The Scottish Parliament
Pàrlamaid na h-Alba

Published 29 January 2025
SP Paper 730
2nd Report, 2025 (Session 6)

Finance and Public Administration Committee

Budget Scrutiny 2025-26

Published in Scotland by the Scottish Parliamentary Corporate Body.

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Finance and Public Administration Committee

To consider and report on the following (and any additional matter added under Rule 6.1.5A)—

(a) any report or other document containing proposals for, or budgets of, public revenue or expenditure or proposals for the making of a Scottish rate resolution, taking into account any report or recommendations concerning such documents made by any other committee with power to consider such documents or any part of them;

(b) any report made by a committee setting out proposals concerning public revenue or expenditure;

(c) Budget Bills; and

(d) any other matter relating to or affecting the revenue or expenditure of the Scottish Administration or other monies payable into or expenditure payable out of the Scottish Consolidated Fund.

(e) matters relating to the National Performance Framework within the responsibilities of the Deputy First Minister, public service reform within the responsibility of the Cabinet Secretary for Finance and Local Government, and public administration.

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Introduction

1. The Scottish Budget 2025-26 [1] was published on 4 December 2024 and sets out the Scottish Government's proposed tax and spending plans for the next financial year. This was accompanied by the Scottish Fiscal Commission's (SFC's) latest set of forecasts [2] for the economy, tax revenues, and social security spending which, alongside forecasts from the Office for Budget Responsibility (OBR), informs the overall size of the Scottish Budget for 2025-26.

2. The Scottish Government has stated that the 2025-26 Budget is "affordable and sustainable". The Budget is, it notes, however set against "continued and unprecedented challenges to the public finances", and while the increased funding in the UK Autumn Budget "was a step in the right direction, it was only small progress in the face of the ongoing pressures we face". [1]

3. Capital funding in 2025-26 is expected to increase by 12% in real terms compared to the previous year, while resource funding sees a more modest increase of 0.8%, despite a larger increase to the Scottish block grant. This, the SFC explains, is largely due to forecasts of income tax revenues in the UK increasing more than in Scotland, with a consequential reduction to the Scottish Budget of £575 million[i]. [2]

4. It is against this background that the Finance and Public Administration Committee publishes the findings of our scrutiny of the Scottish Budget 2025-26. Key areas of focus include the Scottish Government's approach to taxation, growing the economy and public service reform, building on the recommendations in our pre-budget report 2025-26. [3]

5. In that report, we outlined significant concerns about the Scottish Government's lack of strategic approach to managing Scotland's public finances, with little evidence of medium- or longer-term financial planning taking place as well as challenges in balancing budgets in year. While these concerns remain, more certainty around the timing of UK fiscal events and a UK spending review on the horizon bring welcome opportunities for the Scottish Government to now adopt a much-needed strategic approach to budget planning. Indeed, many of our recommendations in this report are intended to urge and support greater progress in this regard.

6. The report also reflects our consideration of the Scottish Parliamentary Corporate Body's (SPCB's) budget proposal for 2025-26, as required under the Session 6 Agreement between the Committee and the SPCB.

7. The Committee thanks our adviser, Professor Mairi Spowage and the Financial Scrutiny Unit in the Scottish Parliament's Information Centre (SPICe) for their support in our scrutiny of the Scottish Budget 2025-26. We also thank our witnesses for their valuable evidence, which has helped shape our findings and recommendations.

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i This is due to the workings of the fiscal framework between the Scottish and UK Governments.

UK Context

Public Spending Audit 2024-25

8. A public spending audit 2024-25 [4] published by HM Treasury in July 2024 identified a £21.9 billion (bn) forecast overspend against UK spending plans and included £5.5bn in savings in 2024-25 rising to £8.1bn in 2025-26, including through targeting winter fuel payments from this year.

9. The Scottish Government announced its own set of spending controls on 23 August [5] . The reduction in funding for winter fuel payments for 2024-25 meant that the payments of £200 and £300 were cut for pensioners under 80 and older than 80 respectively for all pensioners not on pension credit. The Scottish Government committed to a payment of at least £100 to all pensioners from 2025-26 at a cost of £67m. Further savings measures were announced on 3 September [6] , including resuming peak train fares and not progressing the concessionary fares extension to the asylum seekers' pilot. At that time, the Scottish Government also planned to use up to £460m of ScotWind money to plug funding gaps. The Cabinet Secretary for Finance and Local Government suggested that this "considerable strain on our finances" followed the UK Government's acceptance of the Pay Review Body's recommendations[ii].

UK Autumn Budget 2024

10. The UK Autumn Budget [7] announced on 30 October 2024 included significant increases in public spending, financed by a combination of tax rises and higher borrowing. Public spending in the UK is set to increase by £70bn per year over the next five years, with two-thirds going to day-to-day resource spending, and one-third to capital spend, such as transport, housing and research and development. The Chancellor of the Exchequer suggested that this rise in capital spending will "keep public investment broadly flat at around 2.5% of GDP[iii] over the next five years, rather than dropping to the 1.7% assumed in the previous Government's plans". [8]

11. Key tax measures announced by the Chancellor include—

- employer National Insurance Contributions (NICs) are to rise by 1.2 percentage points to 15% from 6 April 2025. The level at which employers will start paying NICs for each employee will fall from £9,100 to £5,000. This measure is forecast to raise £25.7bn per year by 2029-30,

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ii Under the Pay Body Review recommendations, public sector employees will see their pay increase by between 4¾% and 6% in 2024-25, depending on occupation. The Scottish Government had budgeted for a 3% increase in its Public Sector Pay Policy 2024-25.

iii Gross Domestic Product.

- capital gains tax is to rise on disposals made on or after 30 October 2024 (the lower rate from 10% to 18%, and the higher rate from 20% to 24%),
- the freezing of inheritance tax thresholds will be extended to 2030[iv]. From April 2026, inheritance tax relief for business and agricultural assets is to be capped at £1m, with a new reduced rate of 20% being charged on assets above that,
- Value-added Tax (VAT) will be charged on private school fees across the UK,
- the temporary 5p cut in fuel duty announced by the previous Government is to be extended for one year to 2025-26, and
- the freeze in income tax thresholds is set to end in 2028-29, at which point thresholds will increase in line with inflation (England only).

12. The Chancellor also announced increases in borrowing, averaging around £32bn per annum higher than the previous Government's plans over the forecast period. To allow space for this extra borrowing, the Chancellor has changed the definition of debt in her fiscal rules, targeting Public Sector Net Financial Liabilities (PSNFL)[v] as the main balance sheet aggregate.

13. Decisions in the UK Autumn Budget have led to additional consequential funding for the Scottish Budget, with £1.5bn added to the 2024-25 budget[vi], rising to £3.4bn for 2025-26[vii]. During evidence to the Committee on the Autumn Budget Revision on 12 November 2024, the Minister for Public Finance welcomed the additional funding, while arguing it "is necessary to correct for persistent underinvestment in public services and to address the cost pressures that we face". [9]

14. The UK Government is currently carrying out a spending review taking a 'zero-based budgeting' approach[viii], which is due to conclude in late Spring 2025. It has also committed to holding one full fiscal event a year, in the autumn, with Spring statements expected to focus on the economic and fiscal outlook, rather than used to announce major policy decisions. [10]

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iv The previous UK Government had announced that this freeze would continue until 2028.

v As the OBR notes, PSNFL is a wider measure of debt which includes financial assets and liabilities (such as the Student Loan Book and funded public sector pension schemes), meaning interest rates may take longer to fall.

vi The Scottish Budget 2024-25 approved by Parliament earlier this year amounted to approximately £60 billion.

vii £1.5 billion baselined into the 2024-25 Budget, and an additional £1.9 billion added for 2025-26, totals £3.4 billion.

viii This involves departments starting from a 'zero base' and building up a budget by justifying and approving spending, rather than using the previous year's budget as a starting point.

Scottish Context

Economic and Fiscal Outlook

15. The SFC's December 2024 Economic and Fiscal Forecasts state that "the outlook for the Scottish economy is higher GDP growth in 2025-26 than in 2024-25, in part as a result of the UK Government's fiscal expansion, and inflation is also expected to be slightly higher in 2025-26 than in 2024-25". It goes on to explain that although UK Government decisions have resulted in additional funding for the Scottish Government through the Block Grant in both 2024-25 and 2025-26, "… the working of the fiscal framework and larger upward revisions to UK income tax revenue forecasts than our Scottish forecasts mean the income tax net position used to set the Scottish Budget has reduced funding by £575m between 2024-25 and 2025-26". It adds "this means that the overall changes in the Scottish Budget are more modest". [2] The SFC further notes that—

- over the past year, "the Scottish economy and labour market have performed slightly better than we expected in December 2023, but are broadly on track with our last forecast",
- GDP has increased marginally after being flat since early 2022, and "nominal earnings growth has remained relatively strong in a still tight labour market". The SFC's Forecasts show GDP growth rising to 1.6% in 2025-26, before returning to its trend rate of 1.4% by 2027-28, "which reflects our higher migration and population assumption",
- stronger earnings growth, combined with lower inflation than expected a year ago, has resulted in living standards recovering more rapidly from their fall in 2022-23,
- Consumer Price Index (CPI) inflation is expected to rise to 2.6% across the UK in 2025-26, revised up from 1.6% in the SFC's last forecast, which "feeds through to higher nominal earnings growth in both Scotland and the UK in 2025-26", and
- in its view, the labour market in Scotland is still tighter than in the UK, consistent with regional data on job vacancies and worker shortages. This, it suggests, implies faster earnings growth in Scotland compared to the UK in 2025-26. In addition, it expects "the extra demand from the fiscal expansion will have a greater effect on earnings in Scotland, providing a small additional boost to Scottish earnings growth in 2025-26". [2]

16. Overall funding for the Scottish Budget 2025-26 is £58,772m, a real terms increase of 2.1% on 2024-25 (ABR figures). Resource funding is forecast to be £51,429m in 2025-26, a real terms increase of 0.8%, and capital funding in 2025-26 is forecast to be £7,344m, a 12% increase in real terms. The Scottish Government plans to borrow the maximum amount possible in 2025-26 of £472m (under the fiscal framework), and use £326m of ScotWind[ix] proceeds to support capital investment on green projects for the first time. [1]

17. While UK Government capital spending is set to rise in the next two years before flattening off at a higher level, Scottish Government capital funding peaks in 2025-26 before falling in 2026-27 and then broadly staying flat. However, in 2029-30 capital funding will still be lower than in 2022-23. The SFC explains that this is because in 2026-27 the Scottish Government intends to borrow less than in the previous year and has no plans to use ScotWind proceeds. [2]

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ix Scotwind is a seabed leasing process launched by Crown Estate Scotland in June 2020 to enable the development of new offshore wind projects in Scottish waters. The Scottish Government has committed to reinvest the funding raised (£756m) on green energy.

