FPA/S6/25/24/1

Finance and Public Administration Committee
24th Meeting, Session 6
Tuesday 9 September 2025

Pre-budget 2026-27 scrutiny: Responding to Long-Term Fiscal Pressures

Purpose

1. The Committee is invited to take evidence in relation to its pre-budget 2026-27 scrutiny on Responding to Long-Term Fiscal Pressures from the following two panels of witnesses:

   Panel 1
   - Richard Robinson, Senior Manager, Audit Scotland, and
   - João Sousa, Deputy Director and Senior Knowledge Exchange Fellow, Fraser of Allander Institute.

   Panel 2 (round-table session)
   - Michael Kellet, Director of Strategy, Governance and Performance, Public Health Scotland,
   - David Livey, Policy and Public Affairs Manager, Scottish Council for Voluntary Organisations,
   - Dave Moxham, Deputy General Secretary, Scottish Trades Union Congress,
   - Mike Brown, Treasurer, Social Work Scotland, and
   - Ian McCall, Policy and Campaigns Officer, Walking Scotland.

2. This paper highlights the areas being considered by the Committee as part of its pre-budget 2026-27 scrutiny, along with key issues raised during evidence on 2 September and in the above witnesses' written submissions.

3. A summary of key documents recently published by the Scottish Government and Scottish Fiscal Commission (SFC), including its Fiscal Update – August 2025, is provided in Paper 1 for the Committee's 2 September 2025 meeting.

4. The SPICe blog, Balancing the Scottish budget: the challenges ahead, also provides information on the Scottish Government's Medium-Term Financial Strategy (MTFS) and Fiscal Sustainability Delivery Plan (FSDP), which were published on 25 June 2025, and its Public Service Reform (PSR) Strategy dated 19 June 2025.

5. The Chancellor announced on 3 September 2025 that the UK Autumn Budget will be published on 26 November 2025. In a letter to the Committee of the same date, the Cabinet Secretary for Finance and Local Government explained that "this delay by the UK Government does make it very challenging for the Scottish

Government to undertake the detailed financial planning needed to bring forward our fiscal publications before Christmas", adding "I am also aware that deferring the Scottish Budget until January will reduce the time available for scrutiny and the Bill timetable". The Cabinet Secretary is considering the options and has invited views from the Committee.

Responding to Long-Term Fiscal Pressures

6. The Committee has agreed to focus its pre-budget 2026-27 scrutiny on Responding to Long-Term Fiscal Pressures and, within that broad theme, to consider the following issues—

    - the steps the Scottish Government is taking now in response to fiscal pressures arising from the population trends highlighted in the SFC's latest Fiscal Sustainability Report,
    - the Scottish Government's approach to increasing productivity and economic activity,
    - the steps being taken by the Scottish Government to support growth sectors in Scotland with a view to increasing economic performance and tax revenues,
    - key financial documents to be published by the Scottish Government during pre-budget scrutiny, including its MTFS and FSDP, including whether they demonstrate improved medium- and longer-term financial planning by the Government,
    - the specific update the Committee asked to be included in the MTFS on the fiscal sustainability of social security spend including "details of how the Scottish Government is assessing the effectiveness and outcomes of its approach to the delivery of benefits as well as impacts on other parts of the Budget", and
    - the Scottish Government's PSR Strategy and Infrastructure Investment Plan (IiP) pipeline refresh.

7. The Committee issued a call for views on 13 June, which ran until 11 August 2025. 28 written submissions have been received and are published on the Committee inquiry web pages. SPICe is preparing a summary of the submissions received.

8. To inform its pre-budget 2026-27 scrutiny, the Committee heard from the SFC followed by the Cabinet Secretary for Finance and Local Government on 2 September and further evidence sessions are planned to take place during September. The Committee expects to publish a report on its findings in October.

Meeting on 2 September 2025: key issues discussed

9. The following key issues were discussed at the Committee's evidence sessions with the SFC and Cabinet Secretary for Finance and Local Government on 2 September—

- Transparency – While the transparency and presentation of budgetary information has improved in recent years, the SFC suggested that further enhancements could be made. These include routine in-year funding transfers being baselined in the Scottish Budget and a threshold for in--year changes made following the Autumn Budget Revision.
- Prioritisation – Spending on the NHS, social security and pay continue to grow and it is unclear which areas of spend are being deprioritised by the Scottish Government. It was suggested that a strategy for managing those areas of spending that are reducing is now required. The Cabinet Secretary indicated that the Scottish Government is prioritising “those most in need” as well as programmes that are proven to work.
- Reliability of statistics - While the Office for Budget Responsibility (OBR) continues to use the Labour Force Survey (LFS) to inform its forecasting, the SFC now uses real-time information. Unreliability of the LFS due to sample size brings challenges in understanding trends such as the reasons behind an increased take-up of Adult Disability Payment (ADP). More broadly, this can erode trust in the evidence and statistics that inform policymaking. The SFC is currently working with the University of Strathclyde[1] to move towards ‘nowcasting[2]’ on the Scottish economy.
- Reconciliations – An indicative negative reconciliation of £851 million for the 2027-28 Scottish Budget exceeds Scottish Government borrowing limits for forecast error[3]. The Cabinet Secretary is, along with her counterparts in Northern Ireland and Wales, seeking early discussions with the newly appointed Chief Secretary to the Treasury. A priority is securing a comprehensive review of the Fiscal Framework, alongside some “small improvements” that can be made more quickly, such as increased limits for borrowing and the Scotland Reserve.
- Local Government – The Cabinet Secretary indicated that, while there is agreement on 95% of arrangements being discussed for a new Fiscal Framework with Local Government, views differ regarding rules-based budgeting. The Scottish Government is keen to ‘codify’ the Local Government Fiscal Framework around those areas of agreement ahead of discussions on the Scottish Budget 2026-27.
- Workforce – Recent publications include limited detail on how the policy of reducing the public sector workforce by 0.5% annually will be met, including the impact of protecting frontline services on other areas of the workforce. The Cabinet Secretary told the Committee that the policy on 0.5% “absolutely has to be delivered and will be delivered”. There is “also a requirement to deliver” a 20% reduction in administrative costs across the public sector. She said this will be done in a ‘managed way’ and the Scottish Government is keen to avoid compulsory redundancies, but this remains an option as a last resort.
- Social security spending – The Cabinet Secretary indicated that social security processes, including for ADP, should be robust and efficient. Her

[1] https://www.economicsobservatory.com/how-can-macroeconomic-forecasting-in-the-uk-be-enhanced#:~:text=Nowcasting%20is%20used%20by

[2] ‘Nowcasting’ involves using early-release data to estimate economic conditions before official statistics are finalised.

[3] Exact figures will be confirmed in July 2026.

expectation is that any fraudulent claims would be pursued given the potential for criminality.
- Capital spending – "Lumpy capital injections" that require to be spent quickly can lead to increasing inflation. While the Scottish Government has some levers to smooth out this type of spending, gradual capital growth is preferable. The Cabinet Secretary said she is disappointed that the Scottish block grant is "declining compared to that in UK Government departments". Capital plans will be included in the Infrastructure Investment Plan to be published at the same time as the Scottish Spending Review.
- Scottish Spending Review (SSR) – The SFC told the Committee that the SSR must be comprehensive and is important in setting the scene for debate around the priorities for the next Parliament. Asked whether the Scottish Government would take a zero-based budgeting approach to the SSR, the Cabinet Secretary suggested that "everything should be challenged" and that level 4 figures were being interrogated in each department.

Written submissions

Audit Scotland (AS)/Auditor General for Scotland (AGS)

10. The AS/AGS submission suggests that "overall, [the June 2025 MTFS, FSDP, and PSR Strategy …] provide better information than the previous MTFS on the nature of the fiscal challenge facing public services", including "more coverage of the measures the Scottish Government intends to take against its three pillars". However, it highlights that "the extent to which the Scottish Government's spending projections are linked to existing spending commitments means it is difficult to see to where and to what extent future portfolio budgets can flex to meet fiscal pressures".

11. The submission further states that "monitoring of how the measures are performing together over time, and when a shift from shorter-term efficiency measures to longer-term reform and prevention is taking place will be important". It notes that more detail on the size and costs of the workforce is useful and aids scrutiny, however, "an approach focused purely on controlling workforce numbers and pay costs will not address capacity issues and is unlikely to be sufficient to put public finances on an even keel".

12. The submission goes on to highlight "some clear consistencies between the MTFS, the FSDP and the PSR strategy", adding that "the read across between these documents is important for scrutiny to understand how the fiscal outlook fits together with specific measures to address them, including reform". It notes that the PSR strategy includes some limited information on how the Scottish Government intends to measure and monitor progress but stresses the importance of putting these arrangements in place quickly "to enable transparency and scrutiny of both its measurement framework, and the results it is achieving over the coming years". On capital spending, the submission notes that "given the importance of infrastructure to public services and to economic

growth, a clear vision of how it will prioritise its spending through an updated IIP is vital".

Fraser of Allander Institute

13. In its submission, the Fraser of Allander Institute (FAI) welcomes the increased transparency in the MTFS, highlighting, for example, that for the first time the document clearly sets out assumptions underlying the main scenarios. However, it notes that all areas are presumed to grow in line with inflation except those areas which are likely to grow more than that, such as spending on NHS, social security, pay, and local government (including social care). It goes on to suggest that this "essentially assumes no prioritisation of needs and funding for different areas, merely growing them in the assumption that all are equal priorities for the Scottish Government […, which] in practice cannot really be true".

14. The FAI remains unclear why the FSDP needs to be a separate document to the MTFS, adding that the FSDP appears to be "lacking an overall statement on how the proposed savings would add up and how they compare with the fiscal gaps in the MTFS". It further suggests that including a table and spreadsheet breaking down all the underlying assumptions "would make this much easier to scrutinise". The FAI questions the plausibility of the statement in the FSDP that the devolved workforce would fall by 0.5% a year without any effect on frontline services.

15. The FAI indicates that more information would be helpful on how the Scottish Government plans to "measure preventative spend by Government and track that the proportion of spend on prevention increases and the resultant spend on acute/crisis decreases". This includes on "how acute spending affected will be identified and attributed to particular preventative spending".

Public Health Scotland (PHS)

16. In its submission, PHS said it advocates for a public health approach to prevention which, it suggests, "would stop issues from emerging in the first place". It argues that resources saved through preventative approaches should be deployed in other areas rather than being viewed as efficiencies. PHS considers both the MTFS and FSDP to be "a serious attempt to deal with current issues, while reforming our systems to better cope with future demand" and also highlights the Population Health Framework "as a key method of pivoting Scotland's systems to embrace long-term change".

17. PHS call for a new category of prevention spend in the budget "which would align with the direction for prevention outlined in the PSR Strategy" and "also help to incentivise change as work continues to implement the Population Health Framework". As part of the Scottish Spending Review, it would like to see progress in prioritising, monitoring and evaluating preventative measures across the public sector as part of the broader direction of public service reform.

18. The submission highlights that "improving population health is important for economic growth", adding that "better health outcomes could boost labour supply, productivity, potentially increase earnings, while also increasing tax yield". It

argues that a multi-faceted approach involving preventative health measures, workplace adaptations, and targeted policy interventions is required to address economic inactivity due to long-term health conditions. In addition, “by supporting individuals with chronic health conditions, Scotland can improve workforce participation, tackle child poverty, support economic growth and contribute to fiscal sustainability”.

Scottish Trades Union Congress (STUC)

19. In its submission, the STUC argues that to start to address Scottish specific fiscal sustainability challenges, Scotland needs more workers and more tax revenue. It suggests that the Scottish Government should call on the UK Government to devolve powers relating to migration and employment law and to provide opportunities for involvement in key cross-border institutions and decision-making bodies “to ensure Scotland’s specific population challenges are heard at a UK level”.

20. The STUC questions the credibility of both the Scottish Government’s plan to close the resource fiscal gap of £2.6 billion by 2029-30 as stated in the MTFS, and wider public sector efficiency targets. It notes that the workforce reduction target of 0.5% per annum over five years “is simply salami slicing and will lead to the loss of 12,000 jobs”.

21. In addition, the submission highlights that, while the Scottish Government’s policy choice to invest in social security over and above the funding received from the UK Government through the Block Grant Adjustment, is welcome, it is not sustainable unless accompanied by additional tax revenue. It therefore argues that a tax review should take place alongside the Scottish Spending Review. The STUC also suggests that the Scottish Government should invest in health spending and employment support to assist people with ill-health to re-enter the labour force. Capital spending, it states, should be targeted towards social housing, including council housing “if we are to address the housing crisis”, and also towards decarbonising the economy.

Social Work Scotland (SWS)

22. SWS, in its written evidence, suggests there is a case for extending the time horizons of the MTFS, given that “the basis for longer-term planning exists” through the SFC’s April 2025 Fiscal Sustainability Report and the risk of longer-term challenges such as climate change not being addressed through medium-term plans. It states that the calculations behind the spending assumptions have not been made available and therefore there is insufficient information to be able to fully assess them. The submission recognises that the 2025 MTFS includes more data on workforce than in previous years but “that improvement is still insufficient for transparency”.

23. The submission goes on to say that “in our view, the least satisfactory section of the MTFS is the treatment of the forecast resource spending for Local Government”, suggesting there is discrepancy between the figures in the MTFS and the final Local Government Finance Circular for 2025-26, as well as

"problematic" methodology. SWS goes on to recommend that the Scottish Government reviews the Local Government forecast spends with COSLA and its partners.

24. SWS largely agrees with the three pillars in the MTFS of public spending, economic growth and taxation and welcomes publication of the FSDP which it suggests "develops further the solutions framework". It goes on to say that "the FSDP scope is very ambitious in rising to the formidable challenge, but it remains to be seen how the Scottish Government is able to mobilise its resources and those of its partners to jointly deliver on the sustainability plan". It further calls for a better link between the MTFS, FSDP and PSR Strategy, particularly around prevention and preventative spend.

