Finance and Public Administration Committee
25th Meeting, Session 6
Tuesday 16 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 panel of witnesses:

   Roundtable session
   - Andy Witty, Director of Strategic Policy and Corporate Governance, Colleges Scotland
   - Stacey Dingwall, Head of Policy and External Affairs (Scotland), Federation of Small Businesses
   - Elaine Morrison, Director, Boosting Capital Investment, Scottish Enterprise
   - Tom Ockendon, External Affairs Co-ordinator, Scottish Federation of Housing Associations
   - Lesley Jackson, Deputy Director, Universities 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 9 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. In a letter to the Committee dated 3 September 2025, the Cabinet Secretary for Finance and Local Government said she is considering the impact of the UK Government's decision to deliver the UK Autumn Statement on 26 November 2025, including available options for timing of the Scottish Budget. The Committee responded to the Cabinet Secretary on 11 September 2025 seeking early engagement on timings and clarification of when the Infrastructure Investment Plan and Scottish Spending Review outcomes will be published.

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 along with 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 a summary of key issues discussed during these sessions is provided at Annexe A. A further evidence session with the Cabinet Secretary is planned to take place on 30 September and the Committee expects to publish a report on its findings in October.

Meeting on 9 September 2025: key issues discussed

9. The following key issues were discussed at the Committee's latest evidence sessions on 9 September, with Audit Scotland, the Fraser of Allander Institute, Scottish Council for Voluntary Organisations, Scottish Trades Union Congress, Social Work Scotland, and Walking Scotland—

    - Transparency – While the level of detail contained in the MTFS has improved, the calculations and modelling behind the underlying assumptions in it and the FSDP should be published for transparency and scrutiny. It remains unclear why the FSDP needs to be a separate document.

- Prioritisation – The MTFS does not prioritise the Scottish Government's key pillars. It would be helpful to see how the weighting of the pillars shift over time according to which has, or will have, most impact on the fiscal gap.
- Reliability of statistics – The lack of reliable labour market information is "a real worry" and means "we know very little about employment trends in Scotland".
- Workforce – A clear, detailed plan is needed which sets out the areas of the public sector where more or fewer staff are needed on which to base decisions around workforce. It is unclear if the Scottish Government is aware of the impact on the 'frontline' of focusing workforce reductions on 'back-office' staff. Productivity in the public service workforce, through effective resourcing including digitalisation, will be crucial in achieving efficiencies the Scottish Government says are necessary. There are difficult decisions for the Scottish Government on pay, which it was suggested could be paid for through taxation.
- Universality – A review of the spending and outcomes arising from universal payments and services could be useful given the fiscal gap. It was suggested, for example, that the Small Business Bonus Scheme could deliver better outcomes if it was targeted.
- Capital spending – The IiP should contain information on 'shovel-ready projects' which could be started quickly and maximise returns. Setting clear priorities should increase understanding of how the Scottish Government will respond to any future shortfall or extra capital funding, as well as allowing for a more strategic response.
- Scottish Spending Review (SSR) – It would be helpful to move towards 'zero-based budgeting' with the SSR, although it was recognised that the time available for this work is limited. The Scottish Government should set out how the ambitions in the MTFS will be realised through the SSR.
- Public service reform (PSR) – The PSR Strategy is welcome in looking at Government strategies across the piece, however, the more Government strategies the higher the risk they do not align, and it is currently unclear where the National Performance Framework fits in. The Scottish Government should be asked if the £1 billion expected in savings on corporate functions in the public sector over the next five years will be baselined in the Scottish Budget. It should take an engagement approach with staff on reform rather than be a 'top down' exercise. The voluntary sector plays a crucial role in delivering public services and to support this work, fairer funding and a statutory partnership framework are required.
- Preventative approaches – Planned preventative actions should also include timelines for when impacts/outcomes are expected to start to take effect, to support monitoring of progress. Monitoring is also needed on how funding is being spent and outcomes delivered under the 'Invest to Save Fund'. The size of the Fund (£30 million in the 2025-26 Scottish Budget) is insufficient - results could be "upscaled dramatically" if the Fund was larger. There were calls for a definition of 'preventative spend' to identify and track this spend over time, particularly given the time lag in achieving outcomes. (Public Health Scotland have already developed a definition.) This would also help to avoid all funding to be placed under this category. Examples of preventative measures to improve population health and reduce health inequalities were discussed,

such as walking and wheeling, which should be better promoted and included in national support programmes.

Written submissions

Colleges Scotland

10. In its submission, Colleges Scotland suggests that the Scottish Government should have a clear plan to secure labour market participation from those not in work, education or training including those facing barriers to work. This should ensure access to appropriate training, qualifications and upskilling aligned to economic needs. It goes on to argue that investing in education and training is preventative spend and should be seen as a priority for investment.

11. The submission highlights that it would be helpful if future MTFS publications link achievements to specific priorities and provide an evidence-based approach "to assist in understanding of spending decisions". It notes that the FSDP is key to a joined-up approach to "the plethora of strategies" and makes a number of suggestions on how the document could be improved, such as aligning economic growth spending to gaps in skills and labour market needs and "a direction on the fundamental change to how public money is spent, cutting across the different portfolio boundaries to achieve an aim or objective".

12. Colleges Scotland suggest that the National Transition Training Fund introduced by the Scottish Government in 2020 in response to the economic impact of Covid-19 "offers a delivery model which can be re-employed to increase labour market participation in key sectors for Scotland and grow the tax base as a result". It further suggests continuously improving careers information, advice and guidance to enhance awareness of opportunities through apprenticeship pathways.

Federation of Small Businesses (FSB)

13. The FSB argues in its submission that skills development must be "a primary focus" for the Scottish Government in supporting economic growth and growing the tax base, and that it should maintain engagement with the small business community "to ensure their needs are reflected as the skills landscape is reformed". The submission further highlights an opportunity through the Community and Wealth Building (Scotland) Bill to ensure that procurement spend with small businesses is maximised. This, Colleges Scotland states, "represents a clear opportunity to boost economic growth without specifically allocating capital spend".

14. It also highlights FSB data showing that over a tenth of Scottish small businesses are spending over eight hours a week on regulatory compliance. It therefore argues that "combining a reduction of strategy and consultation documents with assessing the disproportionate impact of new policies on small businesses through comprehensive [small business-focused] Business and Regulatory

Impact Assessments, will mean that there are less administrative and regulatory burdens placed on small businesses”.

Scottish Enterprise

15. In its submission, Scottish Enterprise highlights evidence from the Keep Britain Working Review published in March 2025 suggesting that health-related conditions, disability and ageing are major drivers of economic inactivity. In addition to potential solutions provided in the Review, Scottish Enterprise suggests other ways to recruit and retain older workers, including encouraging employers to reimagine job design and embed flexible and phased retirement options across their workforce through large-scale trials. This, it argues “will help to build robust evidence and catalyse a culture shift across industries”. Other suggestions include incentivising employers to recruit, retain and retrain older workers and launching a national campaign to tackle age bias and promote fair work.

16. The submission also highlights Scottish Enterprise research into barriers to increasing Scotland’s productivity which identifies the need to (1) invest in capital, (2) shift attitudes to risk and take a long-term view, (3) adopt a joined-up approach across Scotland and the UK, and (4) ensure availability of the “right skills”.

17. The submission further notes the Office for Budget Responsibility’s baseline assumption that a permanent 1% increase in public investment increases output by 2.4% in the long term, along with Resolution Foundation analysis that this level of investment would raise GDP by around 4.9%. Scottish Enterprise argues that this analysis reinforces the focus in Scottish and UK Government documents[1] on innovation and investment as critical drivers of economic growth and productivity gains.

Scottish Federation of Housing Associations (SFHA)

18. The SFHA argues in its submission that “a crucial part of adapting to an ageing population will be ensuring that homes are accessible to people’s needs to help them live well and independently, and that the right conditions are in place to provide specialist housing to those who need it”. It sets out proposed actions including publication of a national strategy for housing older and disabled people that aligns housing, social care and health, ensuring the grant funding from the Affordable Housing Supply programme supports accessibility and adaptability, and incorporating a new Scottish accessible homes standard.

19. The submission further states that technology-enabled care should be a key area of focus. It suggests that the costs of a core set of technologies including internet connectivity should be covered through new build grants and that a national framework for digital retrofitting in social and supported housing should be developed. Housing and health strategies, it suggests, should be aligned “by

[1] Scottish Government’s National Strategy for Economic Transformation and its Innovation Strategy, as well as the UK Government’s Modern Industrial Strategy.

recognising digitally enabled homes as essential infrastructure for community-based care and independent living".

