Finance and Public Administration Committee
3rd Meeting, 2026 (Session 6),
Tuesday 20 January 2026

Scottish Budget 2026-27 and Scottish Fiscal Commission's Economic and Fiscal Forecasts – January 2026

Purpose

1. The Committee is invited to take evidence from the following witnesses in relation to the Scottish Budget 2026-27 and accompanying Scottish Fiscal Commission's (SFC's) Economic and Fiscal Forecasts – January 2026.

    Panel 1 – Scottish Fiscal Commission
    - Professor Graeme Roy, Chair
    - Justine Riccomini, Commissioner
    - Eleanor Ryan, Commissioner
    - Michael Davidson, Head of Social Security and Devolved Taxes
    - Claire Murdoch, Head of Fiscal Sustainability and Public Funding

    Panel 2
    - Professor David Bell, Emeritus Professor of Economics, University of Stirling
    - Professor David Heald, Emeritus Professor, Adam Smith Business School, University of Glasgow
    - Professor Mairi Spowage, Professor of Practice and Director, Fraser of Allander Institute, University of Strathclyde

2. This paper sets out key aspects of the Scottish Budget 2026-27 and the SFC's January 2026 Forecasts, as well as some conclusions from the Committee's pre-budget 2026-27 report and the Scottish Government response to it.

3. A brief summary of key issues relating to the Scottish Spending Review (SSR) and Infrastructure Delivery Plan (IDP) published alongside the Scottish Budget 2026-27 is also included in the paper. The Committee will be able to explore these and other issues in more detail at separate evidence sessions on the SSR and IDP to be held in February and March 2026.

4. Background information on the UK context to the Scottish Budget, which the Committee explored in evidence sessions with the Institute for Fiscal Studies (IFS) on 16 December 2025 and the Office for Budget Responsibility (OBR) on 13 January 2026[1], is included at Annexe A.

[1] The Official Report of this meeting will appear on the Committee (OR) webpages once available.

5. Written submissions from the witnesses and a SPICe briefing on the Scottish Budget 2026-27 will be published on the Committee's Budget scrutiny webpages once available.

Economic and fiscal context

Economy

6. The SFC published Scotland's Economic and Fiscal Forecasts January 2026 alongside the Scottish Budget 2026-27 on 13 January 2026. Its view is that the economic conditions remain largely unchanged compared with its expectations in December 2024, with global instability and uncertainty "weighing on household and business confidence". The SFC has made some small adjustments to its five-year economic outlook, in line with recent outturn data and updated UK economy assumptions based on the OBR's November 2025 forecast—

    - The SFC has revised down its GDP forecast slightly, in line with outturn data since the end of 2024. It explains that factors such as global instability and higher consumer and business costs had a greater impact on outturn data towards the end of 2024 than the SFC had anticipated.

    - It has also revised down its forecast of trend productivity growth from between 1% and 1.2% in its December 2024 forecasts to 0.9%, "with the reduction in 2029-30 mirroring the OBR's downgrade".

    - The SFC assumes that devolved public sector average earnings will grow by around 3% a year from 2027-28 onwards.

    - For 2026-27, the SFC is forecasting Scottish earnings growth of 2.9%, a small increase from 2.8% in its December 2024 forecast. The OBR's upward revision to UK earnings growth for 2026-27 in its November 2025 forecasts was higher at 3.2% (increased from 2.1% in the OBR's October 2024 forecast). The SFC explains that the difference between the two forecasts in 2026-27 is broadly in line with real time information data up to October 2025, which shows that annual mean pay growth in Scotland is slightly below the UK, partly due to slower earnings growth in the North East of Scotland relative to the Scottish average.

    - Employment growth rates have been downgraded slightly from 0.3% in the SFC's December 2024 forecasts in line with recent outturn data, to 0.1%. The SFC has increased its unemployment rates forecasts from 3.9% to 4.2% and expects this "to remain close to its assumed structural trend of 4.1% over the next five years".

    - The SFC suggests that economic inactivity is now back close to its pre-COVID-19 pandemic rate in both Scotland and the UK, "because rising inactivity due to long-term sickness has been broadly offset by falling inactivity for other reasons such as looking after family or home".

Overall funding position

7. The SFC forecasts total funding available to the Scottish Government of £61,677 million in 2026-27, an increase of 1.3% relative to 2025-26 in real terms. Total funding is forecast to grow on average by 0.8% in real terms in each year of the forecast period (2025-26 to 2030-31).

8. Resource funding increases in each year of the forecast by an average of 1.1% in real terms. Capital funding increases by nearly 2.9% in real terms in 2026-27, followed by real-terms cuts to funding in subsequent years. The SFC explains that the Scottish Government has reduced capital funding in 2025-26 by £226 million, which has increased the growth rate in funding between 2025-26 and 2026-27. The SFC further highlights that the Scottish Government has taken the decision to reduce capital funding in-year in 2025-26 "to minimise any underspend".

9. The SFC goes on to say that the Scottish Government has also considered other funding sources "to manage its budget and balance resource and capital funding across the next four years", including borrowing, using the Scotland Reserve, and using Crown Estate revenues (mostly from the ScotWind leasing programme) to support capital and resource spending. Over the SSR period, the Scottish Government is allocating a total of £476m of Crown Estate revenues, leaving a balance of £61m unallocated. The Scottish Government also plans to move £132m of resource funding to capital in 2028-29.

10. The SFC's assessment is that the planned use of capital and resource funding "is reasonable and in practice the Scottish Government might not use all these tools as currently planned".

Income tax and reconciliations

11. The SFC notes that the projected income tax net position for 2026-27, on which the Scottish Budget 2026-27 is set, is £969m. This compares with £838 million on which the 2025-26 Scottish Budget was set, based on the latest available forecasts in December 2024. The SFC explains that—

> "Compared with the December 2024 and June 2025 projections, the Income Tax net position has been revised up in 2024-25 and 2025-26, largely caused by lower-than-expected UK Income Tax data reducing the BGA forecast. For the 2026-27 budget year, the Income Tax net position has been revised down to £969 million from £1,072 million in June 2025. This revision reflects lower than expected 2023-24 Scottish Income Tax outturn data and the effect of a larger upwards revision to UK average earnings growth in the latest OBR forecasts, offsetting the downwards revisions to the BGA in 2024-25 and 2025-26."

12. The outturn data for 2023-24 also resulted in the reconciliation being applied to the Budget in 2026-27 increasing by £126m from £279m to £406m. The reconciliation to be applied to the 2027-28 Budget is now projected to be a negative £310m, compared to June 2025 projections of negative £851m. The

SFC notes that "previously the projection would have been larger than the Scottish Government's resource borrowing limit in that year, but the Scottish Government can now borrow in full to cover it and intends to do so".

Social security spending

13. The SFC forecasts spending on social security to rise from £7.4 billion (bn) in 2026-27 to £9.2bn in 2030-31, which it states, "is driven by annual increases in payment rates with inflation and an ongoing rise in the number of people receiving disability and carer payments". The gap between social security spending in Scotland and the social security element of the BGA is expected to widen from £954m in 2024-25 to £1,202m in 2030-31. However, changes at a UK and Scottish level have led to this gap narrowing compared to the SFC's December 2024 forecast, which it states reduces the pressure on the Budget from social security spending. The SFC considers "there is still a risk to the Scottish Budget from social security spending, but the current scale of the risk is lower now than for previous forecasts".

14. The SFC has reduced its spending forecast for adult disability payment (ADP) "because there have been fewer approved applications and more people exiting the payment than we expected in December 2024". While spending on ADP is expected to exceed what would have occurred if the personal independence payment (PIP) remained in Scotland, "the latest data suggests the difference between ADP and the counterfactual of the continuation of PiP is narrower than our previous forecasts suggested".

Portfolio Efficiency and Reform Plans

15. The SFC welcomes the Scottish Government's publication of Portfolio Efficiency and Reform Plans as part of the SSR showing how savings will be achieved within each portfolio (further detail on these plans are provided later in this paper). In total, the Scottish Government has identified £1.5bn of savings to be delivered across the next three years through workforce savings, efficiencies in corporate functions and other service reforms. The SFC states—

    > "Delivery of this plan is expected to allow Government's priorities to be delivered within the allocations given at the Spending Review. If these savings are not delivered, then this will create challenges for the Scottish Government to deliver public services as planned while also balancing its Budget".
    >
    > "The on-going monitoring of progress against these plans will be important in ensuring the required savings are on track to be delivered".

16. The majority of the savings (£384m in 2026-27, £374m in 2027-28, and £303m in 2028-2029) are to be achieved in the health and social care portfolio, mainly through the existing target for 3% recurring savings across core funding for NHS Boards. The SFC notes that "the progress towards achieving these targets for recurring savings to date, and the number of health boards not breaking even, suggest that it could be challenging for the Scottish Government

to deliver the efficiency savings it has incorporated into the health and social care portfolio plans".

Public sector pay

17. The Scottish Government has set SSR allocations based on the existing three-year public sector pay policy. The SFC notes that "to remain within the limits of the pay policy, there would need to be an average pay award of 1.1% in 2027-28", a real-terms cut to pay. In its January 2026 forecasts, the SFC has instead assumed inflationary pay awards in 2027-28, which it considers "is more in line with historical trends".

18. Achieving the Scottish Government's current target to reduce the overall devolved public sector workforce by an average of 0.5% a year from 2025-26 to 2029-30 would, according to the SFC, "require a significant departure from recent trends". The SFC further notes that if pay awards are higher than the Scottish Government has assumed, larger workforce reductions would be needed to keep the paybill at the level used in the Spending Review.

Transparency

19. The SFC commends the Scottish Government for publishing an SSR covering 2026-27 to 2028-29 for resource and up to 2029-30 for capital, adding it is "helpful for Parliamentarians and other stakeholders to see multi-year spending plans, especially in advance of the Scottish election".

20. The Committee has in recent years been calling for all routine in-year transfers to be baselined in the Scottish Budget, however, in its response (Annexe B to this paper) to the Committee's pre-budget 2026-27 report, the Scottish Government states that "some progress has been made, […] with £786m of baseline transfers actioned [… but,] not all the regular transfers will be baselined". The SFC notes that a remaining £606m of resource internal transfers between portfolios contained in the 2025-26 ABR have not been reflected in the Scottish Budget 2026-27. In its Forecasts, the SFC has therefore baselined all routine in-year transfers providing "a more accurate picture".

Scottish taxation and spending plans

21. The Scottish Government's Scottish Budget 2026-27 was published with the SFC's Forecasts on 13 January 2026. In her Budget statement to Parliament on the same date, the Cabinet Secretary said "[…] I am proud to present a budget for Scotland: with an investment of almost £68 billion in the wellbeing of our people and in the future prosperity of our nation". She went on to highlight key taxation and spending announcements including those set out below.

Taxation

22. Key tax decisions in the Scottish Budget 2026-27 include—

- A 7.4% increase to the basic and intermediate rate thresholds of income tax in 2026-27, which the SFC notes reduces revenues by £50m that year.

- Previously announced freezes to the higher rate, advanced rate, and top rate thresholds in 2026-27, which is part of the SFC's forecast baseline. The policy decision to extend these freezes to 2027-28 and 2028-29 would, the SFC forecasts, increase revenues by £72m in 2027-28 and around £200m from 2028-29 onwards.

- Air Departure Tax (ADT) will come into force in April 2027. The Scottish Government is launching a consultation by the end of January 2026 on a new Highlands and Islands Exemption for domestic flights. It also plans "to bring forward a Private Jet Supplement within ADT in 2028-29 and engage with the UK Government to seek further devolution to allow private jet 'ghost flights' to be addressed".

- 15% non-domestic rates relief in 2026-27 for retail, hospitality and leisure (RHL) premises. The SFC states that its non-domestic rates forecast is based on the new valuation roll which comes into effect on 1 April 2026, leading to an increase in forecast revenue from £3,097m in 2025-26 to £3,387m in 2026-27. The SFC estimates that the RHL premises reliefs announced along with transitional reliefs relating to the new valuation roll are estimated to reduce revenue by £153m in 2026-27. The small business bonus scheme will be maintained at the existing rates and thresholds for the next three years of the revaluation cycle "in order to ensure certainty for businesses".

- New council tax bands for properties with a 2026 market value above £1m will be introduced in 2028. The SFC states that "we have assessed the potential behavioural effect of this policy on LBTT revenue and consider that it will fall below our materiality threshold, and so we have not made any adjustments to our LBTT forecast".

- All LBTT rates are maintained in 2026-27. The SFC forecasts total LBTT revenue in 2026-27 to be £1,049 million, £9 million lower than it forecast in December 2024.

- Scottish Landfill Tax (SLfT) rates will continue to be aligned with equivalent UK rates in 2026-27, "ensuring consistency and simplicity for taxpayers". The SFC expects a reduction in revenue from SLfT from £50m in 2025-26 to £27m in 2026-27 as incineration capacity increases. The SFC states that this decrease in revenue occurs even after including the effect of the delay to the biodegradable municipal waste ban from 2026 to 2028.

- Scottish Aggregates Tax comes into effect from 1 April 2026 and will be aligned to the equivalent UK tax rate in 2026-27. It is forecast to raise £42m in 2026-27, increasing to £48m in 2030-31.