Walking Scotland

25. In its submission, Walking Scotland agrees with the SFC that "if improvements in population health can be achieved, pressure on health-related spending may be reduced in the future". It therefore calls for a prevention-first approach, which it notes is included in both the Population Health Framework and the Physical Activity for Health Framework. It argues that "promotion of walking and wheeling is a key preventative approach which helps reduce risk factors, builds independence and improves longer-term health outcomes".

26. Walking Scotland therefore considers that walking should be embedded in exercise referral schemes and that regular maintenance of path networks is essential "to prevent slips, trips and falls that reduce the mobility of older groups and increase pressure on health and social services.". Investing in walking, particularly in communities most affected by poverty and poor health, "is a practical and low-cost way to improve our mental, physical and social health and reduce the pressure on the NHS".

27. The submission further notes that participation in regular walking or wheeling was most common for people who are "very comfortable financially" and those in "very good health". It also highlights that when asked what factors would encourage them to walk or wheel more often, almost double the number of women than men (44% vs 23% respectively) answered with "feeling safer when walking at night".

Next steps

28. The Committee will continue to take evidence on its pre-budget 2026-27 scrutiny throughout September and is expected to report on its findings in October 2025.

Committee Clerking Team
September 2025

Written Submission from Audit Scotland on behalf of the Auditor General for Scotland

1. What actions should the Scottish Government be taking now to start to address these 'Scottish specific fiscal sustainability challenges'?

The fiscal sustainability challenge set out in the Scottish Fiscal Commission's report remains stark. The report projects an annual budget gap every year until 2074/75. I note that this projection assumes that the Scottish Government continues to balance its budget until 2029/30; currently the Scottish Government's Medium Term Financial Strategy is projecting a resource budget gap in each year from 2026/27 onwards, reaching £2.6 billion by 2029/30.

The SFC's report is clear that an aging population and population health issues relative to the rest of the UK are contributing to this gap. While demographic changes are a UK wide issue, Scotland's relatively more acute position risks spending pressures being greater, as well as being a potential drag on economic productivity and tax revenues over the whole period.

I have been clear in several recent reports on the need for urgent action to mitigate these risks including the Fiscal Sustainability and Reform report, published in November 2024. The Scottish Government's risk registers continue to identify risks to fiscal sustainability and score them highly, despite the range of actions the Scottish Government is taking. Structural or systemic changes to services take time and resources to achieve. The longer reform takes to deliver, the more pressure in the near term must be managed through continuing efficiencies, delays and other non-recurrent savings.

The call for views highlights the SFC's statement that improved population health measures can improve the Scottish Government's long-term fiscal position. As set out in my NHS in Scotland 2024 report, achieving this requires a whole-system approach to improving the health of the Scottish population. Without an increased and ongoing focus on prevention, it is likely that any increases in activity or short-term service reforms will remain insufficient to respond to growing demand.

In June 2025, the Scottish Government and COSLA published its Health and Social Care Renewal Framework, which includes focus on key principles including prevention, population planning and services designed around people and their communities. The production of a framework is an important development. The Scottish Government has a crucial leadership role, and I have previously reported in my Financial Sustainability and Reform report that leadership on reform has been lacking. To be successful, leadership should clearly focus on how principles are actioned, delivered and monitored. This should include clear financial measurements and milestones of success if it is to contribute towards a sustainable financial position.

I have also previously reported that the Scottish Government's structures are not designed to support cross-sector working . I note that key pillars of the PSR approach cover cross-cutting preventative measures, including preventative budgeting, joining up services and making efficiency savings . The strategy also includes indicative future savings from better population health, such as smoking and obesity reduction. Future publications, such as my report on the NHS in Scotland 2025 will comment further on service renewal and population health plans.

For effective monitoring and scrutiny of progress over time, strategies, plans and spending decisions should be aligned, giving a clear read across of the financial and performance consequences of change. In recent months we have seen the publication of the delayed medium-term financial strategy, as well as a fiscal sustainability delivery plan. The Scottish Government's Scottish Spending Review is also expected alongside the 2026/27 budget in December. To enable effective scrutiny of long-term plans for reform and financial sustainability, it is vital that the Scottish Government present its ambitions and progress in a way that shows how the various strategies and plans fit together.

This alignment should flow through to annual budgets, allowing the Scottish Parliament to clearly scrutinise how spending and tax decisions are supporting longer term fiscal sustainability and what savings could result from them.

The Scottish Government is currently reviewing its National Performance Framework. Ultimately, any changes with a view to improving fiscal sustainability, should be aligned to national outcomes. As such, monitoring of the impact of change on people must be factored in and reported alongside any financial and systemic change to public services. I note that the MTFS does not refer to the NPF at all, and that the Financial Sustainability Delivery Plan only does so to reference its intention to refresh it. It will be important that future Scottish budgets and the Scottish Spending Review are clearer about how its measures link to its performance framework for outcomes. This will help the Scottish Government to understand the full impact of its approach, as well as highlighting any performance issues that suggest a change in spending is required.

I have previously reported that it will be critical that any agreed national outcomes are supported by measurable indicators which can demonstrate the progress being made. Of the 81 current national performance indicators currently in place, no performance data has been reported against 11 of them. We cannot continue to be a position where indicators do not progress beyond development stages.

Robust strategies are needed, both to direct the Scottish Government's own financial decision making in devolved areas, and to understand how to respond to external events . The Scottish Government needs to be clear how it will respond to UK Government policy decisions that impact upon the Scottish Government's budget. The UK Government's budget decisions in areas of tax and spending that are devolved to the Scottish Parliament directly affect the funding available to the

Scottish budget. I have reported in November 2024 that the Scottish Government does not know where it can flex its budget easily to accommodate short-term fluctuations or longer-term commitments.

Improving this understanding will be critical in light of the long-term challenges ahead. For example, while the SFC notes that its better health scenario will mitigate the budget gap , if it assumes a UK Government response to its own fiscal sustainability concerns, over the long term, even the better health scenario in Scotland would leave an 18 per cent budget gap by 2074/75.

The Scottish Government risks exposing its budget position to risk if it does not fully consider how it will respond to relative UK Government measures, both in terms of its own population health agenda and any fiscal tightening that may occur.

The Fiscal Sustainability Delivery Plan outlines its three-pillar approach to prioritise spending, grow Scotland's economy, and take a strategic approach to tax. Linked to the above, Scotland's own plans and successes against these pillars should be seen in relative terms against the UK Government's own plans and outcomes. This is central to areas of devolved spending and taxes set out in the Fiscal Framework. For example, the Scottish Fiscal Commission notes that the economic performance gap between Scotland and the rest of the UK is acting as a drag on tax revenues for budget purposes. Social security costs are also projected to be relatively higher than funding received based on costs in the rest of the UK. Given that the relative performance of the Scottish economy, alongside tax and spending decisions is of such importance, the Scottish Government will need to clearly monitor how its three pillars are performing, not just in their own right, but also against the performance in the rest of the UK in devolved areas. For example, the pillar for growing Scotland's economy is important for a number of reasons, however for financial sustainability purposes, an economy growing faster than the rest of the UK matters.

2. To what extent does the Scottish Government's 2025 MTFS and its FSDP demonstrate effective medium- and longer-term financial planning? Can any improvements be made in future years?

This is the first MTFS published since May 2023. In November 2024, I reported that, while the Scottish Government had set out an overarching approach to fiscal balance, the detail and medium-term plans to support this were missing. This was during a period of significant pressure on Scottish public finances and consequently made scrutiny of the medium- and long-term fiscal position difficult. Furthermore, the Scottish Government was continuing to take short-term decisions, reacting to events rather than making fundamental changes to how public money is spent.

I welcome the publication of June 2025 MTFS, alongside the Financial Sustainability Delivery Plan (FSDP) and Public Service Reform Strategy. Overall, these documents provide better information than the previous MTFS on the nature of the fiscal challenge facing Scottish public finances. For example, there is more coverage of the measures that the Scottish Government intend to take against its three pillars, and more data available in its appendices. The focus on core priorities is clear, however, as referred to above, the lack of reference to the NPF outcomes overall means that it is more difficult to judge how measures set out in the documents will help Scotland's overall wellbeing goals. Where future spending and tax plans may involve shifting funds towards priorities from other areas of the budget, understanding what impact that this will have on wider outcomes is important. Related to this, the extent to which the Scottish Government's spending projections are linked to existing spending commitments means it is difficult to see to where and to what extent future portfolio budgets can flex to meet fiscal pressures.

Of the three pillars of activity, the MTFS states that in the short to medium-term, "the most immediate lever by which we can improve fiscal sustainability is in public spending and this is reflected in the scale and scope of activity under this pillar." The Scottish Government has relied on spending controls to manage in-year budget volatility in recent years . This has involved scaling back or stopping spending on some programmes entirely. While controls on spending are an important part of managing annual budgets, the Scottish Government will need to look proactively at more planned recurrent savings, as opposed to reactive changes that risk disrupting services or progress towards long-term governmental objectives.

The key measures under pillar one (spending) set out where the Scottish Government will focus its efforts , although at this stage it is unclear the extent to which each of the measures will support the medium to longer term financial position. These are:

- Increasing public value, identifying and prioritising higher impact spending
- Identifying efficiencies and productivity
- Service Reform
- Prevention

The Scottish Government will need to be clear in its future spending plans and financial strategies how each of these measures is contributing to the fiscal gap over time, and what spending decisions are required to support them. For example, reform and preventative measures to make an effective contribution to financial sustainability, although the financial impact on the budget may take several years to manifest. This suggests that over the coming years, prioritisation of spending and efficiency measures will carry most of the weight to deliver savings to support balanced budgets. Monitoring of how the measures are performing together over time, and when a shift from shorter-term efficiency measures to longer-term reform and prevention is taking place will be important.

The MTFS and FSDP gives key drivers of spending change including reducing the size of the public sector workforce, delivering efficiencies and reform in health and social care and improving the efficiency of how social security benefits are delivered. Taking these in turn, more detail on size and costs of the workforce included in the documents is useful; I reported on the need for better data in my 2003 report, The

Scottish Government's workforce challenges. This will aid scrutiny, especially given the relatively larger and higher paid public sector workforce in Scotland compared to the rest of the UK. I reiterate my previous comments, that an approach focused purely on controlling workforce numbers and pay costs will not address capacity issues and is unlikely to be sufficient to put public finances on an even keel. Reform must deliver services differently, supporting the Scottish Government workforce to manage this change, rather than simply doing more with less.

For health and social care, the MTFS refers to the NHS Operational Improvement Plan, the Population Health Framework, and the Health and Social Care Service Renewal Framework. Running these reform plans, including monitoring and reporting arrangements in tandem with future medium-term updates will be important to understand the progress that is being made against this measure. I will return to consider these plans in more detail later in the year through my NHS in Scotland report.

Social security spending is a significant area of spending. It is currently outstripping the funding available to the Scottish Government through block grant adjustments. This is a clear choice by the Scottish Government, and I will be reporting on the Adult Disability Payment in a performance audit publishing in September this year.

Both economic and taxation pillars can lead to increased revenues and therefore funding to the Scottish budget, alongside potentially reducing demand pressures on spending. While the pillars are separate, they will interact with each other. The MTFS could benefit from more information on how, for example, economic decisions, such as policies reflected in the National Strategy for Economic Transformation will impact on tax revenues, for example through higher paid jobs, and how much tax policy decisions are affecting the economy and growing the tax base. This is particularly important given the SFC’s forecasts of behavioural change and the economic performance gap which are acting as a drag on the impact of tax revenues on the budget. I will be reporting further on taxation and fiscal sustainability in November 2025.

The difference that each of these pillars will make to the medium- to long-term fiscal sustainability challenge is less clear. This is twofold: firstly, the MTFS does not provide detail on how the balance will shift over time away from spending controls to additional funding from economic and taxation measures. This is important especially over the longer-term, given the differences in demographics, with the population in Scotland aging sooner than in the rest of the UK, affecting the future Scottish working age population. Secondly, understanding how much of the medium-term fiscal gap is expected to be met from each pillar in numbers or percentage terms would give more of an indication of the role each is expected to play.

The Scottish Spending Review in December is expected to give more detail on how spending will be allocated in the coming years. It will be important that there is a direct read across to how this supports the three-pillar approach, as well as the objectives of the Public Service Reform strategy. This, alongside the annual Scottish budget, provides an opportunity to clarify how spending both supports the Scottish Government's long-term ambitions, and fiscal balance.

3. How adequately does the MTFS and the FSDP address the Scottish-specific fiscal sustainability challenges?

This is included in response to question 2.

4. To what extent does the 2025 framework document for the Scottish Spending Review meet the BPRG's recommendations on content and timescales?

Chapter 3 of the Budget Process Review Group Final Report relates to spending reviews and multi-year budgets. It includes the following recommendations:

- There is a presumption that the Scottish Government will carry out a Spending Review, linked to the equivalent UK spending review;
- The Scottish Government should report to the Finance and Constitution Committee on any plans to diverge from linking a Scottish Spending Review to the UK equivalent and the proposed reasons for doing so;
- The Scottish Government publishes a framework document setting out the economic and political context, the criteria which will govern the assessment of budgets and the process and timetable for the review;
- The framework document should be published prior to summer recess in order to allow sufficient time for parliamentary scrutiny and input into the spending review; and
- The Parliament's committees undertake a constructive dialogue with the Government, public bodies, and stakeholders once the framework document is published in order to influence the outcome of the spending review

The Scottish Spending Review Framework is included at Annex E to the MTFS. This is a relatively brief framework, around two pages in length. It does set out its intention to carry out a spending review, linked to the equivalent UK spending review, as well as timing for publication alongside the 2026/27 budget. Given that the MTFS was published days before the summer recess, including this framework, this recommendation has been met. The recommendation expects the framework to include the economic and political context; the framework refers back to the content of the Medium-Term Financial Strategy and Fiscal Sustainability Delivery Plan for the financial and economic context for the next Scottish Spending Review. It is unclear to what extent the framework sets out the criteria which will govern the assessment of future budgets, beyond the prioritisation of spending to support the four core priorities of government.