20. The SFHA argues that the SSR should prioritise multi-year funding for key policy areas "which will allow Scotland's housing associations and co-operatives to tackle the housing emergency, meet the challenge of net zero and address poverty and inequality". In addition, investment in the Affordable Housing Supply Programme should, it suggests, be a priority for the Scottish Government's capital spend.

Universities Scotland (US)

21. In the context of demographic trends, the US submission highlights that universities play an essential role in educating healthcare professionals and in exploring with the NHS new models of delivery, and it provides several examples of this type of collaboration. However, US notes that the teaching funding model for universities "is highly restrictive and does not provide much opportunity to pilot new initiatives". It goes on to call for a sustainable student finance model and non-repayable bursaries to support all healthcare professionals undertaking pre-registration training, and prioritisation of Funding for the Research Excellence Grant and the Knowledge Exchange and Innovation Fund to enable "strategic investments in patient health and improved outcomes for the NHS".

22. More broadly, the submission calls for "urgent action to stabilise the university sector's funding model and safeguard its future contribution to Scotland's society and economy". It also argues for resource funding to be found within the 2026-27 budget "to create a multi-year transformation or spend-to-save fund for universities at a scale capable of supporting multiple institutions to make their own strategic investments in transformation, long-term efficiency, greater collaboration and shared services".

23. US also calls on the Scottish Government to "create a policy and funding environment that gives universities the scope to flexibly respond to Scotland's skills needs, which could in turn make a significant contribution to increasing labour market participation". This includes more flexibility within graduate apprenticeships to respond to employer needs, offering better support for employers to retain international graduates in Scotland, and "bolstering investment in Scotland's Migration Service, particularly to build confidence in an SME-dominated landscape".

Next steps

24. The Committee will take evidence on its pre-budget 2026-27 scrutiny from the Cabinet Secretary for Finance and Local Government at its next meeting on 30 September and is expected to report on its findings in October 2025.

Committee Clerking Team
September 2025

ANNEXE A

Meeting on 2 September 2025: key issues discussed

1. 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[2] to move towards 'nowcasting[3]' 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[4]. 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

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

[3] 'Nowcasting' involves using early-release data to estimate economic conditions before official statistics are finalised.

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

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 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.

ANNEXE B

Written Submission from Colleges Scotland

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

To deal with the issue of the Scottish specific fiscal sustainability challenge, it is vital that Scotland maximises the participation and contribution of its population, which is ageing, and the population of Scotland is shifting in terms of internal migration. Broadly, Scottish Government should have a clear plan for:

- Gaining the participation in the labour market of those who are currently not in work, education or training, and with support for people who face barriers to work such as neurodiversity or disability.
- Ensure access to appropriate training, qualifications and upskilling which are aligned to Scotland's economic needs.

There should be a close understanding and a will to increase upskilling and retraining capacity across Scotland, to quickly help people stay in employment, change role, or re-join the labour market.

A wide body of existing evidence shows that with increased qualifications, there is a reduction in spend in other portfolio areas, such as health. Investing in education and training is preventative spend and should be seen as a priority for investment.

Pre-budget scrutiny of Scottish Government spending decisions should therefore ensure:

- There is a streamlined and clearly understood process within Scottish Government to allow for funding of solutions for policy drivers and priorities from across a number of portfolios.
- Investment in colleges to support initiatives to encourage labour market participation, especially among underrepresented groups, to counteract the effects of an ageing population and reduce economic inactivity. Supporting colleges key role as community anchors.
- Adequate and sustained funding for colleges, to provide sufficient upskilling and retraining capacity, to ensure the college sector has sustainable funding to be Scotland's skills engine.
- Adequate and sustained funding for colleges to provide tailored support to help those further from the labour market engage.
- Adequate and sustained funding for colleges to provide additional support and specialised services for disabled people and students with additional support needs.

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?

It is helpful that an updated MTFS has been published, as Scottish Government priorities have changed since the last one published in 2023. In evidence previously provided to this Committee, Colleges Scotland stated that it would be helpful for the MTFS to provide clarity on progress on delivery against the objectives. The achievements noted in the 2025 MTFS are not linked back to specific priorities nor is an evidence-based approach provided. Both of these would be helpful to assist in understanding the impact of spending decisions.

The FSDP is also welcomed as the important role of this document is key to a joined-up approach across a plethora of strategies. It would add more value if it covered the following elements:

- A direction on the fundamental change to how public money is spent, cutting across the different portfolio boundaries to achieve an aim or objective.
- Identify how Scottish Government will change the public service delivery models in response.
- Include information on the role of reform in delivery of the objectives.
- Align economic growth spending to gaps in skill and labour market needs.
- State how Scottish Government will ensure key skills that are required (by employers and employees) can be delivered and adequately funded.
- Identify the risks.

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

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

Whilst we have not made a systematic comparison to the budget process review group's recommendations, the Framework section of the MTFS amounts to less than 2 pages in an Annex, which perhaps does not set out in sufficient detail enough information to allow adequate and meaningful participation in the process.

We understand that it is the intention for the Scottish Spending review to be published alongside the Draft Budget in December 2025, and therefore more detail is required to allow input to this fundamental document.

5. What should the next Scottish Spending Review prioritise?

The Scottish Spending Review should be accompanied by a reform and prioritisation of the current use of public spending, as per Pillar One of the MTFS with a sharper focus on Cross Portfolio spending.

Evidence from Skills Development Scotland has indicated the opportunities for Scotland through £230bn of generational investment in Scotland's infrastructure and economy across a range of key sectors, based on current and known public and private investment, including Energy and Utilities, Scotwind, Oil and Gas, Construction, Shipbuilding and Digital and Fintech.

For these opportunities to be realised there is a critical need for the skilled workforce to be both identified and developed to address the workforce demands associated with these sectors, given the projected increases in job requirements across this sector.

In practice this will require increased investment into Education and Skills being prioritised through the next Scottish Spending Review to ensure multi-year commitments which are required to oversee the increased provision of industry intensive, vocational education and technical skills alongside expanded and more dynamic apprenticeship pathways, delivered through colleges in their roles as skills engines for the Scottish economy.

This investment would support both agile, fast paced upskilling and reskilling for Scottish workers and businesses and rapid retraining for redundant workers and those economically inactive individuals, as highlighted by the Scottish Labour Market Insights: February 2025 to get back into work and contribute to the economy.

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?

As set out broadly in answer to Q1, to increase labour market participation means dealing with the following:

- Gaining participation in the labour market of those who are currently not in work, education or training, and with support for people who face barriers to work such as neurodiversity or disability, rurality or other barriers. Barriers to work in Scotland are well understood and preventative spend, particularly investment in childcare, would bring about more labour market participation. Colleges are responding to some of these challenges, for example offering courses which start after school drop off time and end before pick up time, allowing parents (predominately mothers) to participate in training. These types of adjustments are not widespread due to lack of investment in the college sector.

- Ensure access to appropriate training, qualifications and upskilling which are aligned to Scotland's economic needs. There should be a close understanding and a will to increase upskilling and retraining capacity across Scotland, to quickly help people stay in employment, change role, or re-join the labour market.
- If the aim is to keep people in work for more years then many publications and reports have evidenced the absolute need to invest in people in terms of upskilling and retraining. Colleges are the place in Scotland where that activity should be taking place, however there is not currently a policy which comes with investment which would see a national roll out of these opportunities to people aged 55+ who are still in work. For people starting their working lives, colleges would support more apprenticeship places being available, and more access to work based learning which is supported by Scotland's colleges. This requires preventative spend and investment.

The Scottish Government should work with the college sector in Scotland to introduce targeted upskilling and reskilling initiatives to both support individuals to enter key sectors of the Scottish economy whilst reducing sector shortages in areas including Health and Social Care. The National Transition Training Fund as introduced by the Scottish Government in 2020 as a direct response to the economic impact of Covid-19 offers a delivery model which can be re-employed to increase labour market participation in key sectors for Scotland, and grow the tax base as a result.

This should be combined with a focus on continuously improving Careers Information, Advice and Guidance to ensure that young people at school have awareness of the opportunities through Pre-Apprenticeship and Modern Apprenticeship pathways, whilst better preparing and enabling learners to succeed.

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?

Scottish Government should ensure the following activities are undertaken to help increase productivity growth in Scotland:

- The need for provision of meaningful multi year funding
- Provision of clarity on the transformation ambition and how it will be funded
- Better data on savings, return-on-investment, costs and progress in regard to reform
- Provision of certainty, as uncertainty leads to lack of investment by companies
- Re-introduction of a fund specifically to allow workforce development within companies through funded training utilising the college sector
- Consideration of alignment of skills provision through closer connection to the economic portfolio of Scottish Government.