- There is no cap or limit on increases to council tax in 2026, although the Cabinet Secretary said in her Budget statement that the 2% real terms increase in the local government budget "[…] is a reasonable deal and, given the cost-of-living pressures that we all recognise, I urge local authorities to translate that settlement into reasonable decisions on council tax".

- The UK Budget increased the rate of Income Tax charged on property income in the rest of the UK by 2p from 2027-28 and the UK Government committed to devolving an equivalent power to Scotland. An LCM on the UK Finance (No.2) Bill has since been lodged and will be considered by the Committee in the coming weeks. The first year the power for a separate rate for property income in Scotland could come into effect, if approved, would be 2027-28.

Spending

23. Key spending decisions in the Scottish Budget 2026-27 include—

- "A record £22.5bn for health and social care". £36m is being provided to start the rollout of new High Street walk-in GP clinics, "making it easier to access same-day appointments".

- An inflationary increase in the Scottish Child Payment to £28.20 per week from 2026-27 and introduction of a "premium payment of £40 per week for eligible children under 12 months", from 2027-28. The SFC expects around 12,000 children to receive this £40 payment at a cost of around £7m per year from 2028-29 (£3m in 2027-28 due to mid-year introduction).

- Additional funding of £15m "to build on existing delivery" for breakfast clubs to be rolled out for every Scottish primary and special school pupil from August 2027.

- A combined increase of £70m in resource and capital funding for the college sector, "equivalent to a 10% uplift on last year's budget". This £70 million increase does not include the £30 million spent on the Dunfermline Learning Campus in 2025-26 – including this spending reduces the year-on-year increase to around £40 million. Funding of up to £20m is being provided to support the University of Dundee's recovery plan.

- An overall increase in funding for local authorities of 2% in real terms.

- A total of £5 billion for "measures that will reduce Scotland's carbon emissions, increase our resilience in the face of climate change, and in many cases, save families hard-earned cash" in 2026-27. Targeted support will be provided "to ensure critical skills shortages in our offshore renewables sector are met, and to help retrain workers in the oil and gas sector".

- A fund of £9m over the next three years to provide targeted support for communities impacted by the closure of the Fife Ethylene Plant at Mossmorran.

- Removing peak fares on Northern Isles Ferries for residents of Shetland and Orkney.

- Funding of £926 million in 2026-27 for the Scottish Government's Affordable Housing Supply programme, "ensuring new, affordable homes are energy efficient and meet environmental standards".

- Investment in Enterprise Agencies of £326 million and a commitment to a further £200 million for the Scottish National Investment Bank.

- While funding for Creative Scotland increases by £20m in 2026-27, the budgets of the five National Performing Companies will be "protected", with a view "to providing additional support in future years as part of the cultural funding uplift to the additional £100 million by 2028-29".

- Increased funding for Scotland's International Development Fund and the Humanitarian Emergency Fund to £16 million in 2026-27.

- Investment of £29.9 million through the next round of Invest to Save for reform projects that "will deliver ongoing savings and support the delivery of the PSR strategy – a key part of the Government's overarching approach to fiscal sustainability".

24. The Cabinet Secretary noted in her budget statement that key priorities of opposition members have also been included in the Scottish Budget 2026-27, including "more money to improve neurodevelopmental assessments and care for children and young people, additional investment for Changing Places toilets, resources to support bus franchising, and support for the redevelopment of Edinburgh's Kings Theatre".

Immediate responses to the Scottish Budget 2026-27

25. Immediate responses to the Scottish Budget 2026-27 were published by Fraser of Allander Institute (FAI), the Institute for Fiscal Studies (IFS), and SPICe.

FAI: A Budget where the silences were loudest

26. The FAI notes that "the Scottish Government is again forecast to run a significant underlying deficit of around £659 million, which is actually higher than we had originally predicted and reflects the worsening of tax forecasts […] and [… is] despite a significant cut to planned spending".

27. It states that "despite a little bit of extra borrowing, [the Scottish Government …] has amended its [capital spending] plans down by £850m for next year" (from June 2025). This, the FAI suggests, "is a clear recognition that its original plans were unaffordable".

28. On public sector pay, the FAI states “the underlying assumptions that are required for these settlements border on heroic”, adding “it would be no surprise to see an emergency statement in the coming year if pay deals continue to burst through the stated pay policy – especially given that a few are already automatically inflation-protected”.

29. The FAI suggests “there is a good rationale for providing a higher rate of Scottish Child Payment for young children”, adding “families with children under one face an elevated poverty rate and are one of the six child poverty priority groups”. It however comments that “unfortunately – though not unexpectedly – the Scottish Government have not clearly set out how [… the savings expected from the UK Government’s decision to remove the two-child cap] will be recycled into child poverty reduction policies, only that they will”.

IFS: Immediate response to the Scottish Budget and Spending Review

30. The IFS argues that “the overall outlook for Scottish public finances and services is far less rosy than [… the topline announcements] would suggest”, with many public services in Scotland set to see a reduction in their budgets. It highlights that both the freezing of the top three rates of income tax and the planned new council tax bands for the most valuable properties, both broadly mirror UK Government policy. The IFS suggests that, as in England, this wastes an opportunity for a much-needed full scale revaluation of council tax.

31. On spending, it highlights very small increases in overall day-to-day spending on public services (0.6% above inflation in 2026-27, and 0.2% above inflation a year on average over the following two years). In 2026-27, there is an 0.7% increase in health and social care spending, which “allows [… the Scottish Government] to avoid cuts to other services, but without heroic improvements in productivity will almost certainly not be enough to maintain let alone improve services”.

32. The IFS further notes that “the Budget document continues to bury the most appropriate spending figures in an annex, with the main body including figures for this year and next that just cannot be meaningfully compared – a recipe for confusion”. This, it argues, “isn’t good enough – especially in an election year, when the electorate deserve a clear picture of how tax and spending are changing”.

SPICe: Initial reactions to the final Budget of Session 6

33. SPICe notes that the two new council tax bands for properties valued at more than £1m will be based on an up-to-date valuation of those properties rather than the 1991 value currently used to calculate council tax liability, and that £5m has been set aside to carry out this partial/targeted revaluation. It goes on to highlight Scottish Government expectations that this will affect fewer than 1% of properties and figures from the BBC showing that in 2024-25 only 391 properties sold for £1m or more.

34. On capital spending, SPICe notes that the 2026-27 Budget has a total of £7,568m in capital and financial transactions funding available, “which is an increase of £146m compared to the 2025-26 Budget (2% higher in cash terms, or a 0.3% decrease in real terms”. It highlights that transport receives an 8% real terms increase from 2025-26 to 2026-27, while the housing portfolio receives a significant real terms increase of 17% and finance and local government has a real terms reduction of 18.6%.

35. Similar to concerns raised by the SFC and IFS regarding presentation of the Scottish Budget, SPICe also suggests that “the Scottish Government has made some progress in this area by baselining some routine transfers, but the remaining transfers can still distort comparisons”.

Scottish Spending Review

36. The Scottish Spending Review 2026 (SSR) also published on 13 January 2026 sets out the Scottish Government’s indicative spending plans up to 2028-29 for resource, and up to 2029-30 for capital. In her foreword to the SSR, the Cabinet Secretary states that—

> “With continued focus on our key priorities and the commitments set out in the Programme for Government, the SSR delivers cumulative real terms resource spending growth of 2.8% up to 2028-29. While Scotland’s capital funding will reduce in real terms by 0.3% by 2029-30, as a result of UK Government decisions, we are nevertheless using all funding levers at our disposal to sustain an impactful capital programme.”

37. Annexe A of the SSR sets out a Summary of Portfolio Spending Plans. The document notes that these plans “are focused on delivering our priority outcomes[2] for the people of Scotland [… and] it represents an important step forward in progressing our work on fiscal sustainability and providing a funding framework for our partner organisations to plan effectively and strategically”. Many of the funding assumptions across the SSR period were referred to in the Scottish Budget and are therefore highlighted earlier in this paper.

38. The SSR goes on to say that while the review is based on robust funding assumptions, “plans should be viewed as indicative and subject to substantial change”, given the wider risks and uncertainties set out in the MTFS.

39. The Scottish Government intends to take forward monitoring and reporting through established governance structures, supplemented through focused reviews of areas of significant spend over the course of the SSR. Progress towards delivery of the targets and measures “will be regularly monitored and updates on progress of the FSDP will be provided publicly as part of the update of the MTFS”.

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[2] The four priorities are: eradicating child poverty, growing the economy, tackling the climate emergency, and ensuring high quality and sustainable public services

40. As noted earlier in this paper, Annex B to the SSR includes detailed Portfolio Efficiency and Reform Plans “to set out actions to secure the sustainability of Scotland’s public services”. These Plans cover workforce savings, efficiencies in corporate functions and wider service reforms, with £1.5bn in cumulative savings set out over the SSR period.

41. The SFC commented in its Forecasts that the SSR is less detailed than the 2011 spending review, which provided level 3 figures for all portfolios. It notes “given that many public policy budgets are at level 3, it is not possible to look at the document and see the funding outlook for key public bodies like Skills Development Scotland and SEPA, or to see how level 2 budgets are split between resource and capital”.

42. SPICe further noted that while the SSR “provides some welcome detail, it is patchy – for example, for health, the indicative budgets for individual health boards will be welcome, but there is a notable gap in terms of other areas of the health budget that does not get directed to health boards, such as GP funding”.

43. The IFS suggests there is a risk of significant revision to multi-year plans even without a change in government at the upcoming Scottish elections. It suggests that if UK spending plans are increased, additional funding would be generated for the Scottish Budget, which the next Scottish Government could then choose to top up its spending plans or reduce taxes. However, if forecasts for net revenues from devolved taxes, on which SSR plans are based, are over-optimistic, this could require substantial cuts in Scottish Government spending.[3]

Infrastructure Delivery Pipeline 2026

44. The Scottish Government’s Infrastructure Delivery Pipeline 2026 (IDP) published alongside the Scottish Budget 2026-27 and SSR sets out the infrastructure projects and programmes the Scottish Government plans to fund over the next four financial years, “underpinned by over £30 billion of capital funding set out in the SSR”. It includes “specific investment plans totalling £11.1bn, as well as our plans to develop new revenue-financed programmes of investment”.

45. The IDP contains “projects over £5 million and programmes over £20 million” and a Future Pipeline setting out projects that are being explored to determine if there is a case for investment. The Scottish Government therefore expects that “more projects will move into the Pipeline as business cases are approved over the Spending Review period”.

46. Planned investments in the IDP include—

- supporting the delivery of 36,000 affordable homes
- targeted investment across the NHS estate, aimed at improving resilience and enabling modernisation of both property and services

[3] Immediate response to the Scottish Budget and Spending Review | Institute for Fiscal Studies

- £1.2 bn in renewing Scotland's rail fleet and ferry vessels and associated enabling works
- progressing work to dual the A9 between Perth and Inverness
- supporting justice and prisoner welfare through investing over £700m in HMP Glasgow and HMP Highland
- investing in Scotland's natural infrastructure, with nearly £300m in peatland restoration and woodland creation
- investing £519m to deliver rail electrification in Fife and the Borders over the course of the Spending Review period.

47. A full list of projects and programmes is included in Annex A of the IDP, and the Future Pipeline can be found at Annex B, while the Pipeline Decision-making Process is set out at Annex C of the document. The Scottish Government plans to report on progress in delivering the projects and programmes set out in the IDP every six months.

48. The SSR and IDP highlight that the Scottish Government plans to proceed with a £1.5bn Bond Programme over the next parliamentary term, "following the high Investment grade Credit Ratings received by Moody's and S&P". This, it notes, "will deliver one of the key recommendations from the Investor Panel as part of a fiscally sustainable capital borrowing policy". The IDP also confirms that the Scottish Government will continue to deploy revenue-funded models, including the Mutual Investment Model "to deliver additional investment over and above constrained capital budgets assessed to be necessary to meet our investment ambitions." The Scottish Government expects to use this Model to deliver community health centres.

49. At the same time, the Scottish Government has launched a consultation on a 10-year Infrastructure Strategy (2027-2037) "to guide infrastructure planning, investment, and delivery across Scotland". It describes this Strategy as "an evolution from the previous Infrastructure Investment Plan (IIP), which combined strategy and pipeline". The consultation closes in early May 2026, with the final Strategy due to be published later in 2026.

50. While the FAI has indicated that it will provide more analysis of both the SSR and the IDP, "[…] an initial look shows that some projects have been on a "development" rather than delivery pipeline – which may appear a subtle difference, but crucially the Scottish Government has so far allocated no funds for these projects". It goes note, "while the document says that the strategic outline case has been made and is a Government commitment, those of a more cynical disposition might see it as a staging post for significant delay or eventual cancellation". The FAI provides examples such as the A96 programme, including the Nairn Bypass, as well as the renewal programme for the Highland Mainline and the redevelopment of the Ardrossan Harbour.[4]

[4] A Budget where the silences were loudest | FAI

Integrated Pay and Workforce Policy

51. The Scottish Government has also published an Integrated Pay and Workforce Policy alongside the Budget which it says "is the first step in operationalising the commitments in the FSDP [Fiscal Sustainability Delivery Plan] to manage the public sector paybill and workforce size through a co-ordinated approach to pay and workforce planning".