5. What should the next Scottish Spending Review prioritise?

I note that the Scottish Government has set out that its Scottish Spending Review will be based on the four core priorities of government:

- Eradicating child poverty;
- Tackling climate change;
- Growing the economy; and
- Ensuring high quality and sustainable public services.

Spending decisions and priorities themselves are for Ministers to determine.

6. Faced with an ageing population, what actions should the Scottish Government take to increase labour market participation, with a view to growing the tax base?

Growing the economy is a key pillar of the Scottish Government's approach to fiscal sustainability. The April 2025 statistical publication, Scotland's Labour Market Insights, states that 33.7 per cent of inactive people gave their reason for being inactive as "long-term sick or disabled. 16.8 per cent of people aged 16 to 64 who were inactive reported that they wanted to work. Employability measures such as the "No One Left Behind" programme, and preventative measures as set out in the Population Health Framework are included in the plan to improve employability and support reform.

It is unclear currently to what extent this will result in tangible or significant differences in labour market participation compared to the rest of the UK and over what timescale. Scottish Government measures must be measured alongside UK Government measures for the rest of the UK, given that it will be the relative difference in market participation and economic growth that is most likely to make a difference to fiscal sustainability. The Scottish Government will need to monitor the effect of its measures in this context closely over the medium- to long-term.

Relative economic growth in Scotland compared to the rest of the UK will support fiscal sustainability by potentially increasing the impact of tax revenues on the Scottish budget and reducing the demand for other services. Increasing employment levels is a key measure included in the Financial Sustainability Delivery Plan.

7. Given the stagnation experienced in Scotland and the UK since the 2007/08 financial crisis, what lessons can be learned from countries that have experienced recent productivity growth?

In my 2024 report on the National Strategy for Economic Transformation (NSET), I highlighted that Scotland's productivity has remained ranked 16 out of 38 comparator economies over the last decade, demonstrating no progress on the Scottish Government's target to improve Scotland's relative performance . Actions established by NSET include building strategic partnerships with other key entrepreneurial ecosystems in other countries. The Scottish Government's own publication on NSET notes that in 2019, while Scotland ranked 7th among OECD countries for Higher Education R&D it ranked only 24th for Business Enterprise R&D.

Learning from other countries is of course useful in sharing good practice and focussing resources on measures that best support the objective of economic growth. I would reiterate however, that the relative performance against the rest of the UK is a key determinant for fiscal sustainability. Improvements against lower rates of productivity growth should therefore be closely monitored and considered against similar growth levels in the rest of the UK.

8. In which areas should the Scottish Government prioritise its capital spend to best support economic growth?

Capital spending is forecast to exceed the available budget by £1.1 billion in 2026-27, rising to a gap of £2.1 billion in 2029-30 without further action. Scotland's capital block grant is forecast to be 1.1 per cent lower in real terms by the end of the UK spending review period. This highlights the importance of the prioritisation of capital spending towards the Scottish Government's priorities in the Scottish Spending Review expected in December 2025.

The need to adjust capital spending plans to match available funding is not new but must be done in a more transparent way than has previously been the case, matching Scottish Government priorities and minimising unnecessary waste. In my 2023 report, Investing in Scotland's Infrastructure, I recommended that the Scottish Government should produce clear information that explains how it previously decided to prioritise, delay, or cancel projects and programmes in its Infrastructure Investment Plan (IIP). The current IIP covers the period 2021/22 to 2025/26, however this has been extended to cover 2026/27.

I understand that the Scottish Government is currently developing the scope, timelines and content of the next IIP. As such, it is currently less clear how the Scottish Government will plan its infrastructure investment over the period of the current medium-term horizon. Given the importance of infrastructure to public services and to economic growth, a clear vision of how it will prioritise its spending through an updated IIP is vital.

9. To what extent does the Scottish Government's PSR Strategy demonstrate the vision and leadership required to drive progress? How well does it enable progress to be tracked, and outcomes measured?

In my 2024 Fiscal Sustainability and Reform report, I stated that the Scottish Government had not provided effective leadership on reform . In particular, the lack of detail in the plans developed by the Scottish Government to date, the limited resource dedicated to the PSR programme and the issues with the governance of the programme meant that portfolios' plans for reform vary widely in their approach. There was also no evidence of a clear shared approach across the public sector.

Prior to the PSR, the direction of reform activity, beyond the three MTFS pillars of spending priorities, growing the economy, and tax strategy was less clear. The PSR gives more specific information on how the Scottish Government will approach reform, supported by the Financial Sustainability Delivery Plan measures. There are indications of Scottish Government's engagement with public organisations and local government; for example, the Health and Social Care Renewal Framework was a joint publication with COSLA.

The Scottish Government should collect progress data and report on progress across the broad range of activities it outlines in its overarching strategies. While this may not be an easy task, it is vital to ensure that the Scottish Government, public organisations and local government are clear about their contribution towards progress and how cross-cutting activities are performing. This will need to include continued dialogue about how this relates to spending plans to be set out in the Scottish Spending Review and the Scottish budget. Clarity on how finances are directed toward shared ambitions and reform is necessary for all contributors to understand how resources and performance are working together.

The PSR strategy gives some limited information on how it intends to measure and monitor progress. It states that it will implement a portfolio management approach, with monitoring and evaluation responsibilities sitting with a Public Service Reform Board. It also states that the Scottish Government is developing a Theory of Change and Monitoring, Evaluation and Learning Framework to support this work. It will be important that the Scottish Government put these arrangements in place quickly, to enable transparency and scrutiny of both its measurement framework, and the results it is achieving over the coming years.

10. How transparent and 'joined up' are the Scottish Government's key strategic financial planning documents? What improvements in this area can be made?

There are some clear consistencies between the MTFS, the Fiscal Sustainability Development Plan (FSDP) and the Public Service Reform strategy (PSR). In particular, the MTFS and FSDP both focus around the three pillars of prioritising spending, economic growth and tax strategy. The PSR links across to the FSDP pillar one work on spending prioritisation in particular. The read across between these documents is important for scrutiny to understand how the fiscal outlook fits together with specific measures to address them, including reform. It will be important that over time, the coherence and consistency between key strategic financial planning documents is maintained. In particular I would highlight the need for links to the Scottish budget, Scottish spending review and the next iteration of the Infrastructure and Investment Plan. I also understand that the National Performance Framework is currently being reviewed. Once published, it is important that these long-term outcomes are clearly linked to priorities and medium-term plans, as well as informed by the reality of the SFC's long term projections.

The Committee's request for the Scottish Government to identify the number of live strategies in place, and baseline numbers for monitoring is pertinent and important. Beneath the high-level medium-term plans and fiscal strategies will sit a number of supporting strategies to deliver their aims, such as the health and social care reforms mentioned earlier in this submission. Again, the alignment of these strategies will be critical, not only to support better scrutiny, but to ensure effective public administration through the avoidance of duplication and consistency in measurement of process.

Over time, as plans and strategies develop and change, there is a risk that monitoring, updating and reporting arrangements diverge. The Scottish Government will therefore need to maintain a watching brief on the consistency of messages, priorities and progress to enable effective scrutiny over the coming years.

Written Submission from Fraser of Allander Institute

1. What actions should the Scottish Government be taking now to start to address these ‘Scottish specific fiscal sustainability challenges’?

It is clear that on current trends, Scotland is likely to have a significantly older population than the rest of the UK.

The latest set of population projections – the first incorporating the Census from all four countries of the United Kingdom – has the UK’s total fertility rate (TFR, defined as births per woman aged 15-49) stabilising at 1.45, whereas Scotland’s is projected to be 1.29. While both these figures are below the natural replacement level of 2.1, the difference between the two is significant in its own right. It means that natural population change (births minus deaths) is projected to be -0.5% of the population, compared with -0.3% for the UK as a whole.

This difference is more than enough to offset the higher proportion of net inflows to Scotland, which is a combination of net migration from abroad and net inflows from other areas of the UK. These inflows also bring people who are older than natural population change, and so they do not make the population as young as a higher birth rate would.

At UK level, there are three main reasons why an older population puts significant pressures on the public finances:

- People in retirement tend to pay less in tax, both because they tend to have lower incomes (and therefore spending) but also because they are no longer liable for National Insurance Contributions;

- State pension in the UK is (near) universal and paid out of general taxation, and therefore there is a direct increase in expenditure from a larger share of the population above state pension age;

- As people age, their health and social care needs tend to increase, meaning that demand for and therefore spending on health and social care is higher for those in retirement.

State pensions are reserved and paid by the UK Government, and while UK Government fiscal sustainability matters for the amount available to fund other pressures, it does not by itself have a direct impact on the Scottish Government’s fiscal sustainability.

The other two areas do, although there the effects are complex. Income tax is partially devolved, but the net effect of its devolution on spending power available to the Scottish Government depends on how trends differ in Scotland relative to England and Northern Ireland (Wales has some income tax devolution, and therefore it does not feature in the calculation). An older population in Scotland will mean that all else equal, revenues from Scottish taxpayers will grow less quickly than those in England and Northern Ireland.

It should be noted, however, that slower population growth in Scotland than in the rest of the UK over this period would continue to push against ‘Barnett convergence’ and therefore lead to higher funding than otherwise would be the case. Barnett convergence is a phenomenon through which all else equal, funding for devolved nations should in theory converge towards that in England, as the additions to funding are calculated as a proportion of the cash increases in England, therefore eroding the percentage difference over time. However, if population grows more slowly in the devolved administrations, this pushes against convergence, and this has been the case since the early 1990s, when annual population updates to the Barnett formula were brought in. No significant convergence has happened since then, and all population projections would point to England’s population continuing to grow more quickly – which would perpetuate this effect.

On the health and social care side, it is clear that an older population will mean higher demand for provision of these services. But the relationship is not deterministic, particularly if longer lives are coupled with longer healthy lives, which could take some of the pressure off the health and social care systems.

In its Fiscal Sustainability Report (FSR), the Scottish Fiscal Commission (SFC) highlight the importance of improvements in population health to reduce these pressures, and how those could lead to significantly fewer resources being used by the health system. This would point to a particular importance of spending on preventative health care, and for early intervention rather than spending at a more advanced, more complex and more expensive point in time.

The SFC’s projections – in a similar vein to the OBR’s at UK level – assume that these spending pressures are met, which means a significant increase in health spending – and thus are a major source of the unsustainability of the public finances in their central scenario.

However, one should be cautious in just taking the view that this is what must happen. The Scottish Government has agency in deciding how much to spend on health care, perhaps much more so than in many other areas of government intervention. The NHS is as close to a monopsony (single-buyer market) as one can imagine, which hands it significant power in setting prices and costs. Economic theory would predict that this would lead to lower rather than higher costs.

Instead, much of the public debate sadly focusses on the amount of funding going into health care rather than results, and health spending continues to grow by more than any other area of spending year-on-year. Much of those increases go on pay, which again is an area where the government can and does have a significant input into how much this grows over time.

The focus on how much is spent rather than results is as true for health as it is for social care. The latter being a particularly interesting case in Scotland, where government spending per person is around 50% higher than in England, yet little evidence exists of differences in outcomes. This should rightly pose a question regarding the value for money of the funding model of the Scottish system and whether higher spending on a particular area should be assumed to be a good way of measuring success. In many ways, lower spending for the same outcomes would be a better use of public resources.

2. To what extent does the Scottish Government's 2025 MTFS and its FSDP demonstrate effective medium- and longer-term financial planning? Can any improvements be made in future years?

Some of the focus of the MTFS continues to be on the pillars of fiscal sustainability, which – as we said at the time of their unveiling in 2023 – suffer from the problem of being too general and not dealing with trade-offs head on. Everyone can reasonably agree with them, but that fact alone is probably an indication of how little they add to the strategic direction of the Scottish Government's policy.

We welcome the increased transparency in the MTFS, which has for the first time set out clearly the assumptions underlying the construction of the main scenarios. Some of the assumptions, however, seem to veer towards higher growth in spending. No area of spending is assumed to fall in real terms – all areas are presumed to grow in line with inflation except those areas which are likely to grow more than that, such as:

- NHS spending, which is assumed to grow at over 4% a year, as it has for the last few years;
- Social Security spending which is taking up an increasing proportion of the budget as both devolved benefits become relatively more generous and
- Pay, which is assumed to grow in line with agreed pay deals or, if none currently agreed, in line with the public sector pay policy
- Local government, which is decomposed into social care related expenditure (grown in line with other health spending), pay (grown in line with pay policy) and other spending (grown with inflation).

All of this detail is welcome, but we would encourage the government to publish the full decomposition of the spending assumptions so they can be further scrutinised. This should be itemised in a table somewhere in the MTFS.

It is also not necessarily clear why this is a central scenario. It essentially assumes no prioritisation of needs and funding for different areas, merely growing them in the assumption that all are equal priorities for the Scottish Government. In practice, that cannot really be true, and the MTFS thus continues to seem more like a political statement to manage expectations across the public sector rather than a true setting of the course of the Scottish public finances for the next five years.

We are still not clear why the FSDP needed to be a separate document. Its name and stated purpose in fact points toward one of the aims of the MTFS originally, which was to indicate a path towards medium-term planning and fiscal sustainability. We also found the FSDP to be lacking an overall statement of how the proposed savings would add up and how they compare with the fiscal gaps in the MTFS.

3. How adequately does the MTFS and the FSDP address the Scottish-specific fiscal sustainability challenges?

One of the most important near and medium-term Scottish-specific fiscal sustainability challenges is the paybill. Successive years of growth in the workforce and of pay deals above inflation and productivity growth have baselined a paybill that is now expected to by above £30bn by the end of the spending review period. This is a result of a larger public sector as a share of employment, as well as higher wages: Scottish public sector pay is higher than in all areas of the UK bar London, and it is 5% higher than the UK average. This means that it’s not clear Barnett consequentials would be enough to fund the same percentage increase in pay as in England.