Consideration should also be given to the information and conclusions set out in the report by Professor Joe Little entitled A Vision for the Delivery of Skills, Vocational and Technical Education in Scotland, published in August 2025 https://collegesscotland.ac.uk/news/latest/656-new-report-highlights-future-trends-for-colleges

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

Provision of skills is key to economic growth. Investment in college infrastructure delivers not only inclusive economic growth but maximises the opportunities for innovation and entrepreneurship in Scotland's businesses, as well as skilling up the workforce required to increase industrial competitiveness and underpin wellbeing in society.

This capital investment would allow confidence in the progressing of the College Infrastructure Strategy currently underway by the Scottish Funding Council. New forms of service delivery and new and agile forms of learning enabled by digital integration of learning experiences and the creation of new and diverse skills, must be considered alongside the use of digital technologies as part of the planning of the future estate and to support the development of the college of the future

Investment in the college estate and Information and Communications Technology (ICT) capital is vital in order to ensure learners have the best possible learning experience; to make sure they are being taught in appropriate and safe facilities; to bring equity to the learner experience; and to allow colleges to fully contribute to Scottish Government priorities.

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?

Colleges Scotland would like to see more engagement with the college sector on how we can contribute and assist in the 3 Pillars related to the Public Service Reform Strategy. In particular, colleges have a vital role to play in contributing to preventative spend, with investment in individuals through providing employability training and upskilling, allows those people to contribute to the labour market and economy, as well as better themselves through higher qualification levels. This in turn has shown to reduce spending in other areas such as health and justice, as well as leading to higher tax revenue take.

Prioritisation of public spending in Scotland's colleges delivers powerful returns that directly support national priorities, creating lasting benefits for students, staff, communities, and the economy as a whole. A report by the Fraser of Allander Institute stated that every £1 invested in colleges brings a £6 return. Colleges are uniquely positioned to drive progress on Scotland's most pressing challenges, and with the right investment, they can deliver sustainable, inclusive, economic policies with the greatest potential to grow Scotland's economy, expand and broaden the tax base to fund public services.

https://fraserofallander.org/publications/the-economic-contribution-of-colleges-in-scotland/

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

Further work is needed to ensure that across all the different strategies that there are clear links between decisions made with both priorities and future direction, driven by issues that cross portfolios e.g. change in demographics, climate challenges, economic delivery required and alleviating poverty.

There is a need to identify closer and quicker actions derived from connections between the economic strategy and what each public body needs to do, hence helping decision-making on the priority for public funding that goes beyond just the priority in a particular portfolio.

As well as there been more clarity around future priorities across the portfolios, the strategies should identify how objectives can be delivered at a regional level, in order to drive regional economic growth.

About the Federation of Small Businesses (FSB)

The Federation of Small Businesses (FSB) is Scotland's leading business organisation and aims to help smaller businesses achieve their ambitions. Micro and small businesses comprise almost all enterprises in Scotland (98%), employ over 900,000 people and turn over £93bn annually.[1]

Summary

We welcome the opportunity to respond to the Call for Views on Responding to Long-term Fiscal Pressures. Our response focuses on the following questions outlined in the Call for Views:

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

Key recommendations:

- **The Scottish Government should continue to maintain engagement with the small business community and their representatives to ensure their needs are reflected as the skills landscape is reformed.**

- **The Scottish Government must ensure the success of the Community Wealth Building Bill in delivering real reform of procurement by including requirements on public bodies around reporting and increasing spend with small, local businesses.**

- **The Scottish Government should fully embed the small business focused BRIA into all forthcoming policies and regulations to ensure the impact on small businesses is properly assessed and mitigated as required.**

[1] **Businesses+in+Scotland+2024+Tables.xlsx**

Growing the Tax Base

As outlined in the Call for Views, the economic inactivity rate for people aged 16-64 in Scotland was estimated at 22.9% (September to November 2024).[2] However, when we focus specifically on 16-24 year olds, the estimated inactivity rate for this group rises to 37.6% (October 2023 to September 2024).[3] This represents a significant number of people who, if employed, would contribute to the tax base, in turn boosting economic growth. Research shows that young people are facing more barriers when seeking employment.[4]

FSB's latest Small Business Index,[5] published in July 2025 shows a stark outlook:

- 28.7% of firms expect to contract, close or sell within the next year
- Only 24.5% expect to grow, marking the most pessimistic outlook since the start of the pandemic in 2020
- 18% of businesses reduced headcount over the period reported

To address these challenges, skills development must be a primary focus. FSB has been broadly supportive of the Skills Reform agenda and the subsequent Tertiary Education and Training (Funding and Governance) (Scotland) Bill, whilst also highlighting potential risks. [6]

Our research[7] into work experience, apprenticeships and engagement with members has revealed skills challenges that hinder both youth employment and small business growth. Tackling these issues is essential in boosting the tax base and stimulating economic growth.

We recommend that the Scottish Government ensures the Skills Reform agenda continues to reflect the needs of small businesses by embedding their perspectives

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[2] **People not in work - Scotland's Labour Market Insights: February 2025 - gov.scot**

[3] **Economic Inactivity - Labour Market Statistics for 16 to 24 year olds: Scotland and the United Kingdom - October 2023 to September 2024 - gov.scot**

[4] **Truth+About+Youth+Survey+2025+-+FINAL.pdf**
info1.open.ac.uk/REPORT-Business-Barometer-2025.pdf

[5] **Press Release | Growth expectations of Scottish small businesses fall to lowest level since pandemic outbreak**

[7] **Policy Report | Big Small Business Survey**

into the design and delivery of the post-school education and training system. This includes maintaining close engagement with representative bodies like FSB and addressing key challenges such as access to work experience and apprenticeships.

Supporting Economic Growth

Small businesses are vital to the Scottish economy. They comprise almost all enterprises in Scotland (98 per cent), employ over 900,000 people and turn over £93 billon annually.[8]

The Scottish Government's Medium-Term Financial Strategy (MTFS) specifies key measures to support economic growth and expand and broaden the tax base include increasing aggregate business activity, increasing employment levels and increasing average wages. Making up the majority of the economy, small businesses will play a key role in meeting these goals and therefore must be supported to do so.

Supply Chain and Procurement

In 2012, FSB partnered with the Centre for Local Economic Strategies (CLES) to examine how local authority procurement practices interact with small businesses.[9] Building on this, our 2019 research assessed progress in increasing the share of public contracts awarded to small Scottish firms and found while some barriers had been removed following the introduction of the Procurement Reform (Scotland) Act 2014, others persisted.[10]

Over this time, FSB have been clear with the Scottish Government on what is needed to ensure progress continues in addressing the challenges small and micro businesses face in accessing public procurement opportunities: the introduction of statutory targets on how much is spent by public bodies with small businesses each year. There is now a chance, as part of the Community Wealth Building (Scotland) Bill currently making its way through parliament, to deliver on ambitions to ensure that procurement spend with

[8] **Businesses+in+Scotland+2024+Tables.xlsx**
[9] **Local Procurement: making the most of small businesses | CLES**
[10] **Policy Report | Broken Contracts**

small businesses is maximised. This represents a clear opportunity to boost economic growth without specifically allocating capital spend.

To inform our work on the Community Wealth Building (Scotland) Bill, FSB recently commissioned CLES to refresh our evidence base on Scottish local government procurement practices and Community Wealth Building approaches as they impact small and micro businesses. While we found great examples across individual local authorities in terms of their, often successful, attempts to increase local spending, significant gaps and inconsistencies in data collection means that we're unable to get a true picture of how much public money is currently being spent with small businesses in Scotland. This is due to non-standardised reporting requirements across Scotland, as well as some local authorities not disclosing contract spend under a certain amount (even after being requested through Freedom of Information requests).[11]

Supportive of the Scottish Government's ambitions in the introduction of the CWB Bill, the report found there is an opportunity 'to be bold and visionary in procurement practices'[12].

Our recommendation is that the Bill is amended to require local authorities to all report the same procurement data annually, which will allow realistic targets for an increase on current spend to be set accordingly. It is only through this that the potential for boosting economic growth through this piece of legislation will be realised.

Assessing the Impact of Regulation

In relation to compliance with existing regulations, FSB data shows that over a tenth of Scottish small businesses are spending over 8 hours a week on regulatory compliance – the equivalent to a working day.[13] This highlights the additional time that must be found by small business owners outwith dealing with their day-to-day operational duties

We welcomed the First Minister's acknowledgment that there is a need for 'more

[11] **Policy Report | Boosting local economies**

[12] **Policy Report | Boosting local economies**

[13]

Policy Report | Big Small Business Survey

concrete actions and fewer strategy documents' in his speech on 17th May 2024.[14] Combining a reduction of strategy and consultation documents with assessing the disproportionate impact of new policies on small businesses through comprehensive Business and Regulatory Impact Assessments (BRIAs), will mean that there are less administrative and regulatory burdens placed on small businesses. It provides an opportunity for policymakers to robustly assess the impact of proposed policies against the needs of small businesses.

