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 to inform its pre-budget 2026-27 scrutiny on Responding to Long-Term Fiscal Pressures from—

   - Shirley-Anne Somerville MSP, Cabinet Secretary for Justice, and the following Scottish Government officials—
     - Ian Davidson, Deputy Director, Social Security Policy;
     - David Wallace, Chief Executive, Social Security Scotland.

2. The purpose of this session is to explore issues relating to the sustainability of social security spending against a backdrop of fiscal pressures, and the impact of this increasing proportion of spend on other areas of the Scottish Budget.

3. Paper 1 for this meeting provides further information on the broader areas being considered by the Committee as part of its pre-budget 2026-27 work, as well as scrutiny to date.

4. 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.

5. 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.

Responding to Long-Term Fiscal Pressures: social security spending

Background

6. The Committee has agreed to focus its pre-budget 2026-27 scrutiny on Responding to Long-Term Fiscal Pressures. Amongst those issues that the Committee has agreed to consider under this broad theme relate to social security spending—

   - 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. One of these fiscal pressures is the significant and growing social security budget.

- 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”.

SFC publications

7. The SFC’s Fiscal Update – August 2025 highlights that social protection (which covers social security payments) “saw a jump in spending in 2020-21, when responsibility for most devolved social security payments was transferred to the Scottish Government and the Scottish Child Payment was launched”. It goes on to highlight that social protection has seen the fastest growth among the major areas of resource spending since then, partly because Scottish Child Payment was extended to cover all children in 2022-23.

8. The SFC also states that, based on 2025-26 Budget plans, spending on social protection will be 55% above 2020-21 levels in real terms, adding that “this increase is because of the Scottish Government’s expanded policies on social security and rising numbers of people receiving disability payments in Scotland as well as across the UK”. As noted in the MTFS, social security spending is now the third largest area of public spending in Scotland, after health and local government.

9. The Fiscal Update further notes a substantial increase in demand for disability benefits across the UK and a larger relative increase in caseload in Scotland for the Adult Disability Payment (ADP) than in England and Wales for the equivalent payment (Personal Independence Payment). The SFC states—

> “We think the UK-wide higher demand is because of a deterioration in health, meaning more people are eligible, and the cost-of-living pressures, meaning more eligible people apply for the payments. As the eligibility criteria for ADP in Scotland and PIP in England and Wales are largely aligned, we think the larger increase in caseload in Scotland is the result of the Scottish Government’s approach to delivering the payment. This approach includes support for people through the application process, increased promotion of the payment to increase take-up, and the process for award reviews resulting in a smaller share of people no longer receiving the payment.”

10. In June 2025, the SFC forecast the caseload to rise from 529,000 in 2025-26 to 703,000 in 2030-31 because the number of people entering the payment remains higher than those exiting. It goes on to state that this rise in caseload, along with annual uprating of payments, leads to its forecast of ADP spending rising from £3.6 billion in 2025-26 to £5.4 billion in 2030-31.

11. The Fiscal Update further highlights that these forecasts could change as a result of recent Scottish Government commitments to (1) provide an initial response in

early 2026 to the Independent Review of Adult Disability Payment report published in July 2025, and (2) assess the extent to which the current ADP award review process is delivering as intended (a commitment made in the FSDP).

12. The SFC's Fiscal Sustainability Report – April 2025 provides updated projections of devolved spending and funding up to 2074-75 and sets out how these affect the sustainability of current Scottish Government spending over the long-term. The Report shows how demographic changes will affect the Scottish Government's fiscal sustainability and highlights key risks to Scottish Government funding. It has a particular focus on health spending including the links between health and the public finances.

13. The SFC highlights a long-term increase in the number of people claiming disability payments in both Scotland and the rest of the UK and that disability prevalence has risen from 19% of the UK population in 2002-03 to 27% of the population by 2022-23. It notes that, unlike health and other areas of spending, disability payments are demand-led and therefore difficult to restrict unless eligibility rules are changed.

14. The SFC projects that disability payments will increase from £4.2 billion in 2023-24 to £16 billion (current prices) at the end of the projected period (2074-75).

Scottish Government publications

MTFS

15. As noted earlier in this paper, the Committee agreed as part of its pre-budget 2026-27 scrutiny to consider "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". The Committee may wish to discuss with the Cabinet Secretary for Social Justice the adequacy of this assessment in the MTFS.

16. The MTFS published by the Scottish Government on 25 July 2025 includes a chapter entitled 'Our strategic approach to the public finances' which is based around the following three pillars—

   - Pillar 1: Ensuring public money is focused on delivering government objectives, underpinned by reform and prioritisation to maximise impact.
   - Pillar 2: Supporting sustainable, inclusive, economic policies with the greatest potential to grow Scotland's economy, expand and broaden the tax base to fund public services.
   - Pillar 3: Ensuring a strategic approach to tax revenues, which considers the longer-term impact of our tax choices and competitiveness.

17. The document further includes "four key measures to ensure public money is focused on delivering government objectives, underpinned by reform and prioritisation to maximise impact". These are: (1) increasing public value, (2) efficiencies and productivity, (3) service reform, and (4) prevention.