The FSDP states that the devolved workforce will fall by 0.5% a year, but states that this will have no effect on frontline services. This seems implausible in the absence of some pretty heroic improvements in productivity, and relies on efficiency improvements that are highly unlikely to be as easy to achieve as the FSDP implies.

The FSDP also implies that most if not all cuts to the workforce will be done through natural attrition and voluntary redundancies. This might well be enough to get to the overall figure intended, but it is doubtful as to whether this will lead to an adequately skilled workforce. There is no reason to suspect that the people retiring or leaving the Scottish public sector will be doing so in the roles that need eliminated – a real plan, looking at the hard choices of what needs and does not need to be done, and how the skills for that match up with the ones available in the redeployment pool is what is necessary, and it seems to be missing from the FSDP.

In the meantime, the Scottish Government did at least set out a pay policy this year. Rather helpfully, this was a three-year policy, which restricted growth to 3% a year for the next three years. But a pay policy is only worth anything if it is adhered to, and the first signs are not promising. The Scottish Government has already breached it for further education colleges, NHS Agenda for Change employees, the Scottish Prison Service, ScotRail, the Caledonian Sleeper and the Scottish Fire and Rescue Service. All other workers in the Scottish public service could reasonably ask what incentive they have to settle for something within the pay policy if the Scottish Government shows no hard adherence to it.

For the pay policy to be credible, one would expect the Scottish Government to be making the case for why it must be adhered to, and to make a point of not breaching it – especially not in the first set of negotiations it entered into. According to the Scottish Government's own MTFS, even if it managed to stick to its 3% a year pay policy and workforce reductions, it would still be looking at a £1 billion-plus deficit by the end of the decade, which it would have to plug with either other spending cuts or tax increases. This brings into question whether its planned 3% is affordable, let alone increases in excess of it.

Turning to the adequacy of the MTFS and the FSDP, there is a clear missing link in these documents. The MTFS identifies a substantial gap between the projected funding for the Scottish Government and its planned spending. Given the limitations of the Fiscal Framework, this cannot manifest in practice, and therefore one would expect the FSDP to summarise how the measures in it add up to eliminate the shortfall. The FSDP, however, is notorious for the absence of a single chart or table containing such a summary. It seems more like a disparate set of aspirations than a coherent plan, and it lacks the attributes that anything approaching delivery would require. It certainly begs the question as to why the MTFS and FSDP had to be delayed when they have so little detail in terms of what the Scottish Government intends to do.

4. To what extent does the 2025 framework document for the Scottish Spending Review meet the BPRG's recommendations on content and timescales?

In terms of timescales, the 2025 framework clearly departs from the 2017 BPRG recommendation that conducting a spending review beyond the Scottish Parliamentary term is not desirable. The 2025 framework instead envisages 2026-27 through 2028-29 settlements to be announced in line with the Draft 2026-27 Scottish Budget.

Although this is a departure from the 2017 recommendations, this seems sensible. The Scottish Parliamentary term is not aligned with the UK Parliamentary term, and that means that a UK Spending Review is unlikely to line up with the ideal point to conduct Scotland's SR. As such, aligning the Scottish SR with the UK SR in terms of period covered seems like the best option available, even if priorities and the political make-up of the governing benches change. This is much like a road journey – one would have rather have navigation instructions even if they are subject to change.

5. What should the next Scottish Spending Review prioritise?

Our institute does not take positions on the desirability of particular policies – that is something for the Scottish Government to decide. Our analysis will focus on whether the stated priorities (eradicating child poverty, tackling climate change, growing the economy and ensuring high quality and sustainable public services) seem to be given adequate funding in the round. The SR framework does state that the Scottish Government intends to underpin this with a focus on fiscal sustainability, and that surely must be the number one priority for the SR. The Scottish Government has a lot more certainty about its funding, and it must lay out plans in line with that funding, including enough margin to be prudent and able to withstand any normal shocks that might veer it off course. As we have said many times before, the risk is asymmetric for the Scottish Government in that its revenue streams are mostly fixed in the course of a financial year, with spending having to match up to those revenues. It is also the Scottish Government's responsibility for both delivering service and balancing its budget. So planning has to occur in a framework in which a balanced budget is more likely than not to be achieved. If that is not the case, then the Scottish Government will continue to be at the mercy of events and needing to curtail expenditure due to expediency rather than deliberate planning.

6. Faced with an ageing population, what actions should the Scottish Government take to increase labour market participation, with a view to growing the tax base?

One important caveat is that the data on which these statistics rely has been found to be below the quality standard necessary for accreditation. The low sample sizes and low response rates to the Labour Force Survey (LFS) mean that we cannot be confident whether the number and rate of those economically inactive in Scotland has risen or fallen in the last year to a reasonable degree of statistical accuracy.

The problem is not exclusively to Scotland – in fact, the whole of the UK has this issue, and both the LFS and the Annual Population Survey (APS), which relies on LFS waves of respondents, have stopped being accredited official statistics due to the lack of reliability. This means that that there is little we can say about those not in work with any degree of confidence, and certainly about smaller subsets of the population and any reasons they may or may not have for not being in work.

That does not mean that labour market participation is not an issue. We know that there has been a rise in incapacity benefit spending, including in Scotland. At the same time, Scotland's population ageing is real, and this means a shrinking of the size of the working-age population relative to those of pensionable age.

One of the main levers the UK Government has to keep more people in the workforce is to increase the age at which people are entitled to full State Pension. This is a reserved matter, and one which is in fact already being used. Another area of importance for those of retirement age is health, which can allow people to work for longer and supplement their income (and therefore tax collected) if they are able to do so.

In terms of bringing more people of working age into the workforce, there are a number of areas where the Scottish Government might be successful in achieving results. In all these, targeting is really important. We know that a person-centred approach can help bring additional people into the workforce. Childcare is another barrier, and it is an area where the Scottish Government has increased funded provision, although the highest effect on labour participation will be at the margin –

which is more likely to be achieve through targeted programmes (such as those for 2-year-olds) than through universal programmes (such as the one for 3- and 4-year-olds).

All these, however, are only small effects and they are far from being a solution to growing the tax base. The most reliable and effective way to get a larger tax base that can support fiscal sustainability is for private sector wages to grow. A large part of the problem, however, is the poor productivity performance of Scotland – mirroring that of the UK as a whole – which in the long-run is the main driver of wage growth.

Of course, this is a difficult problem to solve, as discussed in the next question. Skills matching and investment in retraining in particular is important in Scotland, especially given the transition to net zero and the geographical concentration of the industrial that will be most affected by a structural change in the composition of the Scottish economy, and will have some effect at the margin as well. Planning of university places according to future needs, subsidisation of retraining courses and apprenticeships for career changers are all key for ensuring that people employed in those industries and future labour market entrants have the required skills for the Scottish economy and therefore find as little friction as possible in entering and staying in employment.

7. Given the stagnation experienced in Scotland and the UK since the 2007/08 financial crisis, what lessons can be learned from countries that have experienced recent productivity growth?

The productivity slowdown since 2008 has been a common phenomenon across advanced economies, and one which economists do not yet fully understand. However, the slowdown has not been equal across countries, and UK and Scottish performance has been poor even by those low standards.

One of the reasons for this poor performance, however, is well understood, and that relates to low capital investment. For decades, the UK and Scottish economies have had low capital formation, especially in net terms – that is, after accounting for depreciation of already existing capital. In the long-run, the capital stock per worker is highly correlated with economic growth. This metric has stagnated in the UK for the past twenty years, and has never got close to the level of growth experienced in the postwar years.

It would take many years of investment above that in other countries for the UK and Scotland to catch up to its peers in terms of capital stock per worker. But at the moment, the gap is growing, not shrinking. UK capital spending remains lower, barely above replacement level, and so does Scotland’s. Every year we invest less than peer countries, the gap in capital stock grows, which then results in the large gap in productivity we see today.

This is both a public and private sector problem, as both are below peer countries in Scotland and the UK. Public investment is merely a fraction of private sector investment, and so it is unlikely to solve the problem on its own - although the right investment by the state can catapult other by private firms that then becomes viable.

Of course, one of the big issues is how to fund a large expansion in investment. The UK has a dearth of savings once we account for both private sector and public sector together: both have been declining, with the UK Government continuing to run a significant structural deficit. The UK is therefore reliant on capital from abroad, with the low productivity of the country also making investments less attractive. A higher level of sustained investment is likely to require both higher taxes and higher private savings than are currently in place in the UK.

8. In which areas should the Scottish Government prioritise its capital spend to best support economic growth?

As with all public investment, the highest returns are in areas in which the market is likely to underprovide or not provide capital investment at all because the returns are too diffuse for a single to capture them.

Of course, this would point to infrastructure spending like road and rail connections, which are canonical examples. Public transport in particular has a high return, and especially in the forms that are most accessible to everyone and more likely to be used by those on lower incomes, such as bus connections.

But that is not the only type of investment that is likely to help economic growth. Housing costs in Scotland have risen considerably, and therefore housebuilding (including directly built by the Government) can have a large effect in creating a more dynamic and affordable market, which in turn both reduces household costs and increases the ease of labour mobility. This is crucial to ensure that people can move to different places where job matches for their skills might be better, increasing productivity and growth.

Investment in skills is another area of important focus. There is significant evidence that UK businesses have lowered their investment in skills over time, and this has coincided with higher labour mobility. While this may make sense for an individual firm, which is less likely to see the full fruits of that investment, it reduces the overall potential of the economy. Investing in setting up flexible learning entitlements that are appropriate for the modern age would be a way of supporting economic growth in a meaningful and resilient way.

9. To what extent does the Scottish Government's PSR Strategy demonstrate the vision and leadership required to drive progress? How well does it enable progress to be tracked, and outcomes measured?

The PSR highlights some important themes, such as ensuring what it calls the 'right delivery landscape', including a reduction in the workforce (in line with the MTFS and FSDP), leadership alignment and removal of duplication in delivery and across public bodies.

There are some metrics of efficiency, such as a £1 billion or 20% reduction in annual operating costs by the end of the decade. This is a very large figure, and it is not fully clear whether the amounts are nominal or in real terms, whether the £1 billion is relative to current spending levels or what they were forecast to be in 2029-30, or what exactly is covered by this definition. The 20% cut would imply pretty large changes – making it seem quite difficult to deliver.

Not all areas have such targets, which makes it harder to track and measure outcomes across time. While that is perhaps understandable given some of the more culture-focussed outcomes intended, the risk is that the lack of hard performance metrics leads to less change than the PSR states it wants to achieve.

Some figures are provided in the efficiency section of the PSR relating to spending avoided due to prevention, which is not new and which in broad terms would be welcome. The policy areas shown are poverty, obesity and smoking. It is welcome to see the effort to put numbers on these benefits, as it helps evidence the benefits that up front spending in an area can have in terms of avoided, more costly spending later. This can help make the case for taking a preventative approach.

However, measuring these avoided costs is a difficult area (which is fully acknowledged in the document), and more research is definitely required to build a better evidence base, not only to make the case for preventative approaches, but also to choose between them when we have several options on prevention. For example, the Joseph Rowntree Foundation (JRF) numbers from 2016, which are used to calculate the poverty "avoided spending", were not produced for this purpose and are probably not well suited to this use. This is not to criticise the Government's attempt to do this, but to say that we need more evidence to produce numbers on a better basis.

This pillar's success will be measured by the following metrics: "We will measure preventative spend by Government and track that the proportion of spend on prevention increases and the resultant spend on acute/crisis decreases." We hope that more detail will be forthcoming in this area, particularly how acute spending affected will be identified and attributed to particular preventative spending.

10. How transparent and 'joined up' are the Scottish Government's key strategic financial planning documents? What improvements in this area can be made?

There is some way to go in terms of how joined up these documents are.

It is not clear why the FSDP had to be a separate document and why it could not be part of the MTFS. Its name and stated purpose in fact points toward one of the aims of the MTFS originally, which was to indicate a path towards medium-term planning and fiscal sustainability. The FSDP links actions to the pillars of fiscal sustainability in the MTFS, but it lacks any summarising of how these measures add up to ensure that fiscal sustainability is achieved. That at a minimum should be provided in a planning document like this.

One of our main gripes with these documents is the lack of detail and access provided to external parties such as us to scrutinise the underlying assumptions, how credible they are and how sensitive the results are to changing them. The MTFS comes as a single text document, with no attached spreadsheets (unlike the Scottish Budget). Although it is possible to cobble together the assumptions underlying it – a significant improvement in itself relative to previous years – it is hard work and therefore not particularly transparent. A table breaking down all assumptions and a spreadsheet would make this much easier to scrutinise.

Public Health Scotland pre-budget scrutiny submission

1. What actions should the Scottish Government be taking now to start to address the 'Scottish specific fiscal sustainability challenges?

PHS advocate for a public health approach to prevention which would stop issues from emerging in the first place. While there is growing evidence that prevention works it is important not to view the effectiveness of this work as efficiencies. Rather, it allows resources to be deployed in other areas. Given Scotland's ageing population and expected rise in cases of cancer, cardiovascular disease, and neurological conditions and resources freed up by prevention can be put to good use elsewhere in the system.

There are various existing and emerging strands which could, if properly aligned, implemented and measured make a significant contribution to adapting to sustainability challenges. Scottish Government thinking, including the Public Service Reform Strategy, the Medium-Term Financial Strategy, and the Population Health Framework (PHF). PHS was actively involved in helping to shape the PHF and see this as a key method of pivoting Scotland's systems to embrace long-term change, while giving a key role to prevention in redesigning public services. PHS is currently engaging with stakeholders across Scotland about how best to align our forthcoming 10-year strategy with the aims and objectives of the PHF in the coming decade. To ensure real change is realised in Scotland's public sector, progress needs to be closely monitored and vigorously implemented. PHS will continue to engage in this area as these methods are finalised.

This work could also be complemented by the proposed private members bill for Wellbeing and Sustainable Development which has the potential to provide a golden thread of reform. Aligning these strands, preferably using a strengthened National Performance Framework to measure progress, we can start to see progress in reducing Scotland's long standing health inequalities and see sustained improvement to life expectancy.