52. The document notes that "the Cabinet Secretary […] has acknowledged that many multi-year deals cover only two years of the three-year [Public Sector Pay] Policy" for 2025-26 to 2027-28, adding "to address this, the Cabinet Secretary has committed to review the pay policy as part of the 2027-28 Budget process".

53. It further commits the Scottish Government to publishing a Workforce Management Governance Framework in Spring 2026 "setting out our approach for all public sector workforces across Scotland including NHS Scotland, firefighters and police officers, local government, further education workers, core Scottish Government and public bodies including non-departmental public bodies, public corporations". This framework will, it states, "underpin a data-driven, collaborative approach to workforce planning and change to ensure resources are deployed efficiently and enable more capacity to be directed to front-line services".

Climate Change

54. As in recent years, the Scottish Government has published the Climate Change Taxonomy of the Scottish Budget setting out how the 2026-27 Budget will impact Scottish Government's priority of tackling the climate emergency.[5] This year, the document has two parts: (1) overarching narrative with key spending areas from portfolios across the Scottish Budget 2026-27 "that contribute towards our response to climate change", and (2) a carbon taxonomy assessment and commentary of the capital and resource budget.

55. There has been criticism in recent years that the approach used in relation to this taxonomy work is "too broad-brush to be useful", with calls for more precise figures on how much is being spent on climate adaptation in Scotland.[6]

56. Part 1 of the document highlights official statistics for Scotland showing that Scotland's "greenhouse gas emissions had fallen by 51.3% between 1990 and 2023 – the largest reduction in the whole of the UK", with nearly every sector of the Scottish economy seeing substantial emissions reductions over that time. It further notes the move in 2025 from annual climate change targets to a five-yearly carbon budget mechanism, which, the Scottish Government says, "offers

[5] This Taxonomy was developed following an FAI-led research project on behalf of the Scottish Government on Improving emissions assessment of Scottish Government spending decisions and the Scottish Budget which published its findings in December 2022.
[6] Climate Change and Scottish Parliament committees: Finance and Public Administration Committee – SPICe Spotlight | Solas air SPICe

greater flexibility in the long-term planning of decarbonisation, whilst retaining our statutory 2045 net zero target date". In October 2025, the Scottish Parliament passed legislation to set carbon budgets at the levels advised by the UK Climate Change Committee.

57. The Scottish Government's draft Climate Change Plan (CCP) published on 6 November 2025 "sets out the policies and proposals the Scottish Government will take forward to enable our carbon budgets to be met between 2026-2040". The Net Zero, Energy and Transport (NZET) Committee's call for views, which was held prior to the draft CCP being published, was intended to provide evidence that all committees could use in their scrutiny of the draft CCP.

58. The Finance and Public Administration Committee agreed to ask any questions relating to the financing of the Scottish Government's draft CCP as part of its budget scrutiny. In this context, relevant themes arising from responses to the NZET Committee's call for views include—

- A lack of clarity on "who pays" for CCP delivery
- How future Budgets will track and report spend against the CCP's sectoral pathways
- Whether the fiscal framework needs to be strengthened to reflect structural challenges such as climate change, which requires a co-ordinated response across the two governments, and demographic trends which are more pronounced in Scotland. (This issue has been raised by the FPA Committee previously during its scrutiny of the SFC's Fiscal Sustainability Perspectives paper on climate change – March 2024 and in the Committee's response to the Cabinet Secretary on the scope of a future fiscal framework review (November 2025).
- How taxation can best be used to change behaviours in response to climate change.
- Whether current funding structures allow CCP delivery at the required pace and scale.
- If the CCP should be aligned with multi-year spending plans rather than annual budgets to enable sustained action by local authorities and other partners.

Pre-budget 2026-27 scrutiny

59. The Committee pre-budget 2026-27 scrutiny focused on responding to long-term fiscal pressures, drawing on the SFC's Fiscal Sustainability Report - April 2025 which projects spending and funding up to 2074-75, and the Scottish Government's Medium-Term Financial Strategy (MTFS) and Fiscal Sustainability Delivery Plan (FSDP), both published on 25 June 2025.

60. Key conclusions from the Committee's pre-budget 2026-27 report, published on 30 October 2025, and the Scottish Government's response to it, provided on 13 January, (provided in full at Annexe B of this paper) include—

- **Long-term financial planning:** The Committee urged the Scottish Government to place much greater emphasis on longer-term financial planning in order to start mitigating the potential significant impact of future trends. In the first instance, the Committee called on the Scottish Government to provide a full response to the SFC's 2025 Fiscal Sustainability Report.

  The Scottish Government does not commit to providing this response, instead highlighting that it recognises and is responding to the anticipated impact of future trends, through delivery of its Population Strategy, Scotland's Migration Service, and the Health and Social Care Service Renewal Framework. Its Future Trends for Scotland report published in June 2025 "set out the best available Scotland-specific evidence on trends likely to be important to Scotland's future [and] is helping to inform and improve long-term decision-making".

- **Prioritisation:** The Committee requested clarity in future documents on which areas of spending are being prioritised and deprioritised.

  The Scottish Government states it recognises the need for clarity of prioritisation of spending decisions, adding that "progress is being made to further improve this in our 2026-27 Scottish Budget, including clear references to how prioritised funding delivers the Scottish Government's four priorities".

- **Social security budget:** The Committee said it is not convinced that the Scottish Government has set out sufficient evidence to support its argument that the future social security budget is sustainable. It also requested reviews of the fiscal sustainability of social security spending and of the spending and outcomes arising from universal payments and services.

  The Scottish Government's response points to a March 2024 report by the Office of the Chief Social Policy Adviser which "found early evidence that benefits administered by Social Security Scotland, including ADP, support a number of outcomes, such as reducing child poverty; household poverty; material deprivation and debt; and health and wellbeing". A literature review is also being undertaken "to explore drivers of spend and the ongoing evaluation programme has provided insight into the immediate and short-term outcomes of the devolved benefits".

  It is developing its approach to public value which "will embed a framework for understanding spending proposals through a lens which considers the delivery of government outcomes, delivery risk, impact assessments, the financial implications and other key factors and drawing upon this information to make decisions about government spending plans".

- **Efficiencies and workforce:** The Committee asked for a detailed plan on how the Scottish Government will meet its high-level targets on efficiencies and workforce while minimising the impact on public services.

  The Scottish Government refers to the June 2025 Public Service Reform Strategy along with the Portfolio Reform and Efficiency Plans and its Integrated Pay and Workforce Policy both published with the SSR in January 2026.

- **Prevention:** The Committee sought an update on progress with work in considering and reporting back on the potential benefits, risks and costs of introducing a new category of expenditure on preventative spend.

  The response highlights that as part of this work, "we are testing a budget tagging method for tracking preventative spend across the Scottish Budget" along with developing pilots to test this approach across portfolio areas of the budget. A first set of results is planned for publication in summer 2026.

- **SSR:** The Committee said it shares the SFC's view that the Scottish Spending Review should include a strategy for how the public sector workforce and public sector pay bill are going to be managed over the medium-term. It asked that this provides greater clarity about how decisions on pay impact choices on the size of the workforce and vice versa.

  The Scottish Government points to the Integrated Pay and Workforce Policy, which "sets an overall pay envelope of 9% over 3 years with a cap of 3% for any single-year deal". It adds that the future such Policy "will include recognition of the connection between pay policy and workforce management as dual drivers of fiscal sustainability".

- **Invest to Save Fund:** The Committee sought details of how the projects receiving funding under the Invest to Save Fund are being monitored for outcomes and whether success is being shared more widely across the public sector.

  The response explains that successful projects are required to provide six-monthly progress reports, which are then collated to provide an overview of programme. It goes on to say that some projects with similar themes are working together to share resources, including sharing learning and opportunities to implement similar efficiencies with bodies not directly funded by the programme.

  As noted earlier in this paper, the SSR confirms that funding will be provided in 2026-27 to continue the Invest to Save Fund.

- **Zero-based budgeting:** The Committee said it remains of the view that a zero-based budgeting approach should be taken in the Scottish

Spending Review and requested in-depth information on the process for preparing, scrutinising and delivering the Review.

The response states that the Scottish Government already adopts the principles of zero-based budgeting and spending is reviewed in detail throughout the Scottish Budget process.

The in-depth information requested on process has not been provided in the Scottish Government response.

- **Economic and productivity growth:** The Committee requested further details of how the Scottish Government is creating the right conditions for businesses in Scotland to grow, take a long-term view, invest in capital and leadership, and change attitudes to risk, which we heard are key barriers to productivity growth.

  The response points to the Scottish Government having a strong record of supporting businesses through SNIB and the Techscaler initiative, and that the Enterprise Agencies play a key role in promoting business growth and supporting capital investment. It also refers to various tax policies.

- **Capital funding:** The Committee asked the Scottish Government to set out as part of its IiP and pipeline what steps it will take to smooth out the "lumpy" capital budget over time.

  The Scottish Government notes that the IDP provides multi-year spending certainty on projects and programmes to be taken forward in the next four years. It goes on to say that "through careful management of the pipeline, we can ensure a steady stream of investment in the infrastructure needed to deliver Ministers' priorities", adding it continues to explore revenue finance models to expand capacity for infrastructure investment.

61. The Committee's report requests a response by the end January 2026 on the Cabinet Secretary's conclusions of her consideration of the Lithuanian approach to collectively developing and implementing Lithuania 2050, Lithuania's vision for the future, with a parliamentary committee monitoring progress towards achieving the vision.

Next steps

62. The Committee will take evidence from the Cabinet Secretary for Finance in relation to the Scottish Budget 2026-27 on 27 January 2026.

Committee Clerking Team
January 2026

ANNEXE A

Key announcements in the UK Budget 2025

1. The UK Government in its UK Budget 2025 document states that "this Budget takes the fair and necessary choices to deliver on the government's promise of change", by cutting the cost of living, reducing the NHS waiting list in England and decreasing debt and borrowing. It further highlights that "the government's plans are underpinned by its non-negotiable fiscal rules which provide credibility by ensuring day-to-day spending is met with revenues, while allowing the step change needed in investment to grow the economy".

2. Key spending announcements in the UK Budget 2025 include—

    Removing the two-child limit in universal credit from April 2026. The UK Government estimates that this measure will lift 450,000 children out of poverty. The Fraser of Allander Institute (FAI) in its reaction blog on the UK Budget noted that this decision allows the Scottish Government to spend the £155 million it had set aside for mitigation on other priorities, although it also highlighted knock-on effects[7] that would reduce the net savings to around £121 million.[8]

    Increasing the national living wage by 4.1% to £12.71 per hour for eligible workers aged 21 and over. For 18 to 20-year-olds, the increase will be 8.5% to £10.85 per hour and for 16 to 17-year-olds and apprentices 6.0% to £8.00 per hour.

    Introducing a cash limit of £12,000 within the overall annual limit of £20,000 for individual savings accounts (ISAs).[9]

    Cancelling the planned uprating of fuel duty for 2026/27.

    Maintaining the £35,000 taxable income threshold for winter fuel payment payable to eligible pensioners for the rest of the UK Parliament.

    Reducing household energy bills by around £150 on average in Great Britain from April 2026 through changes to the renewables obligation and the energy company obligation.

3. The Budget document states that, as a result of the UK Budget 2025, the Scottish Government will receive an additional £510 million in resource funding over the next four years and an extra £310 million in capital funding over five years (£820

[7] The FAI explained that scrapping of the two-child cap leads to additional costs to the Scottish Government "as it means more households are entitled to Universal Credit (and therefore for some Scottish benefits like the Scottish Child Payment) and moves more existing Universal Credit claimants onto the Benefit Cap (which is mitigated in Scotland through Discretionary Housing Payments)".
[8] FAI Budget 2025 reaction: meeting the (briefed) expectations.
[9] The limit will not apply to savers over the age of 65.

million in total).[10] The FAI suggested that this funding for the Scottish Government "is quite lumpy: there is a boost in the short-term, eroding away quickly and a small cut in day-to-day spending in 2028-29".[11]

4. Further specific direct investment in Scotland is also referred to in the UK Budget document, including £14.5 million in funding for the Grangemouth industrial cluster, £20 million from the Growth Mission Fund to upgrade Inchgreen Dry Dock, and a further £20 million for the redevelopment of Kirkcaldy town centre and seafront.

5. Key revenue-raising measures announced in the UK Budget include—

Freezing personal tax thresholds for both income tax and national insurance contributions (NICs) for employees and self-employed individuals for a further three years—from April 2028 through until April 2031. Prior to the UK Budget there was speculation that income tax rates in the UK would be increased. The FAI had estimated that a two-percentage point increase in the basic rate of UK income tax would have led to a cut of around £1 billion in Scotland's block grant in each of the next three financial years.[12]

Capping National Insurance Contributions (NICs) relief on salary sacrifice into pension schemes to the first £2,000 of pension contributions per person from 2029.

Increasing tax on dividend income by two percentage points at the ordinary and upper rate from April 2026.

