Responding to Long-Term Fiscal Pressures

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

11 August 2025

Introduction

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

Questions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Social Care of £4.482 Billion. **We recommend that the SG reviews the Local Government forecast spends with COSLA and its partners.**

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

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

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

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

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

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

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

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

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

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

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

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

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

5. What should the next Scottish Spending Review prioritise?

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

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

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

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

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

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

[Scottish Labour Market Insights: February 2025 highlight that the economic inactivity rate for people aged 16 to 64 years in Scotland was estimated to be 22.9% during September to November 2024.The proportion of inactive people who are long-term sick or disabled has been increasing in recent years in both Scotland and the UK, particularly since the pandemic].

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

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

[According to The Productivity Institute "productivity growth in Scotland, mirroring the rest of the UK, has been very weak, registering a 1.0% annual increase in the 2008 to 2023 period"].

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

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

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

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

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

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

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

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

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

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

Mental health is another policy and service area that would benefit by better co-ordination between strategies and funding streams. Social Work Scotland is responding to the Parliament's Health, Social Care and Sport Committee's Pre-budget scrutiny 2026-27: Prioritisation of the mental health budget. Our response advocates for a rebalancing of investment priorities, improved data and evaluation frameworks, and a more holistic, person-centred approach to mental health care that empowers local communities and values early intervention. Despite a seemingly substantial investment in mental health services in Scotland of around £1.5 billion, the current funding model is misaligned with the needs of individuals and communities. The system remains overly focused on crisis response and clinical diagnosis, while preventative, community-based, and relational approaches are underfunded and undervalued. This is stark across adult and children's provision. There is a clear disconnect between national priorities and frontline realities, compounded by a lack of transparency, fragmented service delivery, and workforce pressures. To create a more equitable, effective, and sustainable mental health system, a fundamental shift is needed, toward early intervention, local empowerment, integrated care, and meaningful inclusion of lived experience in decision-making. Social Work Scotland and its members advocate for a rebalanced investment strategy that prioritises wellbeing, prevention, and community-led solutions.

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

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

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