2. To what extent does the Scottish Government's 2025 MTFS and its FSDP demonstrate effective medium- and longer-term financial planning? Can any improvements be made in future years?

The MTFS and FSDP are both positive documents which broadly align with PHS support for long-term reform and a central role for prevention. As noted in Q1 there are multiple emerging frameworks and strategies, which are for the most part acknowledged in the MTFS / FSDP. We believe the Scottish Government has committed to a journey to long-term planning which could, if adequately implemented, lead to significant reductions in health inequalities across Scotland. As previously mentioned PHS fully supports the Scottish Government's Population Health Framework and will make this central to the way we work as an organisation for the next ten years. The main area which still needs to be clarified is how the broader public sector will be encouraged to pivot towards delivering against this agenda and, importantly, how progress will be measured. To achieve this, we believe the current review of the National Outcomes offers an opportunity to drive culture change with a strengthened National Performance Framework potentially playing a vital role. Given the huge amount of work that has been expended on articulating what needs to be done, it is important, given the challenges facing the public purse, that this opportunity is used to reform national systems to help improve lives for the people of Scotland.

3. How adequately does the MTFS and the FSDP address the Scottish-specific fiscal sustainability challenges?

The MTFS and FSDP are designed to respond to Scotland specific issues and aim to plan for changing demographics to provide sustainable services for Scotland. While external factors, both at a UK and international level, can obviously change, we feel the strategies are a serious attempt to deal with current issues, while reforming our systems to better cope with future demand.

4. To what extent does the 2025 framework document for the Scottish Spending Review meet the BPRG's recommendations on content and timescales?

Annex E in Scotland's fiscal outlook: medium-term financial strategy provides a high-level overview of the points raised above. PHS would like to see a commitment to supporting targeted actions through outcomes budgeting. Specifically, we would like to see a new category of prevention spend adopted, which would align with the direction for prevention outlined in the Public Service Reform Strategy. This would also help to incentivise change as work continues to implement the Populatation Health Framework.

5. What should the next Scottish Spending Review prioritise?

The need for reform is real, pressing, and has been acknowledged by the Scottish Government in the areas highlighted elsewhere in this response. To that end, we would like to see progress in prioritising, monitoring and evaluating preventative measures across the public sector as part of the broader direction of public service reform. We see the implementation of the Population Health Framework and the Public Service Reform Strategy as key methods by which to guide decisions in the years ahead.

6. Faced with an ageing population, what actions should the Scottish Government take to increase labour market participation, with a view to growing the tax base?

Improving population health is important for economic growth. Better health outcomes could boost labour supply, productivity, potentially increase earnings, while also increasing tax yield. It is vital that Scotland invests in creating and widening access to good work as a building block of our economy and our health for:

- A healthier and sustainable workforce.
- An increased pool of available workers.
- A more productive and engaged working age population.

Key figures

- Economic inactivity in Scotland (22%) is higher than the rest of the UK (21.4%) and rising.
- Long term sickness is the main reason for economic inactivity (33.7%) and is rising.
- 52% of businesses expect workforce health challenges to increase in the next five years.
- Only 3% of people with work-limiting conditions return to employment after a year out of work.

- 16.8% of people aged 16 to 64 who were inactive reported that they wanted to work.

Collective focus

- Addressing economic inactivity will take a longer-term collaborative approach as gaps remain in available data about what effective action is needed given the complexity. Investment in both monitoring and evaluation and building the evidence base is critical.

- A substantial portion of economic inactivity is attributed to long-term health conditions and disabilities with an increasing prevalence of mental health issues.

- Addressing economic inactivity due to long-term health conditions requires a multifaceted approach involving preventive health measures, workplace adaptations, and targeted policy interventions.

- By supporting individuals with chronic health conditions, Scotland can improve workforce participation, tackle child poverty, support economic growth and contribute to fiscal sustainability.

- There is a need to take an evidenced based approach to determine the most effective interventions in primary and community care settings to reach and support those inactive or at risk of inactivity due to health conditions.

- Focusing economic strategy on GDP growth alone will not deliver health and wellbeing for our population. A **systematic review** found that economic growth does not consistently lead to better health in high income countries. However, improving population health is important for economic growth.

- The Public Service Reform Strategy and the other emerging frameworks and strategies including the Population Health Framework, mentioned elsewhere in this response offer an opportunity to take a national approach which could, over time, reduce health inequalities.

7. Given the stagnation experienced in Scotland and the UK since the 2007/08 financial crisis, what lessons can be learned from countries that have experienced recent productivity growth?

No response

8. In which areas should the Scottish Government prioritise its capital spend to best support economic growth?

No response

9. To what extent does the Scottish Government's PSR Strategy demonstrate the vision and leadership required to drive progress? How well does it enable progress to be tracked, and outcomes measured?

PHS has worked closely with colleagues at Scottish Government to help develop the Population Health Framework. We are encouraged to see such a clear focus on the role prevention could play in helping shape long term reform and achieving sustainable services. The PHF forms part of a clear direction of travel in the raft of frameworks and strategies that have been issued in recent months. With the 'what' now clearly established we would like to see an equal focus placed on the 'how'. By making the systems which deliver services more accountable we believe that real culture change can be delivered. We see a major role in strengthened National Outcomes (currently being reviewed) in providing a golden thread across public sector delivery to help reduce health inequalities and increase life expectancy over time. There is also a potential role for the Wellbeing and Sustainable Development Private Member's Bill currently being considered, to provide a golden thread aligning all emerging strands to drive forward reform.

10. How transparent and 'joined up' are the Scottish Government's key strategic financial planning documents? What improvements in this area can be made?

See 9

Written Submission from Scottish Council for Voluntary Organisations (SCVO)

1. What actions should the Scottish Government be taking now to start to address these 'Scottish specific fiscal sustainability challenges'?

The voluntary sector is and should be recognised as part of the solution to Scotland's long-term fiscal challenges. The voluntary sector is an essential partner in the delivery of public services across Scotland and should be recognised and engaged as an equal partner in mainstream public sector provision. To achieve this the Scottish Government must:

- Embed Fair Funding principles, including multi-year funding and full cost recovery, so that voluntary organisations are not held back by short-term, inadequate, delayed or poorly managed funding. Fair Funding is essential to ensure organisations can plan, retain staff, and deliver high-quality services.
- Treat the sector as an equal partner in the design and delivery of public services and policy.

We elaborate further on these themes in more detail in our responses to questions 2, 3, 5, and 9.

2. To what extent does the Scottish Government's 2025 MTFS and its FSDP demonstrate effective medium- and longer-term financial planning? Can any improvements be made in future years?

The 2025 Medium-Term Financial Strategy (MTFS) presented a significant opportunity to progress the Scottish Government's own long-standing commitments to Fairer Funding and multi-year funding arrangements for voluntary organisations. Action on multi-year funding is much needed and would have supported voluntary organisation in receipt of public funds with the opportunity to undertake longer-term financial planning. This opportunity was missed despite the Scottish Government repeatedly recognising the need for multi-year funding, including through numerous strategies and public commitments, including:

- April 2023: New leadership – A fresh start policy prospectus committed to delivering Fairer Funding by 2026, including exploring multi-year funding deals.
- May 2023: The MTFS committed to adopting multi-year spending plans.
- December 2023: The 2024/25 Scottish Budget deferred decisions on multi-year funding to the 2025 MTFS.
- June 2025: The 2025 MTFS again failed to deliver a multi-year funding framework.

Instead of long-awaited multi-year spending plans, following the MTFS 2025 the voluntary sector is, again, waiting for progress.

The Scottish Government's Fairer Funding pilot, launched in February 2025 committed more than £120 million to pilot projects focusing on essential services and eradicating child poverty over two years, a welcome step. The pilot is, however, a very small part of the government's overall £1 billion investment in the voluntary sector. The Scottish Government has described the pilot as the first step in mainstreaming multi-year funding agreements more widely across the voluntary sector, with the most recent Programme for Government committing to an interim evaluation by May 2026 to inform future approaches.

Multi-year funding is only one element of Fair Funding for the voluntary sector, as defined by SCVO. Multi-year funding delivered alone, or badly, will not be sufficient to deliver the fair, flexible, sustainable, and accessible funding landscape that voluntary organisations, our public services, people and communities need. Fair Funding for the voluntary sector is central to achieving Fair Work, grants and contracts should cover the full cost of employing staff, including at least the real Living Wage and inflation-based uplifts. While the MTFS recognised the value of multi-year pay deals for public sector workers, it failed to acknowledge the voluntary sector's essential role in public service delivery or the need for parity in funding practices.

The MTFS could also have taken action to offer transparent and understandable fiscal information to support voluntary organisations, civil servants, scrutiny bodies, and others, to better understand Scottish Government decisions, and funding flows, and to engage with government on the potential impacts on voluntary organisations, their staff and volunteers, the communities they work with, and the Scottish Government's wider ambitions.

In summary, this lack of clarity makes it harder for voluntary organisations to plan, retain staff, and, crucially, deliver for communities across Scotland.

3. How adequately does the MTFS and the FSDP address the Scottish-specific fiscal sustainability challenges?

Scotland's voluntary sector is an essential social and economic actor which supports the delivery of public services and picks up demand that statutory services alone cannot meet. Voluntary organisations also bring additional value to Scotland's systems through fundraised income and volunteer time — resources not available to other sectors.

Crucially, the voluntary sector plays an essential role in the delivery of preventative services, which are recognised as key to improving health and wellbeing outcomes and reducing expensive "failure demand". For example:

- Cyrenians' Hospital InReach service: Within its first 18 months, this pilot project reduced hospital readmissions by over two-thirds.
- Children's Hospices Across Scotland (CHAS): Working with the University of York's Health Economics Consortium, CHAS demonstrated that for every £1

of statutory funding received, they delivered £6.24 in public value — generating over £49 million in economic benefit annually from an £18 million spend.

- Place2Be: A study found that for every £1 spent on early intervention services for children's mental health in Scottish primary schools, society benefits by £5.50 — highlighting the value of preventative support in under-resourced areas.

These examples demonstrate the capacity of the voluntary sector services not only improve outcomes but also deliver significant public value and cost savings.

To address Scotland's fiscal sustainability challenges, the Scottish Government must act to safeguard the resilience of Scotland's public services and the wellbeing of its communities. Essential to this is a resilient voluntary sector — one that is supported through Fair Funding and treated as an equal partner.

4. To what extent does the 2025 framework document for the Scottish Spending Review meet the BPRG's recommendations on content and timescales?

This question has intentionally been left blank.

5. What should the next Scottish Spending Review prioritise?

The Scottish Spending Review must prioritise a resilient voluntary sector that can continue to provide essential services and support for people and communities across Scotland. The Scottish Government must:

- Embed Fair Funding principles into grants and contracts awarded to voluntary organisations in receipt of public funding, across all departments, agencies and public bodies. This must include full cost recovery, inflation-based uplifts, and multi-year funding, which we hope can be facilitated by a multi-annual spending outlook. A full outline, if the Committee needs it, of SCVO's Fair Funding principles, are here (https://scvo.scot/policy/fair-funding-procurement/fair-funding) . These commitments have largely been endorsed by the Social Justice and Social Security Committee in their Pre-Budget Scrutiny report on Third Sector Funding Principles.
- Ensure voluntary sector staff are treated equitably, with grants from the Scottish Government, its agencies, and other public bodies, to publicly funded voluntary organisations, cover the full cost of employing staff. This must include payment of at least the Real Living Wage, increased employer National Insurance Contributions costs, as well as inflation-based uplifts on a par with those offered to public sector staff.

The Spending Review is the final opportunity before the Scottish Elections for the Scottish Government to take action to embed long-promised reforms and secure the future of essential services delivered by Scotland's voluntary sector, and the sectors contributions to Scotland's society and economy more broadly. It is vital that this opportunity is not missed and that action is taken to progress Fairer Funding commitments ahead of 2026.

6. Faced with an ageing population, what actions should the Scottish Government take to increase labour market participation, with a view to growing the tax base?

This question has intentionally been left blank.

7. Given the stagnation experienced in Scotland and the UK since the 2007/08 financial crisis, what lessons can be learned from countries that have experienced recent productivity growth?

This question has intentionally been left blank.

8. In which areas should the Scottish Government prioritise its capital spend to best support economic growth?

This question has intentionally been left blank.

9. To what extent does the Scottish Government's PSR Strategy demonstrate the vision and leadership required to drive progress? How well does it enable progress to be tracked, and outcomes measured?

Scotland's voluntary sector needs to be at the heart of any serious programme of public service reform.

To deliver the best outcomes for people and communities, the Scottish Government must:

- Treat the voluntary sector as an equal partner in the design and delivery of public services and policy.
- Embed Fair Funding principles across all reform workstreams, including multi-year funding, full cost recovery, and inflation-based uplifts.
- Support meaningful collaboration through formalised, consistent frameworks that enable joint working across all government departments, agencies, and public bodies.
- Track progress transparently, including sector engagement, funding reform, and outcomes for people and communities.
- Protect the sector's independence, recognising its unique role, voice, and accountability to communities.

The Scottish Government's 2025 Public Service Reform Strategy makes welcome commitments in these areas, including a recognition of the voluntary sector as an essential delivery partner. The Strategy also includes a dedicated workstream on "strengthening Community Planning and realising the potential of the third sector". Pledges include strengthening engagement through Community Planning

Partnerships; supporting collaborative commissioning and system leadership; improving integration of services at a local level; developing work with third sector interfaces (TSIs); and continuing to improve the Scottish Government's own Fairer Funding arrangements.

While the PSR Strategy includes positive signals, these must now be backed by action. Too often, the voluntary sector is recognised on paper without meaningful change being put in place by decision-makers in practice. The experience of the Covid-19 pandemic showed what is possible when barriers to collaboration are removed. However, as the crisis receded so too have many of the enabling practices that made this collaboration effective.

