Social Justice and Social Security Committee
Thursday 4 September 2025
21st Meeting, 2025 (Session 6)

Pre-Budget Scrutiny – themes for discussion

The Committee will hear from:

- David Bell, Professor of Economics, University of Stirling
- Tom Wernham, Senior Research Economist, Institute for Fiscal Studies
- David Philips, Associate Director, Institute for Fiscal Studies
- Mairi Spowage, Director, Fraser of Allander Institute

Introduction

This is the first of three stakeholder sessions on pre-budget scrutiny looking at social security spending in 2026-27 and longer-term trends. This morning's session will be an opportunity to consider social security spending in the broader context of Scottish public finances. This paper sets out the background on the Scottish Government's resource budget, the shortfall identified in the Medium-Term Financial Strategy and the plans to meet that shortfall that were set out in the Fiscal Sustainability Delivery Plan (FSDP) published in June. It also looks at trends in social security spending forecast by the Scottish Fiscal Commission (SFC) and funding delivered through the social security Block Grant Adjustments (BGA) before suggesting themes for discussion.

Background

Scottish Government resource budget

The Scottish Government's Medium Term Financial Strategy, published in June, set out a growing gap between modelled spending and expected revenues reaching a modelled shortfall of £2,624 million across the whole resource budget in 2029-30 (table 1).

Table 1: Spending and funding 2025-26 to 2029-30

£m	2025-26	2026-27	2027-28	2028-29	2029-30	% change 25-26 to 29-30
Social security	6,772	7,544	7,976	8,379	8,825	30%
Health/social care	20,200	21,459	22,487	23,635	24,810	23%
Local Government	12,824	13,164	13,516	13,861	14,207	11%
Other	12,828	12,772	13,153	13,577	13,881	8%
Total resource spend	**52,623**	**54,938**	**57,132**	**59,453**	**61,723**	**17%**
Central funding outlook	**52,623**	**53,975**	**55,235**	**57,100**	**59,099**	**12%**
Modelled shortfall	**-**	**(963)**	**(1,897)**	**(2,353)**	**(2,624)**	

Source: Scottish Government, MTFS, Table C.01

Fiscal Sustainability Delivery Plan

In June, the Scottish Government published its Fiscal Sustainability Delivery Plan (FSDP), setting out savings that would meet the shortfall modelled in the Medium Term Financial Strategy. Under the first of its three pillars (‘public sector reform and efficiencies’) the FSDP refers to:

- £0.1 billion savings from a 0.5% per annum public sector workforce reduction, growing to £0.7 billion per annum over five years.
- £0.6 billion from ‘wider public sector efficiencies, productivity and revenue raising, growing to £1.5 billion per annum over five years.
- £0.3 billion savings through the Spending Review, due to be published with the budget, growing to £0.7 billion over five years.

The FSDP re-affirms the commitment to social security saying:

> “We are committed to protecting benefits spending, recognising that this does therefore have an impact on the wider Scottish budget.”

The FSDP describes a key action under ‘Pillar 1’ as reducing demand-led spending,

> “Reduce demand-led spending through preventative measures that reduce public service demand.”

Social security is included in the examples of preventative spend – in particular, the 'five family payments' contributing to tackling child poverty and 'completing the Social Security Programme contributing to 'tackling poverty more generally'.

In terms of potential for savings in social security, the FSDP refers to an assessment of whether ADP reviews are working as intended and Social Security Scotland is expected to deliver more efficient services, such as through increasing automation and introducing a new client payment system and tackling fraud.

Trends in devolved social security spend and BGAs

The latest forecast social security spend shows spending increasing by 30% from 2025-26 to 2029-30 (MTFS, June 2025).

The table below shows the Scottish Fiscal Commission's June forecast of total devolved social security spending compared to the funding received through Block Grant Adjustments (BGAs).

Table 2: Social Security 'effect on Scottish budget' £m.