While FSB Scotland participated in the New Deal for Business Regulation sub-group and the development of a revised BRIA template (which incorporates a fuller assessment of how new regulations will impact on the operation of small businesses) we are concerned by the potential level of consistency while it becomes embedded in practice. For example, the recent consultation on the regulation of non-surgical cosmetic procedures did not come with even a partial BRIA carried out, when published.

By positioning a small business-focused BRIA as a mandatory requirement when developing new policies, there is an opportunity to reduce the impact of new regulations on small businesses.

[14] https://www.gov.scot/publications/economic-approach-first-minister-speech-17-2024/

Scottish Enterprise Response

Call for Views on Responding to Long-Term Fiscal Pressures, July 2025
Scottish Parliament Finance & Public Administration Committee

Question 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?

UK-wide evidence (from the *Keep Britain Working Review*, March 2025 https://assets.publishing.service.gov.uk/media/67dac71a91e6e0492302842c/keep-britain-working-review-discovery.pdf) highlights that health-related conditions, disability and ageing are major drivers of economic inactivity. Contextual risk factors suggest Scotland faces higher-than-average inactivity tied to ill-health.

- Around 20% of the UK working-age population report a work-limiting health condition. Of these 8.7 million individuals aged 16–64, 4.1 million remain in employment (a 30% growth over past six years). This suggests that employers should be supported to keep employees in work rather than see them leaving the labour market owing to ill health.

- Health-related conditions have a significant impact on the extent of economic inactivity:
  - having a mental health condition increases risk of inactivity 3.2–4.7 times versus peers of same age
  - being disabled raises the risk by 2.9–4.4 times
  - living with multiple health conditions increases the risk by 2.8–5.3 times
  - extended periods out of work further amplify the risk of long-term inactivity.

- In Scotland:

  - disabled people are nearly three times more likely than non-disabled peers to be economically inactive (in 2024 51.7% of disabled people aged 16–64 were employed versus 83.0% for non-disabled individuals, a gap of 31.3%s)
  - the employment rate for older workers aged 55 – 64 was 60.7**%**, compared to 68.1**%** in the South East of England. If Scotland matched that, over 55,000 more jobs could be created (*Source: Closing 'participation gap' among Scots aged over-55 could create over 55,000 jobs, PwC*).

The *Keep Britain Working Review* makes several proposals aligned with Scotland's devolved powers that could increase labour market participation – particularly among older people, disabled people and those with long-term health conditions – to support economic growth and strengthen Scotland's future tax base. These include:

1. **Tailored employment pathways for disabled people**

- Design and implement a Scottish equivalent scheme to the *HealthKickstart Employment Scheme* using existing devolved employability infrastructure (eg *Fair Start Scotland*, *No One Left Behind*). This could provide wraparound support, including in-work health and wellbeing services, job coaching, and employer liaison.

2. Enhanced support for SMEs employing disabled people

- Introduce targeted training vouchers and access to expert HR advice for small employers and microbusinesses hiring disabled individuals for the first time. This could potentially be delivered via Business Gateway or integrated with *Flexible Workforce Development Fund*.

3. Return-to-work support for employees on long-term sick leave

- Expand return-to-work support via NHS Scotland and Health & Social Care Partnerships (HSCPs), including early intervention for those off work 6–12 months. This could integrate services for mental health, chronic conditions and occupational therapy with employment support – similar to the English WorkWell pilots.

4. Support for disabled entrepreneurs and self-employment

- Promote or expand access to start-up grants, mentoring and business development support for disabled self-employed people via existing Business Gateway, local authority and Scottish Enterprise support.

Building on this, Scottish Enterprise suggests additional ways to recruit and retain older workers:

1. **Drive flexible work innovation**

Flexible working opportunities rose significantly during and post-COVID. However, this has now stabilised and there is a growing trend of employers requesting workers return to the workplace. This could further reduce the size of the labour market as it creates more barriers for older workers to work longer while managing caring responsibilities or health conditions. These barriers will only increase the critical skills gaps which are already emerging.

To address this, we could empower employers to reimagine job design and embed flexible and phased retirement options across their workforce. Supporting large-scale trials - beyond the current limited pilots - will help to build robust evidence and catalyse a culture shift across industries. This is key to retaining experienced talent and enabling returners, particularly those with caring responsibilities.

2. **Incentivise recruitment, retention and reskilling of older workers**

To futureproof the workforce, we could incentivise employers to recruit, retain and retrain older workers, and increase access to funding which targets the requirement to recruit disadvantaged groups including older workers as part of workforce planning. Access to flexible training funds will support transitions from declining sectors into high-growth areas like renewables and digital. This not only addresses skills shortages but also unlocks the potential of experienced workers returning after career breaks.

3. **Launch a national campaign to tackle age bias and promote fair work**

The Scottish Government could consider a coordinated, high-profile campaign to:

- challenge age-related employment stigma
- promote awareness of employability support available to employers for recruiting and retaining older and economically inactive workers
- champion fair work and flexible job design as drivers of productivity, innovation, and workforce diversity.

While Fair Work First is embedded in public sector support, a broader campaign will amplify its benefits and encourage wider adoption across the private sector.

Question 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?

Drawing on Scottish Enterprise's own research into barriers to increasing Scotland's rate of productivity growth we identify four key lessons:

Lesson 1 – Invest in capital

A low level of capital to support workers is a key cause of the UK's relatively low labour productivity

- For each hour worked, people in the UK benefit from a third less capital than workers in higher-productivity peer countries (the US, Germany, France, and the Netherlands).
- The UK's capital gap (versus other, more productive countries) is measured in the trillions of pounds. Even if the UK was able to increase its investment rate by about 4%-points of GDP it would take almost a century to catch up with the capital intensity of higher-productivity peer countries (*Source:* *https://www.productivity.ac.uk/research/the-uks-capital-gap-a-short-fall-in-the-trillions-of-pounds-that-will-take-decades-to-bridge*).
- Owing to decades of under-investment in equipment, research and development, training and infrastructure by both public and private sector, efficiency outcomes have worsened over time. In simple terms, using old technology limits the chance to innovate.

Lesson 2 – We need to shift attitudes to risk and take a long-term view

- European companies, particularly Germany and the Netherlands, often have a higher tolerance for risk and a longer-term investment horizon than companies in the UK. This cultural inclination towards long-term planning and stability can lead to more substantial and sustained investments. The UK has firm-level barriers including risk-aversion, investment constraints and cultural issues (*Source: SE research on attracting private capital investment – international comparator research. To be published Autumn 2025*).

Lesson 3 – Scotland/UK should adopt a joined-up approach

- There could be a clear long-term national strategy to guide and prioritise efforts avoiding the fragmentation of efforts across several agencies. For example:
    - Eindhoven's Brainport brand is central to establishing itself as an attractive tech region (See: https://brainporteindhoven.com/en/discover-brainport)
    - The Malmo and Copenhagen collaboration has leveraged the cities' combined strengths, creating a more competitive and attractive business environment.
    - Andy Burnham, Mayor of Greater Manchester, recently raised the idea of Glasgow forming a collaborative five-city pact with cities across the UK and Ireland ((*Source: SE research on attracting private capital investment – international comparator research. To be published Autumn 2025*).

Lesson 4 – Availability of the right skills may constrain growth

- Scotland ranks highly for qualification attainment (Quartile 1) but has a higher rate of graduates in non-graduate jobs compared with other UK regions. ONS Local: Graduates and non-graduates employed in graduate and non-graduate roles by UK region, 2023 - Office for National Statistics.
- This also links back to the value and regional distribution of investment:
    - Need for housebuilding around the most productive cities, meaning workers are priced out of living near well-paying jobs.
    - The lack of reliable mass transit shrinks the effective size of our cities by limiting who can easily get to the city centre.

(*Source: FT article, 1st June 2025 – The UK doesn't have a productivity puzzle).*

Question 8:

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

The UK Office for Budget Responsibility's baseline assumption is that a permanent 1 per cent increase in public investment increases output by 2.4 per cent in the long run. The size (and speed) of this effect is inevitably uncertain and depends on a number of assumptions, which vary by the extent to which public investment 'crowds in' private investment.

The Resolution Foundation have used evaluation evidence to convert the OBR's estimate into GDP estimates (see https://www.resolutionfoundation.org/app/uploads/2025/04/Capital-gains.pdf).