While the PSR Strategy sets out high-level commitments to track progress — including the establishment of a new Public Service Reform Delivery Board and alignment with the National Performance Framework — SCVO would welcome greater detail on timelines, indicators, and reporting structures, particularly in relation to those workstreams involving the voluntary sector. Without this clarity, it will be difficult to assess whether commitments are being met.

SCVO looks forward to working with government, public bodies, and other partners to realise the strategy's ambitions. To make progress a shift in culture, funding, accountability, and ambition is needed. Reform also cannot succeed without an empowered voluntary sector.

In the longer-term, to ensure consistency and longevity, the Scottish Government should formalise its partnership with the voluntary sector. Scotland can look to models elsewhere, such as the Third Sector Scheme in Wales, which provides a statutory basis for engagement and sets out clear expectations for collaboration. A similar approach in Scotland would help embed mutual trust, parity of esteem, and shared accountability across all departments and agencies.

10. How transparent and 'joined up' are the Scottish Government's key strategic financial planning documents? What improvements in this area can be made?

Fiscal transparency is essential for everyone's understanding of Scottish Government's investment in the voluntary sector.

The Scottish Exchequer recognises that the current presentation of fiscal information is not accessible or presented in a way that meets most users' needs. SCVO welcomes this recognition and the aspirations shared in the Scottish Exchequer: fiscal transparency discovery report and the Open Government Action Plan (2021-25) to improve financial transparency by providing clear and more accessible fiscal data for budgeting to enable users to "follow the money". These reports discuss the many benefits of fiscal transparency for all stakeholders.

Similarly, during pre-Budget scrutiny for the 2023-2024 Scottish Budget, the Equalities, Human Rights and Civil Justice Committee, the Finance and Public Administration Committee, and the Social Justice and Social Security Committee all discussed the need for budget transparency to ensure data transparency, participation, and accountability and progress towards the National Outcomes. These concerns continued to be raised by Committees scrutinising the 2024-2025 Scottish Budget, including by the Finance and Public Administration Committee, and, most recently, in the Finance Committee Inquiry into the Scottish budget process in practice.

The Social Justice and Social Security Committee have also stressed that better data collection is needed to help target new and existing social justice policies and that data sharing needs to be improved to anticipate service delivery needs, a view shared in the voluntary sector.

SCVO welcome these contributions. In the current challenging financial context, fiscal transparency is essential to enable the Scottish Government to collaborate more effectively with the sector on solutions based on expertise, experience, and evidence, leading to more effective policy decisions and better targeted resource allocation, improving outcomes.

Fiscal transparency would support SCVO and other voluntary organisations to:

- Understand Scottish Government decisions.
- Assess the impact of budget changes.
- Understand any Scottish Government action to mitigate risk and the extent to which these actions are successful.
- Measure progress towards the Scottish Government commitment to Fairer Funding for the voluntary sector by 2026.

To support aspirations to increase civic trust through timely, understandable, accessible, and reusable fiscal information and to enable engagement and scrutiny with the Scottish Budget the Scottish Government should:

- Adopt, and publish awards to, the 360Giving Data Standard, including basic identifier core fields such as recipient name, organisation, and charity number.
- Include all spending in the Scottish Government's monthly reports and improve categories to ensure data is useful and accessible.
- Collect funding information across all government departments and produce a breakdown of Scottish Government funding to the voluntary, public, and private sectors by department and budget line.
- Publish the Scottish Government's total direct investment in voluntary organisations annually from grants and contracts, with detail on the proportion that deliver on SCVO's Fair Funding principles.

To make and monitor progress on the Scottish Government's Fairer Funding commitments, it is also essential that action on transparent funding, includes developing timelines, goals, and actions to both monitor progress, and ensure progress can be scrutinised by the voluntary sector and Parliament.

STUC submission to the Scottish Parliament's Finance and Public Administration Committee Pre-Budget Scrutiny Call for Views on Responding to Long-Term Fiscal Pressures

1. **What actions should the Scottish Government be taking now to start to address these 'Scottish specific fiscal sustainability challenges'?**

Scotland needs more workers. While migration is a reserved matter, the Scottish Government should be engaging with the UK Government – pushing for the devolution of powers relating to migration and employment law and for Scottish Government involvement in important cross-border institutions and decision-making bodies to ensure Scotland's specific population challenges are heard at a UK level.

Scotland also needs more tax revenue. Taxes are increasing across almost all developed countries. After a decade of low-growth, stagnant productivity, and increased global volatility, we need to recognise that taxes are going to have to rise. This is necessary if the Scottish Government are to meet its priorities around child poverty, public services, climate change and economic growth.

2. **To what extent does the Scottish Government's 2025 MTFS and its FSDP demonstrate effective medium- and longer-term financial planning? Can any improvements be made in future years?**

The MTFS recognises that there is a resource fiscal gap of £2.6 billion by 2029-30. However, the plan that it sets out to close this gap is not credible or effective. A workforce reduction target of an average 0.5 per cent reduction per annum over five years is simply salami slicing and will lead to the loss of 12,000 jobs. Wider 'public sector efficiency' targets are not credible either. We know from the early 2010s, what happens when central Government imposes efficiency targets. Austerity budgets are passed down from government, ministers issue edicts to local authorities, and Chief Executives look at headcount and cut from there.

In the last fifteen years, Scotland's public sector workforce has fallen from 24% of the economy to less than 22%. The idea that we have a bloated public sector that can be easily cut is simply not credible.

While the STUC are not against public service reform, this should be done in partnership with Scotland's workers and trade unions who know where improvements can be made. Reform should also be accompanied with upfront investment to enable change to happen, with associated savings achieved further down the line. Unfortunately, this is the opposite of what the Scottish Government propose.

3. **How adequately does the MTFS and the FSDP address the Scottish-specific fiscal sustainability challenges?**

The MTFS and the FSDP fail to adequately address two crucial factors behind Scotland's specific fiscal sustainability challenges.

Firstly, as the Scottish Fiscal Commission have consistently highlighted, and the MTFS and FSDP acknowledge, if not address, the Scottish Government have chosen to invest in social security over and above the funding received from the UK Government through the Block Grant Adjustment. While this investment is welcome, and significantly reduces poverty, unless this is accompanied by additional tax revenue, funding will have to come from public services. This is not sustainable.

Secondly, Scotland's aging population is likely to require greater investment in services delivered by people, not machines. It will still be social care workers that look after our elderly people, not machines or AI. This is likely to push up health and social care costs more than envisaged in the FSDP.

For these reasons, and many others (including falling satisfaction with public services), the Scottish Government should look to raise tax revenue rather than cut the public sector workforce.

4. **To what extent does the 2025 framework document for the Scottish Spending Review meet the BPRG's recommendations on content and timescales?**
5. **What should the next Scottish Spending Review prioritise?**

The next spending review should prioritise how to meet the Scottish Government's priorities around child poverty, public services, climate change and economic growth. But meeting these priorities will require significantly increased spending on public services, social security and infrastructure.

In this context there is a need not simply for a spending review but for a tax review alongside the spending review, particularly given that the Scottish Government's tax strategy, in the words of the IFS "is not a strategy for tax policy."[1]

A tax review would consider:

- Taxing wealth - in the short-term via a focus on particular categories of wealth, whilst exploring options to tax net wealth.
- Making polluters pay for their climate damages, such as introducing a private jet tax.[2]
- Scrapping or re-designing tax reliefs and other schemes, such as the Small Business Bonus.
- Replacing the Council Tax with a Proportional Property Tax. Analysis for the STUC shows that a proportional property tax of 0.7% could raise £783 million more for local authorities whilst also giving the most hard-pressed households

a rebate.[3] As a matter of urgency the Scottish Government must immediately launch a revaluation of properties across Scotland.
- Broad-based income tax increases, beyond the progressive measures the Scottish Government have taken to date. As the Nordic countries demonstrate, broad-based, higher income taxes are highly progressive when the benefits of spending on high quality public services are considered.

6. **Faced with an ageing population, what actions should the Scottish Government take to increase labour market participation, with a view to growing the tax base?**

While there is still a high degree of uncertainty about Scottish labour market data,[4] there is evidence to suggest that the pandemic has driven up long term sickness and economic inactivity. The Scottish Government should therefore invest in health spending and employment support to support those with ill-health re-enter the labour.

It should also invest in driving up pay and conditions, particularly in low-paid sectors such as health and social care – where trade unions have been campaigning for £15 an hour, and yet where pay has been outstripped by inflation, the minimum wage, average earnings, and residential care worker pay in the UK in the last five years.[5]

There is also a need to improve working conditions by using Scottish Government levers to promote trade unions and collective bargaining mechanisms. For example, non-domestic rates reliefs such as the Small Business Bonus scheme could be made conditional on employers paying the real living wage and recognising trade unions and/or Fair Work agreements.

Ensuring the labour market provides decent working condition is a crucial element of any plan to drive up economic participation.

7. **Given the stagnation experienced in Scotland and the UK since the 2007/08 financial crisis, what lessons can be learned from countries that have experienced recent productivity growth?**

There is clear evidence to show that Scotland's economy is being held back by a chronic problem of underinvestment. For the past two decades, investment in Scotland and across the UK has consistently been among the lowest in the OECD.[6] Addressing this challenge will require increased public investment – particularly in green infrastructure. It will also require a more strategic approach to economic development and public funding to the private sector. Rather than providing untargeted relief for business, such as the small business bonus scheme (which an evaluation found to have 'no empirical evidence of supporting enhanced business outcomes')[7] we need to ensure that economic development funding is supporting good, productive jobs and Fair Work.

If the aim is to increase productivity, there is a specific need to support manufacturing, given that it is a sector that is most open to the use of machines and processes which raise productivity. It is also where most research and development, which generates new technologies, is done.

Yet manufacturing jobs in Scotland have declined by 130,000 since the advent of the Scottish Parliament. Given recent job losses at Grangemouth refinery and proposed redundancies at Alexander Dennis there is a need to consider how time-limited furlough schemes could be introduced to support and maintain employment in high value manufacturing sectors. This is common in other countries, for example through Germany's Kurzarbeit scheme in which private-sector employees agree to or are forced to accept a reduction in working hours and pay, with public subsidies making up for all or part of the lost wages. This is crucial in the Scottish context where worker's confidence in the concept of a Just Transition is increasingly precarious.

8. **In which areas should the Scottish Government prioritise its capital spend to best support economic growth?**

Given the ongoing cost-of-living crisis, and the huge investment required to decarbonise our economy, it makes sense to prioritise capital spending on tackling climate change which brings down the cost of living. This means investment in public transport, retrofitting homes, and transforming our energy system in a way that takes back control from profiteering multinational energy companies.

Capital funding should be made available for Local Authorities to undertake retrofitting and energy programmes. South Lanarkshire Council is investing in solar energy on its building stock with pay-back periods of around 4 years.[8] There is no reason this couldn't be scaled up and rolled out across Scotland but it requires funding from central Government.

Funding should also be made available to establish municipal bus companies – taking back control of our bus network and investing in green buses.[9]

Investment in social housing, including council housing, is also crucial if we are to address the housing crisis. Capital investment in these areas will deliver growth within the foundational economy, lowering the cost of living, tackling climate change and creating jobs across the country.

9. **To what extent does the Scottish Government's PSR Strategy demonstrate the vision and leadership required to drive progress? How well does it enable progress to be tracked, and outcomes measured?**

While the Scottish Government's emphasis on the Christie principles are welcome, the PSR strategy is based on centrally imposed arbitrary savings targets which will mean that chief executives of Local Authorities and public agencies base decisions on reducing headcount rather than reforming services.

There is a need for a PSR strategy, but it should be backed by funding, not cuts, and it should support worker-led reform from the bottom up, not the top down.

For further information contact:

Francis Stuart, Senior Policy Officer, STUC

[1] https://ifs.org.uk/publications/assessing-scottish-tax-strategy-and-policy#:~:text=Chapter%201%20of%20the%20Tax,climate%20emergency%2C%20and%20ensuring%20high
[2] https://taxjustice.scot/wp-content/uploads/2025/07/Council-Tax-Reform_Tax-Justice-Scotland_August-2025.pdf
[3] https://www.stuc.org.uk/resources/scottish-tax-options.pdf
[4] https://scothealthequity.org/a-new-model-for-economic-inactivity/
[5] https://www.stuc.org.uk/resources/stuc-report-on-residential-care-workers-pay.pdf
[6] https://www.futureeconomy.scot/posts/42-what-is-the-role-of-investment-in-delivering-a-just-transition and https://www.ippr.org/articles/rock-bottom
[7] https://www.gov.scot/publications/evaluation-small-business-bonus-scheme/
[8] https://www.stuc.org.uk/news/news/new-public-power-league-reveals-local-authorities-leading-the-charge-on-energy-/
[9] https://www.stuc.org.uk/resources/the-next-stop-stuc-bus-research.pdf

Responding to Long-Term Fiscal Pressures

Response from Social Work Scotland to the Scottish Parliament's Finance and Public Administration Committee's Call for views

11 August 2025

Social Work Scotland is the professional body for social work leaders, working closely with our partners to shape policy and practice, and improve the quality and experience of social work and social care services. We welcome the opportunity to provide a response to the Committee's call for views on the Scottish Government's response to Long-Term Fiscal Pressures in its 2025 Medium-Term Financial Strategy (MTFS), and new Fiscal Sustainability Delivery Plan (FSDP), and other strategy documents. For the benefit of our members, we include the Committee's introductory remarks to its questions in our responses.

1. **What actions should the Scottish Government be taking now to start to address these 'Scottish specific fiscal sustainability challenges'?**
   [The Scottish Fiscal Commission's Fiscal Sustainability Report – April 2025 states that: "The Scottish Government will face significant challenges funding devolved public services in the future, particularly over the next twenty-five years… because the population in Scotland will age earlier than in the rest of the UK". However: "… if improvements in population health can be achieved, pressure on health-related spending may be reduced in the future". The Commission suggests this could reduce the Scottish-specific fiscal challenges arising because of demographic change].

