

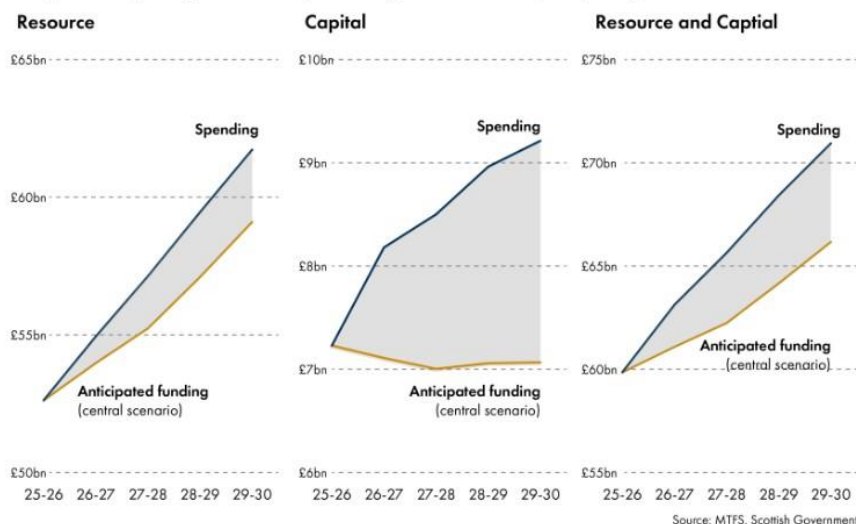
# The Scottish Government Medium-Term Financial Strategy 2025

## Introduction

The Scottish Government has published its Medium-Term Financial Strategy (MTFS). This document sets out, in general terms, the Scottish Government's financial plans for the next five years. The Strategy includes the policies and principles they intend regarding their use of financial powers, taking into account economic and fiscal forecasts produced by the Scottish Fiscal Commission (SFC). Their view is that on current trends, the gap between Scottish Government funding and spending will reach £4.9bn by 2029-30. The Scottish Government intend closing this gap through growing the economy and reducing the public sector workforce.

### Resource and capital spending plans exceed anticipated resources in every year, and this gap increases to a total of nearly £5 billion.

Comparison of spending plans and anticipated funding for resource and capital spending: 2025-26 to 2029-30.



## Closing the fiscal gap

There are three “pillars” to Scotgov plans to close this gap. Pillar 1 Ensuring public money is focused on delivering government objectives. This to be achieved by reform and focussing on impact. Pillar 2 is to grow the economy and the tax base. Pillar 3 is to ensure “a strategic approach to tax revenues”, which considers the longer term impact of “tax choices and competitiveness.”

Alongside this must be set the Scottish government's *Fiscal Sustainability Delivery Plan* and their *Public Sector Reform Strategy*. These include plans to reduce the size of the public sector workforce by 0.5% a year, with a savings target growing to £0.7bn a year over five years. Also public sector efficiencies and productivity, reform, and revenue raising savings to reach £1.5bn per annum over 5 years.

While this is happening the Scottish Government intend to “Maintain our commitment that over half of Scottish taxpayers will pay less Income Tax than they do in the rest of the UK.”

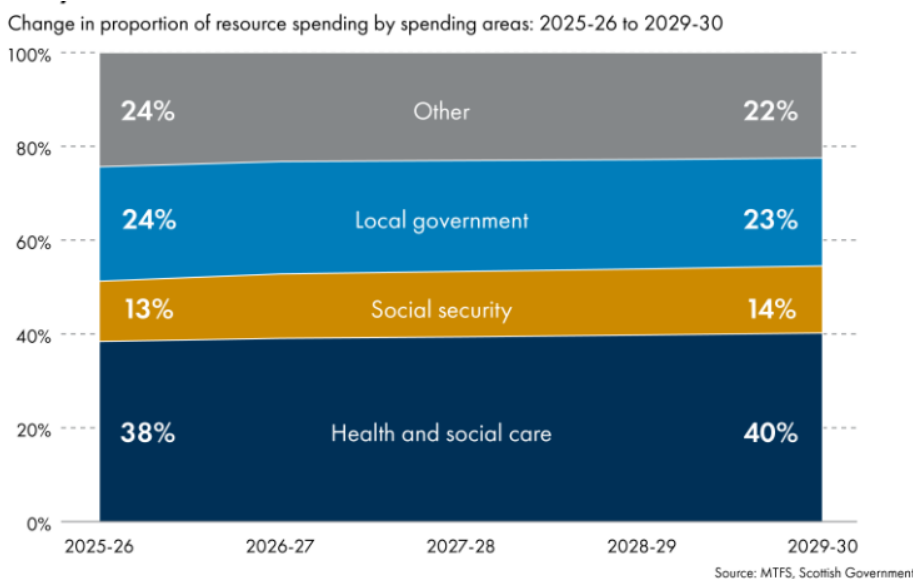
## KEY POINTS:

- Scottish Government isn't raising enough revenue to cover spending commitments.
- Measures to close this gap include cutting the size of the public sector workforce.
- Capacity to cut the workforce will be generated by automation and greater efficiency.
- Scottish government believes that public sector pay needs to “be more sustainable”.

## Spending priorities

The MTFS provides some indication of how the Scottish Government intends to prioritise spending across portfolios (NB detail is limited) health and social care and social security spending continue to be prioritised. They are expected to increase by an average of 5.3% and 6.8% per year respectively. This compares to an overall average growth in resource (ie day to day) spending of 4.1% per year for the same period.

Local government by contrast grows only by 2.6% per year on average and faces a challenging outlook,. Other spending areas growing by just 2% per year on average. These growth figures are in nominal terms, that suggests there are likely to be real terms cuts required in order to meet spending plans in priority areas.



The MTFS estimates that the 2025-26 pay bill will be £122 million higher than projected in the Public Sector Pay Policy, based on just six agreed pay deals. Although all agreed pay growth rates exceed the assumptions in the MTFS forecast, they have been incorporated into the pay bill projections.

Capital funding is set to be lower in nominal terms in 2029-30 than in 2025-26. Capital budgets have been relatively strained in recent years, and the Scottish Government says this has contributed to an increased backlog for asset maintenance. There is a risk that ageing buildings and infrastructure require remediation or replacement work earlier than planned, which could further increase pressure on capital budgets.

## Overview

The Scottish Government Budget in December will provide specifics as to how they intend to balance the books. It is however clear that there are no plans to change priorities either in terms of raising money or how it is to be spent.

Hopes are being pinned on a combination of driving economic growth and making savings/efficiencies. An expressly stated goal is lowering the size of the public sector workforce and the idea that “the wage bill needs to be more sustainable going forward.” In the event that economic growth does not match aspirations, or that its proceeds are not directed into public services it seems likely that there will be renewed pressure on staff to do more with less. It will be important for branches to bear in mind that such pressures stem from consciously made political choices

## Additional reading

- [Scottish Government Medium Term Financial Strategy](#)
- [Scottish Government Public Service Reform Strategy](#)
- [Fiscal Sustainability Delivery Plan](#)
- [It doesn't have to be like this - STUC Tax Options paper.](#)



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