This shows that a permanent increase in the economic infrastructure investment rate of 1 per cent of national income permanently raises GDP by around 4.9 per cent and for social infrastructure (eg housing, health, prisons) it is about 3.5 per cent. Furthermore, the Resolution Foundation states that:

> "*Viewed through the lens of its impact on GDP growth, the lesson from a large volume of economic research is that the way to maximise your impact is to invest in economic infrastructure. This is essentially a strategy of building new infrastructure such as roads, railways and utilities. One area of economic infrastructure that doesn't conform to this stereotype is government R&D which is often included as part of economic infrastructure and has been found to drive*

long-run growth ... this is an area where successive governments have a strong record of investing. So, particularly in the light of the Government's growth mission, there seems to be a strong case for continuing such high levels".

Scottish Enterprise agrees with this assessment. This analysis also reinforces the focus (in the Scottish Government's National Strategy for Economic Transformation and its Innovation Strategy, as well as the UK Government's Modern Industrial Strategy) on innovation and investment as critical drivers of economic growth and long-term productivity gains. A stable, consistent macroeconomic and policy environment directly raises investment confidence among businesses and investors, both in Scotland and overseas, helping to crowd in the significant private sector investment needed to amplify the positive effects of government capital spending.

Written Submission from Scottish Federation of Housing Associations (SFHA)

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

A crucial part of adapting to an ageing population will be ensuring that homes are accessible to people’s needs to help them live well and independently, and that the right conditions are in place to provide specialist housing to those who need it. The Scottish Government should be acting on this now to meet current unmet demand and prepare for a future in which the need –and potential cost- is even greater.

Housing is an important determinant of good health, and this will become increasingly important in improving public health in the context of an ageing population. Home adaptations are associated with increased social participation and confidence, a reduced likelihood of people injuring themselves at home, allowing better employment outcomes for people who might be able to work, and the ability for people to keep living in their communities. Ensuring that people have an accessible home to return to is also an important part of freeing up capacity in NHS settings.

To adequately respond to the housing needs of older and disabled people of all ages across Scotland, we need a number of systems to be functioning properly: an adequate new supply of accessible homes; effective allocations practice for adapted social rented housing, an adequate supply of specialist housing and suitable funding models for housing with care, and timely and person-centred adaptations that support people to live well in their homes with the funding, systems and processes that allow these to happen.

To outline some of the current challenges, we estimate that:

78,000 households need an adaptation to their home but don’t have one

67,000 people can’t get up or down the stairs in their own home

37,000 people have great difficulty moving around the house

14,000 people can’t leave their home because of stairs

12,000 households include someone who is unable to get in and out of the house unassisted

Some of the actions the Scottish Government should be taking are:

Publish a national strategy for housing older and disabled people in Scotland that aligns housing, social care and health.

Urgently complete the review of Housing for Varying Needs to create a new cross tenure design standard for all new homes (incorporating a new Scottish Accessible homes standard).

Ensure that grant funding from the Affordable Housing Supply programme supports all elements of accessibility and adaptability.

Provide a budget for the Registered Social Landlords adaptation programme that actually meets demand from tenants. The last budget was £20m (a significant improvement on the previous year's £11m and £8m) but demand is nearer to £28m a year.

Commit to increasing the supply and funding of housing support, including the provision of various types housing with support options for disabled and older people.

Another key area of focus should be Technology Enabled Care (TEC); “where outcomes for individuals in home or community settings are improved through the application of technology as an integral part of quality, cost-effective care and support”.1

Scottish Government could act to strengthen the digital commitments made in Housing to 2040 by:

Ensuring new build grant levels cover a core set of technologies, including internet connectivity cost.

Expand digital standards to existing homes by introducing a national framework for digital retrofitting in social and supported housing.

Provide targeted funding to enable housing associations to upgrade digital infrastructure—such as connectivity, smart sensors, and assistive technologies—in existing housing stock.

Integrate digital capability into retrofit programmes, ensuring that digital inclusion is embedded alongside energy efficiency and net zero upgrades.

Prioritise digital inclusion for tenants, including support for digital skills, access to devices, and ongoing digital support services.

Align housing and health strategies by recognising digitally enabled homes as essential infrastructure for community-based care and independent living.

5. What should the next Scottish Spending Review prioritise?

The next spending review should prioritise multi-year funding for key policy areas which will allow Scotland's housing associations and co-operatives to tackle the housing emergency, meet the challenge of net zero and address poverty and inequality.

One of the biggest challenges housing associations face, and one which continues to threaten their ability to deliver new homes and wider services to tenants, is the need to decarbonise existing homes. The Scottish Housing Regulator (SHR) has estimated a cost of £9bn for the whole sector to decarbonize up to 2030 and stated that these costs are not being adequately covered in RSL's financial projections.2 Without certainty over standards and therefore costs, this is very hard for our members to do.

To begin to meet this challenge, social home providers need multi-year funding commitments on the Social Housing Net Zero Heat Fund. This should be adequately funded so as to not place the financial burden of net zero on social tenants through costs which can only be met by rents. SHR has suggested that rents would need to be rise by between 42-80% to fund the cost of retrofit, which would be catastrophic for tenants who are least able to bear this burden. Access to the Fund must also be non-competitive so as not to pit our members against each other and to enable strategic, planned and sustainable investment. If properly supported, social housing providers can continue to play a pioneering role in the transition to net zero.

Grant funding for social homes must remain a core part of the Heat in Buildings programme and we are calling for an enhanced, multi-year Social Housing Net Zero Heat Fund with an annual budget of £150-250m, supported with additional private finance, to drive successful retrofit at scale and avoid costs being passed to tenants.3 Social landlords need certainty of funding to plan the expansion of retrofit programmes at a pace which meets energy and climate change targets.

The current model of annual funding cycles makes it almost impossible to deliver retrofit projects. Given projects are match funded, our members cannot commit resources or start the necessary work on engagement and procurement until they have certainty over funding. The timing of delivery for projects is also important with summer being the preferred time of year for work. With annual cycles, funding decisions are often delayed meaning that work cannot start on site until well into the winter months. This only creates further risks and delays. The grant element of the funding must also be drawn down by March meaning that 50-60% of the project will have to be complete by then ahead of full completion by September. Many of our members are simply not applying for the fund because it is too challenging to deliver projects to these timescales. From the initial allocation of £200m for the current parliamentary term, the most recent figures show that only £75 million has been awarded to date across 80 projects. The timescales also make it difficult to build in proper monitoring and evaluation so we can gather robust evidence on the outcomes of retrofit projects.

Projects which are either more complex or higher value may also have to go through further due diligence processes to receive grant funding. This is a further delay to the projects which need longer delivery windows. Continuing on the path of annual funding cycles means that we are unlikely to be able to move beyond small-scale pilot projects. In England, the equivalent scheme does allow for multi-year delivery. In Scotland, we need a long-term strategic approach is needed so housing associations can plan investments in line with their 30-year business plans. A multi-year programme would send a strong signal to the sector and the wider industry on the Government’s commitment to net zero and supporting a just transition. To build the confidence, supply chains, and knowledge needed for the transition, multi-year funding and delivery is the only viable option.

Another policy area which should be prioritised in the next Spending Review is tenancy sustainment with multi-year funding. Maintaining tenancies is an important part of preventing homelessness and sustainable and adequate funding of this type of work is key in tackling the housing emergency and poverty. Tenancy sustainment includes a wide range of advice and services that empower people to live healthy, happy and connected lives – and which help people keep their home for as long as they like. It might include pre-tenancy support, income maximisation, specialist support for people with more complex challenges, as well as other interventions.

The Scottish Government’s most recent Upstream Homelessness Prevention Fund of £1m was welcome funding. However, the Fund was oversubscribed with a total of £5.3m in funding bids received within the tight timeframe for applications. There is a clear need for this type of tenancy sustainment work. In 2023-24, 51% of applicants to local authorities assessed as homeless or threatened with homelessness had at least one support need. There is also capacity in the sector to deliver it – but it needs Scottish Government support. With competing priorities for limited budgets, housing associations and co-operatives are less able to provide the range of support required without long term tenancy sustainment support. One of the challenges of short-term and time-limited funding is mainstreaming the activity when grant ends. Flexible, long-term, and easily-accessible tenancy support must be available to help everyone, from people with low-support needs to those experiencing acute crisis.

Funding housing associations and co-operatives to do this type of work is evidenced to be a wise financial decision. An evaluation the Homelessness Prevention Fund (2021-24) has proven again how effective our members are at maximising the value of Scottish Government’s investment in support services. SFHA supported 11 individual projects delivered through our members with overall funding of c£1.4m from Scottish Government. Nearly 7,000 intervention activities were recorded across the three years the project ran, across five stages of homelessness. The social value created from this investment was an incredible £31.6m, or a return on investment of 1:15. This includes £4.9m of direct financial savings to the state. The demonstrated return on investment shows how the existing infrastructure, relationships, resources, and overheads that housing associations can provide maximise the value of Scottish Government intervention and clearly illustrate how they are best placed as community anchors to deliver this type of wider support.