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Social Security BGA	5,200	5,725	6,191	6,440	6,680	7,001	7,339
Spending forecast	6,122	6,939	7,714	8,151	8,559	9,009	9,474
Effect on Scottish budget	**-922**	**-1,213**	**-1,522**	**-1,712**	**-1,879**	**-2,008**	**-2,135**

Source: SFC, June forecasts

The Scottish Government describes this in more positive terms, as additional investment in social security. They do not include spending on DHPs or employability, and so present different figures in the MTFS as shown in the table below. Spending on DHPs and employability together is £170m in 2026-27 rising to £184m in 2029-30.

Table 3: Additional investment in social security, £m

	2025-26	2026-27	2027-28	2028-29	2029-30
BGA	5,725	6,191	6,440	6,680	7,001
Spend	6,772	7,544	7,976	8,379	8,825
Difference	**1,048**	**1,353**	**1,537**	**1,700**	**1,823**

Source: Scottish Government, MTFS, table 3.07.

Another complication is that the latest BGA forecasts include the impact of PIP reforms which are no longer happening. The PIP reforms were forecast to reduce total social security BGAs by £12m/£169m/£329m/£440m from 2026-27 to 2029-30 (fig 5.3, SFC May forecast). The next official BGA forecasts will be published at the UK autumn budget.

We can therefore expect the BGA for 2029-30 to be around £0.4billion higher in the absence of PIP reforms, suggesting that additional spending on social security will be around £1.4 to £1.6 billion that year (depending on whether DHPs and employability are included in spending).

Scottish Government position on social security spend

The Scottish Government set out its position on social security as an investment in people in answer to a PQ from Stephen Kerr, answered on 11 August 2025 Written question and answer: S6W-39186 | Scottish Parliament Website

> “We are proud of the investment that we are making in benefit expenditure. Based on the latest Scottish Fiscal Commission forecasts, the Scottish Government anticipates to spend around £8.8 billion on Social Security Assistance by 2029-30.
>
> The additional investment in social security compared to England and Wales represents just over 3 per cent of the Scottish Government’s resource budget by 2029-30. This investment results from conscious policy choices made by Ministers and the Scottish Parliament. Social Security is an investment in the people of Scotland and provides value for money for the public purse. It prioritises eradicating child poverty, creating a fairer Scotland and delivering services and support that tackle the roots of inequality.”

Scottish Social Security Benefits

Social Security Scotland benefits and their forecast spend in 2026-27 are listed below:

- **Disability benefits** for children, adults and older people. They are not related to income or whether someone works. (Child Disability Payment £639m, Adult Disability Payment £4,020m, Pension Age Disability Payment £917m, Scottish Adult Disability Living Allowance £373m).

- **Carer benefits** for people caring for someone who gets a disability benefit. Not available to those earning more than a certain amount. (Carer Support Payment £505m, Carer’s Allowance Supplement £68m, Young Carer Payment c£1m)

- **Winter payments** – for disabled children, those of pension age and those on a low income (Child Winter Heating £12m, Pension Age Winter Heating £163m (after £33m payment recovery), Winter Heating Payment £30m).

- **Five Family Payments** – for low-income families with children. (Best Start Grants £22m, Best Start Foods £19m, Scottish Child Payment £489m),

- **Two-Child Limit Payment** £155m
- **Funeral support payment** – for those on a low income responsible for paying for a funeral. £14m.

Other devolved social security includes Discretionary Housing Payments (£100m) and Scottish Welfare Fund (£36m) administered by local authorities and Severe Disablement Allowance (£4m) and Industrial Injuries scheme (£83m) administered by the DWP. (Figures from SFC June 2025 forecast except PAWHP from August 2025 update). By 2026-27 case transfer of other devolved DWP benefits to Social Security Scotland is expected to be complete.

Call for Views

In the Call for Views, while acknowledging fiscal challenges, most respondents were firmly in favour of current, and often increased, investment in social security describing it in terms of preventative spend, human rights and responding to clear need. A summary of the Call for Views responses is included with Committee papers for this meeting, and individual responses will be published on the inquiry webpage.