Increasing tax on property income and savings income by two percentage points at the basic, higher and additional rates from April 2027. The Budget states that the UK Government intends to "engage with the devolved governments of Scotland and Wales to provide them with the ability to set property income rates in line with their current income tax powers in their fiscal frameworks".[13] The Cabinet Secretary for Finance and Local Government wrote to the Committee on 9 December 2025 providing advance notice of a Legislative Consent Memorandum (LCM) relating to amendments to the UK Finance (No.2) Bill which would devolve this power to Scotland. The letter asks the Committee to consider and report on the LCM by the end of January 2026 to fit in with the UK Bill's timetable.

In its reaction blog on the UK Budget, SPICe noted that "once the Scottish Parliament has the powers to set income tax rates to property, it will presumably face a choice between at least matching the rates for

[10] SPICe UK Budget 2025: Key Changes and Impacts on Fiscal Policy
[11] FAI Budget 2025 reaction: meeting the (briefed) expectations.
[12] What would UK income tax changes mean for Scotland? | FAI
[13] Change to tax rates for property, savings and dividend income — technical note - GOV.UK

England, or accepting a block grant adjustment which will reduce funding for the Scottish Budget”.[14]

Reducing capital gains tax relief on qualifying disposals to employee ownership trusts from 100% to 50% from 26 November 2025.

Increasing gambling levies, including remote gaming duty to 40% from April 2026.

Introducing electric vehicle excise duty, a new mileage-based charge for electric vehicles and plug-in hybrid cars, from April 2028.

Introducing a council tax surcharge in England from April 2028 on residential properties valued at or over £2 million (a so-called ‘mansions tax’).

Implementing permanent lower business rates for retail, hospitality and leisure properties. SPICe commented in its blog that “it is certain that industry [in Scotland] will advocate for the Scottish Government to implement similar changes for retail, hospitality and leisure properties in Scotland”.[15] The Scotsman newspaper reported on 11 December 2025 that 12 Scottish retail organisations have jointly written to the Cabinet Secretary for Finance and Local Government calling for a permanent business rate discount for all retailers at the Scottish Budget which is “at least as competitive” as the situation in England.[16] Five Business Improvement Districts have since, alongside the Scottish Retail Consortium, called on Scottish Government and MSPs to introduce a permanent business rate discount for all retail, hospitality, and leisure premises.[17]

6. Despite concerns raised by the oil and gas industry in advance of the UK Budget, the UK Government confirms in the Budget document that the temporary Energy Profits Levy (EPL) will continue until 2030 (unless it concludes earlier if the EPL price floor triggers). The UK Government then plans to replace the Levy with a permanent Oil and Gas Profits Mechanism, “a revenue-based mechanism which only operates in times of high prices”.

7. The UK Budget document also states that “to support the economy with greater policy certainty, the government is delivering on its commitment to hold one fiscal event a year, by legislating to ensure that the fiscal rules are only assessed at future Budgets”.

[14] SPICe UK Budget 2025: Key Changes and Impacts on Fiscal Policy
[15] SPICe UK Budget 2025: Key Changes and Impacts on Fiscal Policy
[16] Scotsman article, 11 December 2025
[17] Improvement districts back business rate discount for retail, hospitality and leisure | Scottish Financial News

OBR’s Economic and fiscal outlook

Overview

8. In its Economic and fiscal outlook – November 2025 published alongside the UK Autumn Budget 2025, the OBR forecasts real GDP growth of 1.5% in 2025, increasing its March forecast figure of 0.5%. This, the OBR explains, is “because output growth was revised up in the second half of 2024 and growth was stronger than expected in the first quarter of 2025, at 0.7%”.

9. Borrowing is projected to fall from 4.5% of GDP in 2025-26 to 1.9% in 2030-31. Debt rises as a share of GDP from 95% of GDP this year and ends the decade at 96% of GDP. This, the OBR highlights, is 2 percentage points higher than projected in March and “twice the debt level of the average advanced economy”. The OBR told the Committee on 13 January 2026 that UK levels of debt are much higher than in other advanced economies and that interest rates have increased substantially and remain at relatively high levels.

10. The OBR has revised up its near-term forecast for earnings growth and inflation. Cumulative real wage growth over the next two years is just under ¾ percentage points higher than in its March forecasts and CPI inflation just over ½% higher “as surveys of wage settlement expectations have held up more than we expected, and there is more momentum in domestically generated inflation than we anticipated”. It goes on to say that “greater domestically generated inflation, alongside higher food prices, mean we also expect inflation to stay higher for longer than in March”.

11. The OBR further expects the unemployment rate “to remain close to its current rate of around 5% until 2027”, before falling back to around 4% over the forecast. It explains that “the employment rate is expected to be broadly flat at around 61 per cent over the forecast, as a cyclical decline in the unemployment rate is offset by a structural fall in the participation rate from an ageing population and rising sickness-related inactivity”.

12. According to the OBR, policies in the UK Autumn Budget “increase spending in every year and by £11 billion in 2029-30, primarily to pay for the summer reversals to welfare cuts and lift the two-child limit in universal credit”.

13. The UK Budget also raises taxes “by amounts rising to £26 billion in 2029-30, through freezing personal tax thresholds and a host of smaller measures and brings the tax take to an all-time high of 38% of GDP in 2030-31”. The OBR states that the tax increases which are expected to raise £0.7 billion next year and £26 billion in 2029-30 more than offset the increase in spending by the final years of the forecast.

14. Overall, the direct effect of these policy measures “increases borrowing by £3.7 billion in 2025-26, by £5.9 billion in 2026-27 and by £9.9 billion in 2027-28”.

15. In its November 2025 forecasts, the OBR reduced its central forecast for the underlying rate of productivity growth in the medium term to 1%, 0.3 percentage points slower than in its March forecasts. It explains that “the UK’s productivity performance has undershot our forecasts, despite several substantial downgrades since 2010, as a significant rebound from recent negative shocks has not materialised”.

16. It goes on to say that this decision “is based on our latest assessment of the UK’s productivity performance in historical and international context; what the latest output and labour force data tell us about the impact of shocks and underlying productivity of the economy; and how developments in global trade policy, the sectoral composition of output, the emergence of new technologies like artificial intelligence, and other structural trends are likely to affect the productive potential of the UK economy in the future”.

17. The UK Government announced as part of its Autumn 2025 Budget that it is “reforming the OBR forecast cycle”. The Budget document states that “the government is delivering on its commitment to hold one fiscal event a year, by legislating so that the OBR’s assessment of the government’s performance against the fiscal mandate will happen once a year – at the annual Budget in the autumn, when the government sets out its tax and spending policy”. It further notes that “the OBR will continue to publish a second forecast in the spring to provide an interim update on the economy and public finances”.

18. On 5 January 2026, the Chancellor confirmed she has asked the OBR to prepare an Economic and fiscal forecast for publication on 3 March 2026, noting this will “fulfil the obligation required by the Budget Responsibility and National Audit Act 2011 for the OBR to produce at least two forecasts in a financial year”. She went on to say that—

> “As set out at the Budget, the spring forecast will not make an assessment of the Government’s performance against the fiscal mandate and will provide an interim update on the economy and public finances.
>
> The Government intend to respond to this with a statement to Parliament. This is in line with my commitment to deliver one major fiscal event a year at the Budget. This approach gives families and businesses the stability and certainty they need and, in turn, will support the Government’s growth mission.”

19. The OBR told the Committee on 13 January 2026 that the approach of having one annual fiscal event but two forecasts a year is common in other countries.

Scottish-specific issues

20. The UK Budget document states that, as a result of the UK Budget 2025, the Scottish Government will receive an additional £510 million in resource funding over the next four years and an extra £310 million in capital funding over five

years (£820 million in total).[18] The FAI suggested that this funding for the Scottish Government "is quite lumpy: there is a boost in the short-term, eroding away quickly and a small cut in day-to-day spending in 2028-29".[19]

21. Alongside its Economic and fiscal outlook, the OBR also published Devolved tax and spending forecasts, November 2025. The OBR forecasts that the Scottish tax Block Grant Adjustment (the amount removed from the Scottish Budget to reflect tax devolution) will be £21,382 million in 2026-27. This is slightly lower than the £21,658 forecast by the SFC in May 2025. SPICe highlighted in its reaction blog published on 27 November 2025 that "if the next forecast from the SFC expects a lower BGA than in May, this will be a boost for the Scottish Government".

22. SPICe further observed that the UK Budget has been accompanied by new forecasts for the GDP deflator, which are used to uprate borrowing limits in the fiscal framework. This means that the Scottish Government is able to borrow up to £491 million in capital in 2026-27, while the cumulative capital borrowing limit rises to £3,275 million. The annual limit on resource borrowing increases to £655 million, with the cumulative cap rising to £1,910 million, and the limit on the Scotland Reserve increases to £764 million[20].

Interaction between the SFC and OBR forecasts

23. At its evidence session with the SFC on 2 September 2025, the Committee explored the differing approaches taken to forecasting by the SFC and the OBR, and the possible implications for the Scottish Budget. The SFC explained that due to data quality issues, they were using Real Time Information from HMRC in place of the ONS Labour Force survey. Professor David Ulph[21] noted that:

> "One implication of that point in relation to the quality of our employment forecasts and comparing those to the OBR forecast is that we are not comparing like with like. Our forecast is based on RTI data and the outturns that come from that, while the OBR forecast is based on the labour force survey data and the outturns that come from that. That creates a challenge in understanding how well we are performing in forecasting."

24. The SFC also discussed the correlation between forecast errors by the SFC and by the OBR, and how this impacts reconciliation. Professor Ulph noted that analysis in 2021 assumed a correlation of around 50% between the SFC and OBR forecast errors, but subsequent data suggests that the correlation is actually around 80%. The SFC went on to say that—

[18] SPICe UK Budget 2025: Key Changes and Impacts on Fiscal Policy
[19] FAI Budget 2025 reaction: meeting the (briefed) expectations.
[20] SPICe UK Budget 2025: Key Changes and Impacts on Fiscal Policy
[21] Professor Ulph was one of the SFC Commissioners at the time of this evidence session. His tenure ran from October 2018 to October 2025.

> "The correlation matters quite a lot. If we and the OBR made exactly the same mistakes, there would be no reconciliation. It is only because we make different mistakes that we have the problem of reconciliation. That is why the correlation between what we do and what the OBR does matters."

25. The SFC noted, on the general interaction between the OBR and SFC forecasts, that it does not make independent judgements on the overall performance of the UK economy, but rather "we largely take the outcomes and risks that emerge from the OBR forecasts as a given and then look at those in Scotland-specific terms".

26. During evidence to the Committee on 13 January 2026, the OBR explained that both the OBR and SFC are transparent about the risks in terms of forecast accuracy, and both produce forecast evaluation reports annually to identify, explain and learn from where any forecast error.

ANNEXE B

Cabinet Secretary for Finance and Local Government
Shona Robison MSP

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Scottish Government
Riaghaltas na h-Alba

Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
The Scottish Parliament
By email to: FPA.committee@parliament.scot

13 January 2026

Dear Kenneth,

REPORT ON PRE-BUDGET SCRUTINY 2026-27: RESPONDING TO LONG-TERM FISCAL PRESSURES

Thank you to the Committee for its pre-Budget Scrutiny report on the 2026-27 Scottish Budget. I have considered the points raised and offer the Scottish Government's response in the attached document.

This Government has been clear about the significant fiscal challenges Scotland faces in the short, medium and long term. In June, we published the *Medium-Term Fiscal Strategy* and the *Fiscal Sustainability Delivery Plan*, outlining our approach to strengthening public finances over the coming years. Today, alongside the 2026-27 Scottish Budget, we are publishing the Scottish Spending Review, the Infrastructure Strategy and the Infrastructure Delivery Plan. Together, this suite of publications demonstrates the comprehensive steps we are taking to manage Scotland's finances sustainably while continuing to deliver on our key priorities.

I look forward to engaging with the Committee throughout the 2026-27 Scottish Budget process.

Yours sincerely,

SHONA ROBISON

Section	Paragraph	Recommendation	Scottish Government Response
Delays to Fiscal Events and publication	14	Regular fiscal events and publication of key financial planning documents are crucial in enabling robust and effective parliamentary scrutiny. It is therefore disappointing that repeated delays have been a feature of this session of Parliament.	The Scottish Government acknowledges delays in some publications during this session, often driven by external factors. The delays experienced in the publication of the 2024 and 2025 Medium-Term Financial Strategy were largely out of the control of the Scottish Government. The 2024 MTFS was rescheduled following the appointment of a new First Minister and the UK pre-election period, with pre-election guidance precluding publication of an MTFS during that time. To support transparency and scrutiny, we provided a fiscal statement on 3 September 2024, and the SFC published a fiscal update in August 2024. For 2025, the MTFS and Fiscal Sustainability Delivery Plan (FSDP) were published after the UK Spending Review to reflect the most up-to-date funding position. This sequencing ensured the information was accurate and helpful for Parliament and the public. Publication of the Infrastructure Pipeline depends on multi-year funding certainty; the June 2025 UK Spending Review provided this, enabling us to set out the next four years of projects alongside the Spending Review.
	15	The Committee has committed to engaging further with the Scottish Government and the Scottish Fiscal Commission to explore whether an optimal time can be secured for both budget formulation and scrutiny. We also urge the UK Government to place greater emphasis on the impact on devolved budgets when considering the timing of its fiscal events.	The Scottish Government recognises the mutual benefit of early engagement with the Committee to optimise time for budget formulation and scrutiny. The UK Government’s decision to publish its Autumn Budget on 26 November has placed significant pressure on the Scottish Budget timetable, and I welcome the Committee highlighting this to the UK Government.

