SURF

Scotland's Regeneration Forum

SURF PRE-BUDGET SCRUTINY SUBMISSION:

The Affordability and Sustainability of Scotland's Tax and Spending Plans

About This Paper

In June 2026, the Finance and Public Administration Committee launched a call for views focussing on the affordability and sustainability of Scotland's tax and spending plans. The aim of pre-budget scrutiny is to influence how the budget is prepared, improve transparency, and increase public awareness.

In particular, the pre-budget inquiry focusses on the feasibility of the Scottish Government's plans to bridge the anticipated £4.77 billion fiscal gap by 2029-30, as well as wider spending decisions.

Relevant background on this consultation can be found here.

Please see below SURF's response to selected questions from this consultation.

Introduction

The 2026 Scottish Spending Review (January 2026) sets out proposed day to day (resource) spending over three financial years, and investment (capital) spending over four years. The provides some detail on portfolio allocations, although this is not to the same level of detail as the annual budget.

1. **Are the spending allocations outlined in the 2026 Scottish Spending Review the most effective approach to strengthen public finances?**

   It is difficult to assess whether the specific allocations will strengthen public finances. For example, with regard to Regeneration – SURF's specific policy interest – spending looks set to stagnate over the resulting years of the spending review after dropping significantly from previous years. The specific policy rationale for such decisions is not set out in the spending review, nor is it clarified in the yearly budgets published by Scottish Government. This creates considerable uncertainty over why such decisions are taken and what they mean for future regeneration (or any other policy area). Budgets are then often re-evaluated and Spending Review allocations do not always go on to reflect actual fiscal decisions during annual budgets. While it is useful to establish a fiscal direction of travel, and it helps to solidify the case for longer year-on-year spending plans, this could be communicated more clearly to ensure that key stakeholders are informed about spending allocations. In-year fluctuations and uncertainty do not strengthen public finances or the ability to deliver on key government priorities.

2. **What are the biggest risks to the spending plans outlined in the 2026 Scottish Spending Review?**

   Planned savings – recently outlined in the Public Service Review – that do not come to fruition could lead to significant wider pressures on government spending. A fiscal plan that is predicated on future savings is risky, especially given the ambition of the PSR agenda (generate savings while improving outcomes). This could create a constrained funding landscape in future, with many expecting costs to increase, notably around public sector pay, social care, and NHS spending, to name a few. It should be noted that when spending tightens, it usually comes at a cost to the most vulnerable, and tends to increase inequality (i.e. austerity during the previous decades). SURF is also concerned that the Public Service Review strategy may have adverse effects for crucial community-facing projects, and that the cost of a truly preventative approach is underestimated, which may lead to deepening inequalities.

The Medium-Term Financial Strategy (June 2025) is a five-year financial plan setting out the Scottish Government’s forecast for revenues and demand, spending priorities and borrowing plans.

3. **Does the 2025 Medium-Term Financial Strategy (MTFS) recognise and clearly set out the scale of the fiscal challenges facing the Scottish budget, and are the actions identified in the Fiscal Sustainability Delivery Plan (FSDP) likely to address the forecast shortfall?**

It is difficult to assess whether the FSDP accurately addresses the forecasted shortfalls that the Scottish Government will face in the upcoming years. On paper, relevant savings have been earmarked and these should, in theory, be delivered. However, given the lack of detail around, for example, the work of the Public Service Reform agenda, it is difficult to assess how reasonable these planned savings are, what they are specifically comprised of, and where progress to date has been made. For example, to what extent has progress around workforce savings been made? Given the ambitious yearly targets, one would expect to see concrete proposals in this space; in particular, how this ensures the commitment to 'protect frontline services' is of crucial significance to SURF and our network. There also remains ambiguity about what a 'frontline' service is, which makes it difficult to assess what services will and will not be protected from these far-reaching efficiencies. It is also difficult to square such ambitions with the fiscal decisions taking during annual budgets (i.e. the real-terms cut in local government spending, despite increased costs around pay and social care for councils). These tensions remain.

The actions outlined in the FSDP seem reasonable, although there remains uncertainty about how specific – and impactful – actions will be operationalised, namely the point about increasing preventative spend. Reducing demand-led spending in favour of consistent preventative spend is a long-term objective and will take many years to achieve; in the meantime, given existing trends around poverty, inequality, and health outcomes, demand-led spending in Scotland will likely increase, not decrease. Another example is around healthcare, with 3% planned savings earmarked. It is difficult to see how such savings are compatible with the current service landscape in Scotland, with significant waiting lists and worsening health outcomes (especially for those living in the most deprived areas), a stalling life expectancy, and unacceptably high drug deaths. Such challenges will require more, not less, spending to overcome, and it is difficult to see how a planned reduction in corporate functions, or data efficiencies will cover such a shortfall while also simultaneously improving outcomes. 'Better outputs for lower costs' – as the FSDP claims – is not a credible plan for reform given the existing challenges that Scotland faces.