Suggested themes for discussion

Theme 1: Budget 2026-27

The Scottish Government must balance its budget. In 2025-26, social security spend is £1,048 million more than the funding provided through the Block Grant Adjustment (MTFS, Table 3.07). Because the budget was balanced, that £1,048 million gap was successfully filled from elsewhere in the budget.

In the forthcoming budget for 2026-27, social security spend is forecast to increase to £1,353 million above BGA – an increase of around £300 million. So, all else being equal, the Scottish Government will have to find an additional £300 million in addition to whatever measures it took in 2025-26.

Total resource budget shortfall in 2026-27

The total resource budget, across all areas of public spend, is moving from being in balance in 2025-26 to a £963 million projected shortfall, based on June 2025 estimates of funding and spending set out the Medium-Term Financial Strategy (Table 4). As mentioned, the Fiscal Sustainability Delivery Plans sets out 'cashable savings' which would, if achieved, meet the shortfall. For 2026-27 these are:

- Workforce reduction £0.1 billion
- Wider public sector efficiencies £0.6 billion
- Scottish spending review savings to be set out at Scottish budget £0.3 billion

Table 4: Budget shortfall in 2026-27, £m

	Funding	Spending	Gap
total resource	53,975	54, 938	-963
of which social security	6,191	7,544	-1,353

Source: Scottish Government MTFS tables 3.01 and 3.07

Table 5 shows how social security spend is forecast to increase by 12% in 2026-27 (£782m), more than the £340 million modelled increase to local government and around two-thirds of the £1,259 million modelled increase for health and social care.

Table 5: Increase in resource spending in 2026-27 by portfolio, £m

£m	2025-26	2026-27	Difference £m	%
social security	6,772	7,554	782	12%
health and social care	20,200	21,459	1,259	6%
local government	12,824	13,164	340	3%
other	12,828	12,772	-56	0%
total resource spend	**52,623**	**54,938**	**2,315**	**4%**
central funding outlook	52,623	53,975	1,352	3%

Source: Scottish Government, MTFS, Table C.01.

Increasing social security spend in 2026-27 by benefit

Table 6 shows how the increase in social security spend varies by different benefits.

Most of the increase is Adult Disability Payment (ADP). ADP spending is forecast to increase by £430 million (12%) from £3,590 million to £4,020 million.

Although the PIP BGA is also increasing (from £3,271m to £3,608m), it is not increasing as fast as ADP spending. ADP spending was £319m more than the funding received through the PIP BGA in 2025-26. In 2026-27 it is forecast to be £412m more than the PIP BGA.

The next largest increase in social security benefits spending is due to 2026-27 being the first full year of mitigating the two-child limit. Spending on the mitigation of the two child limit increases from £11m in 2025-26 to £155m in 2026-27.

Disability benefits other than ADP increase by just over £106m. The combined BGAs for these benefits increase by £102m, leaving a 'net' increase of £4m.

Table 6: Social security spend, 2025-26 to 2026-27

£m	2025-26	2026-27	Change £m	% change
Adult Disability Payment	3,590	4,020	430	12%
Other disability benefits	1,911	2,016	106	6%
Carer benefits	516	573	57	11%
Two Child Limit Payment	11	155	144	1273%
Five Family Payments	504	529	25	5%
Winter Payments	191	201	10	5%
Other	215	219	4	2%

Source: SFC forecast June 2025. Other disability: CDP, PADP, SADLA, SDA, IIDB. Winter payments: PADP, Child Winter Heating, Winter Heating (low income payment). Other is employability, DHPs, Scottish Welfare Fund, Funeral Support Payment.

Table 7: Social Security BGAs, 2025-26 to 2026-27

£m	2025-26	2026-27	Change £m	% change
PIP	3,271	3,608	337	10%
Other disability	1,876	1,978	102	5%
Carer's Allowance	422	451	29	7%
Winter Payments	156	155	-1	-1%

Source: MTFS, table 2.03. Other disability: AA, DLA, IIDB. Winter payments: Winter Fuel Payment and Cold Weather Payments.