Scottish Budget 2025-26

Scottish Government's Approach

Priorities

18. The Cabinet Secretary for Finance and Local Government states in her Foreword to the Scottish Budget 2025-26 that “this is a Budget by Scotland, for Scotland” and decisions are informed by views gathered through widespread engagement, including with opposition members. The Budget focuses on the Government’s four priorities of eradicating child poverty, growing the economy, tackling the climate emergency, and ensuring high-quality and sustainable public services. The Foreword indicates that the Scottish Government recognises the importance of the economy, and of growth to Scotland, therefore “the money we commit through this Budget will enable us to make the most of the economic opportunities available to Scotland”. [1]

19. The Scottish Government has previously committed to focus its activities and spending towards achieving the 11 current national outcomes in the National Performance Framework (NPF) [11] , however the Committee has in its ongoing scrutiny of the NPF found little evidence of the delivery of national outcomes driving spending decisions. The Scottish Budget 2025-26 continues the approach of the last four years in including information on each portfolio’s “intended contributions to the national outcomes”, split by primary and secondary national outcomes. [1] The SPICe briefing on the Scottish Budget 2025-26 notes that “this is a useful overview, as far as it goes, […] however, given the high-level nature of both the outcomes and the portfolios, it is questionable how useful this will be for scrutiny”. [12] The extent to which this exercise was completed as part of budget formulation or added at the end of the process is also unclear.

20. This Committee and others recently reported to Parliament on the Scottish Government’s proposed national outcomes as part of a five-year statutory review. During the debate on these reports on 8 January 2025, the Deputy First Minister advised that “over the next year, we propose to start again with the national performance framework—in other words, to look again at every aspect of it in order to develop and implement a stronger and more strategic and impactful framework for Scotland”. [13] Given the review has only just been announced, we make no recommendations in relation to the NPF in this report.

Short-, medium-, and longer-term Planning

21. In our pre-budget 2025-26 report, we expressed significant concerns regarding the Scottish Government’s lack of strategic approach to financial planning and repeated delays in publishing key strategy documents looking beyond the financial year. The Scottish Government did not publish a Medium-Term Financial Strategy (MTFS) or multi-year plans in 2024 as intended, and its Infrastructure Investment Plan (IiP) pipeline reset has yet to materialise despite an original publication date of

December 2023.

22. In August 2024, the Cabinet Secretary set out her intention "[…] to publish a full MTFS in good time ahead of Budget 2026-27; recognising the precise timing will depend on the timing of the UK's multi-year spending review".[x] [5] In late October 2024, the Scottish Government also committed to publishing alongside the next MTFS a five-year Fiscal Sustainability Delivery Plan (FSDP) [14] , which is intended to provide clarity and transparency on progress on delivery against the objectives set out in the MTFS, including on public service reform.

23. The Auditor General for Scotland (AGS) noted during evidence the "crossover" and "overlap" between the findings in Audit Scotland's November 2024 report on fiscal sustainability and reform in Scotland [15] and those set out in the Committee's pre-budget 2025-26 report [3] . For example, Audit Scotland also "found that the Scottish Government continues to take short-term decisions about how public money is spent and that it has not yet been sufficiently transparent with either the Parliament or the public about the current fiscal situation". [15]

24. In his news release accompanying this report, the AGS further suggested that the absence of the MTFS and IiP pipeline reset "makes scrutiny of the current uncertain financial situation more difficult". [16] Asked by the Committee whether a Finance Bill is needed to improve budget scrutiny, the AGS argued that "we should be achieving better scrutiny through better provision of information and data to both the SFC and the Committee, as well as to us for audit purposes, to support that scrutiny". He added "my sense is that that could be overcome without legislation being necessary". [17]

25. The SFC also suggested in evidence that "there is much more that we could do around the long-term planning for spending … it would be unfortunate to wait for the exact numbers from the spending review and almost take them as a budget allocation and set budgets for three years on the back of that". It added that "there is a window of opportunity to take a step back and consider what we are spending money on, what our overall likely funding envelope is, and how we start to make potential changes within that". The spending review will, it noted, "give us rough changes, but, more broadly, the conversation about the totality of the existing money that we are spending does not need to wait for the spending review". [18]

26. The Cabinet Secretary told the Committee that the FSDP will provide transparency around the various activities happening in Government "and set it all out in one place". Asked whether it would outline a broader approach to the longer-term delivery and shape of public services in the FSDP, she responded "I will set out as much detail as I can". [19]

27. Our pre-budget 2025-26 report welcomed the First Minister's intention to provide "more concrete actions and fewer strategy documents". In light of the Scottish Government's announcement to produce an additional strategy document (the FSDP), along with learning from Estonia where government strategy documents have been rationalised to 17, we previously asked for a progress update, including any reduction in numbers achieved. [3] The Scottish Government responded that

x It has since been confirmed that the UK Spending Review is to conclude in late Spring.

> "there is no central information held on reporting of the number of strategy documents, as decisions of this nature are made by individual Cabinet Secretaries". 20

28. **Our report sets out a number of areas that we consider have not been adequately addressed by the Scottish Government in its response to our pre-budget 2025-26 report. The Committee should not be in the position of having to repeat and reiterate some recommendations before they are clearly responded to. The quality of future Government responses to our reports must improve and the outstanding issues in our pre-budget report be addressed.**

29. **One area where the Committee has repeatedly expressed concerns is the extended delays in publishing key strategic financial documents. We consider this to be indicative of a wider problem where vital medium- and longer-term financial planning within the Scottish Government is lacking.**

30. **The certainty of regular UK spending reviews and one autumn fiscal event each year provides a welcome opportunity for the Scottish Government to demonstrate its commitment to a more strategic approach to financial planning in future.**

31. **The Committee therefore shares the view of the Scottish Fiscal Commission that the Scottish Government should not wait until the UK spending review is published before starting to work on its own spending review. We seek details of, and a timetable for, the work the Scottish Government is currently carrying out in preparation for a Scottish spending review and repeat our request that it considers taking a 'zero-based budgeting approach', learning lessons from Estonia.**

32. **The Committee requests clarification from the Scottish Government regarding when it will publish the framework document setting out "the economic and political context, the criteria which will govern the assessment of budgets and the process and timetable for its spending review", as required under the Budget Process Agreement. This timetable must allow time for full Parliamentary scrutiny and the opportunity for committees, external bodies and the public to input to and influence both the approach to, and outcomes of, the Scottish spending review.**

33. **In addition, the Committee seeks assurances from the Scottish Government that it will publish its Medium-Term Financial Strategy (MTFS) no later than May 2025 to support pre-budget scrutiny. Given its purpose is to provide broad projections and scenario plans, it is our firm view that the MTFS need not wait until the outcomes of the Scottish spending review and, indeed, with no MTFS since May 2023, details of the Scottish Government's medium-term approach are now urgent.**

34. **We request further details of the overall purpose of the new Fiscal Sustainability Delivery Plan (FSDP) and how this sits within the overall suite of financial documents recommended by the Budget Process Review Group in 2017. It would be useful to know, for example, whether the FSDP**

will follow the approach taken by the SFC in its 2023 fiscal sustainability report of covering a 50-year horizon.

35. **The Committee is disappointed that "there is no central information held on reporting of the number of strategy documents" within the Scottish Government. We therefore ask that it conducts an exercise across portfolios to identify the number of 'live' strategies it has in place, to provide a baseline for numbers to be monitored and reduced wherever possible. We request that the Scottish Government reports back to the Committee on the outcomes of this exercise by the end of June 2025.**

36. **The Committee appreciated the opportunity for early discussions with the Scottish Government in relation to the overall timetable for publication and scrutiny of the Scottish Budget 2025-26. Given the UK Government's commitment to holding one autumn fiscal event each year, we ask that a similar engagement approach is taken in future years with a view to enabling any additional time to be shared between the Scottish Government and Scottish Fiscal Commission for developing budgetary proposals and forecasts, and for Parliamentary scrutiny.**

Presentation of Figures

37. The Committee previously recommended that the Scottish Government should adopt a similar approach to that of the UK Government and the SFC in comparing its budget plans for spending with latest estimates or outturns of spending in the previous year. This recommendation was accepted by the Scottish Government and, last year, it published this data as a standalone document in January 2024. The Committee requested that in future years this information is published alongside the Scottish Budget to support transparency and maximise opportunities for Parliamentary scrutiny. [21]

38. This year, the data is included within the Scottish Budget document itself, which the SFC describes as "a presentational improvement [… and] should allow a more up-to-date comparison to be made between future plans and the latest information for the current financial year". [2] However, while some internal transfers typically made during the financial year have been baselined in the Scottish Budget, it is expected that others such as grants from the health portfolio to local government for social care will continue to be made in year.

39. In its Scottish Budget 2025-26: initial reaction publication, SPICe highlights that this approach, "while well-meaning to reflect the emergency budget review, […] has had the effect of distorting some budget lines as portfolio budgets for 2025-26 have not been adjusted to reflect certain in-year transfers that are known to take place each year […]". This, it argues, "has had the effect of making the increase in health artificially high and the change in local government artificially low". [12]

40. The Committee had previously asked the Scottish Government to baseline routine in-year transfers within the Scottish Budget to support scrutiny and transparency.

Asked if the Scottish Government plans to action this request in future years, the Cabinet Secretary responded that “we have tried to set out the funding in as transparent a way as possible, but there are good reasons that make a lot of sense for in-year transfers” where the policy sits in one portfolio and delivery sits in another. She went on to say that “if there is more that we can do in that space, we will do it”. [19]

41. Committee Members have also previously requested consistency in the presentation of public-private partnership payments across all portfolios in the budget document. Asked therefore why this information is not included in this year’s Budget, the Cabinet Secretary reiterated that “if there are any improvements we can make, whether on public-private partnership costs or anything else, I am happy to do that”. Pressed on the issue, she said she “will pick that up”. [19]

42. **The Committee welcomes the continuing improvements made to enhance the transparency of budgetary information. We ask that the Scottish Government builds on this work by ensuring that routine in-year transfers made each year are baselined into the Scottish Budget and that public-private partnership costs are consistently presented across portfolio areas.**

Approach to the Scotland Reserve and Borrowing

43. The Scotland Reserve allows the transfer of funding between financial years up to a limit of £734m in 2025-26, which rises in line with inflation. The SFC notes that in 2023-24 underspends were added to the Reserve, which the Scottish Government plans to use in full to support the funding position in 2024-25. Currently, there are no underspends in 2024-25 and therefore the Scotland Reserve “is assumed to remain empty”. [2]

44. The fiscal framework (as updated in 2023[xi]) enables the Scottish Government to borrow up to £472m in 2025-26 for capital expenditure, within an overall limit of £3,144.5m. It also provides for resource borrowing of up to £600m each year within an overall limit of £1,750m, for in-year cash management and forecast errors. [22]

45. The Scottish Government plans to borrow up to the maximum of £472m in 2025-26 for capital investment, reducing to £300m in subsequent years of the forecast period (until 2029-30). The SFC however noted during evidence that “[…] when the Government sets out its budget, it plans to borrow the maximum or quite near the maximum [… and] then, as the financial year goes on and perhaps not all the capital money is spent, it reduces those borrowing plans through the year”. [18]

46. In total, capital borrowing is set to rise to £2,735m by the end of 2025-26, reaching 87% of the cumulative cap. This increases to 93% in 2029-30. The Scottish Government has stated that it will ensure at least £1,500m can be borrowed over the next Parliamentary term. [1]

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xi Updated by joint agreement of the UK and Scottish Governments in August 2023.