18. Social security appears under the first measure, where the Scottish Government commits “to protect the current benefits offer while improving the efficiency of how we deliver benefits through improving communication to clients, investment in digital and automation of some payments, and continuing to pursue initiatives which increase the ability to tackle fraud and error where it does occur”. It also plans to consider improvements to the way it manages reviews of clients’ awards.

19. The MTFS further states that “the Scottish Government is building a modern social security system with dignity, fairness and respect at its heart, where people receive the support to which they are entitled”. As the SPICe briefing on the Scottish Budget 2025-26[1] explains, “Scottish Government decisions on social security have cumulatively added significant cost pressures to its budget”, largely due to its introduction of benefits that are not available in the rest of the UK, such as the Scottish Child Payment, and spending more on benefits than would have been the case if they had not been devolved.

20. The MTFS notes that the total value of the social security Block Grant Adjustments (BGA) in 2025-26 is currently 85% of social security assistance spending. This figure was forecast to reduce to around 79% by 2029-30 mainly as a result of welfare policy reforms announced by the UK Government in July 2024 and in March 2025, which have since to a large extent been reversed. The document also highlights the SFC’s June 2025 forecasts showing overall expenditure on social security assistance increasing from £6.8 billion in 2025-26 to £8.8 billion by 2029-30. The Scottish Government explains that—

> “This is mainly due to factors common across the UK such as the projected increasing demand for disability payments, increased cost of living, and rises in payment rates due to uprating. The increase in expenditure is also due to the success in benefit take-up, as well as new benefits only available in Scotland, such as the Scottish Child Payment and Two-Child Limit Payment from March 2026.”

21. The MTFS further highlights that those payments unique to Scotland (where there are no UK equivalents), are forecast to total £817 million by 2029-30, with two-thirds of this amount being spent on delivering the Scottish Child Payment.

22. In addition to the unique payments in Scotland, the Scottish Government have made some changes to UK-wide benefits and taken a different approach to applications, all of which contribute to the costs of social security in Scotland being higher than the BGA. Total ‘additional investment’ reflecting these policy choices in Scotland rises from just over £1 billion in 2025-26 to £1.8 billion in 2029-30 according to the MTFS. As noted above, this pre-dated the UK Government’s reversal of planned changes to eligibility for PIP. In its Fiscal Update (August), the SFC suggests that this reversal will mean the Social Security BGA is £0.4 billion higher than had been expected at the time of the MTFS.

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[1] SPICe briefing on the Scottish Budget 2025-26, December 2024.

23. The MTFS also discusses the risks facing public finances in Scotland. As social security rises as a proportion of total spending, this increases the risk of higher than anticipated costs as it is demand-led.

FSDP

24. According to the Scottish Government, the FSDP "brings together the range of activity currently underway, and further actions this government will take, to deliver our [MTFS]". It "sets out the key actions we are taking over the next five years, expanding on, and bringing further transparency to, the range of activity underway as part of the three-pillar approach".

25. In relation to social security, the FSDP states that—

> "For Social Security, in Scotland, we have designed and implemented a radically different social security system built around human rights. The Scottish Government believes that this system should be used to tackle poverty and protect people, with the resources we have, from the worst impacts of UK Government cuts to reserved welfare benefits and to invest in improved outcomes for the people of Scotland, providing vital assistance to help people on low incomes, disabled people and their carers, and older people. We are committed to protecting benefits spending, recognising that this does therefore have an impact on the wider Scottish Budget. Through the actions set out in Pillar 1, we will continue the ongoing work to make improvements to the way we process and deliver benefits, and we will consider improvements to the way we manage reviews of clients' awards."

26. The FSDP includes an efficiency and productivity focus on Social Security Scotland which highlights that—

    - Social Security Scotland (SSS) continually seeks to identify and implement improvements to how benefits are processed and delivered,
    - Operational delivery improvements "will focus on improving performance and productivity alongside the delivery of internal savings and efficiencies, such as the continued automation of some payments",
    - SSS will continue to invest in critical digital services and platforms to support safe and efficient delivery of benefits to clients, including developing a strategy for a new Client Payment Platform by Autumn 2025,
    - SSS will continue to pursue initiatives which increase its ability to tackle fraud and error where it does occur, including recovery of overpayments. The Scottish Government plans "to invest in systems and improvements in technology to identify fraudulent activity and recover funds".

Debt recovery

27. However, on 18 August 2025, The Scotsman newspaper reported that the Scottish Budget could face a £36 million shortfall should the Scottish Government decide not to follow the UK Government's current plan to recover debts incurred through fraudulent social security claims and overpayments. The article refers to an exchange of letters between the Scottish and UK Government obtained

through Freedom of Information legislation and quotes a Scottish Government spokeswoman as follows—

> "The Scottish social security system is focused on treating people with fairness, dignity and respect. Scottish Ministers have been clear they cannot support UK Government proposals to take powers to recover directly from an individual's bank accounts without requiring a court order, or to potentially suspend driving licences."

28. The Scotsman went on to report that "the spokeswoman said there is "no hole in the Scottish Budget" but did not elaborate on where the money would be found to write off the £36m in fraud and overpayments."

29. Asked for clarification on whether the Scottish Government would pursue fraudulent claims and overpayments, the Cabinet Secretary for Finance and Local Government told the Committee on 2 September of her expectation that any fraudulent claims would be pursued given the potential for criminality.

Next steps

30. 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