New social security spend in 2025-26 and 2026-27

Much of the social security spend is required to meet the demand created by pre-existing policy. However, the Scottish Government is also introducing new and expanded social security benefits between now and April 2026 which are included in the above spending estimates but have not yet been legislated for. Together these are forecast to cost around £360m in 2026-27 and are:

- **Two-child Limit Payment**, at a cost of £11 million in 2025-26 rising to £155m in 2026-27.

- **Pension Age Winter Heating Payment**, at a cost of £187m in 2025-26 rising to £196m in 2026-27, with potential to recover £30/£33m through the tax system. This compares to forecast spend of £32m had it remained restricted to Pension Credit. (SFC supplementary costing, September 2024, Fiscal Update August 2025). The BGA is also increasing by around £120m.

- **Additional person carer payment** as a cost of around £7m in 2025-26 rising to around £9m in 2026-27. (SFC costing, September 2023).

In the Call for Views, some organisations, including CPAG and the Scottish Women's Budget Group, called for the Scottish Child Payment to be increased to £40 in the next budget, costing an additional £190m and resulting in 15,000 fewer children in poverty.

Members may wish to discuss:

1. **Looking just at next year's budget, what are the main pressures on the Scottish Government in trying to balance the budget, and what role is social security playing in that?**

2. **Social security spending can only be controlled through changing the rules or reducing payment rates. Is there any reason to consider that either of these are necessary to deliver a balanced Scottish budget in 2026-27?**

3. **The Fiscal Sustainability Delivery Plan set out 'cashable savings' which would total around £1 billion in the first year. What are witnesses' views on how achievable that is in the short term? What other actions can the Scottish Government take to deliver a balanced budget in 2026-27?**

Theme 2: Five-year forecast spend

Theme 1 looked at the short-term pressures on the budget. Taking a longer-term view to the end of the decade opens more possibilities for addressing any shortfalls. The Fiscal Sustainability Delivery Plan sets out 'cashable savings' that, if realised, would be sufficient, to meet the projected shortfall.

In its fiscal update in August 2025 the Scottish Fiscal Commission commented that:

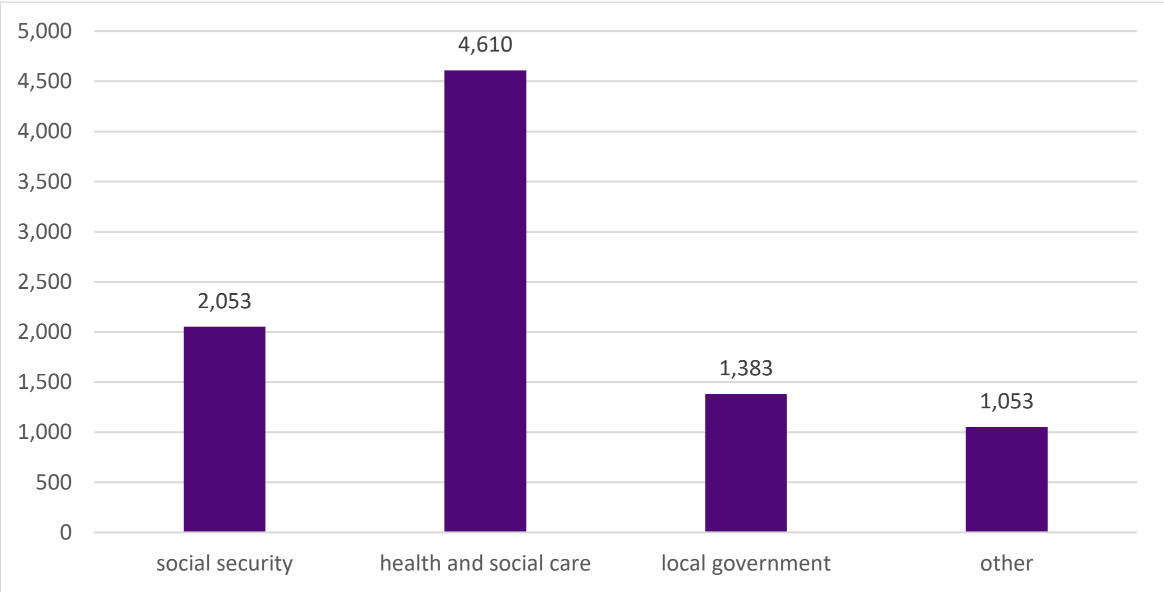
> "The (Scottish Spending Review) SSR provides an opportunity for the Scottish Government and the Scottish Parliament to address both immediate budgetary pressures and, crucially, long-term fiscal sustainability challenges. Closing the fiscal gap will require all parties in this parliament and the next to work together to address the fiscal challenges. Any debates around new