The fiscal context will require difficult decisions to be made. Doing so will require an honest and transparent approach to what needs to change. The current position of improving outcomes along with planned efficiencies therefore seems unrealistic. Much of the sector feels as if it is holding its breath as it awaits the real substance of these strategic decisions – which will undoubtedly have tangible consequences for important frontline services. This creates a level of uncertainty that is unsustainable and counterproductive, reducing buy-in to the wider PSR agenda.

Finally, it should also be noted that the sheer volume (and length) of financial strategy and budgetary documents published by the Scottish Government means that overall nuance and detail is hard to access and analyse. It is one of the reasons that citizens often find fiscal decision-making to be opaque and confusing. Given wider Scottish Government policy priorities around Open Government – with an aim to make the functions and purpose of Government more accessible and transparent – it would be worth communicating key fiscal decisions in a clearer, more succinct way. Consolidating the linkages between various documents and strategies will help not just in communicating this to the public, but also to key third sector and public partners. This could be usefully integrated into ongoing work around improving Scotland's National Performance Framework – especially when it comes to communicating progress via an online, real-time resource as is done in Germany and New Zealand.

4. **What do the next MTFS and update to the FSDP need to include to show that the Scottish Government is on track?**

   Specific updates against previously outlined measures and actions, with an indication of whether progress against measures is being made. Governments often have a tendency to publish (and re-publish) plans and targets; delivery of and progress against previously agreed and set targets is often less clear. For these planned efficiencies to be credible, progress must be made on a year-on-year basis, rather than shifting goalposts annually. Otherwise, the Scottish Government does indeed face a fiscal cliff edge in a few years, when the gap balloons to several billion. It would be preferable for this to addressed in a managed and controlled way, rather than through hasty cuts in a few years, which we feel would disproportionately affect community led projects initiatives, and the people who rely on these vital services.

5. **What actions should the Scottish Government take to grow the tax base and increase labour market participation, productivity, and Scotland's economic growth?**

   Investing in long-term employability support which works closely with and within communities is one of the most effective and durable ways to address unemployment and therefore grow the tax base. These projects work closely with residents, many of whom are isolated from statutory support services. They are not just hard to reach; in some instances, they are impossible to reach. Doing so requires building trust and integrating a community-led approach. In many ways, it is the opposite of our current model of Jobcentres, which tend to follow rigid structures and focus on outcomes, rather than inputs. Making real progress on increased labour market participation requires a level of honesty about what is and what is not working – rather than continuing to point the finger towards the most vulnerable in society.

During SURF's recent Shared Learning event on Employability, successful projects and key stakeholders repeatedly stressed the importance of long-term, holistic interventions. Employability was framed not as a one-off intervention, but as a long-term, multi-pronged form of support. It is extremely rare that someone, for example, finds a long-term job within 6 months – which is often the sort of target that those without experience within employability feel is achievable. Usually, employability support begins with wrap-around support – housing, security, living standards, and more recently, mental health.

The most important lesson from our Shared Learning event on Employability was that successful interventions take time. Some people will require significant input over a multi-year period. Others will re-engage with support once life circumstances change. Funding employability support for a year is not compatible with the long-term horizons nature of this work. A wider roll-out of multi-year funding would assist in ensuring support can most effectively reach areas where it is needed.

Routes to Work South – the winners of the employability category of the SURF awards – were only able to run their successful What I Need in Life (WIN) project because they initially chose to self-fund it, presenting a business case to their Board. The organisation decided to take a significant risk by taking on an unfunded project because of the high impact they felt it could have. The breadth of challenges reported by participants shows how multi-faceted a policy priority such as 'employability' really is:

- 72% reported they felt socially isolated.
- 68% reported low confidence and a lack of self-belief.
- 61% reported financial insecurity.
- 12% had experienced homelessness.
- 78% keen to develop new skills.
- 69% have a long-term goal of moving into further education, training or employment.

Employability work is ultimately about much more than jobs: it covers housing, financial security, social isolation, connection, access to services and transport, and – increasingly – mental health. This requires a sensitive, community-aware approach with people who understand local people and dynamics, and can make connections to other key services when trust has been established.