47. In 2025-26, there is a positive reconciliation of £500m which means there is no need for the Scottish Government to access resource borrowing for forecast error.[xii] However, based on SFC and OBR forecasts, there is potential for a negative reconciliation of £701m to be applied to the 2027-28 Budget which would, if it materialises, reduce resource funding that year as the projected reconciliation is larger than the forecast borrowing limit of up to £654m. This raises questions around the adequacy of resource borrowing limits for forecast error as currently set out in the fiscal framework.

48. The Scottish Government has to date used the National Loans Fund (NFL) for its borrowing. However, it announced in late 2023 that it is considering options for issuing bonds, with further information to be published in 2025-26. [23] The SFC has indicated that “when the Scottish Government publishes its MTFS in spring 2025, we will be looking for clarity on its borrowing plans over the five years of the MTFS, including both the sources and costs of borrowing”. [2]

49. During evidence, the Cabinet Secretary explained that the Scottish Government has completed an initial phase of due diligence regarding the issuing of bonds, and that she will update Parliament on the next phase of this work during the financial year. She recognised that the information provided to date “is quite high level”, and Scottish Government officials offered to “consider what [information] can be put in the public domain at the end of the next phase” to assist transparency and scrutiny. [19]

50. **The Scottish Government is asked to include in the 2025 Medium-Term Financial Strategy detailed scenario planning for capital and resource borrowing. This should include details of how it will approach future negative reconciliations which exceed annual borrowing limits, given ongoing financial pressures and forecasts for a £701m negative reconciliation to the 2027-28 budget.**

51. **We seek the Scottish Government’s assurances that it will update the Committee on progress after each phase of its due diligence process in relation to the issuing of bonds. This is crucial to ensure that any future decisions on this matter can be scrutinised effectively.**

Approach to Taxation

Tax Strategy: Approach and Aims

52. The Scottish Government published Scotland’s Tax Strategy: Building on our Tax Principles [24] (the Tax Strategy) alongside the Scottish Budget 2025-26 on 4 December 2024. The Tax Strategy is intended to expand on the Scottish Government’s Framework for Tax 2021 [25] and sets out the Scottish Government’s approach to tax over the medium term across the devolved and local tax system. The Committee had planned to hold a dedicated evidence session in relation to the

[xii] Figure 2.7, Scottish Fiscal Commission December 2024 Forecasts

Tax Strategy but this was cancelled due to the unavailability of witnesses.

53. The Scottish Government explains that the Tax Strategy was informed by engagement with stakeholders, including businesses, think tanks, academics, civic society groups and tax professionals. It also undertook a pre-budget engagement event with stakeholders, the outcomes of which are summarised in the document Scottish Budget 2025 to 2026: Public Attitudes to Tax [26], which was also published alongside the Budget document in December. Our pre-budget report expressed our disappointment that the Scottish Government had not, as originally intended, first published a draft Tax Strategy for consultation. [3]

54. According to the Foreword, the Tax Strategy is intended to set out “the steps that will underpin this government’s approach to developing tax policy; ensure the tax system raises the revenue needed to achieve our priorities; and support our growing economy”. It also sets out the Scottish Government’s medium-term ambitions for how the tax system will develop to support the delivery of its four key priorities[xiii].

55. Other aims include to increase public understanding of tax, strengthen the Scottish Government’s approach to compliance in collaboration with HMRC and Revenue Scotland, and work with administrators to ensure mechanisms for efficient tax collection, including increasing digitalisation of the Scottish tax system.

56. A number of witnesses, including the AGS, agreed that the introduction of a Tax Strategy is a welcome first step to greater certainty regarding the Scottish Government’s future plans and approach to tax. [17]

Tax Strategy: Commitments

57. The Tax Strategy sets out the Scottish Government’s intention not to introduce any new bands or increase the rates of Scottish income tax for the remainder of the Parliamentary session. It argues this signals “a period of stability for our largest source of tax revenue [… which] will allow us to assess the impacts of recent policy changes, and support the conditions needed for a growing economy”. [24]

58. During evidence-taking, the Cabinet Secretary said, “we know that we can go only so far at a time when household budgets are still under some constraint, so, in the light of all that, we made the decision that what was most important for the rest of this Parliamentary session was some stability and certainty.” [19]

59. The Cabinet Secretary was asked whether the Scottish Government’s decision not to introduce any new bands or increase the rates of Scottish Income Tax for the remainder of the Parliamentary session could mean that tax revenues may be insufficient to pay for the services the Scottish Government wishes to provide. Responding, the Cabinet Secretary said that the Tax Strategy considers whether there is scope for the Scottish Government to take on additional tax powers through

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xiii As noted earlier in the report, these four priorities are eradicating child poverty, growing the economy, tackling the climate emergency, and ensuring high quality and sustainable public services.

agreement with the UK Government, however this will not happen in the short term and, as a result, will not raise revenue in this Parliamentary session. She pointed to actions other than taxation that would offer opportunities to create the headroom to ensure that our resources are spent on our priorities", such as workforce, public service reform, prioritisation of frontline services, the public sector landscape and support for back-room functions. [19]

60. The Tax Strategy sets out commitments in relation to local taxes, including working in partnership with local government "to ensure that local taxes are fair and sustainable and to explore the creation of more revenue generating powers for local authorities". [24] The Tax Strategy does not however include any plans for council tax reform, an issue which is explored in more detail later in this report.

61. The Tax Strategy also indicates that the Scottish Government will—

- drive forward a renewed focus on expanding the tax base and tax revenues by progressing specific economic activities with the potential to grow the economy and get more people into work,
- undertake specific actions to achieve this, including measures to maximise the potential of Scotland's workforce, provision of employability support, and continuing to deliver Scotland's Migration Service,
- broaden its understanding on how the competitiveness and attractiveness of Scotland's economy is impacted by the tax environment, and
- support a "more productive and competitive" economy and, as a result, grow Scotland's tax base. [24]

62. In evidence, Scottish Financial Enterprise (SFE) noted tax as a significant factor in making Scotland an attractive place to do business, work and live and therefore, the tax landscape needs to be competitive. It went on to argue that "the focus needs to be on increasing the size of the tax base [… and] the tax system is part of it". SFE therefore welcomed the Scottish Government's decision to make no further changes to income tax in this Parliamentary session. [27]

63. SFE also supports the commitment in the Tax Strategy to engage with business to understand the behavioural changes resulting from the current tax approach. [27] The Scottish Government will formally evaluate the behavioural impact of changes to income tax in 2023-24 and 2024-25 once outturn data is available, as part of enhancing the evidence base to "inform tax policymaking and support evaluation of tax changes". It also plans to publish Areas of Research Interests on tax with available exploratory funding to support their development and to develop a regular programme of appraisal and evaluation across the Scottish tax system. [24]

64. A detailed programme of work on future priorities is to be published alongside the 2025 MTFS and an update on progress against the Tax Strategy in early 2026.

65. **The Committee considers the production of a Tax Strategy by the Scottish Government to be a welcome first step in providing clarity regarding the**

overall approach to taxation in Scotland. As it was not possible to gather detailed evidence on the Strategy during budget scrutiny, we plan to continue to examine it as part of our ongoing financial scrutiny.

66. **Our initial observations are that the Strategy should have included the Scottish Government's plans for council tax reform, given this is long overdue.**

67. **As the Scottish Government is aware, we are strongly of the view that more detailed research is needed on behavioural responses to tax policy. The Tax Strategy's focus on building an evidence base, including on behavioural responses, to inform future decision-making on tax policy is therefore welcome. We look forward to receiving further details alongside the 2025 MTFS.**

68. **The Committee reiterates its view that VAT assignment would be of no benefit to the Scottish Budget and would be both expensive to administer and potentially confusing to those expected to pay it.**

Taxation Policies

Overview

69. The Scottish Government states in the budget document that its "policy decisions at this budget will continue to deliver our progressive approach in Scotland, while raising substantial revenue to support the delivery of our public services", adding "this means we are asking those with the broadest shoulders to contribute more". [1]

70. The SFC forecasts that, after taking account of behavioural changes, the combined effect of all the Scottish Government's tax policies amount to an extra £54m in 2025-26 and that devolved taxes[xiv] will raise a total of almost £24.6bn in revenues in 2025-26. [2] Table 1 below provides a breakdown of revenues that each of the devolved taxes is expected to raise in 2025-26 and further details of each, including forecast behavioural impacts, is provided in the following sections of this report.

Table 1: Scottish Fiscal Commission's forecasts for 2025-26

Tax	Amount
NSND Income Tax	£20,477m
Non-Domestic Rates	£3,052m
Land and Buildings Transaction Tax (LBTT)	£1,019m
Scottish Landfill Tax	£40m
SFC Tax Forecast 2025-26	£24,588m

Source: Scottish Government Budget 2025-26

xiv Scottish income tax, Land and Buildings Transaction Tax, Scottish Landfill Tax and Non-Domestic Rates.

Income Tax

71. Scotland's income tax system has six bands: a starter rate, basic rate, intermediate rate, higher rate, advanced rate, and top rate. As noted earlier in this report, the Scottish Government has committed not to increase the number of bands, or rates, of Scottish income tax for the remainder of this Parliamentary session[xv], which the Cabinet Secretary explained to the Committee is "in order to give stability to taxpayers". [19] The SFC forecasts that, in 2025-26, the freezing of the top three tax bands will add £76m in revenues, rising to £244m by 2029-30. It estimates that the behavioural response reduces the overall yield of this policy by £10m in 2025-26, reaching £31m by the end of the forecast period. [2]

72. The Scottish Government also plans to increase the basic and intermediate thresholds for income tax in 2025-26. The table below sets out the proposed Scottish tax bands and thresholds for 2025-26.

Table 2: Proposed Scottish income tax bands and thresholds, 2025-26

Band	Taxable Income	Rate
Starter rate	£12,571* - £15,397	19%
Basic rate	£15,398 - £27,491	20%
Intermediate rate	£27,492 - £43,662	21%
Higher rate	£43,663 - £75,000	42%
Advanced rate**	£75,001 - £125,140	45%
Top rate**	Over £125,140	48*

* Assumes individuals are in receipt of the standard UK personal allowance (£12,570 in 2025-26). The personal allowance is reserved and set by the UK government.

** Those earning more than £100,000 will see their personal allowance reduced by £1 for every £2 earned over £100,000. This policy is reserved to the UK government.

Note that Scottish income tax only applies to non-savings non-dividend (NSND) income.