> spending plans, changes to social security policy, or tax changes need to consider the broader public finances."

Social security spending is forecast to continue to grow faster than other areas of the budget. Over the five-year period, social security spending is forecast to increase by 30%, from £6,772 million this year to £8,825 million in 2029-30 (table 1, above).

In 2029-30, the Scottish Government estimates that it will be spending an additional £4,610 million on health and social care, compared to 2025-26, and an additional £2,053 million on social security (chart 1).

Chart 1: Increase in spending from 2025-26 to 2029-30, £m (cash terms).



Source; Scottish Government, MTFS, Table C.01.

This rate of growth is based on current policy. In the call for views there were calls for increases to social security spend beyond current policy, particularly to the Scottish Child Payment and to consider the adequacy of disability benefits.

For example, there were calls to increase SCP to £55 by the end of the next Parliament and to expand eligibility for carer benefits and ADP. For example, the MS Society has long campaigned against the '50% rule', which they argue prevents support being awarded to people with fluctuating conditions. (This is the requirement that a person's needs or difficulties must be present at least 50% of the time to quality for support).

There were suggestions that taxation changes could fund additional social security spending. For example, the Poverty and Inequality Commission said:

> "Projections like those offered by the SFC indicate the demand for important public services like social security can be expected to continue to increase in the future. […] Acting on broadening the tax base will also be needed to plan for, and fund, this future."

Members may wish to discuss:

4. **Social security spend is forecast to increase by 30% by the end of the decade. Do witnesses consider that problematic? Why/why not?**

5. **The Scottish Government has set out its Fiscal Sustainability Delivery Plan. The previous theme considered the prospects for short term savings. Looking across the longer term, what are witnesses views on achieving the projected five-year savings?**

6. **In the Call for Views, many respondents said that substantial further investment in social security (above the levels already forecast) is necessary to meet the statutory child poverty targets. Given the broader financial context, what is the scope for increasing social security spend still further?**

7. **In response to the Call for Views, some called for changes to taxation to fund the growth in social security. What are witnesses views on the scope of devolved taxes to fund further growth in spending?**

Theme 3: Social security as preventative spend

The Scottish Government's Fiscal Sustainability Delivery Plan includes a focus on preventative spend, with the intention of:

> "Investing in the most impactful preventative spend to reduce service demand in the medium to long-term."

Under the strategies and programmes listed are investment in social security as a means of tackling poverty, particularly child poverty.

This reflects the views of many respondents in the Call for Views, for example CPAG said:

> "To achieve and sustain low levels of child poverty there must also be more investment in childcare, housing and improving employment opportunities for parents and carers. However, these other interventions will never be enough on their own to tackle child poverty effectively.
> […]
> Social security will always play a vital and cost-effective role in driving down and sustaining low levels of child poverty, by providing financial support to families during this unique and time-limited period of their lives."

Similarly, Fraser of Allander stated that:

> "Even under heroic assumptions about what is possible, increasing parental employment and pay from work is not sufficient for meeting the 2030 child poverty targets. It is clear that devolved social security will need to play a role in any policy package designed to reach the targets."

However, COSLA stated that:

> "It is crucial that future spending priorities should focus on investment in prevention and early-intervention, to reduce the demand for social security and health services."

They noted that: "Local Government provide a range of upstream services that benefit the wider determinants of health that again hold the ability to mitigate the pending fiscal sustainability challenges."