We agree that the Scottish Fiscal Commission's reports make sober reading about the scale of fiscal challenges to Scotland public sector budgets. The 'Scottish specific challenges' arise because the Barnet formula is based on Scotland's total population – compared to that of England (or for some services, England plus Wales or Northern Ireland) – and does not recognise Scotland's comparatively older population, or lower healthy life expectancy, or wider deprivation inequalities, all of which are drivers for higher NHS spend in Scotland, for our greater need for social work and social care services, and also for support for unpaid carers.

As part of the UK, Scotland also has to address its share of the UK's fiscal sustainability challenges, as the UK Government struggles to deal with the legacy of austerity in poor economic growth as well as more than a decade of under-investment across most social and material infrastructure and services.

The SFC's Fiscal Sustainability Report covered the period from 2029-30 to 2029-50 (with some forward estimates to 2069-70). Whilst the Scottish Government's "medium term" planning horizon stops at 2029-30, many of the actions set out in the Fiscal Sustainability Delivery Plan (FSDP), published in June with the Medium-Term Financial Strategy (MTFS) are rooted in current policies. The need to improve population health, for example, is not new, although scaling up will be needed to meet the fiscal challenge, a clearer focus on delivery, and some funded new workstreams.

Prevention remains central to fiscal sustainability. Most care is provided by unpaid carers, often family members, and maintaining that support is essential to formal health and social care services. An action the Scottish Government has already taken is to create a new duty on local authorities to meet a carer's assessed unmet need for a break from caring, which surveys show only 3-4% of carers currently have. The Care Reform (Scotland) Act was passed by the Scottish Parliament in early June this year, and the third financial memorandum for this part of the Act, published by letter to the Finance and Public Administration Committee in May 2025, continues to very significantly under-state the funding needed for implementation by local authorities, notwithstanding a very long implementation over 10 years. That funding should be re-assessed, otherwise the desired preventative outcomes of the legalisation can only partly be realised.

2. **To what extent does the Scottish Government's 2025 MTFS and its FSDP demonstrate effective medium- and longer-term financial planning? Can any improvements be made in future years?**
   [In recent years the Committee has reported concerns about a lack of strategic financial planning by the Scottish Government. The Scottish Government's Medium-Term Financial Strategy (MTFS) is the first in two years].

The MTFS only intends to address medium-term financial planning, defined by a four- or five-year forward period: some tables in the MTFS treat the current year, 2025-26 as the base year, others treat it as Year 1. There would be some merit in consistently showing the previous year, here 2024-25, as the Scottish Budget has to be set using inflation and other economic indicators that are forecasts, and which reality subsequently amends, as do subsequent decisions of the Scottish Government. That would help show current year pressures or sometimes surpluses, and their impact on the following years.

Should there be longer-term financial planning? The MTFS ends in 2029-30, the SFC's *Fiscal Sustainability* analyses published in April 2025 start with that year or in many tables 2030-31, so the basis for longer-term planning exists. While the SG's focus on the next 4-5 years is understandable, it may risk reducing focus on issues such as global warming—SFC appear to raise this concern in their Fiscal Sustainability report: "[…] actions to mitigate climate change and reach net zero require substantial public investment […] is not captured in our projections of Scottish Government spending" (Summary, para 37). We think there is a case for extending the time horizons of the MTFS.

It is difficult to assess the effectiveness of the MTFS in the Scottish Government's fiscal planning. Certainly, the MTFS accomplishes the main objective, which is to clearly set out the fact that there is a significant funding gap, estimated for running costs at nearly £1 billion (£963m or 1.8%) in 2026-27, rising to a gap of £2.6 billion (4.3%) in 2029-30. The capital funding gaps are similar in absolute size but much higher as a percentage of spend, increasing from £1 billion (13%) in 2026-26 to over £2 billion (23%) in 2029-30. Taking resource and capital funding, together there is a ‘black hole’ in the Scottish Government Budget of £2 billion in 2026-26, rising to £4.8 billion in 2029-20.

The size of these estimates depends on the spending projections, including inflation and some real growth. Assessing these is difficult because the calculations made to produce the spending forecasts (prior to actions to reduce the funding gaps) have not been made available in spreadsheets. The descriptions given, and the tables provided, do not give sufficient information for readers to be able to fully assess the spending forecasts.

Inflation, for example, is first presented as being measured by the March 2025 OBR forecasts for GDP deflators. That is clearly used in the ***funding*** calculations: overall, “resource funding is expected to grow by an average of 2.9 per cent in nominal terms, or 1.0 per cent in real terms, a year to 2029-30” (MTFS, page 18). This means that inflation is assumed to be 1.9% year-on-year over the forward period, which is the GDP deflator average.

But when it comes to the ***spending*** forecasts the treatment of inflation is necessarily mixed. For staff costs, the SG Public Sector Pay Policy assumptions have been used in the MTFS, plus 1.5% for “pay drift” in the civil service (but not it seems in local government), and with additions for those higher public sector pay settlements for 2025-6 and 2026-7 that had been agreed by 13 June 2025 when MTFS calculations were being finalised. Necessarily, this excludes later settlements such as that for Local Government agreed in July 2025 at 4% for 2025-6 and 3.5% in 2026-7, which will increase the inflation. Presumably, non-staff costs have been uplifted generally by GDP deflator inflation.

This means that the calculations for forecast spending would need to have been made on separate lines for staff and non-staff costs, but that information is not provided in the MTFS for each spending forecast. This means that the separation of “nominal growth” into real growth and inflation cannot be fully understood or checked where this is reported in the MTFS, or worked out where it is not. Whilst the 2025 MTFS includes more data on workforce than in previous years, that improvement is still insufficient for transparency.

Another significant problem is that the forecast spending breakdown for Scottish Budget “portfolios” is limited to just four categories: Social Security Assistance, Health and Social Care (95% of which is actually the NHS), Local Government, and “Other”. A member of the public interested in projected public spending on schools, further education or universities, for example, would discover little or nothing in the MTFS. To be sure, the MTFS does not set out spending plans, but it does set the context. The Scottish Spending Review, and future MTFSs, should set out more detail in a service classification that reflects realities on the ground, understood by the public, rather than only using Ministerial “portfolios”. That would mean some breakdown of the Local Government and the “Other” categories. Social Work Scotland is also concerned about the lack of clarity in the term “social care” in the Local Government section of MTFS; if this is adult social care, then children and families social work, and justice social work is not included – these services are under as much and possibly more pressure from demand and additional duties increasing faster than funding as adult social work and social care, and in different ways are also crucial to aspects of prevention and early intervention strategies and programmes.

In our view, **the least satisfactory section of the MTFS is the treatment of the forecast resource spending for Local Government**. We do not recognise the baseline figure of £12.824 billion 2025-26 for local government in the relevant MTFS tables. This is explained as: *[…] the funding made available to Local Government by the Scottish Government through the combination of the General Revenue Grant, including Specific Revenue Grants, and forecasts of income raised locally by Non-Domestic Rates. This reflects approximately 85 per cent of actual expenditure by Local Government, which is otherwise funded by service fees, charges and council tax.* (MTFS Page 48)

However, the final Local Government Finance Circular for 2025-26 shows Revenue Grant at £11,025 billion, Specific Revenue Grants at £0.272, and Non-Domestic Rates income at £3.114 billion, all totalling to £14.410 billion in revenue support. It would be helpful if the forthcoming Spending Review, and future MTFS publications, included a reconciliation between Scottish Budget planning figures for SG support to local government figures, and the figures used for the actual financial settlements.

The second problem is the lack of transparency in the forecast modelling for future local government resource spending (before actions to address the overall public sector funding gap): *The scenario assumes that Local Government is subject to similar spending pressures as the rest of the public sector. Our underlying forecast assumptions therefore reflect that the same demographic pressures experienced by health and social care apply to social care services delivered by Local Government. As a result, the illustrative modelling applies above inflation growth to social care non-pay spending, Public Sector Pay Policy to social care pay and real-terms growth to remaining Local Government spending.* (Pages 48-9)

The Local Government forecast assumes 3.3 per cent real growth per year on average for social care non-pay spending, Public Sector Pay Policy to social care pay and real-terms growth to remaining Local Government spending. (Page 83)

It would have been helpful for the MTFS to have included a table showing this differential modelling for the relevant four elements within the LG projected spending totals: social care staffing and non-staff spends, and rest of LG staffing and non-staff spends. Moreover, **the methodology seems problematic**. Local government social work and social care services certainly face at least the same demographic pressures that the MTFS partially recognises with the assumed growth in health and social care of “3.3 per cent real-term average growth per annum” (page 45). Meeting that rising demand would require an expansion of local authority social work and social care staffing, with LG purchasing costs for independent sector social care also increased. But, in the MTFS only “social care non-pay spending” is to receive unspecified “above inflation growth”. Surely that should apply to all LG Social Care forecast spending, as it does with the “Health and Social Care” portfolio line.

In addition, the SG’s **Fair Work policy** is mentioned twice in the MTFS, but only in general terms; yet that requires above inflation pay increases for some LG staff and also particularly for independent sector social care services which need to be purchased at a higher cost by councils. For 2025-56, the Scottish Living Wage paid to social care workers increased by 5%, and this issue needs to be more clearly reflected in the future spending forecasts.

Finally, there is reference to “real-terms growth [being applied] to remaining Local Government spending” in the MTFS (page 49). Social Work Scotland has modelled the LG spending forecasts as described in the MTFS paragraphs quoted above and found that real growth in remaining Local Government forecast spending disappears for the final year when Adult Social Care is baselined at £4.350 Billion for 2025-26, and for all years except 2026-27 when £4.400 Billion is the 2025-26 ASC spending estimate. The MFTS does not give a social care baseline figure for 2025-26, or explain how it has been derived from the financial returns. The POBE financial returns for 2025-26 give a budget estimates for Adult Social Care of £4.482 Billion. **We recommend that the SG reviews the Local Government forecast spends with COSLA and its partners.**

For future years there would be merit in making the MTFS an annual publication; the SG is already committed to providing regular updates on its FSDP. Some workstreams will need quarterly updates; others can be annual.

3. How adequately does the MTFS and the FSDP address the Scottish-specific fiscal sustainability challenges?

We address some potential adequacy problems for the MTFS in our answer to Question 2 although these mainly affect the estimation of the forecasts for SG spending, and their less than full transparency, and therefore the size of the funding gap, which is very likely to be higher when updated for the Scottish Spending Review.

We take “addressing the challenges” to mean finding and implementing solutions. Social Work Scotland largely agrees with the conceptualisation of the solutions in terms of the “three pillars” – Public Spending, Economic Growth, and Taxation – with subsidiary categories for current and proposed actions: this provides a clearly articulated and well-thought-out framework. We also welcome the new SG publication on the Fiscal Sustainability Delivery Plan, which develops further the solutions framework, down to the level of actions, milestones and timescales to bring down resource spending. (The SG intend to address capital spend in a separate infrastructure document being published with or closer to the Scottish Spending Review). **The FSDP scope is very ambitious in rising to the formidable challenge, but it remains to be seen how the SG is able to mobilise its resources and those of its partners to jointly deliver on the sustainability plan.**

In the MTFS, only the first pillar has quantified spending reduction targets, which "focus on the key drivers of public spending" (page 61). The SG is "planning for a managed downward trajectory for the devolved public sector workforce of 0.5 per cent on average per annum over the next five years". At this stage, it is not surprising that the detail is sketchy: it is to be achieved "as part of a shift in workforce plans and operating models because of service re-design, automation, process improvement, re-prioritisation, mergers, and shrinking corporate functions. Frontline services will remain protected as this is taken forward". Most public sector managers will feel wearily familiar with similar language played out over the last 14 or more years. The other quantified target is "a commitment to delivering 3 per cent recurring savings against core funding for NHS Boards, supported by a continuous programme of efficiency and productivity improvement".

Quantified savings are also present in the FSDP, but only for Pillar 1: "Ensuring public money is focused on delivering government objectives, underpinned by reform and prioritisation to maximise impact". Efficiency and reform measures "are expected to generate significant cashable savings within the five-year MTFS period, as follows:

- A Workforce reduction target of an average 0.5 per cent reduction per annum over five years, protecting frontline services, with savings growing from £0.1 billion to £0.7 billion per annum over the five years;
- Wider public sector efficiencies and productivity, reform, and revenue raising, with savings growing from £0.6 billion to £1.5 billion per annum over the five years;
- Increasing public value, to be set out in the Scottish Spending Review, with a savings target of between £0.3 billion and £0.7 billion per annum over the five years."

This totals to reductions of £2.9 billion in resource spending a year by 2029-30, so if achieved is a bit higher than the £2.6 billion resource spending gap currently forecast (which we are expecting to increase). However, at this stage the delivery planning required to achieve these savings has not been set out.

Nevertheless, the FSDP is a valuable initial document and should be used in a series of engagement sessions between the SG, COSLA, the NHS, and other partner organisations.

4. To what extent does the 2025 framework document for the Scottish Spending Review meet the BPRG's recommendations on content and timescales?

[In a 2017 report, a Holyrood budget process review group recommended the Scottish Government publishes a framework document for the Scottish Spending Review. The report said it should set out the economic and political context, the criteria which will govern the assessment of budgets, and the process and timetable for the review. A framework document is expected to be published on 25 June 2025].

A Scottish Spending Review Framework is now set out as pages 88-89 in Appendix E of the MTFS. Taken together with the SFC reports, the MTFS and the FSDP, the Framework appears to meet some of the 2017 Budget Process Review Group recommendations, which were intended to provide Scottish Parliament Committees with earlier opportunities "to influence the formulation of the Scottish Government's spending proposals or evaluate the impact of previous budgets". However, because the MTFS has limited portfolio detail, it is open to question whether the Parliamentary Committees have enough information at this stage.

It would be preferable for there to be a month or two at least between the publication of the Scottish Spending Review and the subsequent Scottish Budget in December with the firm proposals for implementing the first year. No gap of any duration is on offer in the timetable included in the current Framework, with both reports published in December, probably on the same day. Of course, this year there was a delay owing to the UK Government's spending review issuing on 11 June; whether that would have brought forward the Scottish Spending Review publication is uncertain. Therefore, the 2017 report's concern remains unresolved: "A weakness of the current budget process is that parliamentary scrutiny does not begin until after the Scottish Government's firm and detailed spending proposals are published".