73. The SFC forecasts that these "above inflation" increases to thresholds will lower revenue by £24m in 2025-26, and that there is a minimal expected behavioural response from the policy. [2] Asked why the Scottish Government did not also increase higher rate tax thresholds, the Cabinet Secretary explained that unfreezing these thresholds "would not have left money for investments in health, education, the winter fuel payment and so on". [19]

74. The SFC states that income tax policy decisions taken together will raise additional revenue of £52m in 2025-26. It further estimates that "because of decisions on Scottish tax rates and thresholds, an additional £1,676m income tax will be raised in 2025-26 than would be the case if tax rates and thresholds from the rest of the UK were applied in Scotland". However, it explains that the income tax net position is expected to be £838m, largely because of slower economic growth in Scotland since income tax was devolved. It notes, therefore, in return for Scottish income taxpayers paying £1,676m more in income tax, the Scottish Budget is only

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xv This is in line with the Scottish Government's Tax Strategy published alongside the Scottish Budget 2025-26.

benefitting by £838m. The SFC describes this as an “economic performance gap”. [2]

75. During evidence, the Cabinet Secretary highlighted “some very positive signs” in the Scottish economy, including higher productivity growth in Scotland than in the rest of the UK, GDP per capita growing faster in Scotland since 2007, higher levels of inward investment, and strong growth in key sectors of the economy. She went on to say, “that is not to minimise the OBR’s point about relative stronger growth [… in the UK], but the underlying Scottish economy has improved markedly, and it is important to recognise that”. [19]

76. Given the limited and closed review which took place in 2023, the Cabinet Secretary was asked if she is aware of any appetite within the UK Government for a wider review of the fiscal framework which could consider issues such as adjustments based on relative growth with the rest of the UK. Responding, the Cabinet Secretary said, “we absolutely want there to be a more ambitious review of the fiscal framework, but despite our communication with the Treasury being better, I do not get the sense that it is keen to have a fundamental look at the framework”. She said she would continue to pursue the issue. [19]

77. The SFC explained to the Committee that “we are not suggesting that we are likely to see significant behavioural effects this year, because of the freezing of the bands, compared with what has happened in the past. It went on to say, “we think behavioural change is likely to be much more significant among people in the top tax rate, largely because they will have more opportunities to change their earnings—they are perhaps not in traditional salaried jobs—and because they will probably have the most discretion to change their behaviour, to move around and so on”. [18]

78. Asked how it measures the wider behavioural impacts arising from cumulative tax policy decisions, the SFC said that “one of the problems with trying to assess the cumulative effects of all the policy changes is that, once the changes are made and people respond to them, we use the tax revenues that emerge as the baseline for our future forecasts”. Therefore, […] it is hard to work out retrospectively how much of that baseline is attributable to actual behavioural effects”. [18]

79. **The Committee shares the Scottish Government’s view that there would be merit in carrying out a wider review of how the fiscal framework is operating, including how adjustments based on relative growth with the rest of the UK impact on income tax revenues in Scotland.**

80. **We also set out in this report recommendations which we consider would help to support growth in earnings and revenues in Scotland.**

Other Devolved Taxes

81. Land and Buildings Transaction Tax (LBTT) is applied to purchases of residential and non-residential land and buildings, as well as commercial leases. The Scottish Budget 2025-26 maintains residential and non-residential rates and bands of LBTT

at current levels[xvi], while continuing first-time buyer reliefs. Additional Dwelling Supplement (ADS) rates were increased from 6 to 8% from 5 December 2024[xvii], which the SFC forecasts will raise £32m in additional revenue in 2025-26. The Scottish Budget 2025-26 states that "the increased rate also supports the Scottish Government's commitment to protect opportunities for first-time buyers in Scotland". [1]

82. In total, LBTT is forecast to raise £1,019m in 2025-26. During evidence, Scottish Financial Enterprise (SFE) highlighted that LBTT should be considered in the context of Scotland's attractiveness to business and individuals, given costs in higher bands can be significantly higher than in England. [27] The Scottish Government has committed to undertake a review of LBTT over the remainder of this Parliament, starting in Spring 2025, to ensure that the policy intentions of LBTT continue to be met. [1]

83. Scottish Landfill Tax (SLfT) applies to the disposal of waste to landfill and is intended to incentivise behaviours to reduce overall waste and increase recycling. The Budget increases Scottish Landfill Tax (SLfT) rates in line with those in the rest of the UK, from £103.70 to £126.15 per tonne for the standard rate, and from £3.30 to £4.05 per tonne for the lower rate. Revenues from SLfT are forecast to reduce after the biodegradable municipal waste ban is introduced at the end of 2025, from £54m in 2024-25 to £40m in 2025-26.

84. The Scottish Government plans to commission independent research on the ongoing effectiveness of the lower rate of SLfT in supporting its circular economy and waste objectives, which is to be used to support future budget decisions. [1]

85. The Scottish Budget 2025-26 further sets out that the Scottish Government intends to introduce legislation in 2025-26 to establish a Building Safety Levy in Scotland, which would be equivalent to a levy that the UK Government intends to introduce in England and will raise revenues for the Scottish Government's cladding remediation programme. It also outlines plans to explore a potential Cruise Ship Levy[xviii] and consider options for a Carbon Land Tax[xix]. A Scottish Aggregates Tax, approved by Parliament in 2024, will come into effect from 1 April 2026. [1]

86. **The Committee looks forward to receiving updates on progress with the Scottish Government's consideration of a possible new Carbon Land Tax**

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xvi Residential LBTT has five bands starting at 0% and rising to 12%. Non-residential LBTT purchases start at 0% and rise to 5% (three bands), and leases start at 0% and rise to 2% (three bands). More details can be found in the Scottish Budget 2025-26.

xvii The Committee considered the SSI implementing these changes on 7 January 2025 and agreed, by division, to recommend to Parliament that it be approved.

xviii The Scottish Government is exploring the practicality, deliverability, and impacts of Cruise Ship Levy and plans to launch a consultation on the measure in January 2025.

xix The Scottish Government says it "is committed to considering options for a Carbon Land Tax, as part of exploring regulatory and fiscal changes that could be made to further support land reform and reduce greenhouse gas emissions from land".

and Cruise Ship Levy, and on its review of Land and Buildings Transaction Tax. We also seek confirmation of the timetable for introducing a Bill to create a Building Safety Levy in Scotland.

Non-domestic Rates

87. Non-Domestic Rates (NDR) is a property tax which helps pay for local council services and is set by the Scottish Government. Policy changes include freezing the basic property rate, which is charged to properties with a rateable value up to and including £51,000, at 49.8p, and extending hospitality reliefs. This includes maintaining the 100% relief for hospitality premises on islands, which was introduced in 2024-25, along with a new 40% relief, which will be available for "the 92% of hospitality premises liable for the basic property rate, capped at £110,000 per business", as well as for grassroots music venues with a capacity of below 1,500. [1] The SFC estimates that this new 40% relief will cost £22m in 2025-26, in addition to the £5m cost of hospitality relief for the islands. [2]

88. The Cabinet Secretary suggested to the Committee that the Scottish Government's approach is "balanced" and "in the light of competing priorities and the need to have a balanced and fair budget, we have done what we can to support as many hospitality premises as we can in a way that is affordable". She added that "going further would have meant that we could not spend money on winter fuel payments, for example". [19]

89. Asked about the Scottish Government's plans to introduce a public health levy as part of NDR, the Cabinet Secretary argued that "[…] for the foreseeable future, it is definitely not the right time" to do so "[…,] primarily because of the pressures of the increase in employer national insurance contributions". She added that the Scottish retail sector has "very much welcomed" this approach. [19]

Council Tax

90. The Scottish Government announced that there will be no freeze or cap on council tax increases in 2025-26[xx]. The Cabinet Secretary has suggested that "with record funding [for local government], there is no reason for big increases in council tax next year". [28] However, in its Budget 2025-26 briefing, SPICe highlights a recent survey by the Local Government Information Unit (published pre-budget) which shows that around a fifth of local authorities are considering increasing council tax by at least 10% next year. [12]

91. The Scottish Budget 2025-26 is silent on council tax reform, an issue which has been raised repeatedly by witnesses to this Committee. Indeed, our pre-budget 2025-26 report asked the Scottish Government to set out, following the Cabinet Secretary's suggestion that cross-party consensus will be required to make

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xx This follows a council tax freeze in 2024-25.

progress with council tax reform, “how it will create the space for discussions and consensus-building in this Parliamentary session”. [3] Responding, the Scottish Government stated that “the Joint Working Group is looking at processes to build a consensus around meaningful changes to council tax” and that it is in agreement that consensus is necessary to enable progress. [20]

92. Asked to clarify what the Government would like to achieve in the remainder of this Parliamentary session with regards to council tax reform, the Cabinet Secretary responded that “there is not going to be time for practical work to drive that forward, beyond the work that is already in train”, adding “it is about seeing whether there is scope for cross-party consensus on some change that could hit the ground running in the early part of the next session”. [19]

93. **The Committee repeats our pre-budget 2025-26 recommendation that the Scottish Government sets out “how it will create the space for discussions and consensus-building in this Parliamentary session” on council tax reform. We note the lack of a clear pathway forward in the Scottish Government's response to this recommendation.**

94. **We further welcome the recent decision of the Local Government, Housing and Planning Committee to carry out a short inquiry on council tax reform. We hope that this work will provide the impetus for Government leadership to make real progress on this important issue.**

Employer National Insurance Contributions

95. While public sector employers are expected to be compensated by HM Treasury for higher costs resulting from the UK Government’s decision to increase employer NICs, it has yet to be confirmed what level of compensation will apply to Scotland, which has a larger proportion of its working population employed in the public sector than in England. The Scottish Government estimates that the policy will cost between £520m and £580m in 2025-26 for directly employed public sector employees in Scotland’s devolved public sector, with a central estimate of £550m. Barnett consequentials for the policy are expected be around £300m. [29]

96. SFC Forecasts highlight a “fiscal risk” arising from the uncertainty around the funding and spending implications of the employer NICs increase, “leaving it for the 2025-26 Autumn Budget Revision”, and a potential gap between the cost and how much funding the Scottish Government receives. More broadly, it suggests that “the combined risks for the Budget from pay deals, size of workforce and [employer] NICs are significant and may be difficult to manage”. [2] The SFC has recognised that this uncertainty around the level of compensation for the [employer] NICs increase “[…] puts the Government in quite a challenging position” in terms of budgetary planning across portfolios. [18]

97. As at 14 January 2025, the Cabinet Secretary was still waiting for a response to her letter to HM Treasury in which she “put forward the case that the full cost for the public sector is more than £500m” and “if we include areas [… such as] universities

and social care and so on—that takes the figure up to more than £700m". She added that providing the Barnett share only, "[…] will not be acceptable". [19]

98. **The Committee asks the Scottish Government what specific plans it has in place to meet the expected shortfall in UK funding for increased employer NICs, including the impact on the Scottish Budget were the Scottish Government to provide any additional funding required or on public bodies if they had to absorb some of the costs.**

99. **Given the potential impact on the Scottish Budget, we ask the UK Government to discuss such matters with the Scottish Government at an early stage to resolve funding uncertainties arising from significant UK policy announcements.**

Spending Policies

Overview

100. As noted earlier in this report, the Scottish Government intends to focus resources in the 2025-26 Budget across its four priorities, delivering "almost £64bn of funding in 2025-26 towards these and to ensuring that we continue to protect the policies at the heart of our social contract"[xxi]. [1] Key spending decisions across the portfolios include—