In the responses to the Call for Views social security is discussed as both a response to poverty and a necessary part of preventing it. It is argued both that spending on social security reduces demand for other public services and that spending on other public services reduces demand for social security. While this would favour investment across all services including social security, a few respondents argued that spending on social security reduces the ability to invest in other public services. A more common view was that revenues need increase through changes to the tax system to invest across all public services.

Members may wish to discuss:

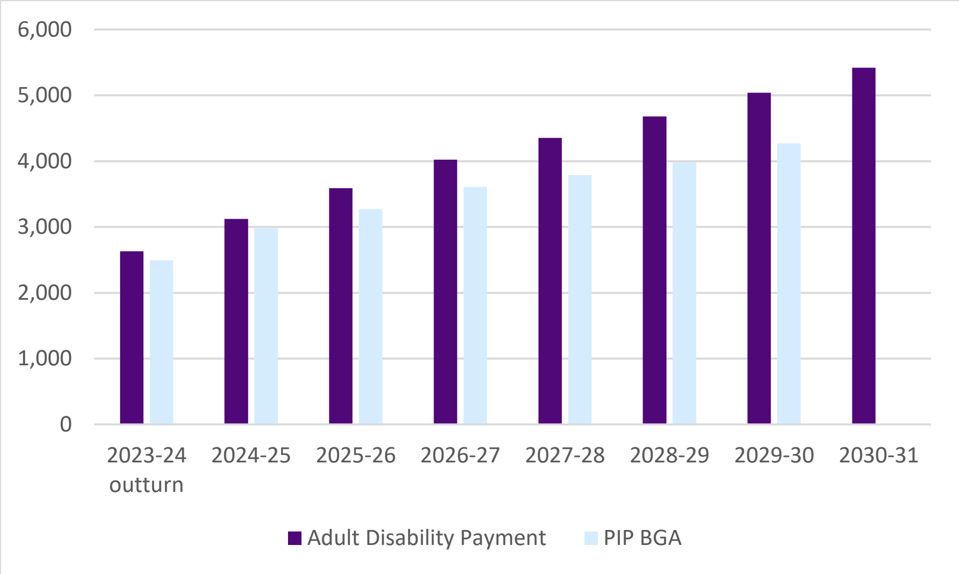
8. **Do witnesses have any comments on the argument that social security is preventative spend?**

9. **To what extent would treating social security as preventative spend help decide on an approach to balancing the Scottish budget?**

Theme 4: Growth in disability benefit caseload and spending

Adult Disability Payment makes up over half the spend on devolved social security, so trends in this benefit have a large impact on overall spending. The chart below shows the latest five-year forecast of ADP spending together with the latest forecast BGA (which includes PIP reforms).

Chart 2: Forecast spend on Adult Disability Payment compared to PIP BGA, £m



Source: SFC, June 2025, May 2025. N.B the PIP BGA will increase, particularly in later years, as PIP reforms are no longer planned.

Caseload

The number of people in receipt of disability benefits has risen across the UK in recent years but the reasons are not fully understood.

The [IFS Report - The role of changing health in rising health-related benefit claims]() states that:

> "There has been a lively debate about the underlying causes for the rising number of people claiming health-related benefits and out of work due to ill health. Three potential causes have been most discussed: first, a long-run worsening in health potentially partly related to the COVID-19 pandemic; second, falling real incomes due to rising energy prices in 2022; and third, the nature of the UK's welfare state, and specifically the benefit system."

The report finds: "compelling evidence that mental health has worsened since the pandemic", but that; "On physical health, the evidence is less clear, with the surveys giving a mixed picture." The report concludes that:

> "At a minimum, the evidence is certainly not there to rule out deteriorating health as a contributing factor to the rise in people claiming health-related benefits."

In Scotland there is the additional influence of Scottish Government policy on ADP which was always expected to result in higher caseload and spend.

The Scottish Fiscal Commission in their August 2025 update link the UK wide increase in disability benefits to deteriorating health and the faster rise in Scotland to the Scottish Government's approach to delivery.

