Scottish Parliament  
Edinburgh  
EH99 1SP

4 March 2026

Dear Collette,

Thank you sharing the Social Justice and Social Security Committee's views on what issues should be addressed as part of the next Fiscal Framework Review.

Several of the topics mirror concerns of the Scottish Government, such as the need for greater fiscal flexibility and to review the Block Grant Adjustment mechanism. I note your concern in ensuring that the fiscal framework has the flexibility to support our devolved social security system. The Committee's input has been very useful in considering the proposed topics for inclusion that I intend putting to the Chief Secretary to the Treasury.

In your letter you suggest that the review might consider whether Scottish Government Social Security expenditure could be reclassified as Annually Managed Expenditure (AME), with a view to reducing volatility in the Scottish Budget.

I recognise the Committee's concern regarding the flexibilities that the Scottish Government has to manage volatility and I am keen that the review considers options to improve these flexibilities. However, it should be noted that HM Treasury's Statement of Funding Policy makes clear that where programmes are funded through AME, devolved governments would be responsible for meeting the costs of offering "more generous terms" than the UK Government. As with the current arrangement, funding provided by the UK Government would be based on the equivalent costs in Scotland of the UK Government's social security programme.

As the Scottish Government has chosen to provide a more generous Social Security programme in Scotland, policy has diverged materially from that of the UK Government. As a

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result, reclassifying Social Security spending to AME would still leave the Scottish Government responsible for any additional costs arising from its own policy decisions.

In practice, the Scottish Government already receives the equivalent of UK Government AME funding through Block Grant Adjustments and has taken the decision to fund additional costs arising from Scotland's Social Security system. A move to AME would therefore not provide any additional protection from the growth or volatility of Social Security spending. Greater flexibility in terms of resource borrowing, such as an increased limit, would be more beneficial in addressing the risk created by the volatility of spending on Social Security and this is an issue I will seek to address as part of the Fiscal Framework Review.

I hope to make progress on the scope of the review at a meeting of the Joint Exchequer Committee in March. It will then be for my successor to continue with this work after the Scottish Parliament elections.

Should you require any further information on the review in the meantime, my officials would be happy to provide.

Yours sincerely,

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