Fiscal Pressures			
Section	**Paragraph**	**Recommendation**	**Scottish Government Response**
Medium to Long term strategic planning	28-29	The Committee notes the welcome improvements in the level of information provided in the MTFS on the challenges ahead. Like the FAI, we do not believe that a separate document is necessary to set out how the Scottish Government is responding to these medium-term pressures. The information could just as simply be included in the MTFS, enabling better clarity and cohesion. We do not share the Scottish Government's view that the two documents "set out a credible plan" to ensure it can continue to deliver its priorities. In future iterations, we seek more detail on the cumulative impact the measures will have in closing the fiscal gaps set out in the MTFS, along with a timetable for implementation to allow monitoring of progress.	In setting out the projected fiscal gap, the drivers of spending growth, and risks to both the funding and spending position, the MTFS provides the context for the scale and scope of actions that are required to ensure the sustainability of the public finances. The MTFS also sets out the strategy for achieving sustainability, focused around three pillars. The actions that will be taken under these three pillars are then set out in the FSDP, which focusses on the specific areas of action to manage the key drivers of spending growth and how we strengthen our funding position using the levers available to us. Given the level of interest, and the importance of the subject, the Cabinet Secretary wanted to emphasise her commitment through a dedicated and focused delivery plan. Following this year's twinned publication, reporting on the progress of FSDP actions will be incorporated into the annual Medium Term Financial Strategy. Both the MTFS and FSDP provide the context and set the framework for 2026-27 Scottish Budget and the Scottish Spending Review, which provides more information on where the efficiencies and productivity improvements will be achieved, and the prioritisation decisions taken. The Scottish Government is committed to continuously improving the MTFS and this year provided further information on the make-up of spending projections, the potential upside and downside risks across both funding and spending, and a clear plan to improve the sustainability of the public finances as set out in the Fiscal Sustainability Delivery Plan. This reflects the points made in the Committee's report on providing further information on these areas. We welcome further conversations with the Committee on future improvements.

Section	Paragraph	Recommendation	Scottish Government Response
Long Term and future planning	40-41	The Committee urges the Scottish Government to place much greater emphasis on longer-term financial planning in order to start mitigating the potential significant impact of future trends. In the first instance, the Committee calls on the Scottish Government to provide a full response to the SFC's 2025 Fiscal Sustainability Report. We are disappointed that a fiscal sustainability debate has not yet been scheduled for 2025 and we ask the Scottish Government to commit to an annual parliamentary debate on the topic, as it provides an opportunity for all Members to discuss the long-term challenges ahead and how these might be addressed	While the scope of the Fiscal Sustainability Delivery Plan covers the next five years, to align with the focus of the Medium-Term Financial Strategy and period of the SFC Economic and Fiscal Forecasts, both documents acknowledge the drivers of spending pressures and longer-term drivers of fiscal risk. Measures cited in the FSDP set out how the Scottish Government intend to address challenges for the longer-term. This includes: • A focus on increasing value from our existing spending to enable us to identify and prioritise higher impact spending; • Reform of public services to address medium to long-term spending growth; • Preventative programmes to reduce demand for public services in the medium to longer term. While there are obvious limits to long-term projections due to our rapidly changing world, the Scottish Government does recognise and is responding to the anticipated impact of future trends. The Scottish Government is taking action through the delivery of the Population Strategy, Scotland's Migration Service, and the Health and Social Care Service Renewal Framework. The Scottish Government also published the Future Trends for Scotland reports in June 2025. These set out the best available Scotland-specific evidence on trends likely to be important to Scotland's future. The publication is helping to inform and improve long-term decision-making. We recognise the importance of wider Parliamentary scrutiny on fiscal sustainability. The future frequency of debates will be a matter for the incoming Government.

Section	Paragraph	Recommendation	Scottish Government Response
	43	We also ask the Scottish Government to consider whether there are lessons it can learn from the Create Lithuania programme in attracting people from Scotland to return here to live and work.	Attracting people to live and work in Scotland is a key aspect of delivering the Attractive and Welcoming Country pillar of our Population Strategy. Delivery of the Strategy is overseen by a Ministerial Population Taskforce, chaired by the Minister for Equalities. Key deliverables within the programme include Scotland's Migration Service and the Addressing Depopulation Action Plan. Scotland is an open, connected and outward-looking country with a long and proud history of intellectual, cultural and economic exchange. Scotland's diaspora and our Scottish Connections are an extension of Scotland itself. That's why we launched our Scottish Connections Framework in April 2023. It is our commitment to Scotland's diaspora and sets out our ambitions to expand our relationships with, and between, Scotland's international communities. A series of 50+ commitments and ambitions sets out the case for engaging our diaspora around the world, whether they are connected through heritage, education, business or any other affinity, as an end in itself, but also to promote Scotland as a place in which to live, work, study, do business, and visit. For all of these programmes of activity, learning has been harnessed from a broad range of international examples and from within the academic evidence base to ensure that the Scottish Government's strategic policy development and delivery is best enabled to support Scotland's economy, communities and public services.

Public Spending			
Section	**Paragraph**	**Recommendation**	**Scottish Government Response**
Transparency of budgetary information	48	The Committee seeks a response from the Scottish Government regarding our request that all regular internal transfers are baselined in the Scottish Budget. We also ask that in future years the calculations behind the underlying assumptions in the MTFS are published	The Scottish Government recognises the FPAC's continuing interest in baselining of regular transfers and the Cabinet Secretary for Finance and Local Government has committed to reviewing the position to assess what additional work can be done in this area. Some progress has been made at this years' Budget, with £786 million of baseline transfers actioned. As the Minister for Public Finance made clear at the recent FPAC meeting on consideration of the Autumn Budget Revision, these transfers can reflect the complexity of the delivery landscape, and not all the regular transfers will be baselined. Scottish Government will consider publication of calculations associated with underlying assumptions contained within the MTFS.
Prioritisation	54	The Committee seeks clarity in future documents on which areas of spending are being prioritised and deprioritised. We also recommend that Audit Scotland's suggestion that there is "a clear line that shows how each spending measure addresses the Scottish Government's priorities" is actioned in future Budgets.	The Scottish Government recognises the need for clarity of prioritisation of spending decisions with Scottish Budget publication. Progress is being made to further improve this in our 2026-27 Scottish Budget, including clear references to how prioritised funding delivers SG's 4 priorities: Tacking Child Poverty; Economic Development; Climate Change; and Delivery.

Section	Paragraph	Recommendation	Scottish Government Response
Social Security Spending	62	The Committee is not convinced that the Scottish Government has set out sufficient evidence to support its argument that the future social security budget is sustainable.	Just like all other aspects of devolved expenditure, the additional investment in benefit expenditure is fully funded from the Scottish Budget, which is set each year to align with the Scottish Government's priorities and balanced accordingly. The additional investment in social security compared to England and Wales represents just over 3 per cent of the Scottish Government's resource budget by 2029-30. Investment today to mitigate the harmful effects of poverty can lead to reduced demand for, and expenditure on, public services such as healthcare; and it can lead to improved productivity through a healthier workforce; and greater labour market participation, by reducing labour market barriers, particularly for disadvantaged groups.
	63	We are disappointed that the MTFS did not include the information we requested 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. We therefore ask it to carry out and report back on this work without further delay.	The MTFS set out the significant risk of the demand-led growth in spending in social security, with the accompanying FSDP setting out the actions this Government will take to improve the efficiency and productivity of Social Security Scotland. This includes operational delivery improvements, digital investment, tackling fraud and error where it occurs, and a review of the current award review process for Social Security disability benefits A report last year from the Office of the Chief Social Policy Adviser, published in March 2024, synthesised emerging evidence relating to the outcomes associated with social security spending administered by Social Security Scotland. The report found early evidence that benefits administered by Social Security Scotland, including ADP, support a number of outcomes, such as reducing child poverty; household poverty; material deprivation and debt; and health and wellbeing. A literature review is being undertaken to explore drivers of spend and the ongoing evaluation programme has provided insight into the immediate and short-term outcomes of the devolved benefits.

Section	Paragraph	Recommendation	Scottish Government Response
	64	The Committee also requests that the Scottish Government undertakes a review of the extent to which the level of social security assistance provided supports economic activity.	The report from the Office of the Chief Social Policy Adviser highlighted the significant amount of detailed analytical work that underpins the design and delivery of Social Security benefits. This includes impact assessments, qualitative research, statistical modelling, user satisfaction surveys and process evaluations – and we're working with our analysts to do further work on this, particularly around long-term impacts. Investment today in social security can lead to reduced demand for, and expenditure on, a wide range of other public services such as healthcare; and it can lead to improved productivity through a healthier workforce; and greater participation by reducing labour market barriers particularly for disadvantaged groups. Analysis published by the Chief Economist in March 2024 highlighted the role of Social Security spending in supporting the broader economy, providing short-term benefits during economic downturns and improving long term economic outcomes by reducing financial distress. For example, policies which support people's health and wellbeing can support their continued participation in the labour market and have a lasting positive economic impact, including improving productivity in the economy and increasing tax revenues. This analysis is supported by the emerging evidence relating to the outcomes associated with social security spending administered by Social Security Scotland. Early analysis shows that social security spending is supporting a variety of Scottish Government outcomes related to reducing child poverty and material deprivation, improving health and wellbeing and helping to narrow inequalities. It also sets out the potential that social security payments have to improve economic outcomes. For example, investment today to mitigate the harmful effects of poverty can lead to longer term benefits to the economy in future through: reduced demand for, and expenditure on, public services, such as reducing health-care spending; improved productivity, through a healthier, more productive, workforce; and greater and more equal labour market participation, by reducing labour market barriers, particularly for disadvantaged groups. The £1.1 billion of social security spending above block grant adjustments in 2024-25 in Scotland could have resulted in a £300 million boost to Scottish GDP in the short term (in 2024-25 prices).[1]

[1] Economic impact of spending on social security - Technical note - gov.scot

Section	Paragraph	Recommendation	Scottish Government Response
	68	The Committee seeks an update on the Scottish Government's plans to recover historical fraudulent claims and overpayments following its discussions with the Department for Work and Pensions on the composition of the debt.	The Scottish Government continues to engage with the Department of Work and Pensions on a range of matters in relation to historic debts, including the composition of the debt caseload. Scottish Government officials are now in the process of developing a range of options for addressing historic debt when the existing agency agreements end in March 2026.
Universality	73	Given the level of fiscal gap, the Committee recommends that the Scottish Government carries out a review of the spending and outcomes arising from universal payments and services, if this is not already taking place as part of the 2025 Scottish Spending Review.	The Scottish Government recognises that the economic and fiscal environment remains challenging, and furthermore that demand for public services continues to grow. Together this means that we face tough choices to ensure our public finances are sustainable and we will need to examine how we are spending over the medium-term. To support this, the Scottish Government is developing its approach to public value. Following publication of the Spending Review, this approach will embed a framework for understanding spending proposals through a lens which considers the delivery of government outcomes, delivery risk, impact assessments, the financial implications and other key factors and drawing upon this information to make decisions about government spending plans. We will build supporting tools to enable decision-makers to effectively consider this range of factors when considering spending proposals. Used effectively, this approach will support the Scottish Government to achieve a more fiscally sustainable trajectory by enabling effective prioritisation. This will ensure informed decisions on spending plans can be made and support effective prioritisation choices, including around universal payments and services.

Section	Paragraph	Recommendation	Scottish Government Response
	74	We also ask the Scottish Government to give further consideration to the evidence produced by the FAI on the Small Business Bonus Scheme and whether targeted relief could provide better outcomes.	The Scottish Government commissioned a short-term working group in 2022 to inform advice to Scottish Ministers on the Fraser of Allander Institute’s (FAI) independent review of the non-domestic rates Small Business Bonus Scheme (SBBS), namely its recommendation: “that the Scottish Government begins to collect new information that will make a more robust assessment of the SBBS (and potentially other reliefs) possible in the future”. The group, which included business and local authority representatives, opposed the introduction of more information requirements to claim SBBS relief which would bring additional burdens to businesses but were clear that SBBS relief is of great benefit to many small businesses. The Scottish Government significantly reformed SBBS relief at the 2023 revaluation, introducing a taper to avoid cliff edges, and excluding advertisements, car parks and betting shops from eligibility (in addition to payday lending which was already excluded). It remains the most generous small business rates relief in the UK. The Scottish Government keeps all non-domestic rates policies under review and is committed to exploring how SBBS relief for shootings can be better targeted to those ratepayers of shootings who should rightly be eligible for them.