> "In recent years there has been a substantial increase in demand for disability benefits across the UK, with a larger relative increase in caseload in Scotland for Adult Disability Payment (ADP) than in England and Wales for PIP. We think the UK-wide higher demand is because of a deterioration in health, meaning more people are eligible, and the cost-of-living pressures, meaning more eligible people apply for the payments.
>
> As the eligibility criteria for ADP in Scotland and PIP in England and Wales are largely aligned, we think the larger increase in caseload in Scotland is the result of the Scottish Government's approach to delivering the payment. This approach includes support for people through the application process, increased promotion of the payment to increase take-up, and the process for award reviews resulting in a smaller share of people no longer receiving the payment."

Later in September, Audit Scotland are due to publish a report on the 'added value' of ADP.

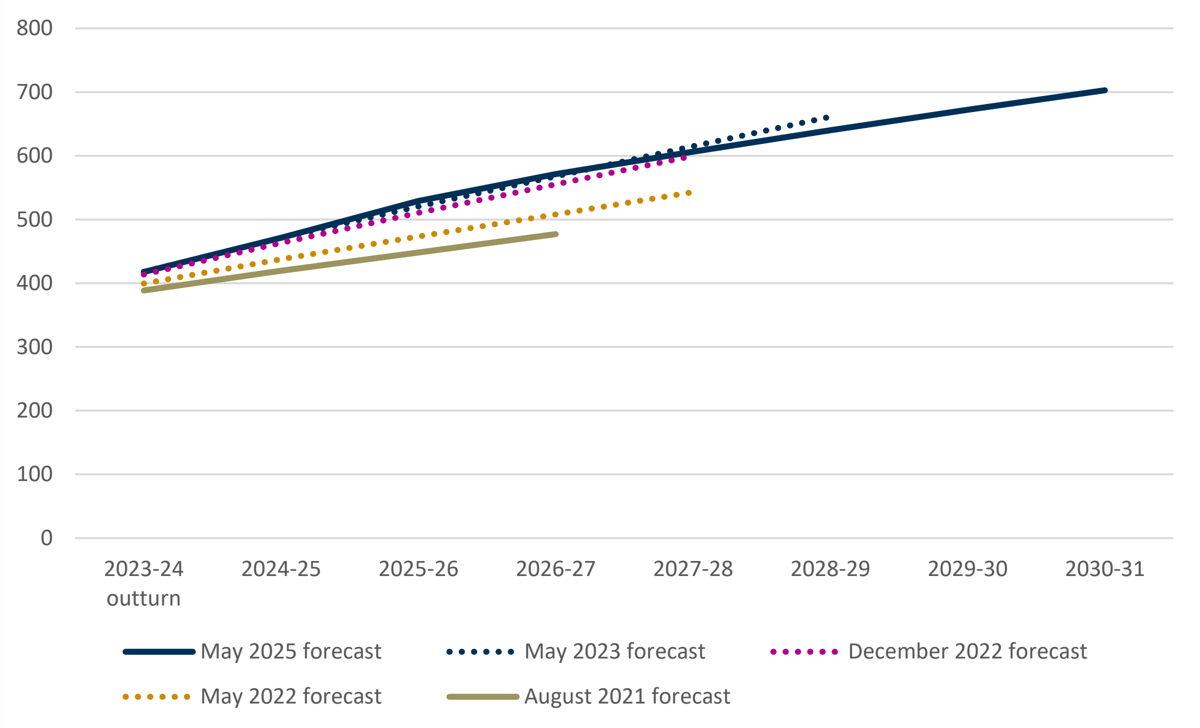
In their August 2025 forecast evaluation, the SFC report that ADP spend in 2024-25 was £96m lower than forecast. However, they note that longer term, the trend is for increased growth. The factors contributing to lower short-term and higher long-term growth were:

> "higher numbers of applications, lower application success rates, lower average payments, and fewer people leaving the caseload after an award review. These changes have reduced our forecast in the short term. The net effect in later years has been to increase forecast spending on ADP, as the changes to our assumptions on award review outcomes build up more gradually but eventually outweigh the downward changes."