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

Investment in the Affordable Housing Supply Programme (AHSP) should be a priority for the Scottish Government's capital spend. There is a wealth of evidence building to support this and that investing in housing is crucial to achieve a growing economy. A well-functioning housing system is central to how well the economy performs and impacts on various productivities. At present though, the key role that housing plays as economic and social infrastructure is undervalued.

The economic benefits of investing in housing are widespread. This should be understood both in terms of impacting people's capabilities to work, earn, learn and live a healthy life, as well as the actual investment having wider economic benefits. A 2024 report for Shelter and the National Housing Federation showed that the combined socioeconomic value of building 90,000 social homes in England is estimated to be £51.2bn. The most significant impact is in the construction and management of homes, but there are also considerable economic benefits to the state in terms of lower costs in health, homelessness, and crime, and increased employment and tax receipts.

Investment in housing provides a multiplier effect which increases the value of Government investment. For housing associations who build homes through the AHSP, the funding model is simple. They raise private finance and receive government grants on a roughly 50:50 basis. In the last parliament, the grant was £3.5bn and total spend £7.3bn: so our members have more than doubled the value of government grant. The total agreed borrowing facility for all Scotland's housing associations is now £6.7bn and they plan to increase borrowing by £1.5bn over the next five years. That is significant investment in public homes, which is off the public sector balance sheet. There is a virtually zero default record in the sector, and there is strong confidence amongst private finance lenders in investing in housing associations.

The overall level of investment in the AHSP is important to our members' ability to deliver the social homes we need, but stability is also an absolute priority for our members. If housing associations and cooperatives have certainty over the funding and support that is available, they are far better placed to deliver the affordable homes we so desperately need. The development of new homes is a not a short-term process which can easily be turned on and off. We therefore want to see multi-year certainty on the Affordable Housing Supply Programme, to provide confidence to both our members and to investors and ultimately to maximise the value of Scottish Government public grant money. This approach will yield better long-term outcomes in achieving the Scottish Government's 110,000 home target than year-on-year commitments and fluctuations.

Crucially, government grant in Scotland is still around 50% - which should not be altered through capital spend plans. Any changes to that ratio – as seen in England where grant has been as low as 15% in recent years – risks pushing rents up. Expenditure on interest costs has typically represented around 12-14% of our members' income over the past five years. Any shift in balance towards increased private lending and away from public investment will create higher borrowing costs for our members and therefore higher rents for tenants. We have also seen through England's experience that reduced public investment and more private finance means fewer social homes are delivered: instead, this model builds more shared ownership and other affordable models, which, though valuable, do not have the same track record in reducing poverty as social homes.

In September of this year, SFHA, Shelter Scotland and CIH Scotland will be publishing research into the need for social and affordable housing post 2026. This is the third iteration of the research (previously published in 2016 and 2021) and will provide both a projected number of new homes needed to meet rising demand for the 2026-31 period, as well an estimated level of Scottish Government grant required to fund those homes. Once the research is published, we will be happy to share it with the Committee to assist in your work scrutinising the Scottish Government's financial plans.

In his 2025 report 'Prosperity begins at home: Scottish housing policies for faster, fairer economic growth', Professor Duncan Maclennan noted that "in Scotland, the non-profit sector has arguably been much lauded but relatively underestimated, and underfunded, in its capacities to tackle emerging system difficulties." Addressing this underfunding has the potential to deliver a boost for inclusive economic growth in Scotland whilst simultaneously delivering on the Scottish Government's stated priorities of eradicating child poverty, tackling the climate emergency, and ensuring high quality and sustainable public services.

Written Submission from Universities Scotland

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

We note that the context provided in association with this question centres it in Scotland’s demographic projections, which point to an ageing population and an associated increased pressure on public services, particularly health and social care which Scotland’s universities are primed to support. Responding to that focus, we make three points (i-iii) on the direct, and constantly evolving, support universities provide for the NHS and social care, before expanding our answer to look at wider actions that Scottish Government could be taking regarding universities and fiscal sustainability:

i. Universities play an essential role in educating Scotland’s healthcare professionals. They are active in working with the NHS to explore new models of delivery – responding, for example, to the particular needs of remote and rural communities, or the challenge of encouraging mature learners to retrain for careers allied to health. Recent examples of innovative approaches to this include:

- The University of the West of Scotland runs a flexible, online delivery model for Operating Department Practice (ODP) to deliver work-based learning for colleagues working in clinical environments to develop safe, effective, individualised and patient-focused care.
- Glasgow Caledonian University offers a remote, hybrid programme delivery to enhance widening access to Podiatry education.
- The University of Edinburgh offers the HCP-Med programme, which is a five-year medical degree specifically designed for experienced Scottish healthcare professionals to retrain as doctors and therefore to potentially enhance recruitment to shortage specialties in underserved areas of Scotland. The first 20 students to complete the programme graduated this July in what is a UK-first. There is a strong emphasis on GP placements to encourage students to pursue careers in General Practice close to where they currently live and work.
- Robert Gordon, working with the Scottish Government and Scottish Funding Council, ran a project in the North East of Scotland to review gaps in current provision and in collaboration with partners, co-design new courses to both upskill existing health and care staff and provide training opportunities for people from other sectors.

This is a small selection of examples, and we could provide many more. It’s also important to say that several universities across Scotland are proactively working with NHS partners, the Scottish Government and others, right now to develop new, creative and responsive models to train healthcare professionals to meet Scotland’s skills needs in a way that meets people where they are; in a very literal, geographic sense and in terms of the point in their careers and lives.

Despite such positive initiatives, the teaching funding model that universities work with (as a separate point to the quantum of resource, which is an entirely separate challenge) is highly restrictive and does not provide much opportunity to pilot new initiatives. Going back to the question, we need the Scottish Government's approach to university and student funding to allow for new ways to incentivise and enable universities and their partners in the health and social care sector to innovate in healthcare education, without creating unmanageable levels of risk at a time of heightened pressure on resources for both the NHS and universities.

There must be sustainable student finance models and non-repayable bursaries to support all healthcare professionals undertaking pre-registration training (including on a part-time basis). This includes funding for those who want to pursue their studies part-time. In addition, we need sustainable funding for post-registration programmes to ensure the continuing development and retention of those working in the health professions, which will ensure their skills and practice are research-informed. This will ensure a return on investment on the original training. There could also be some potential in enabling people to retrain in the healthcare sector, particularly for people in jobs that are becoming obsolete.

ii. We outline opportunities to secure greater stability and delivery of essential skills, and the funding model associated with that, in more detail below. Universities are also critical to the blue-skies and applied research that will enable better prevention and treatments for patients, and different ways of working in our health sector.

Funding for the Research Excellence Grant (REG) and the Knowledge Exchange and Innovation Fund (KEIF) must be prioritised as enabling strategic investments in patient health and improved outcomes for the NHS.

For example:

- the Telescot research programme of blood pressure telemonitoring trials, a collaboration between the NHS, Edinburgh Napier University, and the University of Edinburgh, has been rolled out nationally after demonstrating the potential to reduce stroke incidence by 15% and cardiovascular disease by 10%.
- Universities frequently partner with local health boards on research outcomes, for example University of Stirling does with the NHS Forth Valley and Forth Valley College on topics spanning diabetes management, falls prevention, and surgery recovery.
- Robert Gordon University and the University of Edinburgh work with NHS Grampian and the Council (as Lead) on the Health Determinants Research Collaboration, which looks at the causal role of poverty in health inequalities in the north east, as one of a few regions across the UK. The research collaboration aims to help understand the prevalence, causes and impact of poverty, and to support joint working to reduce and mitigate poverty and thereby improve health outcomes.

Very little funding for research is provided at full economic cost (FEC). Funding universities receive from charitable bodies (often for medical research) has one of the lowest percentages of FEC - between 57% and 68% - meaning universities have to cross-subsidise the work from other sources (typically international student fees). We make this point to highlight the interdependencies of the university funding model and to make the point that REG, as funded by the Scottish Government needs to be supported on a sustainable basis so that Scottish research is not left exposed to the volatility of international student recruitment. Unsustainable levels of funding for teaching have real-world implications for research, and in turn the contribution universities make to health and social care through that route. There are opportunities to use funding to incentivise research that supports active healthy living, including living well with long term conditions. It is important that this funding pays a realistic percentage of full-economic costs as otherwise it will be unsustainable.

iii. Hospitals active in research have lower mortality rates and deliver better patient outcomes. However, the number of clinically trained researchers in Scotland has declined at an alarming rate over the last decade, with more than a 30% drop amongst mid-career level professionals. Whilst the NHS workforce as a whole has expanded, its research arm is shrinking. Scotland currently lacks a dedicated, additional, ring-fenced funding stream to support the training and development of clinical academics. Without structural backing, research becomes optional and is not sustained. We would like to see the creation of a national clinical academic career framework in Scotland, expansion of joint NHS–university research posts, and the integration of research pathways into routine NHS workforce planning. This would both make a positive impact while also delivering efficiency and reducing the burden on public expenditure. Making this strategic investment would help build better foundations for patient outcomes within an aging population.