Section	Paragraph	Recommendation	Scottish Government Response
PSR Strategy	81	The Committee welcomes the Scottish Government's renewed impetus on public service reform. We seek further information on how the Change and Monitoring, Evaluation and Learning Framework being developed will support robust assessment of progress and outcomes.	The Public Service Reform Strategy commits to the development of a Change and Monitoring, Evaluation and Learning (MEL) Framework to assess progress and outcomes across all PSR workstreams. This will ensure consistent, transparent reporting and a shared understanding of what works and what impact reform is having. The Framework will bring together consistent metrics and evidence, embed learning and evaluation, and provide a basis for transparent reporting on progress. Each workstream will have its own monitoring and a system wide evaluation will also be undertaken to ensure coordination. A theory of change and framework will be published in early 2026.
	82	As the Scottish Government now has a baseline figure for the number of live strategies it has in place, the Committee asks it to report annually on what steps it is taking to monitor and reduce this number wherever possible to minimise overlap and ensure alignment.	The Scottish Government will update the Committee as requested on the steps taken to monitor and reduce the number of live strategies, in line with the priorities of the government. Going forward an updated list of live strategies and supporting narrative will be provided annually, following the end of the financial year, with the next being due to be provided to the Committee before the end of April 2026.

Section	Paragraph	Recommendation	Scottish Government Response
Efficiencies	93	The Committee urges the Scottish Government to set out a detailed plan on how it will meet its high-level targets on efficiencies and workforce while minimising the impact on public services. Evidence and trends suggest these targets will be incredibly challenging to meet.	The Public Service Reform Strategy provides the strategic framework for achieving greater efficiency and workforce sustainability through system reform and service redesign, rather than through simple reductions. The Strategy highlights the need to join up services, reduce duplication, and streamline delivery to ensure that resources are focused where they make the most difference for people and communities. In particular, workstreams under pillar 3 (Efficient Services) of the Strategy, and in foundation 4 (Ensuring the Right Delivery Landscape) will help identify opportunities to share services and modernise support functions while maintaining and improving frontline outcomes. Further information on the contribution expected from individual Scottish Government portfolios, and the policy measures to be taken to achieve savings, is set out in the Scottish Spending Review. This will include details of £400m if workforce savings delivered as part of portfolio reform and efficiency plans demonstrating progress towards the 0.5% annual workforce reduction target as set out in the Fiscal Sustainability Delivery Plan. The approach is designed to protect frontline services while reducing corporate costs and improving productivity. The workforce savings outlined in these plans builds upon the policy and governance intent as set in the separately published Integrated Pay and Workforce Policy.

Section	Paragraph	Recommendation	Scottish Government Response
	94	We are also not convinced the Scottish Government has sufficiently considered potential impacts on frontline services of targeting back-office jobs for cuts and request that the detailed plan provides evidence to show how this will work in practice.	The Fiscal Sustainability Delivery Plan sets out a managed downward trajectory on workforce of an average of 0.5% over the next five years while protecting frontline services. The Public Service Reform (PSR) Strategy published in June 2025 outlined a clear direction for modernising how we work, to enable frontline workers to do what they do best, supported by more effective back-office systems and shared services. The PSR Workforce Workstream is developing key workforce enablers to help public bodies plan and implement workforce changes that release resources for frontline delivery and ensures that workforce change is managed fairly, consistently, and strategically. A coordinated approach to pay and workforce planning is set out in the new I**ntegrated Pay and Workforce Policy** as part of delivering sustainable high-quality public services. This sets out that a new Workforce Management Governance Framework will be published in Spring 2026, determining the approach to pay and workforce designed to protect frontline services while reducing corporate costs and improving productivity for all public sector workforces. The Workforce Management Governance Framework will provide clarity on the principles, parameters and metrics for effective workforce management, including on attrition and recruitment controls. The Framework will also provide guidance to promote a fair and consistent approach to redeployment, voluntary severance and upholding the No Compulsory Redundancy commitment. Monitoring and governance arrangements will consider the impact of reform and efficiency plans, including where workforce reductions are proposed, to ensure services as a minimum are protected.

Section	Paragraph	Recommendation	Scottish Government Response
	95	The plan should also include an assessment of where more or fewer staff are needed and the actions the Scottish Government will take to encourage improvements in public sector productivity, in addition to maximising opportunities for digitisation and automation to help achieve its targets.	The Scottish Government recognises the Committee's emphasis on a credible path to delivering headcount reductions while maintaining service quality. Intelligent Automation (IA) is a cornerstone of the Public Service Reform (PSR) agenda and is central to improving productivity across the public sector. IA enables us to streamline processes, reduce manual effort, and redeploy staff to higher-value tasks, supporting sustainable workforce planning. **PSR Commitments – Workstream 15: Scaling Intelligent Automation** As set out in the PSR Strategy, we will: • Expand Intelligent Automation as a shared service through a scalable hub-and-spoke model across core government and key public bodies. • Launch a national collaborative procurement framework to give the Scottish public and third sector easier access to automation expertise and reusable solutions. • Support delivery bodies to redesign how services are delivered – improving productivity and tackling headcount pressures sustainably. • Build the workforce capability and shared infrastructure needed to scale innovation safely, ethically and effectively. • Identify opportunities to pilot the use of AI technology in public sector processes. These commitments provide a clear roadmap for embedding automation and achieving efficiency gains without compromising service delivery. **SPPA Delivery as an Example** The Scottish Public Pensions Agency (SPPA) has embedded Intelligent Automation (IA) to deliver key elements of the remedy programme required to address historic discrimination resulting from the UK Government's 2015 pensions reforms. This work required complex data processing and process redesign to ensure compliance with legal obligations and improve member outcomes. Recognising that many processes demand professional judgement, SPPA has deliberately designed a human-in-the-loop delivery model: IA handles high-volume, rules-based tasks at scale, while skilled staff intervene at defined points to apply judgement, resolve complex cases and provide assurance. These built-in guardrails ensure automation operates ethically and safely, delivering efficiency without compromising accuracy, compliance, or service quality.

			By deploying IA, SPPA minimised the need for large-scale temporary recruitment, reducing cost and accelerating delivery. This is an innovative approach that demonstrates the workforce benefits of automation. Beyond the remedy programme, SPPA is repurposing remedy automations to optimise similar business-as-usual processes across the organisation, reducing turnaround times and enabling staff to focus on higher-value work. This demonstrates how IA can optimise public sector capacity and deliver tangible service improvements, setting the standard for responsible, scalable automation across the public sector.
	98	The Committee seeks an update from the Scottish Government on whether it is considering taking a similar approach to that in Lithuania, where a Data Lake has been created to 'open up' public sector data. The utilisation of public sector data in this way is fundamental to securing efficiencies, promoting innovation and maximising opportunities in AI.	We agree that use of public sector data is fundamental to securing efficient and effective public services, through AI and more fundamental automation. For this reason we have commitments in the PSR strategy's Workstream 8 around improving data sharing. Rather than keeping all raw data in a central infrastructure, such as a data lake, we are pursuing a more efficient and proportionately secure Data Mesh-Fabric model, which will also more easily integrate for operational reuse of data across jurisdictions – such as UK and local government. To support this federated approach, where the data transferred is precisely what is needed for better decisions and services, we are developing proposals and protypes for a Data Exchange, consisting of a suit of common components and design patterns that can be easily picked up and deployed by public sector organisations wishing to join a single data sharing ecosystem.

Section	Paragraph	Recommendation	Scottish Government Response
Public Sector Pay	103	The Committee shares the SFC's view that the Scottish Spending Review should include a strategy for how the public sector workforce and public sector pay bill are going to be managed over the medium-term. This should provide greater clarity about how decisions on pay impact choices on the size of the workforce and vice versa.	The Public Service Reform Strategy commits to development of a workforce management policy and governance framework as part of the Workforce workstream in the Efficient Services pillar. An Integrated Pay and Workforce policy was published alongside the 2026-27 Scottish Budget. This confirmed that 2026-27 is year two of the three-year Public Sector Pay Policy announced for 2025-26. The policy sets an overall pay envelope of 9% over 3 years with a cap of 3% for any single-year deal. It also confirms that a future Integrated Pay and Workforce Policy will include recognition of the connection between pay policy and workforce management as dual drivers of fiscal sustainability.
Invest to Save Fund	107	The Committee seeks details of how the projects receiving funding under the Invest to Save Fund are being monitored for outcomes and whether success is being shared more widely across the public sector.	Successful projects are required to provide 6 monthly progress reports. These are collated to provide an overview of progress. A number of projects with similar themes are working together to share resources, which also includes sharing learning and opportunities to implement similar efficiencies with bodies not directly funded by the programme.
	108	We also request further information on whether the Fund is being continued and expanded into future years, as requested by witnesses.	The 2026-27 Budget will deliver £29.9m for the Invest to Save fund, providing upfront investment for reform and efficiency projects that will generate savings across the public sector

Section	Paragraph	Recommendation	Scottish Government Response
Prevention	116	As part of our pre-budget scrutiny last year, the Committee asked the Scottish Government to consider and report back on the potential benefits, risks and costs of introducing a new category of public expenditure on preventative spend, which we were told establishes a benchmark and enables investment to be tracked over time. The Committee seeks an update on progress with this work.	The Directorate for Strategy and Delivery are leading a Prevention Project, which contains a work strand on preventative budgeting. This delivers directly on our Public Service Reform Strategy commitment to develop an approach for identifying and tracking preventative spend in the Scottish Budget, and to explore how we use this to change the way we budget for prevention. As part of this work, we are testing a budget tagging method for tracking preventative spend across the Scottish Budget. This seeks to provide a way of benchmarking data against clear definitions of preventative spend that can help with decision making and prioritisation. We are currently developing a number of pilots to test the preventative spend budget tagging approach across portfolio areas in the Scottish Budget. A first set of results from the preventative spend exercise is planned for publication in Summer 2026, with a view to exploring how preventative spend can be integrated into the annual Scottish Budget process for ongoing reporting by end 2026

Section	Paragraph	Recommendation	Scottish Government Response
Scottish Spending Review	126	The Committee remains of the view that a zero-based budgeting approach should be taken in the Scottish Spending Review. As part of the Scottish Government's response to this Report, we seek in-depth information on the process for preparing, scrutinising and delivering the Review.	The Scottish Government already adopts the principles of zero-based budgeting, and spending is reviewed in detail throughout the Scottish Budget process. For the 2025-26 Scottish Budget, for example, officials reviewed every Level 4 budget line and assessed its impact on the delivery of the government key priorities. This comprehensive exercise tested the efficiency and effectiveness of spending being deployed. A follow-up review was undertaken as part of the 2026-27 Budget and Spending Review process. We will implement a new framework following publication on the Scottish Spending Review which will enhance the link between the spending allocations and outcomes and performance data. It is our plan that beyond the detailed reviews undertaken as part of our usual budget processes, we will undertake more specific, concentrated pieces of work over the Spending Review Period on areas of particular fiscal risk and areas of Ministerial priority. We will be keen to engage further with the Committee as we move forward with this work.
	127	We agree with the SFC that the Review provides an opportunity for the Scottish Government to set out how it will address Scotland's long-term fiscal sustainability challenges. We would also like to see further details of how it is directing spending toward its priorities, including what areas are being deprioritised, and how it plans to meet its ambitions for workforce reductions and public sector efficiencies.	The Government's core priorities sit at the heart of the spending review process, and guide how and where we allocate funding. We used the Government's four priorities as the basis for analysing and prioritising the allocation of the available funding in the Scottish Spending Review. This builds on the work undertaken to develop the Resource Spending Review in 2022 and the annual Scottish Budgets. In addition to allocating funding to priorities, we are also focusing on fiscal sustainability, ensuring that spending plans are affordable and represent value for money. The Public Service Reform Strategy underpins the Scottish Government's approach to long-term fiscal sustainability by focusing on efficiency, prevention and integration across the public sector. The Strategy recognises that sustainable finances depend on redesigning how services are delivered so that resources are used more effectively and outcomes improved. An Integrated Pay and Workforce policy was published alongside the 2026-27 Scottish Budget on 13 January. This sets out a timeline for delivery of detailed guidance on delivering workforce reductions such as redeployment and severance, due by 2026. We have published Portfolio Efficiency and Reform Plans to set out actions to secure the sustainability of Scotland's public services. The plans cover workforce savings, efficiencies in corporate functions and wider service reforms, with £1.5 billion in cumulative savings set out over the Spending Review period.

Economic Growth			
Section	**Paragraph**	**Recommendation**	**SG Response**
Skills and Growing the tax base	139	The Committee asks the Scottish Government to maximise opportunities for better aligning skills with the needs of Scotland's economy, including supporting fit-for-future funding models for colleges and universities and careers advice. The Committee notes the impact of social security spending on other budgets, such as colleges	The Scottish Government has committed to take responsibility for skills planning at the national level, while strengthening regional approaches. The new skills planning approach will develop a better understanding of skills needs at national and regional levels, and how we can address them, particularly where solutions lie within the education and skills system. Responding to skills challenges in priority economy areas will support increased productivity; stimulate economic growth and inward investment; and position Scotland to maximise future opportunities connected to energy transition and technological advances. In addition, pathways into high-skilled, well-paid jobs lead to better social outcomes for individuals and would help achieve Scottish Government ambitions around economic inactivity and child poverty, as well as increasing tax income. The Scottish Government's skills planning reform programme takes a cross-portfolio approach to ensure that post school education provision becomes more responsive to Scotland's strategic skills needs and priorities. The Scottish Government recognises the need for careers services and careers support structures to promote awareness of key opportunities across Scotland's economy and to connect people up to employers. We have already committed to improving career support as part of the Post School Education and Skills Reform Programme. The Scottish Government is actively engaging with the higher education sector on the future funding model for universities, but we are clear that this government will not reintroduce tuition fees.