- a "record investment" of £21bn in health and social care, including an increase in capital spending of £139m from 2024-25, to increase capacity and access to primary care "to shift the balance of care to preventative and community-based support and substantially reduce delayed discharge".
- a "record" £15bn in funding for local government,
- providing £768m for affordable homes "enabling over 8000 new properties for social rent, mid-market rent and low-cost home ownership to be built this coming year".
- restoring a universal winter heating payment to all pensioners in 2025-26. The SFC estimates this new policy will cost £69m more than associated funding from the UK Government in 2025-26,
- developing systems necessary to "effectively scrap the impact of the two-child cap in 2026",
- uprating all benefits in line with September 2024 CPI inflation and investing in a package of benefits and payments only available in Scotland totalling £644m in 2025-26. The SFC explains that social security spending is forecast to account for 13.5% of day-to-day spending in 2025-26, £1,334m higher than the corresponding funding provided by the UK Government[xxii].
- allocating £25m to increase the number of jobs available in the green energy

supply chain,

- providing £3m for a Bright Start Breakfasts pilot, while continuing to invest in early learning, and
- delivering a £34m uplift to the culture budget. [1]

101. The Budget document also notes that "as a result of the progress made to reach a balanced budget in 2024-25, this total investment will include over £300 million of ScotWind revenues in 2025-26 … on a range of projects for longer term benefits for Scotland – to deliver our ambitions to tackle climate change, invest in growing the economy and to create jobs, and to drive forward reform". It also confirms that it no longer expects to draw down around £424m of ScotWind funding in 2024-25 to meet resource funding demands. This figure has, following the UK Autumn Budget, been reduced to £160m. [1]

Social Security Spending

102. A significant and increasing area of spend within the Scottish Budget is on social security expenditure, which in 2025-26 will be uprated in line with inflation. As the SPICe briefing on the Scottish Budget 2025-26 explains, "Scottish Government decisions on social security have cumulatively added significant cost pressures to its budget", largely due to its introduction of benefits that are not available in the rest of the UK, such as the Scottish child payment, and spending more on benefits than would have been the case if they had not been devolved. [12] The SFC notes in its Forecasts that social security payments in 2025-26 will cost £1,334m more than if welfare payments remained at UK levels, rising to £1,463m in 2029-30. [2] The table below sets out the effect of social security spending on the Budget in more detail.

Table 3: Effect of social security spending on the Scottish Budget

£million	2023-24 outturn	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Social security net position [1]	-198	-263	-529	-619	-616	-601	-568
Spending on payment without a BGA, of which:	blank	blank	blank	blank	blank	blank	blank
Payments unique to Scotland [2]	-569	-618	-644	-674	-697	-713	-732
Other social security spending [3]	-132	-162	-161	-160	-161	-162	-163
Effect on the Budget	-899	-1,042	-1,334	-1, 453	-1,475	-1,476	-1,463

Source: Scottish Fiscal Commission

[1] This includes the disability payments, Carer Support Payment, winter heating payments

xxi The Scottish Budget 2025-26 states that the Scottish Government will "protect the social contract at the heart of this Government's approach: continuing free prescriptions; ensuring that no Scotland student pays tuition fees; access to free bus travel for almost 2.3 million people".

xxii The SFC notes that this has grown significantly since 2022-23 when social security accounted for 9.7% of day-to-day spending and was £481 million above UK funding.

for adults and Employment Injury Assistance. Detailed information can be found in Figure 5.7.

[2] ‘Payments unique to Scotland’ includes Scottish Child Payment, Carer’s Allowance Supplement, Child Winter Heating Payment, Best Start Grant Early Learning Payment, and Best Start Grant School Age Payment. We also include spending through Discretionary Housing Payments on bedroom tax mitigation and the extra costs of the commitment to mitigating Benefit Cap deductions.

[3] ‘Other social security’ includes spending on Best Start Grant Pregnancy and Baby Payment, Best Start Foods, Discretionary Housing Payments, Funeral Support Payment, Employability Services, and Scottish Welfare Fund. Funding for these payments comes through the general Block Grant and it is not possible to provide an estimate of funding received for individual payments.

Figures may not sum because of rounding.

103. Given that this rising social security bill reduces the funding available for other spending priorities within the Scottish Budget, the Committee had previously asked the Scottish Government how it will continue to assess the long-term affordability and sustainability of its social security policies and their impact on other areas of spend. [30] The Scottish Government said, in response, that it “will continue to take a responsible and capable approach to Scotland’s finances as new budget pressures emerge”, including “monitoring all areas of expenditure during the year, prioritising spend, and maximising efficiencies”. [31]

104. As noted in our pre-budget 2025-26 report, we do not consider this to be an adequate response and we therefore repeated our request that the Scottish Government now carries out this full assessment, with outcomes included in the 2025 MTFS and used to inform future budget planning. [3] The Scottish Government has since confirmed that it will provide an update on its work on fiscal sustainability in social security in the 2025 MTFS. [20]

105. Asked what impact the increase in social security spend is having on the economy and productivity, the SFC said that it broadly has a neutral impact, adding “it comes back to the fact that you are spending £1.3bn more on social security than there is funding for, but that means that you are spending less elsewhere, so it does not really change the totality”. It goes on to explain that welfare decisions on child poverty, for example, may have an impact on the economy, but not within the SFC’s five-year forecast period. [18] The SFC later wrote to the Social Justice and Social Security Committee on 23 January 2025 providing further detail regarding its forecasts for Child Disability Payment. [32]

106. The Cabinet Secretary told the Committee that its decision to spend more on social security payments “[…] is about prioritisation”. She went on to explain that the Scottish Government regards investment in social security “as an investment in people and in anti-poverty measures”, adding “giving children the best start in life means they are more likely to be economically productive later in life, so you could argue that it is an investment in society that will give economic returns later”. [19]

107. **The Committee notes that the Scottish Government intends to provide an update on the fiscal sustainability of social security spend as part of its 2025 MTFS. We ask that this includes 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 also note the Scottish Fiscal Commission's letter to the Social Justice and Social Security Committee providing further detail in relation to its forecasts for Child Disability Payment.**

Two-child Limit

108. The Scottish Budget 2025-26 includes a commitment to spend £3m on developing systems to deliver mitigation of the UK Government's policy preventing parents from claiming child tax credit or universal credit for more than two children (the so-called two-child limit or cap). This measure, the Scottish Government argues, will lift 15,000 children out of poverty. [1]

109. In its December 2024 Forecasts, the SFC said it judges the Scottish Government's policy on mitigating the two-child limit to be a "fiscal risk". At that time, no formal costing of the policy had been carried out. [2]

110. The SFC later published, on 7 January 2025, a report [33] containing its estimate of the cost of mitigating the two-child limit, and the impact this will have on the Scottish Budget, to assist the Committee and Parliament with budget scrutiny of the Scottish Budget. The SFC states that "we would have liked to include a costing in our [December 2024] Forecasts, but the Scottish Government did not inform us of the policy until 28 November 2024". This, it notes, "was very late in the Budget process and a week and a day after the deadline for final policy measures". [33] The SFC told the Committee that "the process we had with the Government up to that final late notice of policy, was exemplary", adding "we got all the information that we needed", with "modest extensions in a couple of areas where we were in regular dialogue with the Government, but that is entirely fine under the protocol". [18]

111. The SFC's Forecasts state that while the Scottish Government has announced that it plans to implement mitigation in 2026, it "will seek to accelerate the timetable if at all possible". [2] The SFC's policy costings assume that mitigation will be paid from April 2026, with full-year costs for 2026-27. [33] The SFC forecasts that, assuming the Scottish Government implements this policy for all affected children, the cost would be £155m in 2026-27, rising to £198m in 2029-30. This increases the SFC's forecasts of social security spending overall from £7.5bn to £7.6bn for 2026-27, and from £8.8bn to £9bn for 2029-30. The SFC goes on to note that—

> By 2029-30 the additional spending on the proposed mitigation payments would account for 0.3 per cent of the Scottish Government's total resource funding. This would increase the share spent on social security to 14%, with a corresponding reduction in the amount available to fund other public services. [33]

112. The table below shows the updated effect of the policy on total social security

spending and on the overall Scottish Budget.

Table 4: Two-child limit mitigation costing and updated effect of social security on the Scottish Budget

£million	2026-27	2027-28	2028-29	2029-30
Cost of two-child limit mitigation	155	171	184	198
Original social security forecast	7,471	7,922	8,321	8,754
Updated social security forecast	7,626	8,093	8,506	8,952
Original effect of social security on the Budget [1]	-1,453	-1,475	-1,476	-1,463
Updated effect of social security on the Budget	-1,608	-1,646	-1,660	-1,661

Source: Scottish Fiscal Commission

[1] The 'effect on the Budget' is the difference between total devolved social security spending and the funding received through social security Block Grant Adjustments.

113. The SFC anticipates that the proposed mitigation payments would not generate large behavioural responses over and above the ways that families may already have adapted to the Scottish child payment. It further notes that "recent Scottish Government analysis did not find evidence of a large labour market response to the introduction and expansion of Scottish child payment in recent years". [33]

114. The Cabinet Secretary advised the Committee "we think that lifting the two-child cap will be the most impactful lever on the back of other measures that we have taken, such as the Scottish child payment, free school meals and so on, to help lift some of the poorest families out of poverty". Asked about the impact of the policy on incentivising people back into work, she responded that "work is absolutely the best route out of poverty" and "a lot of work is going on to support the families you might describe as furthest from the labour market in order to break the cycle of poverty, and work is the best way to do that". The Cabinet Secretary agreed to provide the Committee with the Scottish Government's options appraisal setting out why it chose this specific model for mitigating the two-child cap rather than others available. [19]

115. Asked about the Scottish Government's late notification of the policy to the SFC, the Cabinet Secretary explained that "as we worked through the shape of the budget, the First Minister felt, bluntly, that we were not going as far as we needed to go on tackling child poverty [… and] challenged us to look again at what more could be done". She said she had apologised to the SFC for late notice of the policy, adding "if I had been asking the SFC to cost that for implementation in 2025-26, there would have been a pretty significant issue […,] however, given that the costings are for 2026-27, the SFC has been able to provide the costs in good time for the final stages of the budget in February". [19]

116. The First Minister has since confirmed that, if the development of systems can be safely put in place in 2025-26, the first payments would be made in that year, rather than in 2026-27. [34]

117. **The Committee notes that the Scottish Fiscal Commission (SFC), up until late notification of the two-child limit policy, had found engagement and**

information-sharing with the Scottish Government to be "exemplary". While these signs of improvement are welcome, it is crucial that significant policies are notified to the SFC in time for full costings to be included in budget forecasts. Failure to do so presents significant risks to the affordability and sustainability of the Scottish Budget.