5. What should the next Scottish Spending Review prioritise?

The Framework states that the SG's focus in the Scottish Spending Review "*will be allocating budgets in the best way to deliver against the four core priorities of government: Eradicating child poverty; Tackling climate change; Growing the economy; and Ensuring high quality and sustainable public services […]. Using the four priorities as a basis, we intend to prioritise where funding is deployed to ensure the greatest impact, using evidence and performance data to support this decision-making"* (page 88). We assume that objective of "Ensuring high quality and sustainable public services" will explicitly recognise the need to address population ageing; increasing numbers of adults, young people and children living with disabilities and mental health problems; and the impacts of substance use, poverty and health inequalities, poor housing, and other drivers on the need for public service and solutions.

We agree that these are core priority <u>objectives</u>, but would add <u>prevention</u> within this core set, linking to the Public Sector Reform priorities.

The MTFS spending forecasts show that SG's **<u>service</u> priorities**, in terms of the current real terms growth included for the four future years, are: Social Security Assistance, Health and Social Care, and the much larger Social Care element within Local Government. We agree with those priorities but have concerns about the rest of local government services, and the potential for Community Planning Partnerships and councils to drive forward local joined-up service delivery, health improvement anti-poverty measures, and prevention.

The last Scottish Budget for 2025-26 set up a small invest to save fund of £30M, we think that this fund should be much larger to cover the set-up and evaluation costs of prevention projects. This would help link the Spending Review with the Public Sector Reform statements around preventative budgeting.

There also needs to be some infrastructure at the centre to help leaning about "what works", and the conditions for successful roll-out, the likely costs (including any temporary double running costs) and rate of return in future savings. While the SG has recently published useful one-off research, *Learning from 25 years of Preventative Interventions in Scotland*, this only covers 15 intervention programmes – what is needed is ongoing evaluation and dissemination of a much wider set of prevention initiatives.

6. **Faced with an ageing population, what actions should the Scottish Government take to increase labour market participation, with a view to growing the tax base?**
   [Scottish Labour Market Insights: February 2025 highlight that the economic inactivity rate for people aged 16 to 64 years in Scotland was estimated to be 22.9% during September to November 2024.The proportion of inactive people who are long-term sick or disabled has been increasing in recent years in both Scotland and the UK, particularly since the pandemic].

The Scottish Government already has workstreams in place on this key agenda, as described in the FSDP, including economic growth to deliver higher paid employment, discussions with the UK Government seeking to amend UK immigration policy as it affects Scotland, workforce re-skilling and helping people with disabilities, mental health problems, or substance use issues back into work. We do not under-estimate the difficulties facing these action programmes, many of which require financial investment to deliver future health and economic benefits, reductions in the increasing social security spending, and higher tax revenues.

7. **Given the stagnation experienced in Scotland and the UK since the 2007/08 financial crisis, what lessons can be learned from countries that have experienced recent productivity growth?**
   [According to The Productivity Institute "productivity growth in Scotland, mirroring the rest of the UK, has been very weak, registering a 1.0% annual increase in the 2008 to 2023 period"].

Other respondents will be better placed than Social Work Scotland to answer this question in detail. But reflecting on our members' recent experience improving the productivity of social work services, through the adoption of technology, we have been struck by how many practical and cultural barriers exist, slowing development and implementation. Highly risk-adverse attitudes towards the management and use of personal data (beyond what the law requires), low levels of trust from 'corporate' services towards individual practitioners (around their safe use of technology), and extended procurement processes, all conspire to hold back productivity gains in certain services.

8. **In which areas should the Scottish Government prioritise its capital spend to best support economic growth?**

Other respondents will be better placed than Social Work Scotland to answer this question.

9. To what extent does the Scottish Government's PSR Strategy demonstrate the vision and leadership required to drive progress? How well does it enable progress to be tracked, and outcomes measured?

[The Committee shares the Auditor General for Scotland's view that the Scottish Government needs to demonstrate stronger leadership and bring an overall vision to the Public Service Reform (PSR) Programme. This will be necessary for real progress to be made, including changing models for public service delivery. The Scottish Government is expected to publish its first PSR Strategy in June 2025].

Due to our own resource constraints, and the need to respond to other consultations, we regret we are currently unable to fully answer this question. Progress tracking and outcome measurement, or even programme output measures, are a challenge across all strategies, and not just the Public Sector Reform Strategy. In terms of delivery of Public Sector Reform, we believe that its workstreams should feature more clearly in the FSDP, so that there is better integration of the overall work programme, and better understanding of inter-dependencies.

10. How transparent and 'joined up' are the Scottish Government's key strategic financial planning documents? What improvements in this area can be made?

[At the Committee's request, the Scottish Government is conducting an exercise across portfolios to identify the number of 'live' strategies it has in place, to provide a baseline for numbers to be monitored and reduced wherever possible. The Scottish Government is due to report to the Committee on the outcomes of this exercise by the end of June 2025. At the same time, the Scottish Government announced the publication of two entirely new strategic documents in 2025 (FSDP and PSR Strategy)].

Our submission mentions the need to link the MTFS and FSDP better to the Public Sector Reform Strategy, particularly around prevention and preventative spend. To be sure, the MTFS mention prevention as one of four key measures of public spending reform, reasonably fully: ***Prevention** – investing in the most impactful preventative spend to reduce service demand in the medium to long term. This includes actions to tackle child poverty and poverty more generally, homelessness, supporting young people not to enter the criminal justice system, minimising reoffending, and the actions under the Population Health Framework* (MTFS, page 60)

One problem is that high-level breakdown of SG public spending portfolios does not separate out justice, despite the substantial public funding (about £650 Million) locked up in the prison system due to historic high levels of incarceration in Scotland and the UK compared to the rest of Western Europe, and insufficient resources to support for community disposals and rehabilitation. Social Work Scotland members working in community-based justice and in prison social work report that "the pressure on budgets is immense and demands growing". The SG's programme "to reduce reoffending and 'shift the balance' between the use of custody and justice in the community" is mentioned in the Public Sector Reform Strategy (page 22) but cannot be found in the Fiscal Sustainability Delivery Plan (FSDP).

Mental health is another policy and service area that would benefit by better co-ordination between strategies and funding streams. Social Work Scotland is responding to the Parliament's Health, Social Care and Sport Committee's Pre-budget scrutiny 2026-27:

Prioritisation of the mental health budget. Our response advocates for a rebalancing of investment priorities, improved data and evaluation frameworks, and a more holistic, person-centred approach to mental health care that empowers local communities and values early intervention. Despite a seemingly substantial investment in mental health services in Scotland of around £1.5 billion, the current funding model is misaligned with the needs of individuals and communities. The system remains overly focused on crisis response and clinical diagnosis, while preventative, community-based, and relational approaches are underfunded and undervalued. This is stark across adult and children's provision. There is a clear disconnect between national priorities and frontline realities, compounded by a lack of transparency, fragmented service delivery, and workforce pressures. To create a more equitable, effective, and sustainable mental health system, a fundamental shift is needed, toward early intervention, local empowerment, integrated care, and meaningful inclusion of lived experience in decision-making. Social Work Scotland and its members advocate for a rebalanced investment strategy that prioritises wellbeing, prevention, and community-led solutions.

The Public Sector Reform Strategy (PSRS) rightly champions local joined-up approaches, including the partnership work being led by Glasgow City Council initially focussed on system changes in relation to looked after and accommodated children to reduce the number of children in care, by better support to families: *[…] this has been achieved with intentional focus on strength based, anti-poverty and trauma informed approaches around early intervention and prevention. Shifting the focus to the needs of families, increased investment in Health Visitors, Family Nurses, and Intensive Family Support to drive transformational change. Above all better and more sustained longer-term outcomes for children. Aligning funding and support for families has also improved those outcomes for children, young people, and their families, while securing £29.8m in savings and £70m in cost avoidance.* (PSRS page 25)

More generally it feels that the Public Sector Reform Strategy should be better integrated in the FSDP and MTFS, with discussion of the potential savings illustrated in the section on Projections of Avoided Public Spending (PSRS pages 43-48).

Response prepared by: **Mike Brown**, Treasurer, Social Work Scotland

Any questions or comments on this submission should be made to
Ben Farrugia, Director, Social Work Scotland

Written Submission from Walking Scotland

1. What actions should the Scottish Government be taking now to start to address these 'Scottish specific fiscal sustainability challenges'?

We welcome the opportunity to respond to the committee.

Introduction

We agree with the Scottish Fiscal Commission that "… if improvements in population health can be achieved, pressure on health-related spending may be reduced in the future".

We agree that this could reduce the Scottish-specific fiscal challenges arising because of demographic change.

We agree on key health related points identified by the Commission:

Life expectancy in Scotland stagnated and then declined over the last decade.

Scotland also faces significant health inequalities.

Health spending accounts for the largest share of the Scottish Budget.

Climate change is the most important current health threat – with older adults with pre-existing conditions at most at risk.

Preventative spend has the potential to improve population health and Scottish Government fiscal sustainability.

If population health worsens then more spending may be needed to maintain the same services. Improvements in population health could lead to lower costs for the same access or to achieve the same outcomes.

We believe that the Committee should consider the merits of a prevention-first approach. This approach is included in recent Government publications, including the Population Health Framework and The Physical Activity for Health Framework. https://www.gov.scot/publications/physical-activity-health-framework/

The Christie Commission report (2011) encouraged a stronger focus on preventative, collaborative approaches to tackle persistent inequality and the development of services designed for and with people. This approach is as relevant as ever.

For example, primary prevention activity (e.g. walking, wheeling, and other physical activity) can prevent or halt the progression of multiple Long-Term Conditions.

People reporting very low levels of activity are most often older adults, people living in more deprived communities and those with disabilities or long-term conditions.

The biggest impact on the burden of disease in Scotland will come through removing the barriers preventing these people to achieve slightly higher levels of activity. Promoting walking and wheeling is a key means to do this.

https://www.gov.scot/publications/physical-activity-health-framework/

Walking and prevention

Promotion of walking and wheeling is a key preventative approach which helps reduce risk factors, builds independence and improves longer-term health outcomes. Regular maintenance of path networks is essential to prevent slips, trips and falls that reduce the mobility of older groups and increase pressure on health and social services.

The NHS Physical Activity Pathway can be an important part of treatment and rehabilitation for people diagnosed with long term conditions e.g., heart disease, stroke, diabetes, cancer, and mental health conditions.

Physical activity providers – including Health Walks - across Scotland provide appropriate physical activity opportunities.

We consider that walking should be embedded in exercise referral schemes and the NHS National Physical Activity Pathway. We should refer/signpost people to community walks and integrate walking programmes into routine healthcare and existing clinical pathways as part of treatment and rehabilitation.

Movement for Health Coalition

The Movement for Health Coalition is engaging Scotland's leading health charities, national agencies and academic institutions to support the least active people living with long term health conditions to be more physically active.
https://www.movementforhealth.scot/

Walking and health

Walking helps prevent heart disease, diabetes and cancer. It improves our wellbeing and is linked to better sleep, improved cognitive function and an overall better quality of life. In Scotland, more than 3,400 cases of serious long-term health conditions and over 1,000 early deaths can be prevented by people walking and wheeling. The number of deaths averted by walking to work was worth over 700 million Euros (around £600 million) a year, even before the value of reduced illness was included.

Improving access to safe, walkable environments and quality public realm and nature is also essential to closing the existing gap in health outcomes. Some of Scotland's most disadvantaged communities often face the greatest barriers to good health – from poor housing and limited access to green space, to higher rates of long-term conditions. Investing in walking, particularly in communities most affected by poverty and poor health, is a practical and low-cost way to improve our mental, physical and social health and reduce the pressure on the NHS. Walking makes us healthier.

People with a long term physical or mental health condition or illness are significantly more likely to have encountered cars parked on the pavement, roads that were difficult to cross or poorly maintained pavements.

Participation in regular walking or wheeling was most common for people who are 'very comfortable financially' and those in 'very good health'. In addition, when asked what factors would encourage them to walk or wheel more often, almost double the number of women than men (44% vs 23% respectively) answered with 'feeling safer when walking at night'.

https://walkingscotland.org.uk/resource/walking-and-wheeling-report-2023/

People recognise the health benefits of walking. A huge 84% agreed they enjoy walking for health, 80% for relaxation, and 77% for clearing their heads and improving concentration.

There is a need for systems approach to understand scale of intersectional barriers – an approach taken in the Physical Activity for Health Framework.
https://www.gov.scot/publications/physical-activity-health-framework/

We need to address health inequalities – often the people who most need to access health services and healthy behaviour are those who don't or can't access it.

We also need to acknowledge accessibility challenges for marginalised or protected groups – language barriers, cultural/religious sensitivities, sensory impairments etc.

We should recognise the importance of understanding the impact of poverty in preventing access to healthcare and healthy behaviour.

Health Walks

Health Walks are local, safe, accessible, short group walks that are free to attend. They are led by trained walk leaders along risk assessed routes. Their aim is to support those who are least active to get active by walking.

The Scottish Health Walk Network supports and trains individuals, groups and organisations to provide short, free, accessible Health Walks. These walks help people across Scotland to be physically active, get outside and connect with their community.

https://walkingscotland.org.uk/get-involved/join-a-health-walk/

https://walkingscotland.org.uk/our-work/scottish-health-walk-network-shwn/

Walking communities

Walking increases social interactions and connectedness in our communities. Places and spaces that prioritise and support walking help to foster safer, more accessible and inviting neighbourhoods. Our villages, towns and cities benefit from lower air and noise pollution. Walking is an excellent way for people to connect with local greenspaces which boosts mental wellbeing. Walking-friendly infrastructure improves pedestrian safety, encourages people to walk more, and makes our communities more attractive, friendlier and healthier places to be.

https://walkingscotland.org.uk/our-work/walking-communities/