Section	Paragraph	Recommendation	Scottish Government Response
	140	We also seek further information on how the Scottish Government is supporting organisations to retain and attract older workers and disabled people to increase labour market participation and grow the tax base.	The Scottish Government is committed to supporting all who want to and can into employment that suits their needs and skills. This includes those over 50 years old and disabled people. We want to support the development of a labour market that is open, inclusive and offers good quality and rewarding jobs for everyone. The Fair Work Action Plan published in December 2022 includes actions to halve the Disability Employment Gap (DEG) by 2038 from 2016, This, along with the Economy and Fair Work Committee's report on their inquiry into the Disability Employment Gap in Scotland, helps to guide and strengthen our approach. Latest full year ONS Annual Population Survey figures estimate that the Disability Employment Gap currently stands at 31.5 percentage points in 2024. In 2024, the employment rate for disabled people was 51.4%, exceeding our first interim target – a disability employment rate of 50% by 2023 - by 1.4%. Progress to date, and planned actions delivered by the Scottish Government and key partners to halve the DEG include: • Undertaking reviews of Individual Placement and Support and Supported Employment. Recommendations from these reviews of specialist support were taken forward in creating the Specialist Employability Support, delivered alongside No One Left Behind • The continuing development and promotion of a Fair Work digital resource, designed with input from key stakeholders to provide information and signpost to support on the implementation of fair work practices within workplaces across Scotland. Alongside advice and guidance from key stakeholders such as CIPD and enterprise agencies this will also include information and learning from Scottish Government supported actions such as: • the APT Public Social Partnership into which between 2021 and 2024, we invested over £1.2 million to develop and test different types of support for employers improve the recruitment and retention of disabled people;

			• the Workplace Equality Fund (WEF) for which between 2018 and 2024 provided over £3.1 million funding to 71 projects to reduce labour market barriers for priority groups Projects to Pilot actions to tackle economic inactivity within in the Programme for Government (PfG). To support people to remain in work and also to improve pathways towards and into work including for disabled people those with a long term health condition. . Growing the economy is a priority for the Scottish Government, and taking action to reduce economic inactivity is a core aspect of this. Our approach recognises the need for high quality services to be in place which support people to move towards and into employment, whilst also ensuring support is available to employers and employees to prevent people falling out of work due to ill health. We are investing up to £90 million in 2025-26 for the delivery of devolved all-age employability services. Our investment includes specific funding (£5 million) to ensure every area has an offer of Specialist Employability Support for disabled people which has been in place since 1st July 2025. We are seeing significant progress in relation to our services to disabled people and people with long term health conditions. 6,043 (27%) participants reported a disability and 9,038 (40%) reported at least one long term health condition in 2023-24. In 2024-25, this had increased to 7,868 (33%) and 11,078 (46%) respectively. Progress is also evident through devolved employability services on the delivery of an all-age offer, with the proportion of people aged 50 and over climbing from 3% of all participants in 2019-20, to 11% in 2024-25. In the most recent quarter for which we have statistics (April - June 2025), we have seen the highest proportion of both disabled people and people aged 50 or over start on No One Left Behind services. Additionally, as outlined through the programme for government, we are working across government and with partners to tackle economic inactivity.

			This includes; • Updated guidance and support for employees and employers through the Healthy Working Lives (HWL) website • Direct referrals from HWL to services provided through Working Health Services Scotland; and • Increased access to these health and work services to support people more in work who are managing a health condition or disability. The Population Health Framework, co-produced with COSLA in June 2025, commits the Scottish Government to the development of a Health and Work Action Plan which will consolidate our activity and set out the further actions we intend to take to support and promote healthier workplaces and labour market participation.

Section	Paragraph	Recommendation	Scottish Government Response
Procurement and regulation	144	The Committee seeks details of the steps the Scottish Government is taking to ensure that the devolved regulatory framework and procurement arrangements for small businesses are fair and proportionate.	The Scottish Government has committed in the most recent Programme for Government to continuing to improve the regulatory environment. We have committed to "Subjecting future Scottish government regulation to scrutiny to ensure that its purpose, content and timing have regard to potential opportunities and impacts on business and investment. This will include supporting improved engagement with business, robust Business and Regulatory Impact Assessments (BRIAs), and good regulatory practice". This includes providing more support and feedback to officials when considering development and implementation through the Regulatory Review Group, as well as an updated BRIA template and toolkit that includes a section specifically considering the impacts on small businesses. Additional supporting materials have been provided to guide policy teams in completing these Impact Assessments. The Programme for Government also commits us to publish an action and implementation plan based on an assessment of regulatory controls which exist in key growth sectors, starting with housing, public infrastructure and green industries" As part of this, we have been engaging with a broad set of stakeholders to consider the regulatory issues they currently face. The action plan will set out our initial plans to improve the existing regulatory landscape and ensuring that small businesses are fairly treated will be a key aspect of this. Publication is anticipated in early 2026 In procurement, we continue to use the full flexibility of the rules to help businesses bid for and win contracts. We have a continuous programme of engagement with businesses which includes initiatives such as our Procurement Supplier Group, targeted round tables, collaborative workstreams, supplier surveys and 'Meet the Buyer' events. These efforts help us benchmark,

			test, and inform our policies and approaches to ensure they are impactful, proportionate, and do not create unnecessary barriers. In 2024-25, nearly 17,000 suppliers won Scottish public contracts. 77% were SMEs – and 60% were Scottish SMEs. 47.5% of known Scottish public sector procurement spend goes to SMEs. That's more than double the UK spend, which was 20% of public sector spend in 2024, according to a British Chambers of Commerce Report We are currently consulting on whether the financial thresholds from which the Procurement Reform Scotland (Act) 2014 apply should be increased. This could mean that fewer contracts are subject to the requirements of that Act, and that public bodies would be freer to use more streamlined means of awarding lower-value contracts, such as our Quick Quote tool. The Public Contracts Scotland advertising portal aims to simplify the bidding process for public contracts by providing notifications that alert suppliers to relevant opportunities and enabling main contractors to advertise sub-contract opportunities. This gives suppliers the chance to bid for contracts further down the supply chain. Additionally, we offer a comprehensive, free-to-use set of tools and guidance designed to simplify public procurement processes and support suppliers in accessing and managing procurement opportunities; and, in 2025, we continued to invest in the Supplier Development Programme, providing access to free training and support for Scottish SMEs. We remain committed to doing more, publishing our SME and Third Sector Action Plan in April 2024, with an update on progress published in August 2025.

Section	Paragraph	Recommendation	Scottish Government Response
Productivity	150	The Committee requests further details of how the Scottish Government is creating the right conditions for businesses in Scotland to grow, take a long-term view, invest in capital and leadership, and change attitudes to risk, which we heard are key barriers to productivity growth.	Thriving businesses are key to Scotland's prosperity. Their success is critical to delivering the First Minister's priorities, including economic growth, and the medium-term sustainability of Scotland's public finances. We have a strong record of supporting businesses through policies like the Scottish National Investment Bank (SNIB) and our Techscaler initiative. Our enterprise agencies too, play a key role in promoting business growth and supporting capital investment in Scotland. We are committed to continuously improving certainty and stability in the business regulatory environment, to ensure we are making it easier to do business, and support businesses to take long-term decisions around capital investment and workforce planning. The Tax Strategy, published alongside the 2025-26 Scottish Budget, signalled a period of stability for Income Tax to the end of the Parliament. Income Tax policy for 2026-27 fulfils the commitments we made not to introduce any new bands or increase rates, while ensuring that over half of Scottish taxpayers can expect to pay less than they would in the rest of the UK. On Non-Domestic Rates, the Scottish Budget delivers a broadly revenue-neutral revaluation and therefore decreases the Basic, Intermediate and Higher Property Rates to reflect overall growth in rateable values, whilst offering a generous relief package. Other taxes that may impact business, such as Corporation Tax and Employer's National Insurance Contributions, remain fully reserved to the UK Government. Our Programme for Government 2025-26 sets out what we are doing to deliver certainty and stability and make it easier to do business and support them to create good, well-paid jobs, including actions to improve regulatory best practice, support entrepreneurs, boost planning capacity and reduce barriers to delivery.

			TechScaler, alongside Scotland's broader entrepreneurial strategy articulated through the *Scottish Technology Ecosystem Review (STER)*, *Pathways*, and the *Entrepreneurial Campus Blueprint*, is designed to create the conditions for sustained business growth. These initiatives collectively aim to back founders at every stage of their journey and develop the leadership capability required to scale globally competitive businesses. By expanding our talent pool and nurturing a dynamic startup ecosystem, we are generating a flywheel effect. When ventures fail, talent and experience are recycled into new opportunities, and when businesses scale and exit, leadership, capital, and expertise are reinvested into the ecosystem. This approach encourages a cultural shift toward positive risk-taking and developing founder's entrepreneurial mindset ensuring Scotland cultivates a deep pipeline of entrepreneurial leaders to drive productivity and innovation. Our strategic approach aims to ensure that Scotland's entrepreneurial economy is equipped to deliver long-term impact, drive innovation, and strengthen its position as one of Europe's leading tech hubs. The Scottish Government's National Innovation Strategy sets a clear ten-year vision (2023–2033) for an ambitious programme of actions which aim to use innovation as a key driver of productivity and economic growth. The Scottish Government is allocating over £237 million to Scottish Enterprise to support its activity in 2026-27. Scottish Enterprise is delivering on the actions set out by the Innovation Strategy's Productivity Programme through its two missions aligned to innovation and productivity. These missions aim to: 1. Scale innovation strengths into high-growth industries, strengthen competitive sectors, support scaling companies, create high-value jobs and enhance global competitiveness. 2. Drive capital investment to boost productivity, by increasing business investment, raising productivity, and supporting higher-value employment opportunities that contribute to inclusive economic growth. Scottish Enterprise aims to unlock an additional £3 billion of business investment annually over the next decade. It is focused on: attracting new funding into Scotland; working differently with commercial property developers;

			and helping business to understand the benefits of modern equipment, infrastructure and technology adoption, as well as investing in their own leadership capabilities. Scottish Enterprise fosters an entrepreneurial mindset by providing access to risk capital, advisory services, and collaborative opportunities. This approach helps businesses overcome uncertainty and build confidence in their growth plans. Scottish Enterprise's new Capital Grant Scheme is available to companies across Scotland; its Workplace Transformation Fund also provides targeted support to accelerate capital investment, increasing the pace of change in workplaces and the adoption of new technology and best practice leadership, management, and workplace practices. Highlands and Islands Enterprise is also taking a strategic approach to creating the conditions for growth across its region, especially in sectors identified as regional strengths such as renewable energy, food and drink, creative industries, life sciences, and tourism. It supports businesses to develop knowledge and adopt new technology. It is investing in key infrastructure including business infrastructure, ports, and innovation and community assets. It is working with partners to address issues identified by businesses as critical for growth and regional economic development, and investing directly in housing, skills development, transport and childcare interventions. South of Scotland Enterprise (SOSE) is similarly driving business growth by building leadership capacity and developing workforce skills in the South of Scotland. Its Work Smarter Fund was launched to help businesses innovate and increase productivity. Other initiatives supported by SOSE include the South of Scotland Deep Tech Innovation Hub which is focused on establishing an environment for start-ups, scale-ups, and SMEs to innovate in advanced manufacturing, robotics, deep tech, and AI. It is enabling businesses in its region to invest in infrastructure, technology and growth opportunities by facilitating capital projects and leveraging additional funding. Internationalisation of Scottish businesses through export growth is also crucial to their growth, and their ability to diversify and expand in overseas markets, not

			only makes them more innovative and resilient; it also supports increased productivity and the creation of high value jobs in Scotland. In our Programme for Government this year, we recognised that global economic uncertainty is increasing and making exporting more challenging. So, we augmented our continuing delivery of A Trading Nation, with additional investment this year in a Six Point Export Plan to help re-enforce Scotland's current export strengths, while increasing our ability to take advantage of new and emerging export opportunities across the world.

