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

07 November 2025

Dear Kenneth,

2026-27 SCOTTISH BUDGET – FOLLOW UP TO 30 SEPTEMBER 2025 SESSION

I welcomed the opportunity to meet with the Committee on 30 September to discuss Pre-Budget Scrutiny: Responding to long-term fiscal pressures. As part of the constructive discussion with the Committee, there were several matters where I committed to follow up in writing:

1. PSR – Civil Service Workforce Reduction Targets

The Fiscal Sustainability Delivery Plan (FSDP) sets out a clear direction for workforce reductions, with a planned average reduction of 0.5% per annum across the devolved public sector over the next five years.

As part of this, annualised Scottish Government (SG) and public body corporate costs will reduce by approximately £1 billion, representing around 20% of the identified public body corporate and core government operating costs. The strategy makes clear that frontline roles will be protected, and as such, areas like the core SG are expected to deliver a proportionately greater share of these reductions.

As discussed at FPAC on 30 September 2025, this could be translated as 4% reductions per year, however a specified breakdown of proposed reductions has not been annualised in this way. This builds on work underway since 2022 which has seen the core SG's contingent workforce reduce by 48%, and slowed growth in directly employed staffing from 13.5% in the year to March 2022 to 0.8% in the year to March 2025.

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I will set out further detail in the Scottish Budget and Spending Review on how we will deliver the workforce reduction target and wider savings needed for a sustainable future for public services and continued investment in Government's four priorities.

2. Proceeds of Crime – Block Grant Adjustment

Prior to the implementation of the Fiscal Framework, the SG retained all Proceeds of Crime (POC) revenues, wherein up to £30 million of revenues could be retained (a limit which was never breached). While this is still the arrangement, the Smith Commission agreement noted that Scotland's block grant would need to be adjusted to accommodate the retention of POC revenues, leading to a block grant adjustment (BGA) of £4.3 million being set, which reflects the revenues recovered under the Proceeds of Crime Act in Scotland in 2016-17.

Given that SG previously retained all revenues from POC, SG believes the BGA contravenes the Smith Principles, especially that of no detriment, as the SG's budget is smaller as a result of the formal devolution of this revenue. Under the Fiscal Framework, where there is a dispute, an automatic pause is placed on the disputed finances. That being so, the BGA for POC has been set at £4.3m and will remain so while the dispute remains unresolved.

In January 2021 the then Cabinet Secretary for Finance and Chief Secretary to the Treasury agreed that the issue should be considered as part of the planned Fiscal Framework Review. However, due to the then UK Government's subsequent insistence on a narrow scope for the Fiscal Framework Review, and the pace of negotiations, the dispute was not considered as part of the review. Securing the indexed per capita BGA mechanism and increasing borrowing limits were prioritised by SG.

While the dispute still therefore stands, our position is still that a resolution must be sought.

3. Climate Change Costs – Mitigation and Adaptation

As part of the draft Climate Change Plan, we are assessing the costs and benefits of the mitigation policies included in the Plan, which runs from 2026 to 2040. This is the first Climate Change Plan across the UK to have presented costs. Presentation of costs is complex because so many of our mitigation policies are woven into other areas of work, such as anti-poverty, nature restoration, travel infrastructure and food production.

Regarding climate adaptation, as noted by the Scottish Fiscal Commission in its 2024 *Fiscal Sustainability Perspectives: Climate Change* publication, the costs of adapting to climate change are likely to be significant for both the overall economy and the public sector. The Scottish Fiscal Commission also note that the optimal level of investment is unknown, as the trajectory of global greenhouse gas emissions, and therefore levels of warming and climate change in Scotland, is uncertain, particularly beyond 2050. Relatedly, externally produced forecasts of required investment in adaptation have wide-ranging cost projections.

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Alongside the Scottish Budget 2025-26, we published a Climate Taxonomy which for the first time separated out adaptation from mitigation spend, presenting a detailed breakdown of current spend across the budget which is delivering a high-positive to high-negative outcome for our adaptation ambitions. We are committed to undertaking and publishing the same analysis in the forthcoming budget.

The SG is currently working to improve robustness of future cost projections for adaptation. This work will be aided by the Climate Change Committee, which in Autumn 2025 is expected to publish advice on appropriate planning assumptions for the levels of warming expected to be experienced in the UK up to 2050.

4. Air Departure Tax (ADT) Timescales

The Scottish Parliament passed the Air Departure Tax (Scotland) Act in 2017. However, the implementation of the tax has been deferred due to concerns around whether the current UK-wide Air Passenger Duty exemption for flights departing from Highlands and Islands airports complies with UK Government's subsidy control regime (previously EU State Aid).

Aviation connectivity is vital to communities in the Highlands and Islands, and we are committed to introducing ADT in a manner that ensures communities and businesses in the Highlands and Islands continue to benefit from secure and sustainable aviation connectivity.

We are working with the UK Government to explore all options for implementing ADT in a way that protects Highlands and Islands connectivity and complies with subsidy control rules. I will update the Committee on the progress of this work in due course.

5. PSR - Invest to Save Fund – Public Body Applications

28 bids were received from Public Bodies and SG directorates. 15 of these bids were approved and offered funding.

I trust this additional information is helpful to the Committee.

Thank you also to the Committee for providing its 2026-27 Budget, pre-Budget Scrutiny Report which I will consider and respond to on the day of the Budget, as is usual practice.

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