118. **We note the First Minister's announcement that the first payments for mitigating the two-child limit could be made as early as within the 2025-26 financial year if systems are in place. Given the Scottish Government has not included any funding in the 2025-26 Budget to cover these payments, the Committee asks for details of where this funding will be found as well as potential impacts on other areas of spend.**

119. **The Committee welcomes the Cabinet Secretary's commitment to provide a copy of the options appraisal setting out why it chose this specific model for mitigating the two-child cap and looks forward to considering this in due course.**

Public Sector Pay

120. Another significant area of spend in the Scottish Budget is on public sector pay, which now amounts to over half of resource spending. The Scottish Government published its Public Sector Pay Policy 2025-26 [35] alongside the Scottish Budget 2025-26 in December 2024, the first time the two documents have been published together in four years [12] . The 2025-26 Policy provides "pay metrics that are fair, sustainable and realistic within a multi-year pay envelope of 9% over 2025-26, 2026-27 and 2027-28 set against an expected inflation forecast of 7%, ensuring a level of pay restoration". Flexibility is being provided for employers to configure three-year proposals within the 9% pay envelope, "provided they have a fiscally sustainable approach". Any employer that does not agree a three-year pay deal will be restricted to a maximum 3% pay uplift for 2025-26. [35]

121. In its December 2024 Forecasts, the SFC states that "although the Scottish Government has been clearer this year in setting out its pay policy, risks remain that pay bill growth may be larger than planned either as a result of pay pressures or workforce changes". It went on to say that the size of the workforce is also "an important lever to manage the pay bill" and that the Scottish Government has indicated that it will set out further detail on what this means for the public sector in Scotland as part of its FSDP, published alongside the MTFS. [2]

122. In addition to the 3% basic pay award, the SFC has assumed that "the other factors such as pay progression add, based on historical data, an additional 1.5 percentage points to average pay growth, summing to 4.5% average pay growth in total in 2025-26". It goes on to say that "while there have been improvements in the information provided by the Scottish Government, there is still a need for greater clarity and monitoring of pay costs and workforce plans in the Scottish Budget". [2]

123. The SFC expanded on this point in evidence, stating that "there is a need to be

more transparent about saying what the total public sector pay bill, including workforce, is and that, if we provide more for public sector pay, that has implications for the workforce or for services”. [18]

124. The AGS also referred to “a phrase that the Government has used a number of times is that its ambition is to “right-size” the workforce”, adding that “it is still unclear to me where the Government intends to get to with its workforce”. He also said he would like to see more detail from the Scottish Government on the shape and size of Scotland’s wider public sector workforce it envisages, “so that it can both deliver effective public services that support the delivery of its intended outcomes and manage its financial position”. He went on to say, “we want to see absolute clarity from the Government on its workforce intentions, on compulsory redundancy, voluntary redundancy or redeployment, and which tools it intends to use and when”. [17]

125. The AGS further highlighted that in some sectors, such as colleges, redundancies are already being used as a means of ‘balancing their books’. The Committee also heard from some public sector bodies that they would like to see more flexibility around the policy of no compulsory redundancies. [17]

126. Asked why pay progression is not factored into the Pay Policy, the Cabinet Secretary advised that it has been assumed that public bodies and organisations will absorb the costs of pay progression within their budgets. She added, “I note that deficiencies, head count, reform and doing things differently are all part of the way that organisations are expected to manage their pay bills”. She also confirmed that the Scottish Government aims to reduce the civil service workforce through recruitment controls and provided an example of having reduced its temporary workforce by around 40% as a first step. [19]

127. **The Committee welcomes the Scottish Government’s return to publishing its Public Sector Pay Policy alongside the Scottish Budget, which we consider is important for transparency and scrutiny especially given over half of resource funding is now spent on pay.**

128. **The Committee asks the Scottish Government to respond to the views of the Scottish Fiscal Commission and Auditor General for Scotland that greater clarity is needed around how workforce plans and pay progression fits within the overall public sector pay bill.**

129. **We also seek further details of the Scottish Government’s ambition to ‘right size’ the civil service workforce, including the target operating model it is working to, a timetable for this work, and how it will minimise any impacts of having a smaller workforce on policy delivery and implementation.**

Growing the economy

Overview

130. The Committee has a continuing interest in how the Scottish Government targets its spending towards growing the economy, including through innovation, productivity, and infrastructure, and the consequential impact on income tax revenues. Growing the economy is also one of the Scottish Government's four key priorities and, as such, is included as a section within the Scottish Budget 2025-26, which states "this is a Budget that will set us up to prosper over these coming years, with public money used to support and encourage higher levels of private investment in key sectors, including energy". The Scottish Government adds, "we are backing entrepreneurs and innovators, emerging tech including Artificial Intelligence (AI) and robotics and investing specifically to support growth in local economies". [1]

131. It goes on to highlight that its investment in offshore wind in 2025-26 of up to £500m is expected to leverage £1.5bn in private sector investment, supporting jobs and the delivery of a sustainable supply chain. It further notes that "a stable tax system provides businesses with the confidence to plan and make investment decisions, supporting the conditions needed for a growing economy". Specific spending commitments include—

- providing "a further £200m (net) to the Scottish National Investment Bank, to ensure continuation and advancement of work to create jobs, support innovation and attract investment",
- investing over £7bn in infrastructure, including £150m for offshore wind, expanding regeneration funding to £62m to invest in communities across Scotland, £100m for continued rollout of digital connectivity programmes across Scotland, almost £1.1bn for rail services and infrastructure and maintenance of the rail network, over £237m investment in maintaining ports, harbours and ferry fleets, and £550m investment in safety, maintenance and improvements in the trunk road network,
- continuing to invest over £2bn in Scotland's colleges, universities, and skills development programmes,
- providing £321m for the enterprise agencies to support Scottish businesses "to start and scale, be more productive, and access finance and attract investment",
- providing £15m to "expand support for female entrepreneurs and boost the economic impact of universities and fund the development of business clusters in advanced manufacturing and deeptech", and
- a "revitalised multi‑million Rural Tourism Infrastructure Fund". [1]

132. As noted earlier in this report, capital funding is around 10% of the Scottish Budget and is forecast to rise by 12% in 2025-26 before falling in 2026-27 and remaining broadly flat for the rest of the forecast period. The SFC told the Committee that it shares the OBR's view that "the boost to capital will boost long-term economic

performance but that will lie outside the next five years" of the forecast horizon. It went on to say that "some of the capital investment might not just improve productivity and economic growth; it could also contribute to other objectives, such as those on net zero and on sustainability, which are not necessarily captured by GDP and GDP growth". [18] Renewables Scotland told the Committee during evidence that "the investment of ScotWind revenues, […] could be a strong enabler of that growth agenda, and we are keen to see those resources in particular being plumbed towards that growth opportunities in offshore wind in particular". [27]

133. Given the importance of capital projects to economic growth, the Committee has continued to press for the Scottish Government's IiP pipeline reset, which was originally expected in December 2023, to be published as early as possible. However, the Scottish Government's position is that "the reset pipeline is intended to give certainty to the construction sector and other stakeholders on the Government's infrastructure plans and it would not be helpful to publish something ahead of the UK spending review, based on only partial information". [20]

University Competitiveness

134. As with our pre-budget 2025-26 scrutiny, the Committee heard during scrutiny of the Scottish Budget 2025-26 that more should be done to support research and development, recognising the important role that universities play in attracting investment, supporting Scotland's world-leading sectors, and building a highly skilled workforce. Indeed, analysis by UK Research and Innovation was highlighted showing that for the University of Strathclyde's Continuous Manufacturing and Crystallisation work, £63 is generated for the wider economy for every £1 that is spent on research. [27]

135. There was some frustration amongst witnesses from universities regarding the competitive funding model which, they told us, leads to administrative burden, while competitor economies are boosted through "strategic investment in strategic national manufacturing research infrastructure enabling countries to drive innovation and develop homegrown talent". The visibility of new and emerging sectors is also seen as crucial in attracting and promoting career opportunities to the workers of the future, along with more inward investment, and a phased approach to supporting supply chains, SMEs and spinouts to anchor sectors in Scotland. Witnesses also highlighted a shortage of modern buildings suitable for advanced manufacturing and evidence of start-ups and SMEs finding it difficult to secure investment. [27] At our visit to the University of Dundee in August 2024 as part of pre-budget scrutiny, Sir Mike Ferguson from the University of Dundee stated that £5m for 'Proof of Concept' investment, would generate a return of £200m. [36]

136. The Cabinet Secretary was asked whether continuing to retain tuition fees at the same level (£1820) for 15 years enables universities to be globally competitive. She said that tuition payments would remain under review and pointed to other factors outwith the Scottish Government's responsibility that affect the global competitiveness of the university sector such as the increase in employer NICs and policies around international students. The Cabinet Secretary said she would provide a written response setting out the Scottish Government's vision on how a

sustainable higher education sector can be achieved, adding “going forward, I am open to looking at what more we can do within the confines of the resources that are available to us”. [19]

Skills

137. We also heard that the talent pool in Scotland is attractive and needs to be maintained and improved. Colleges Scotland said “we need to support industry to help it to expand and in order that Scotland and the economy can make the most of the opportunities, but we are being asked to do that on a falling budget, which has huge impacts. It went on to say that “only the college sector has the volume, capacity and potential to meet the need, given the percentage of those jobs that involve high-end technical skills”, adding “however, investment is needed to do that”. It also pointed to the need for less bureaucracy around reporting, and fundamental review, and reform of the funding model “in order for it to work for industry”. [27]

138. Scottish Financial Enterprise (SFE) said it would support the college sector having flexibility to be more responsive, highlighting “as an industry we need short sharp interventions—say, six months for retraining people”. Renewables Scotland noted that vocational pathways “are absolutely key and, as we have seen in some of the most productive economies in the world, work-based learning options work”. Dr Alastair McInroy of Technology Scotland also told us that investment in skills “is a big issue” and is challenging, but “we must also remember, particularly in our sector, that it is in attractor for inward investment at the moment because the talent pool is as attractive in Scotland as it is anywhere else”. [27]

139. The Cabinet Secretary recognised that more work is needed to address skills gaps and match skills to the needs of the economy. She also offered to provide further information in writing on the ongoing work to join up the work of Skills Development Scotland and colleges to ensure that the skills needs of employers and the economy are met. [19]

Scotland’s Competitiveness

140. The Scottish Government’s role in investing in infrastructure and projects that will build confidence for the private sector to invest in Scotland was also highlighted by witnesses. Scottish Development International explained that inward investors “want to see clarity and consistency of policy but also dynamism, and we have that […] in team Scotland” and called for the Scottish Budget to support innovation, internationalisation, and investment. It went on to highlight “the fact that Scotland is the top destination outside London year on year is a huge feather in our cap, and other businesses see that success and want to follow that route”. [27]

141. We also heard from SFE that a “general supportive tone” for business and economic growth as well as a competitive tax system are important in attracting and retaining business in Scotland. [27]

142. The Cabinet Secretary highlighted the Scottish Government's investment in wealth-creating areas and business confidence increasing by around 13% according to a recent survey. She also told the Committee that multi-year certainty for capital projects "is the best certainty that we can give" but that this is dependent on the outcomes of the UK Spending Review in late Spring. [19]

143. **The Committee notes the actions set out in the Scottish Government's response to our pre-budget 2025-26 report in relation to growing the economy, including its plans to prioritise funding for research, knowledge exchange and innovation. We also anticipate receiving additional written evidence from the Cabinet Secretary on the sustainability of the higher education sector and on work being carried out to improve the flexibility and responsiveness of the college sector to enable skills to be matched to the needs of business and the economy.**

144. **Given analysis by UK Research and Innovation showing that for the University of Strathclyde's Continuous Manufacturing and Crystallisation work, £63 is generated for the wider economy for every £1 that is spent on research, the Committee seeks further details of how the Scottish Government is working to maximise the opportunities for universities and high-performing sectors in Scotland to be globally competitive.**

145. **We further note the creation of a Cabinet Sub-Committee on Investment and the Economy, chaired by the Deputy First Minister, which aims to "help create a business environment that drives investment and growth", including by making progress with key opportunities identified in the Green Industrial Strategy. The Committee requests regular updates in relation to progress of, and outcomes from, the Cabinet Sub-Committee's new strands of work.**

146. **The Committee agrees with the Scottish Fiscal Commission that the significant increase in capital spending in 2025-26 allows the Scottish Government "to restart paused capital projects and make some new commitments". We therefore remain disappointed that the Scottish Government continues to hold back from publishing its Infrastructure Investment Plan pipeline refresh until after the UK spending review. We strongly urge that it now sets out its priority commitments to ensure it is in the best position to 'hit the ground running' with infrastructure projects at the start of the next financial year when capital funding is significantly increased.**

Public Service Reform

Overview

147. The Committee's pre-budget 2023-24 report published in November 2023 [37] included recommendations arising from our 2023 inquiry into the Scottish Government's Public Service Reform Programme [38] and set out our commitment to continue to consider progress with the reform programme as part of pre-budget scrutiny each year thereafter. In response, the Scottish Government committed to providing six-monthly updates on progress with its public service reform programme in May/June and December, to coincide with publication of the MTFS and Scottish Budget. [39]

148. Our pre-budget 2025-26 report [3] expresses our disappointment at receiving the Scottish Government's second full update [40] as late as on 23 September 2024 as it limited our ability to fully examine the update. A further update report [41] was received by the Committee on 21 December 2024. Again, it would have been helpful to receive this update at an earlier stage of the budget process to enable fuller scrutiny.