Having demonstrated significant impact in two areas of high deprivation (Rutherglen and Blantyre) and supported over 130 people during the pilot, the WIN project has received significant national attention and has been visited by the Scottish Government. It is now receiving funding through the Local Authority to continue to build on the pilot, but without such funding, the project might not have been feasible in the long term. Ongoing funding uncertainties remain a challenge for many employability projects, despite the incredible impact they have.

The above case study highlights how funding insecurity can needlessly complicate important work that has the ability to address long-term unemployment and increase labour participation. In turn, this will have a positive impact on local and national economies, boost growth, and also minimise reliance (and therefore spend) on welfare benefits – all key targets that the Scottish Government will need to pursue if it is to meet its ambitious spending and savings plan as set out in the Public Service Reform agenda. It should also be noted that the above approach is fundamental to a truly preventative approach – and in many ways embodies it.

These key lessons are captured in our annual Shared Learning Report, which present key policy, practice, and funding lessons from across the shortlisted and winning projects in the SURF awards.

The 2026 Scottish Spending Review sets out further details on the £1.5 billion in public sector efficiencies that are to be achieved over three years. On average, these efficiency savings range from 0.7% to 0.9% per year.

6. **Are the planned efficiencies realistic and deliverable at a scale sufficient to make public services sustainable?**

   As SURF recently outlined in its pre-budget scrutiny response to the Public Service Reform agenda, there is not enough information available to evaluate whether planned efficiencies are realistic and deliverable. Although they are outlined in the most recent Scottish Spending Review, the efficiencies are very high level, with little detail as to how these will be operationalised and how they may impact delivery across the major policy portfolios. Workforce reductions seem planned across a host of portfolios, but little rationale is provided. Additionally, the overriding narrative surrounding PSR has been that efficiencies will occur while performance and outcomes improve, which is difficult to see given the breadth and depth of the proposed savings in the Spending Review.

More clarity is required to understand how decisions were made regarding proposed savings, and what the overall rationale – and overarching strategy – is.

It is also reasonable to suggest that Public Services are already, in their current form, not sustainable. Scotland faces a spending deficit, demographic challenges, shrinking public services, and a host of future costs which look set to increase, such as social care, healthcare costs, and public sector pay deals. Such costs significantly constrain the budgets and abilities of Local Authorities, and render many services unsustainable. Closing libraries, leisure facilities, and other key frontline services are just a few examples of the tough decisions that many Local Authorities are forced to make as a result of the falling real-terms local government settlement. As Local Authorities are a major funder of community led and third sector projects, this is a double blow to communities, as both statutory and community projects slowly thin out or disappear as funding dries up. This creates a perfect storm of tighter finances and higher costs. It is difficult to see how the planned efficiencies will resolve these issues, and it seems more likely that, if anything, they will deepen.

7. **What are the main risks to revenues from devolved taxes?**

Preventative spend – investment aimed at avoiding future demand on services - has long been a priority of the Scottish Government, but the intended outcomes have yet to be fully achieved.

This may reflect the complexity of changing entrenched budgeting practices that tend to prioritise short-term, reactive spending, as well as the challenge of coordinating action across multiple services where costs and benefits fall in different areas.

The Scottish Government recently published a [Preventative Budgeting Tool and Guidance], with a view to embedding this system of tracking prevention into ongoing annual budgeting by December 2026

8. **Preventative spend has been a goal for several years, but the intended outcomes have not been fully achieved. Why do you think this is the**

case and how might a Preventative Budgeting Tool help track progress with achieving outcomes?

Put simply, it is because a preventative approach is more expensive, not less. It requires tackling both immediate challenges – which are significant in a country with such entrenched inequality and deprivation as Scotland – and future challenges. In the same way that key stakeholders have long said that Community Wealth Building, if done well, requires more – not less – investment, preventative spend will only pay dividends once it has been fully and robustly pursued for a long period of time. It is not a cost-cutting measure, and planned future savings can never be fully guaranteed, especially in an unstable, chaotic global context (international wars, inflation, energy insecurity, climate change).

The intended outcomes have likely not been achieved because they have not been pursued fully.

That being said, SURF strongly supports a preventative approach and feels this is a useful way to frame public investment. Community led regeneration is at its core a preventative approach, with long time horizons and multi-disciplinary approaches that have capacity for real change. Many of the projects recognised in our annual SURF awards take many years, sometimes decades, to come to fruition. They are the result of careful planning, stakeholder management, and relationship building which often asks much – sometimes too much – of local communities. A preventative approach should seek to harness the power of community led initiatives as a way to pursue a politics of place which is rooted in local priorities, not central priorities.