Now looking beyond healthcare and recognising that significant public resource is invested into universities, we make two suggestions for university funding that are grounded in the context of Scotland's long-term fiscal challenges:

iv. In the short-term, we suggest that some resource is found within the 2026/27 budget to create a multi-year transformation or spend-to-save fund for universities at a scale capable of supporting multiple institutions to make their own strategic investments in transformation, long-term efficiency, greater collaboration and shared services. This would accord with the preventative approach outlined in the Public Service Reform Strategy (though it is important to note that universities are not part of Scotland's public services/sector) and is consistent with a broader university transformation agenda being driven across the UK as led by Universities UK and Sir Nigel Carrington's Transformation and Efficiency Taskforce , which also seeks transformation funding from the UK Government (for universities in England) to catalyse transformation.

Scotland’s universities have a strong track record of leading large-scale efficiency drives, sharing services and collaborating more broadly, with £27 million combined savings every year through JISC and APUC . They are keen to go further, but in a planned, strategic way that protects the quality of teaching and research that is currently delivered. Universities want to avoid a situation where financial constraints from underfunding force short-term cuts to mitigate costs that do not serve the long-term needs of students, employers, our regions, or Scotland as a whole. A survey of UK universities earlier this year found a marked step-up in the short-term cost-saving measures required in institutions in response to funding pressures. They include 49% of institutions across the UK having to close courses (doubling over the last year from 24%), and 46% having to cut optional modules. Looking ahead, 88% of institutions see the prospect of course closure or course consolidation over the next three years. With short to medium-term investment from Government, a spend-to-save fund for universities has the potential to help the sector realise long-term efficiencies in delivery.

v. In recent years, universities have not been a high priority for public investment relative to other sectors. As a consequence of which there is now a need for urgent action to stabilise the sector’s funding model and safeguard its future contribution to Scotland’s society and economy. Investment in higher education needs to be considered through the lens of sustainable economic growth, the nation’s health, the education of our workforce, and making lifelong learning a reality. The university sector’s contribution is essential in delivering the ambitions of the National Strategy for Economic Transformation, for example, including through improving the absorptive capacity and productivity of the Scottish business base, undertaking research which underpins thriving and emerging industries across the green economy, and educating the skilled workforce the economy needs. We have started conversations with the Government and others in recent months on the sector’s funding model, and have engaged on a cross-party basis, but the figures in the MTFS starkly demonstrate the scale of the challenge ahead.

vi. Scotland’s fiscal sustainability challenges will manifest differently across the rural and urban conurbations, and a principle of ‘place’ informs both government and university decision-making. Scottish specific fiscal sustainability challenges include limited access to skills and economic prosperity beyond the greater conurbations where populations are less inclined or less able to move, and demographic changes are differential across local authorities. Innovative partnerships – such as the UWS and NCL Undergraduate School where partnership between university college addresses below-average degree attainment rates in North Lanarkshire and creating important new opportunities for local students to achieve degrees tailored to specific skills demands in areas such as Dental Nursing, Health and Social Care, Digital Development and Cyber Security, with high retention of graduates in the area to contribute to regional fiscal prosperity.

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?

No comment.

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

No comment.

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

No comment.

5. What should the next Scottish Spending Review prioritise?

The next Scottish Spending Review must recognise the importance of realistic multi-year funding settlements for universities. Only multi-year commitments give institutions the predictability and stability needed for long-term planning and sustainable capital investment. Over the past decade, structural underfunding for Scottish students, where government funding has not covered the costs of delivery, has left the sector reliant on cross-subsidy and exposed to financial shocks. An unsustainable funding model has led to significant financial challenges, as evidenced by the collective operating surplus of Scottish universities decreasing by 92% in 2023/24.

As mentioned in response to question 1, the next spending review should also recognise the long-term benefits to be realised from the creation of a multi-year transformation fund for the university sector, which could support strategic change, greater collaboration, and more shared services. Half of our universities are currently in financial deficit. Without additional funding to help enable a strategic, cross-institutional approach to efficiency, there is a risk individual universities are forced into reactive cost mitigation measures that may not be in the long-term best interests of students, staff, institutions, or our regions.

Universities must be sufficiently supported to continue their teaching, research, innovation, and civic missions, which make significant contributions to delivering the Scottish Government's priorities. For example, university research informs policy design and legislation; university-led health partnerships drive digital innovations in NHS care; and universities' widening access initiatives provide crucial social mobility opportunities for Scottish students from deprived backgrounds. A Spending Review that locks in sustainable, long-term funding for higher education will enable universities to remain the Scottish Government's indispensable partners in delivering its Programme for Government and contributing to social and economic improvements for Scotland.

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 is a fundamental point and one which will become critical for Scotland - and all parts of the post-16 education sector - from 2030 onwards, as Scotland's population of under-16 year olds (and therefore our future cohorts of school-leavers) starts to decline fairly sharply, set against Scotland's needs for increased labour market participation. Scotland will need to redesign the way it funds and supports universities and others to provide flexible and agile education and reskilling. We set out the scale of the challenge and offer some suggestions to move towards a new approach.

Whilst the cohort of young people in Scotland will start to shrink from 2030 to 2073 based on current projections from the Scottish Fiscal Commission, Scotland will need an estimated 1.1 million people – two-fifths of its current workforce - to fill job openings driven by growth and the need to replace workers leaving the labour market in the next 10 years. Trends in particular regions will be different and therefore they may be a need for tailored responses. It will be important to connect this to the Scottish Government's work on national and regional skills planning. Scotland will need to find ways of incentivising the existing workforce and older learners to reskill, upskill, and change career as needed to match the needs of the economy.

It's estimated that 86% of new jobs in Scotland by 2035 will be at graduate level, and more than 899,000 graduates will be needed to fill them. Universities will play a central role in producing the necessary pool of labour, and are a natural partner in providing lifelong learning to industry.

Universities have made these points to Government and Parliament making the case that our current funding model is largely predicated on full-time study for school-leavers. However, there is limited scope within the capped numbers model and the current quantum of public funding invested in higher education, which falls far short of the cost of provision, for institutions to start to invest in the creation of more diverse routes and parallel options for learners.

We would therefore like to see the Scottish Government create a policy and funding environment that gives universities the scope to flexibly respond to Scotland's skills needs, which could in turn make a significant contribution to increasing labour market participation.

That requires:

- Longer-term funding commitments to enable better planning. Universities can deliver skills provision in multiple ways, but need to be able to plan. Funding that is confirmed late and is one-off or limited for one year, for example, the now-discontinued Upskilling Fund, does not provide maximum value for money. It limits opportunities for collaboration with industry/employers (or other universities) and effective communication with prospective students, which is necessary to build demand for new courses.

The Flexible Workforce Development Fund (of which the Open University and colleges were providers) - valued at £10.5 million per year - was discontinued in 2023/24, despite strong demand for the associated opportunities, strong support from universities, colleges, and businesses, and positive evaluations. Once it was discontinued, the Open University alone had to turn away over 1,000 learners from all over Scotland because no funding was available, and neither the individual nor their employer could afford to pay for their training.

The Scottish Funding Council's Upskilling Fund, previously valued at £7million per year, was also discontinued in 2024/25. It would be helpful if an evaluation of the Upskilling Fund could be shared so that it can contribute to discussions around how best to invest in skills development through short courses for the future.

- An innovative approach to the Funding Council's "recovery" policy. In the short term there is an opportunity for the Scottish Government and Scottish Funding Council to work with universities to strategically redirect the resources attached to any unfilled undergraduate places within the university sector, to enable new models of provision that are strategically viable for the future. That might include for example, delivery of new undergraduate programmes, anticipating future workforce needs and student demand, upskilling courses, or new work-based learning courses which meet the needs of a different group of learners/place. This will help universities plan to meet regional needs and also support the financial sustainability of universities. At present, the approach to recovery (or clawback) of funds is a year-to-year, reactive approach and risks penalising institutions in the present for under-delivery of the past, limiting their ability to adapt provision in a way that responds to need (which links back to the need for multi-year funding perspectives made above in response to question 5).
- More flexibility within graduate apprenticeships to respond to employer needs. That includes greater subject range and an updated process from the current "framework" model for Graduate Apprenticeships (GAs), as operated by Skills Development Scotland (SDS). The Tertiary Education and Training (Funding and Governance) Bill, which is expected to move into stage 2 in autumn/winter 2025, creates an opportunity to introduce greater agility and responsiveness into the development of new graduate apprenticeships.