149. The Scottish Budget 2025-26 states that the Scottish Government will focus on "doubling down on reform and efficiencies across our public sector" and that the public service reform programme "is vital to improving outcomes and achieving sustainable public finances in the longer term". It highlights that "to do that we will focus on early interventions and prevention, moving our system to working with people and communities, understanding their needs and giving them what they need to thrive". [1] In his covering letter to the Scottish Government's December 2024 update report, the Minister for Public Finances said he will be "leading the development of a Public Service Reform Strategy and will engage with public sector leaders at a Public Service Reform Summit by the end of February 2025". This, he suggests, will "galvanise action behind public service reform as well as bringing clarity to what our vision for public service reform means across Scotland". [41]

150. The announcement of a Public Service Reform Strategy and Summit follows a challenging report from Audit Scotland on Fiscal sustainability and reform in Scotland published in November 2024. The report found that "the Scottish Government has not provided the necessary leadership to public sector bodies to help deliver a programme of reform". It has also not yet fully established effective governance arrangements for reform, and it is unclear what additional funding is required. Concerns were also raised regarding challenges in the collection of good quality data about the public sector workforce and estates. [15]

151. We heard in evidence that there is some frustration across businesses regarding the lack of progress with public service reform. SFE highlighted "the fact is that high-performing economies around the world do three things really well: education, skills infrastructure and health", adding that "reform is about improving productivity, which is about getting more out of the resources that you put in". [27]

152. **In future years we expect to receive the Scottish Government's six-monthly public service reform updates as early as possible in the pre-budget and budget process to ensure that they can be scrutinised effectively. We also repeat our recommendation that the Scottish Government provides more information in its six-monthly updates on the upfront costs allocated to reform and cumulative savings.**

Invest to Save Fund

153. The Scottish Budget 2025-26 states that the Scottish Government will "deliver an Invest to Save fund in 2025-26, backed by up to £30m of funding recognising the need to catalyse efficiency, effectiveness and productivity projects as part of the public service reform programme". It also plans to "integrate progress on public service reform into the forthcoming FSDP". [1] Further information on the aims of the £30m Invest to Save fund are provided in the Scottish Government's December update report to the Committee. The fund will "enable public bodies to invest in projects they could not achieve within annual revenue budgets that have a clear path to recurring savings" and will encourage projects involving a combination of portfolios and public bodies. The Scottish Government plans to work closely with public bodies to develop its approach and will "invite proposals in the New Year". [41]

154. However, the AGS, during evidence on 7 January 2025, suggested "it is not yet clear to us […] how the £30m will be deployed or what the intent behind the change fund is", adding that "relative to the scale of the challenge, it may be an early contribution to changing delivery of services". Public bodies we heard from at the same meeting said they are keen to know more about how they can access the fund. Food Standards Scotland (FSS), for example, told the Committee that "[…] if FSS and others get access to some of that money, we could transform our services and make real savings over the next two to five years". It provided an example where securing investment of around £6m to create a database and build in a licence fee for 75,000 food businesses could generate up to £30m a year for the Scottish economy. [17]

155. **The Committee seeks details of when the Scottish Government will publish further information regarding its Invest to Save fund, including the fund's aims, the criteria against which bids from public bodies are to be assessed and how progress and outcomes will be monitored and measured for effectiveness.**

Leadership

156. The AGS highlighted evidence of excellent examples of public service reform across the country. We also heard first-hand from public bodies that they are achieving efficiencies through reductions in headcount, sharing services and

premises and improving productivity through digitalisation and a shorter working week. Witnesses from public bodies said they would like the flexibility to include compulsory redundancies, should headcount reductions be necessary. [17]

157. Skills Development Scotland (SDS) said it has protected frontline services through reducing its headcount by 17% by the end of this financial year, halving property costs through local partner agreements, sharing services and internal training. Through introducing a 35-hour working week, South of Scotland Enterprise (SOSE) has seen a significant reduction in absence rates for sickness and stress-related or mental health-related reasons, "a 92% increase in staff morale", and "no decrease at all in productivity levels". [17]

158. FSS has had a 25% budget reduction over 10 years and reduced its staffing complement by 80 in the past three years through reprioritisation. It is also co-funding posts and sharing accommodation and services. NHS National Services Scotland highlighted the use of innovations including artificial intelligence in NHS services, such as radiology transformation, enabling home working, and digital dermatology to see more people and diagnose illnesses at an earlier stage. [17]

159. The December 2024 update report explains that data gathered by the Scottish Government on public body spend on corporate functions over the summer 2024 "has been used by Cabinet Secretaries through the budget process to consider opportunities for further efficiencies and this will be an ongoing process as we move into the new financial year". Further work will be carried out to better understand where there are opportunities for greater value for money and to identify duplication, collect, and embed operational data on public services into future budget processes, and support public bodies to "workforce plan effectively" as part of the forthcoming FSDP. [41] During evidence to the Committee, the AGS welcomed the Scottish Government's work on corporate functions as "a positive development". [17]

160. The Committee explored with witnesses from public bodies whether they had seen Scottish Government leadership in other areas of reform and if they felt they have agency to take decisions on reforming their respective organisations. SOSE was clear that it has "agency to drive change and to focus on continuous innovation and evolution of what we need to do as an agency". Other bodies suggested that there is leadership and guidance provided by government on the adoption of digital systems, but not a mandatory approach. [17]

161. The Scottish Funding Council explained that its work to build a 'unified data platform' "has been through our own agency and has not been driven by Scottish Ministers". This platform will enable easier sharing of data with other partners "so that we can make data-led and evidence-based decisions across the whole of the public sector in relation to Scotland's colleges". On the publication of data, public bodies, such as Transport Scotland and RoS, indicated that they publish as much data as they can, while RoS also highlighted barriers to doing so, including licensing arrangements and different rules across bodies on what information can be made freely available. [17]

162. We also heard that interoperability of systems is an area where some progress is being made, though this remains challenging particularly with limited funds. [17] In our pre-budget 2025-26 report we asked the Scottish Government to set a standard

for the interoperability of any newly created digital public service systems. [3] Responding, the Scottish Government said its Digital Directorate's approach "is exactly what is being requested" and that it is also "pursuing interoperability of data for legacy digital public service systems". [20]

163. **During evidence we heard many excellent examples of public bodies delivering reforms within their own organisations, working collaboratively, and achieving efficiencies and improvements to public service delivery. We are also encouraged by the Scottish Government's work to collect data, including in relation to corporate functions, which has the potential to achieve efficiencies across the public sector.**

164. **However, we share the view of the Auditor General for Scotland that the Scottish Government needs to demonstrate stronger leadership and bring an overall vision to the Public Service Reform Programme, for real progress to be made, including in relation to changing models for public service delivery.**

165. **We therefore seek further details of the Scottish Government's plans to publish a Public Service Reform Strategy, including the purpose and aims of this document, how it will fit with other Government strategies, such as the new Fiscal Sustainability Delivery Plan, and how success will be measured.**

Prevention

166. In our pre-budget 2025-26 report [3] , we asked the Scottish Government to consider and report back to the Committee on the potential benefits, risks, and costs of introducing a new category of public expenditure on preventative spend. The Scottish Government responded that it is "taking forward work on preventative spend as part of the PSR programme and will update the Committee in due course". [20] This work includes developing case studies examining post devolution examples of prevention that have resulted in improved outcomes, cost savings and/or reduced demand.

167. As noted above, the Scottish Government has indicated that the PSR programme will have a renewed focus on early interventions and prevention. The AGS told the Committee that he is in "no doubt that preventative spend is happening" but is "less clear about whether we are seeing that spending ringfenced in a public service reform programme". He also agreed to work with the Scottish Government to better define preventative expenditure to support clarity, transparency, and scrutiny. [17]

168. **The Committee welcomes the Public Service Reform Programme's renewed focus on prevention and early intervention. We also support the Auditor General's commitment to work with the Scottish Government to better define preventative expenditure and we look forward to receiving an update**

from the Scottish Government on this work in early course.

169. **We are however unclear from the Scottish Government's response to our pre-budget report whether it has accepted our recommendation that it considers and reports back to the Committee on the potential benefits, risks, and costs of introducing a new category of public expenditure on preventative spend. We request that this recommendation is now actioned.**

Public and Private Collaboration on Reform

170. Following evidence gathered on a fact-finding visit to Estonia where public and private partnerships are integral to the successful working of its e-Estonia digitalisation programme, the Committee asked the Scottish Government to consider adopting "a more structured model of enabling exchanges between staff in the public and private sector, including flexible career pathways" and set out progress to achieving this mode of working in its six-monthly updates. [3]

171. Responding, the Scottish Government said that it would continue to use inward secondments "within a broad range of actions to build capabilities" and that outward secondments "will continue through the existing schemes" and remain as a development opportunity. [20]

172. It went on to say it is updating its workforce plan, which includes capability planning activity and ensuring inward secondments are "being used to best effect to bring in specific skills and experience in targeted areas". [20]

173. The Committee heard again during budget scrutiny that there needs to be a proper debate about public-private partnerships which, the SFE argued "in itself, would help to address some of the issues around public sector reform". [27]

174. **The Committee believes that there would be merit in the Scottish Government leading an annual parliamentary debate on public service reform, given reform is a significant priority in ensuring fiscal sustainability, and touches on the remits of almost all committees and on the lives of every individual. The possible role of public-private partnerships in enhancing capability for reform could be explored as one element of this important debate.**

175. **We ask the Scottish Government to give consideration to when would be the best time in the parliamentary calendar to schedule this debate.**

Scottish Parliamentary Corporate Body: Budget Proposal 2025-26

Overview

176. Each year, as part of our scrutiny of the Scottish Budget, the Committee is required to consider the budget proposal from the Scottish Parliamentary Corporate Body (SPCB).