As part of its work to balance the budget, the Scottish Government is looking at whether the ADP review process is working as intended.

The chart below shows the latest forecast for APD caseload compared to earlier forecasts. While growth has been faster than was expected in 2021 the current trajectory of growth has been clear since the forecast was made in December 2022.

Chart 3: Changing forecasts of ADP caseload, 000s



Source: SFC forecasts for each year.

Table 8 below looks in more detail at how forecasts for a single year have changed over time. A large increase in caseload and spending was included in the December 2022 forecast. At that point it was forecast that ADP spend ‘above BGA’ would be £573m in 2026-27. The most recent forecast places it at £412m.

Table 8: Changing forecasts for ADP in 2026-27

Forecast year	December 2021	December 2022	December 2023	December 2024	May 2025
ADP spend £m	3,034	3,794	3,895	3,983	4,020
PIP BGA £m	2,820	3,221	3,516	3,603	3,608
Spend above BGA £m	214	573	379	380	412
Caseload 000s	475	555	541	575	571
Average award, £	122	131	138	132	135

SFC forecasts, December 2021,December 2022, December 2023, December 2024, May 2025. All figures relate to forecasts for 2026-27.

Members may wish to discuss:

10. **What progress has been made in understanding the reasons for the increasing number of people getting disability benefits across the UK?**

11. **What progress has been made in understanding the contribution of devolved policy making to the growth in disability benefit caseload and spending in Scotland?**

12. **Increasing ADP caseload and spend has been clearly forecast since the benefit was introduced in 2022. Do witnesses have any comment on the way the Scottish Government is managing its budget in order to meet this demand over the medium to longer term?**

Theme 5: UK Government influence on Scottish Government budget

UK Government policy on social security affects the level of social security BGA. The recent examples of changes to Winter Fuel Payment and proposed changes to Personal Independence Payment show that quick changes in UK Government policy can affect the affordability of Scottish policies.

Block Grant Adjustments

There is an addition to the Scottish block grant for each benefit that was devolved, such as PIP or the Winter Fuel Payment. The Scottish Government has since created additional benefits (such as the Scottish Child Payment) for which there is no BGA.

The BGA can be thought of what the UK Government would have spent had the benefits not been devolved. Therefore, when the UK Government announced reductions to Winter Fuel Payment and proposed changes to PIP, this resulted in estimates of lower BGAs for these benefits.

For Winter Fuel Payment, the reduction in BGA was such that the Scottish Government felt constrained to follow suit with subsequent policy changes – first to restrict eligibility to Pension Credit and now to extend to those with incomes of £35,000 or less per year. (A planned Scotland-only policy to provide £100 payment to those not eligible via Pension Credit was superseded by the policy to introduce the £35,000 income threshold).

The impact of the PIP reforms on the BGAs would have been less immediate – building up to £440m lower BGA by 2029-20 than previously forecast. The policy was announced in the 2025 Spring Statement. Legislation was introduced in early summer but the relevant provisions were removed in July. A review of PIP is underway led by Sir Stephen Timms which is due to report in Autumn 2026.

The table below shows the impact of these UK policy changes on the BGAs over a relatively short space of time.

Table 9: Winter Fuel Payment BGA changes, £m

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Universal Policy	178	181	182	180	181	
Restriction to Pension Credit	32	31	30	29	29	29
Addition from expansion to under £35,000		120	120	119	118	119

Source: SFC forecasts December 2023 (universal), December 2024 (Pension Credit), MTFS June 2025 (estimated addition expected from policy change to include income threshold).

Table 10; Impact of UK spring statement 2025 on social security BGAs, £m

2026-27	2027-28	2028-29	2029-30
-12	-169	-329	-440

Source: SFC, May 2025.

Members may wish to discuss:

13. **Recent UK social security policy has shown that the social security block grant adjustments can change unexpectedly. In what ways and to what extent does this affect the Scottish Government's ability to plan devolved social security policy?**

Camilla Kidner, Senior Researcher, SPICe

Date: 29 August 2025