Section	Paragraph	Recommendation	Scottish Government Response
	151	We also seek more information on how high-value businesses, such as in the FinTech sector, are being supported to 'scale up' including into unicorns.	The Scottish Government has developed a comprehensive strategy to scale up business in Scotland, based on recommendations from the National Strategy for Economic Transformation (NSET), the Scottish Technology Ecosystem Review (STER), and other research, focusing on four key areas: Infrastructure, Education, Community & International and Funding & Investment. We are also implementing targeted interventions designed to empower entrepreneurs, attract investment and build a robust network of support, fostering an environment where high-growth businesses are fuelled by their own success and reinvestment in the community. As just one example, Techscaler is the Scottish Government's £42m national programme for creating, developing and scaling tech start-ups through education programmes, expert mentoring and a network of physical hubs. From pre-startup to scaleup, Techscaler education courses help people at every stage of starting and scaling a tech business. On the FinTech sector specifically, the Scottish Government has made a commitment in its Programme for Government 2025-26 to engage with global hubs to strengthen the Scottish FinTech and Financial Services sector, and to leverage our partnership with the City of London Corporation to generate opportunities. This has been underpinned by dedicated resource, within Scottish Enterprise, to work in-market to capitalise on these opportunities, and sector-facing events, such as the "Driving Responsible Innovation" events held at Scotland House London, to convene the sector and help deliver growth. FinTech is a strong story of Scottish success. Starting a few years ago with 26 fintech firms, today the ecosystem has increased by tenfold to more than 250, with more in the pipeline. Scotland's cluster approach, supported by FinTech Scotland, has delivered key innovations, including: • The Financial Regulation Innovation Lab; an industry-led collaborative research and innovation programme focused on leveraging new technologies to help evolve the future regulatory landscape for financial services;

			• The establishment of the world's first Smart Data Foundry at Edinburgh University; which supports innovation in data sharing. The Foundry works in partnership with the Financial Data and Technology Association (FDATA) and draws on expertise from academia, financial services and fintech businesses. • A strong convening role which brings key sector players together, including through flagship events like the FinTech Festival, attended by world-leading experts, investors and companies looking to grow in Scotland, and the Scottish FinTech awards, which celebrates success across the sector. • Access to genuine expertise, networks, and communications support that gives entrepreneurs and fledgling FinTechs access to what they need, when – by doing this, we hope to support FinTechs at every stage of their journey, but especially to help them to scale up from SMEs to larger enterprises. In addition, the Scottish Government is committed, working with our partners, to ensure we have the best possible policy environment in place for Fintech businesses to succeed, and has worked closely with FinTech Scotland to develop an approach that delivers growth and meets the needs of the sector. To do this, we will work with partners and industry to encourage digital adoption in all of our businesses, sectors, and institutions – ensuring they understand the opportunities and how to seize them. Our ambition is to stimulate a larger, more diverse pipeline of start-ups, create an inclusive support system and reach a 'tipping point' where ecosystem growth becomes self-sustaining.

Section	Paragraph	Recommendation	Scottish Government Response
Labour Market Data	157	The Committee remains concerned at the lack of reliable labour force data from the ONS which impacts on the Scottish Budget and means the Scottish Government is unable to carry out evidence-informed policymaking on the labour market in Scotland. This issue has persisted for far too long. We therefore ask the Scottish Government to make representations to the UK Statistics Agency with a view to resolving this issue as early as possible.	We fully recognise the Committee's concerns regarding the reliability of labour market data for Scotland and its critical role in evidence-based policymaking and budget planning. The Scottish Government shares these concerns and has been taking proactive steps to address the longstanding challenges with Scotland- and sub-Scotland level labour market data: • **Direct Engagement with ONS and UKSA:** We have made formal representations to the Office for National Statistics (ONS) and the UK Statistics Authority (UKSA), including through the Office for Statistics Regulation (OSR) compliance review that is currently underway. Our response highlighted the urgent need for: o Improved sample sizes and reliability for Scotland-level estimates. o Greater transparency and earlier engagement on methodological changes. o Clearer communication on the transformed Labour Force Survey (tLFS) and its implications for devolved administrations. • **Advocacy for Scotland-Specific Improvements:** We continue to press ONS for Scotland-specific readiness assessments and quality assurance as part of ONS's transformation programme. We have also raised concerns about the lack of advance notice on key developments and called for better coordination and inclusion of devolved needs in ONS engagement activities. **Strategic Shift in Approach:** Due to persistently poor achieved sample sizes and persistent data quality issues, the Scottish Government have discontinued funding for the ONS local LFS boost in Scotland (also known as the Annual Population Survey boost), which no longer represents value for money. We announced this decision in our Changes to Labour Market Statistics in Scotland: What you Need to Know publication on 29 October 2025. This decision marks a strategic shift towards modern, data-driven solutions and reflects our commitment to investing in more effective solutions rather than continuing with approaches that fail to meet Scotland's analytical needs. We are actively building a more robust and diversified data ecosystem that aims to combine survey, administrative, and innovative sources to meet Scotland's analytical

			needs, recognising that a suite of data sources may be more effective than relying solely on a single survey. This includes: • **Exploring a Multitude of Alternative Data Sources:** We are assessing a wide range of potential sources, including administrative, public, and private sector datasets, to identify opportunities for improving timeliness, granularity, and reliability of Labour Market data for Scotland. • **Financial Data Feasibility Study:** We are commissioning an innovative feasibility study to explore the use of private sector administrative financial data to infer employment status and labour market trends in Scotland. This work will start in December 2025 and will help determine how such data can complement or enhance existing sources. • **Access to Administrative Data:** We are actively exploring gaining access to key administrative datasets, including HMRC and DWP data sets, to provide richer insights into employment and earnings patterns in Scotland and sub-Scotland geographies. These efforts form part of our broader strategy to reduce reliance on survey data and improve resilience. • **Scotland's Census** We are also working closely with Scotland's Census team in National Records of Scotland and feeding into the 2031 topic consultation. Our aim is to ensure that the census continues to provide long-term, high-quality data that can benchmark trends and fill gaps in labour market information. We are advocating for the continued inclusion of relevant labour market topics and suggesting new areas where census data could add value, supporting a comprehensive and future-proofed evidence base for labour market data in Scotland. • **Stakeholder Engagement:** We have scheduled a series of engagement sessions throughout 2025 and 2026 to ensure future labour market statistics reflect user needs and priorities. These sessions will bring together analysts, policymakers, and external experts to co-design solutions and improve transparency. • **Commitment to Continuous Improvement:** Alongside these initiatives, we remain committed to supporting ONS's transformation of the LFS and will work as closely with ONS as they allow us, to champion the need for better data for Scotland in the new survey design with a view to achieving meaningful improvements for Scotland.

Section	Paragraph	Recommendation	Scottish Government Response
	158	We urge the Scottish Government to explore with the FAI and SFC the potential for ‘nowcasting’ on the economy to fill this vacuum and support evidence-based decisions on the labour market in future.	We recognise the importance of collaboration and are actively engaged with the Fraser of Allander Institute (FAI) and the Scottish Fiscal Commission (SFC) as valued stakeholders in Scotland’s labour market evidence base. Their expertise and insights will be invaluable in shaping the future of labour market statistics for Scotland. Both organisations have been invited to feed into our upcoming stakeholder engagement events, helping to identify priorities and co-design improvements that meet user needs. We will consider all options for improving our labour market statistics alongside our wider suite of stakeholders, ensuring that decisions are made collaboratively and transparently. This approach will allow us to prioritise and develop the improvements we all want to see, creating a stronger, more resilient evidence base for Scotland’s economy and labour market.

Capital Budget			
Section	**Paragraph**	**Recommendation**	**SG Response**
Approach and priorities	166	The Committee asks the Scottish Government to set out as part of its long awaited Infrastructure Investment Plan and pipeline, which we have been requesting for the last two years, what steps it will take to smooth out the "lumpy" capital budget over time.	Publication of the Infrastructure Delivery Pipeline required certainty on multi-year funding. The publication of the UK Government Spending Review in June 2025 gave us the multi-year certainty needed to set out the projects and programme that we will take forward in the next 4 years. The size of infrastructure investments means that allocation of the capital budget is necessarily lumpy. However, through careful management of the pipeline, we can ensure a steady stream of investment in the infrastructure needed to deliver ministers' priorities. We continue to explore revenue finance models to expand capacity for infrastructure investment where additionality can be demonstrated. More detail on this is below in response to point 171.
	167	We also agree with Audit Scotland and the FAI that the Scottish Government should, where possible, focus its plans on shovel-ready projects based around its priorities.	The Scottish Government Infrastructure Delivery Pipeline sets out the projects and programmes that will receive funding to at least commence in the period covered by the SSR. Our aim is to set out a pipeline of investment that ranges from projects already in construction, through those in procurement, to those at the stage of securing agreement to the business case. This provides a clear pipeline of investment for the construction sector, supporting Scottish businesses and the economy.

Section	Paragraph	Recommendation	Scottish Government Response
Other Sources of Funding	171	The Committee looks forward to receiving further information on the due diligence taking place to assess options currently being considered by the Scottish Government “to expand the capital envelope”.	The Scottish Government aims to make the best use of all available funding and financing approaches that deliver value for money for the taxpayer. High inflation and newly emerging priorities mean that our capital budget is under growing pressure and insufficient to deliver our ambitions for Scotland. To address this gap, we are working with Scottish Futures Trust officials to expand our capital spending envelope through revenue funded mechanisms such as Growth and Place Accelerators or Public-Private Partnerships (PPPs). Revenue funding is not a one-size fits all solution. To identify the most appropriate investment approach we consider a range of factors such as affordability, value for money, market interest and asset suitability criteria. <u>Value for Money & Affordability</u> We recognise that PPP contracts are more expensive in cash terms than capital grant funding and that we are operating in a constrained fiscal environment. We use long-term, fiscal sustainability modelling, informed by SFC models, to assess the affordability of significant long-term commitments on future Scottish Government budgets. To determine the funding approach that offers the greatest value for money, we compare the benefits and costs of each option in line with HM Treasury’s Green Book guidance. This analysis provides evidence to inform decisions, but it is based on assumptions and is considered alongside other factors such as affordability within fiscal limits and market capacity. <u>Suitability Criteria, Market Interest & Delivery Partners</u> The suitability of alternative funding approaches varies depending on the investment opportunity as well as interest from potential private sector investors or public sector delivery partners. Outcomes-Based Funding models such as Place and Growth Accelerators and LEIP, for example, are designed for capital investments delivered in partnership with local authorities, with ownership and funding remaining within the public sector.

			We engage with the market to ensure there is sufficient interest from the private sector to proceed with a PPP contract. Strong interest from potential investors is required to attract multiple bidders and enable a competitive bidding process – increasing value for money for the public purse. Market testing undertaken by the Scottish Futures Trust in 2019 indicated that PPP contracts are best suited for large-scale, new build capital projects or pipelines exceeding £100 million to attract international bidders. It works well in sectors with a clear pipeline of future projects and where the infrastructure is relatively straightforward and not subject to rapid technological change. **PPP Cost Transparency** In response to feedback from FPAC from last year, action has been taken to present Public Private Partnership (PPP) costs consistently throughout the budget document. Where specific allocations exist for PPP contract repayments, these have been highlighted in the budget Level 4 tables using consistent language across portfolios. For budget lines that include funding available to procuring authorities for PPP contract repayments, this has been highlighted in the Level 4 workbook under the 'What it buys' column. This indicates that the public body has annual contractual PPP obligations and may allocate part of its baseline funding toward repayments. These references are for transparency only and do not represent ringfenced allocations. Annual cost figures for each PPP contract across the Scottish Public Sector are published online and can be accessed here.

Taxation			
Section	**Paragraph**	**Recommendation**	**SG Response**
Approach to taxation	182	The Committee welcomes the Cabinet Secretary's assurances that neither the UK Government nor Scottish Government plan to pursue VAT assignment, given the risks and complexities this could bring to the Scottish Budget.	VAT Assignment was most recently discussed with the Chief Secretary to the Treasury at a meeting of the Joint Exchequer Committee on Friday 17th October. The Scottish Government has noted the comments from the House of Commons Scottish Affairs Committee and the Scottish Parliament Finance and Public Administration Committee on the implementation of VAT Assignment and the governments will have further discussions on this matter.
	183	We request further information on the Scottish Government's plans to review the operation of existing taxes, including timescales.	Plans to review the operation of existing taxes including are set out in Pillar 3 of the Scottish Government's Fiscal Sustainability Delivery Plan.

Section	Paragraph	Recommendation	Scottish Government Response
Fiscal Frameworks	193	The Committee supports the Cabinet Secretary's request to HM Treasury to carry out an early review of the fiscal framework, before the formal review period in 2028. This early review should consider how adjustments based on relative growth with the rest of the UK impact on income tax revenues in Scotland and whether it provides sufficient flexibility to manage forecast error.	The Scottish Government is currently working with HM Treasury to agree the scope for the next Fiscal Framework Review. The Scottish Government has invited and received input from the Committee on what this should cover. The Scottish Government is live to the risks the Scottish budget carries from sectoral and distributional differences in its tax base and their impact on the income tax net position through the current Fiscal Framework. This has been highlighted by the Scottish Fiscal Commission. The next review should also provide an opportunity to consider borrowing arrangements to address forecast error. We would expect these to be considered within the scope of the next review but agreement on scope will be required by the UK Government.
	194	We ask that lessons are learned from the August 2023 fiscal framework update, to enable the process for the next review to be as open and transparent as possible to support robust parliamentary scrutiny.	It is important that Parliament has an opportunity inform the Scottish Government's position on the next review. There was recent engagement with the Committee to help shape the ask of HM Treasury on the review scope. During the review negotiations, the Scottish Government will consider how best to keep Parliament informed on progress while maintaining a confidential space for negotiations between the governments.