True devolution of both power and resources may be the answer, and may allow the Scottish Government to embed efficiencies without impacting local communities directly. If valuable resources that are currently tied up in complicated and costly procurement processes can be dispersed more quickly and transparently to local communities, there is enough evidence to suggest that self-organising and community led initiatives can generate more community wealth and place-based improvements than with a more centralised form of investment. This requires trust – trust in communities, in local authorities, and ultimately local people to have both the understanding and the skills to drive forward change in a way that best addresses local concerns. It also requires an acknowledgement that some places will require significantly more investment and support, and others may require none at all.

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

Regeneration should be prioritised further in upcoming Scottish budgets. In the previous budget, the Scottish Government Regeneration budget allocation dropped sharply against previous years, with a concerning 43.7% decrease against 2025-2026. Much of this was, in fact, driven by a drop in the Investing in Communities Fund. Although ICF does have a capital component, much of the projects are funded on a revenue basis – and [the list of funded projects] reveals just how broad and 'frontline' these services are, and how many of them actively address wider government policy aims: poverty (fuel, food, and financial), support for families and children in need, security, health and wellbeing, youth work, sustainability, and community wealth building and planning. These revenue-funded projects do much more to address key government objectives, SURF would argue, than a list of high-profile capital projects.

This is why the discontinuation of the ICF came as a disappointment, and SURF – along with many communities – keenly await whether a successor fund will run. As one of the few multi-year funding programmes, the ICF was an example of how to do funding well – and to see it end so suddenly and without a successor fund planned, a missed opportunity. Although the one-year extension was welcomed, this decision was made only after significant lobbying efforts, with much of the disruption and damage to projects and staff already done.

Looking forward, the latest Spending Review has regeneration spend capped at £47 million in both 2027-2028 and 2028-2029, suggesting a lower baseline of regeneration funding in future years, which is a concern. We hope that this decision will be reviewed and that regeneration spending – both revenue and capital – is increased to at least levels in 2025-2026 (£62.1 million), while also taking into account inflation.

SURF would also argue that budgets which prioritise only capital spend will not address Scotland's key challenges, namely poverty. Much of the excellent community facing projects that tackle unemployment, deprivation, isolation, and homelessness rely on revenue funding, not capital. This question is therefore, by its very nature, problematic.

Combined with a shifting emphasis at a UK level – through Pride in Place, for example – this emphasis on capital projects will have significant consequences on key projects in Scotland over the next few years. But even as this funding emphasis shifts in favour of capital projects, it remains challenging, if not impossible to pursue. Too often, community projects spend years – sometimes decades – finding the right funding mix for vital projects, with funders often waiting until all the other pieces of the funding puzzle are in place.

While SURF has always maintained the importance of key regeneration funds such as the Regeneration Capital Grant Fund, too often this places the emphasis on physical infrastructure. Although important, SURF advocates for a holistic, truly place-based approach which goes beyond infrastructure and seeks to address wider economic, social, and cultural regeneration outcomes. Impactful regeneration projects that actively address poverty seldom come in the shape of a major capital project; it can be part of the solution, but needs to be embedded in a wider programme of regenerative change.

Moreover, capital projects – particularly those that fall under the wide umbrella community led regeneration programmes – require corresponding revenue funding not just to deliver, but to maintain and run. Shrinking revenue budgets means that communities must accept much of the ongoing responsibility and liability of new assets – which is not a sustainable, especially for the least resourced communities.

10. **How effective are the Scottish Government's existing financial flexibilities - including borrowing and the Scotland Reserve - in managing fiscal pressures, and what limitations, if any, should be addressed?**

Alternative financing approaches are increasingly considered as ways to support public investment and strengthen financial resilience.

Bonds allow governments to raise upfront capital from investors, repaid over time. The Scottish Government has indicated it intends to launch its first bonds this year and, as set out in the Scottish Spending Review, expects them to fund the majority of capital borrowing in this parliamentary term.

Mutual Investment Model (MIM) is a revenue-financed model that brings in private investment with payments spread over the life of an asset.

While these approaches can unlock additional funding beyond traditional budgets, their role remains evolving, reflecting the need to balance affordability, risk, and long-term value for money.

11. **What role should alternative financing approaches – such as bonds, the mutual investment model, or other mechanisms – play in supporting public investment and strengthening Scotland's financial resilience?**

End of SURF's response

Augustijn van Gaalen, Policy & Advocacy Manager, August 2026

Visit our policy page for more on SURF's policy influencing activities and other consultation responses.