177. Along with Audit Scotland, the SPCB has a prior call on the Scottish Consolidated Fund (SCF), meaning that its budget is allocated before the Scottish Government makes any other allocations. The SPCB budget provides for the operating costs of the Parliament along with the costs of the Ombudsman and Commissioners (termed 'Officeholders') which fall within the definition of SPCB supported bodies.

178. The SPCB submitted its budget bid to the Committee on 12 December 2024 [42] . The Presiding Officer’s letter accompanying the bid states that this constitutes “the fourth and final of our medium-term financial plan for session 6”, focusing on “strong financial governance and driving value for money whilst continuing to drive our strategic priorities and protect services”.

179. To support our scrutiny of the SPCB’s budget proposal for 2025-26, we took oral evidence from SPCB Member Jackson Carlaw MSP on 14 January 2025, along with David McGill, Clerk/Chief Executive of the Scottish Parliament, and Sara Glass, Director of Finance and Resilience [19] .

180. The SPCB’s bid for 2025-26 proposes a total budget requirement (excluding capital charges and non-cash items) of £136.2m, a net £9.7m (7.6%) increase on the current financial year’s budget and £2.8m (2.1%) on the 2025-26 indicative budget advised by the SPCB in its bid to the Committee last year. The SPCB stated that its ambition had been to submit a 2025-26 Budget bid which was below the 2025-26 indicative plans, and that this has been achieved for the “controllable” elements of the Budget, which are £0.6m lower than the indicative figure. The Presiding Officer’s letter to the Committee attributes the increase in the budget bid to “changes to Employers’ National Insurance costing £1.9m; and unforeseen additional costs from the Electoral Commission of £2.1m, which have been partially offset by the delayed Patient Safety Commissioner” [42] .

181. As explained by the SPCB during oral evidence, “approximately 70 per cent of our cost base is people – that represents £97 million across the various staffing groups” [19] . The budget bid includes a £2.7m (6.8%) increase in the staff pay budget compared to the current financial year. This takes account of changes to Employers’ National Insurance contributions introduced in the UK Autumn Budget and the inclusion of a cost-of-living award of 3.8% agreed with trade unions as part of the two-year pay deal, while maintaining the staffing baseline agreed in 2022-23. MSP salaries are recommended to increase in line with the Average Weekly Earnings (AWE) index of 3.2%, to £74,506, consistent with the index being used for uprating the Staff Cost Provision.

182. Other changes proposed in the SPCB's budget bid include a £467,000 (4.8%) increase in property costs to £10.3m, £177,000 (2.2%) increase to £8.16m in overall running costs, and a £1m increase to £6.3m in the budget for revenue and capital projects, driven primarily by inflation and expected Election project spend. The contingency figure for 2025-26 remains unchanged at £1m. Income related to the Parliament shop is expected to decrease by £30,000 (11.1%) to £244,000, based on the number of visitors to the Parliament, which is yet to return to pre-pandemic levels.

183. The SPCB's budget bid includes an indicative forecast for 2026-27 of £147.6m (excluding capital charges and non-cash items), "heavily caveated with continued uncertainties in the economy and around potential additional new Commissioners with associated costs" [42] . Following the same approach taken last year, this figure is based on a "blended inflationary rate", which reflects forecasts for wage inflation, price inflation and any known significant additional requirements.

MSP Pay and Staff Cost Provision

184. Prior to 2024, MSP salaries were uprated in line with the Annual Survey of Hours and Earnings (ASHE Mean). Evidence referenced by the SPCB in this, and last year's budget bids suggests that the ASHE Mean figure has become misaligned with other wage inflation indices in recent years. Consequently, the SPCB recommended the adoption of AWE as the index for the uprating of MSP salaries, starting from 2024-25. The AWE was also chosen as the uprating index for Staff Cost Provision, in line with the approach taken in 2023-24 and 2024-25 (the previous approach used a combination of AWE and the ASHE index).

185. The choice of uprating index for both MSP salaries and Staff Cost Provision was discussed by the Committee during evidence, particularly in view of concerns raised by MSP staff unions that the AWE is not directly linked to the cost of living. The SPCB explained that the move to using AWE for uprating Staff Cost Provision during the last three years resulted in an uplift 0.5% higher than it would have been if the previous combined index were used. The SPCB advised that it intends to continue with AWE for the remainder of the session, emphasising the need to apply a consistent approach [19] .

186. The Committee also heard that, in advance of the next parliamentary session, the SPCB is undertaking a review of Members' expenses and remuneration, to which parliamentary groups and individuals have been invited to contribute. The review will consider additional issues raised during evidence, such as benchmarking exercises, increased costs of accommodation in Edinburgh and office accommodation in the Lothian area, and additional payments for opposition party leaders, to reflect an increase in responsibilities.

Commissioners and Ombudsman

187. As with costs for other staff groupings, the Officeholders' 2025-26 budget submissions to the SPCB reflect the impact of both inflation and increases to

employers' National Insurance contributions. In addition, £2.1m Electoral Commission costs are included, which relate to election activities in advance of the May 2026 election. The SPCB explained that this was not included in last year's indicative budget due to an error relating to the transfer of responsibility to the Parliament [19] .

188. The SPCB restated its ongoing concerns regarding the growing share of its budget being spent on Officeholders, amounting to 15.7% in 2025-26. The Committee's recent inquiry into Scotland's Commissioner Landscape: A Strategic Approach [43] , which reported in September 2024 [44] , sought to address these and related issues. We found that the current landscape is no longer fit for purpose and called for a moratorium on creating any new SPCB supported bodies, or expanding the remit of existing bodies, until a 'root and branch' review of the structure is carried out. Following a parliamentary debate on our findings and recommendations on 31 October 2024 [45] , a dedicated committee - the SPCB Supported Bodies Landscape Review Committee (SSBLR Committee) – has now been established to carry out the review.

189. We had also made a series of other recommendations that could be put in place in the meantime while this review takes place. To support this work, we sought views from relevant committees on how supported bodies within their remits fulfil their functions to inform our evidence session with the SPCB on 14 January [42] . Evidence gathered suggested that most committees hear from officeholders within their remits on an annual basis, with sessions largely focussed on annual reports and strategic plans, aims and objectives, and not necessarily designed to formally assess how they perform against their functions. Enhanced scrutiny takes place on an ad-hoc basis, as evidenced by the Local Government, Housing and Planning Committee in its scrutiny of the Scottish Public Services Ombudsman, however, as we heard during our inquiry, committees find it difficult to find time in their work programmes to carry out this type of in-depth regular scrutiny of officeholders.

190. The Committee heard from the SPCB that it has "stepped up scrutiny" of officeholders, including through regular meetings. However, the "corporate body feels that it is pretty close to capacity, if it has not already exceeded it", and scrutiny of officeholders "takes up time, potentially at the expense of our ability as a corporate body to scrutinise many of the other important matters that come before us." [19]

191. The SPCB also told the Committee that the written agreement setting out the division of roles between the corporate body and committees was at the stage of being reviewed when the SSBLR Committee was established. The SPCB said it hopes this work will continue "so that we can get to a situation that better reflects the parliamentary scrutiny of officeholders that we all want to see."

192. Reviewing the operation of the written agreement between the SPCB and Conveners Group was one of the recommendations arising from our inquiry into Scotland's Commissioner Landscape. In our report on the inquiry, we also asked the SPCB to—

- continue to work with SPCB supported bodies to identify opportunities for sharing services, premises and achieving efficiencies, and to include evidence of this work in its budget bids to this Committee;

- explore ways in which it will seek to bring greater transparency to its governance and oversight arrangements and discussions with SPCB supported bodies. This should include considering whether any material from internal assessments could appropriately be published for use by committees and others.

193. In her response to the Committee's report [46] , the Presiding Officer committed to "promote the SPCB's shared services agenda and provide details of services being shared" and "consider whether we can enhance and make more transparent our governance arrangements with the officeholders".

Major Projects

194. The SPCB budget bid includes funding for two new major projects due to start in 2025-26 — the lobbying register replacement, which provides the external website, database and workflows necessary to administer the register, and the 2026 Scottish Parliament election project.

195. The Committee sought assurances, during evidence, in relation to the demand for, and costs of, the lobbying register replacement, which is currently at outline business case stage. In response, the Committee heard that temporary staff are currently supporting a backlog due to changes in legislation and increased complexity of the system, and that these staff will be redeployed once the new register is in place. The SPCB noted that the efficacy of the lobbying arrangements in Scotland could be probed as part of wider post-legislative scrutiny of the Lobbying (Scotland) Act 2016.

Reform and Prioritisation in the SPCB's Budget Bid

196. Our report on the Scottish Budget 2024-25 [30] included a recommendation that the SPCB—

> focus on optimising value for money in its budgetary decisions and delivery. As part of next year's budget bid, we would therefore like to see additional information on how the SPCB makes the most effective use of its funds, including setting out where savings have been identified and how projects have been prioritised.

197. While this additional information did not appear to be included in the budget proposal, the SPCB told the Committee during evidence that "the review of services contracts and operational practices, which we introduced during last year's discussion, has driven cost savings, which are reflected in the 2025-26 bid" [19] . It added that the budget bid includes £100,000 of cost savings in relation to information technology and training, following the move to a managed learning service, in addition to savings that are already included in the cost base, through the maintenance of a 5% vacancy gap for parliamentary staff and a 7% equivalent in the Staff Cost Provision. Other savings had been identified through reductions in

travel and expenses budgets, and the SPCB continues "to look for further opportunities, some of which are more in contractual areas and will open up as contracts come round for re-let".

198. We further heard that the SPCB has "a long list of projects that were bid for and have not been funded in the budget", however, the bid does not include specific information on why projects have been prioritised, and what they are expected to achieve. In the absence of this information being included in the SPCB budget bid, we considered information in the SPCB's annual report and accounts, published in October 2024 [47] , in order to gain more of an insight into how the SPCB prioritises major projects and the Parliament's overarching strategic approach.

199. **The Committee notes the SPCB's budget proposal for 2025-26.**

200. **We welcome the SPCB's efforts to submit a bid below the indicative figures presented with last year's proposals and note that this has been achieved for what the SPCB describes as the "controllable" elements of the budget.**

201. **The Committee, however, repeats our request for future bids to include more detailed information on how the SPCB has achieved savings and prioritised spend. This could be provided in the form of case studies, following a similar format to that used in the SPCB's annual report under "a closer look". We would welcome detail on the aims and outcomes of specific projects, and how decisions about prioritisation have been reached.**

202. **In our report on Scotland's Commissioner Landscape, we made specific recommendations for the SPCB, to put in place pending the wider review undertaken by the new SSBLR Committee. We seek an update from the SPCB on progress with the implementation of these recommendations, particularly in relation to shared services and enhancing the transparency of governance arrangements with officeholders.**

203. **In light of the current widescale public service reform exercise as well as significant pressures on Scotland's public finances, we recommend that future bids also include information on the specific actions the SPCB is taking to deliver reforms within the Parliament, such as digitalisation, collaboration, and sharing of corporate functions and premises. An assessment of the impact of these actions should also be provided.**

204. **We note the reference, in the current bid, to a medium-term financial plan for Session 6. The Committee would welcome further information on how the SPCB is approaching the development of its medium-term financial plan for Session 7. We ask that the plan is published in full to support future scrutiny of the SPCB's budget bids.**

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