GAs can only currently be offered in subject fields that fall within one of the 14 existing frameworks, which leads to frustration for employers and universities that see demand for GAs in other areas. There are multiple examples of universities developing work-based degrees in highly-sought after professional disciplines (such as town planning and podiatry) which have not been approved via the framework model as the frameworks don't exist and the process to develop new ones is slow and often unclear, meaning GAs evolve at a far slower pace than other aspects of university provision. Whilst universities have effectively worked around the framework model to respond to need, the consequence of not doing so within the framework model is that universities are not funded on an equivalent basis to undergraduate degrees to deliver them (losing the "fee element" of £1,820 per place). GA frameworks have not been substantially reviewed in a decade, meaning they are evolving at a far slower pace than HEIs' degree provision.

- A funding model that allows for public investment in short-course skills development to enable meaningful upskilling of individuals, especially in the context of current costs of living. Scotland needs a fund that encourages people to develop their skills and/or to reskill, so that we can meet the challenges of changing demographics and the changing skills needs in the economy. The funding model might involve employer and individual investment alongside public money, but it needs some public investment to work.
- Moreover, we would welcome the opportunity to work with the Scottish Government and SFC to creatively address the challenge via upskilling. For example, upskilling those working in Early Years Education, Community education or education more widely to deliver healthy living initiatives to reduce some of the future fiscal pressures coming from health/illness demands. Some of our universities are also closely involved in community learning and development provision, working with the economically inactive to help them back to the workforce.
- Funding systems that support full-time and part-time study. The current system incentivises full-time study over part-time study at the undergraduate level. Full-time students can access living cost loans and bursaries and have their fees paid. Part-time students may be able to get a grant for tuition fees if their income is below £25,000, a threshold that has not changed in a decade. We therefore support the current Scottish Government consultation on financial support for part-time and disabled students and would like to see action taken by the next Government. We note that care will need to be taken around the intersection of student support and benefits for part-time students however, we must address this issue, especially in the context of changing demographics, where learners may return to study later in life or need to balance studying with work and caring commitments and this is disincentive to upskilling and lifelong learning and does not support widening access.

Inward migration. The scale of the demographic challenge Scotland faces also makes a compelling argument for a more strategic and targeted approach to net inward migration. The following points focus on how Scotland could seek to grow its population, in working age cohorts, through the attraction and retention of international students:

- Offer more support for Scottish employers to retain international graduates in Scotland. Particular emphasis should be placed on international postgraduates, who are already degree-educated, are likely to have several years of industry experience from other nations, and are highly motivated and career-focused. Demographically, this cohort is the right fit for Scotland's population and economic needs. Over half of the 30,000 new postgraduate students Scotland welcomes every year are over 25 years of age, and around 20% are over 30 years of age. Despite recent UK Government migration policy changes, international postgraduate students are still able to obtain a post-study work visa to start a career in the UK (though they are not allowed to bring their families with them if they do so). At present, many international postgraduates who want to stay and work are leaving Scotland after their studies, with 15% moving to other parts of the UK before even applying for their post-study work visa (graduate route).

Action to encourage more postgraduates to stay and work in Scotland could include:

- Mapping Scotland's skills gaps/needs and aligning these with a focused taught postgraduate offer, creating pipelines for international talent in key sectors of the Scottish economy.
- Bolstering investment in Scotland's Migration Service, particularly to build confidence in an SME-dominated landscape, so that more businesses feel able to employ international graduates, and to highlight opportunities in Scotland to international graduates.

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 comment.

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

University research and innovation (R&I) activities create jobs, attract foreign direct investment, and fuel economic development, delivering a return of £10.8 for every £1 of public money - thereby making a significant contribution to economic growth. However, as noted previously, Scottish universities undertake R&I activities at a significant financial loss, necessitating cross-subsidisation from other income sources that are often precarious and unpredictable. Given the challenging financial circumstances faced by the sector, the need for sustainable, predictable research funding, which in turn delivers such marked returns to the Scottish economy, is acute.

Government investment in university research through the dual-support funding system is necessary to build and maintain institutional capabilities, which enable universities to seek and win research funding from businesses, charities, and UK and international funding bodies. The Government's primary avenue for institutional funding, the Research Excellence Grant (REG), fell 31% in real terms between

2014/15 and 2023/24, making it increasingly challenging for Scottish universities to invest in research staff and facilities to retain levels of competitiveness.

Scotland’s share of competitively won UKRI research and innovation funding has fallen from 16.0% in 2013/14 to 13.6% in 2023/24, representing a potential loss of more than £450 million in funding over a decade. If Scotland were able to recover its competitive position, it could deliver an additional economic impact of at least £800 million each year. By supporting institutional capacity, increased REG funding would enable leveraging of external research and innovation funding resources into Scotland, amplifying the economic impacts of the Scottish Government’s investment. This is particularly important in a context where the knowledge exchange and innovation budget available to English universities has increased significantly in cash terms in recent years compared to Scotland. A growing gap in dual funding is likely to continue to impact our research competitiveness at both the national and international level.

The imperative for increased investment is strengthened by the extensive opportunities presented by the Scottish Government’s National Innovation Strategy and UK Government policies such as the newly-launched Modern Industrial Strategy, which both prioritise industrial sectors well-aligned with Scottish universities’ world-leading research excellence. By resourcing universities to leverage their strengths in ways that can contribute to the successful implementation of these frameworks, the Scottish Government can help both secure additional funding for Scotland and ensure the nation benefits from the economic opportunities the Strategies aim to create.

There are additional opportunities for universities to leverage research funding from across the UK Government’s defence, health, and local government portfolios, as well as via the EU’s Horizon Europe programme, if sufficiently supported to do so by the Scottish Government. This funding would in turn generate significant additional economic returns for Scotland through catalysing the attraction of private investment, supporting quality employment opportunities centred in local communities, and generating ‘spillover’ economic benefits through supply chain spend, for example. Enhanced public investment in research and innovation infrastructure would also support private businesses, particularly SMEs, by strengthening Scotland’s innovation infrastructure and attracting private capital to innovative and early-stage businesses.

Scottish universities are central to the country’s innovation ecosystem, delivering substantial economic returns through our R&I activities and contributing to local industries and businesses. For example:

- Growth of industry clusters. Universities act as anchor institutions across Scotland’s regions, fostering the development of globally competitive sectors such as life sciences, photonics, space and satellite technology, artificial intelligence, and net-zero transition. For example, Scotland’s life sciences sector - enabled by university research in areas such as industrial biotechnology, precision medicine, and digital health - now comprises over 770 companies, employs more than 42,500 people, and contributes almost £10.5 billion in turnover annually.

- Support for SMEs. Beyond sector growth, the university sector also drives innovation and productivity directly into Scotland's business base. Every year, Scottish institutions collaborate on over 20,000 innovation projects with companies, many of them SMEs. SME innovation activity remains limited, with only 30.1% of small businesses in Scotland considered 'innovation-active' in the 2023 UK Innovation Survey, demonstrating a need for systemic support for businesses to increase their absorptive capacity and focus on innovation. Universities could play an important role in addressing this absorptive capacity gap by working closely with businesses to embed skills, introduce new technologies, and co-develop commercial R&D. Through consultancy services, Knowledge Transfer Partnerships, tailored innovation support, and provision of incubation infrastructure, universities help firms overcome barriers to innovation.
- Spin-out success. Scottish universities are also national leaders in spin-out creation, with survival and growth rates far exceeding typical start-ups. Scotland is one of the most successful areas of the UK for spin-out company formation, and creates new companies at a rate second only to the golden triangle of Oxford, Cambridge, and London. Scottish universities are the providers or key partners in most of Scotland's company incubation capacity, as well as leading in the hosting of Tech Scalers, both of which drive increased capacity in our R&D commercialisation eco-system. Expanding capital investment in university-led innovation infrastructure, such as labs, incubators, and technology parks, would directly support further commercialisation of research, enhance regional productivity, and improve Scotland's international competitiveness.

Through increased capital spend on universities' research and innovation activities, the Scottish Government will not only strengthen the higher education sector, but the broader innovation ecosystem and industrial base in Scotland, generating economic growth and strong returns across the economy.

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?

No comment.

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

No comment.