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Pre-Budget scrutiny 2026-27: the affordability and sustainability of Scotland's tax and spending plans

The Committee published its call for views (CFV) on 29 June 2026 and received 66 responses before this closed on 14 August. Of the 66 responses received by the Committee, 2 were from local authorities and COSLA, 58 were from public bodies, industry groups or charities, and 6 responses were from an individual. All responses have been published.

This paper summarises the key themes from responses to the CFV.

Scottish Spending Review

This section of the CFV asked two questions:

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

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

Key themes

- Broad support for the move to multi-year spending planning and the focus on prevention, reform and sustainability.
- Significant concerns that spending allocations alone will not strengthen public finances unless accompanied by genuine public service reform and economic growth.
- Repeated concern that the Spending Review relies heavily on ambitious efficiency savings that may not be realistic or deliverable.
- Strong view that insufficient investment in preventative services now will increase future costs.
- Risk that prevention is crowded out by short-term financial pressures.
- Concerns around wider economic uncertainty, rising operating costs and inflation volatility.

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

The responses showed broad support for the Scottish Government's move towards multi-year spending planning, particularly its emphasis on prevention, reform and long-term sustainability of public services.

SURF - Scotland's Regeneration Forum noted that a multi-year approach can maximise the impact achieved from limited resources.

Stakeholders generally welcomed the shift away from short-term budgeting, viewing it as a positive step towards providing greater certainty for organisations and enabling more strategic decision making. Aberdeenshire Council noted that greater certainty supports workforce planning, asset management, service redesign and investment decisions.

However, many respondents stressed that improved spending planning alone would not be sufficient to strengthen Scotland's public finances. IPPR Scotland noted that the strength of the public finances depends on the balance between spending and revenues. Therefore, the spending review allocations can only reveal so much about the effectiveness of the Scottish Government's current approach.

There was a strong view that lasting fiscal sustainability will depend on meaningful public service reform and stronger economic growth, rather than simply adjusting spending allocations. Child Poverty Action Group highlighted:

> "The allocations in the review do not go far enough. Scotland is not on track to meet its 2030 child poverty targets. Scottish Government modelling projects relative child poverty to fall to 18% by 2030-31, a very welcome reduction but 8 percentage points above the 10% target set out in the Child Poverty (Scotland) Act 2017. Given the cost that child poverty imposes on Scotland's economy, if progress towards the targets stalls or slows, the potential savings for the public purse will be limited. Delivering year on year reductions in child poverty should be a key part of the approach to strengthening Scotland's public finances."

Scottish Women's Budget Group suggested that strengthening public finances requires spending decisions that are evidence-based, transparent and informed by robust gender and equality analysis so that investment is directed towards policies that achieve their intended outcomes and reduce future demand for public services.

In the Auditor General's section 22 report on the 2024/25 audit of the Scottish Government Consolidated Accounts (October 2025), the Auditor General noted that more detailed delivery plans are required to support the realisation of savings outlined in the Fiscal Sustainability Delivery Plan and assumed in the Public Service Reform strategy. Noting that these delivery plans must then be supported by robust governance arrangements.

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

A reoccurring concern was the Spending Review's reliance on ambitious efficiency savings, with many questioning whether the scale of savings anticipated is realistic or achievable in practice. Stakeholders warned that overestimating efficiency gains could create delivery risks and place additional pressure on already stretched services.

Built Environment Forum Scotland (BEFS) consulted its members and stakeholders to develop its 2026 Manifesto, which welcomed the stated aim to shift the focus to preventative spend. However, BES state they are concerned that there may be a gap between the ambition set out in the Spending Review, and what is achieved:

> "The natural risk here is that good intentions towards systemic change will not follow into action. BEFS is keenly aware of the statutory pressures and rising demands national and local governments face on their present budgets. Allocating greater levels of expenditure from immediate needs towards future prevention will require, as noted, "strong commitment to this agenda"."

Respondents also highlighted the importance of investing in preventative approaches, arguing that insufficient action now is likely to lead to higher costs in the future. Many highlighted that early intervention and preventative services can improve outcomes while reducing long-term demand on public services.

Scottish Care stresses that evidence consistently demonstrates that postponing investment in prevention rarely eliminates expenditure; instead, it shifts costs into more intensive and more expensive forms of intervention. Fiscal sustainability depends not simply upon controlling expenditure but upon reducing avoidable demand.

Alongside these issues, stakeholders pointed to the challenges posed by inflation, rising operating costs and wider economic uncertainty. These factors were seen as placing additional strain on public services and organisational budgets, potentially limiting the ability to deliver reform, invest in prevention and achieve planned efficiencies.

The Institute for Fiscal Studies (IFS) highlighted seven key risks to the Scottish Spending Review, including:

1. **Tax revenue uncertainty** – forecasts may overestimate future revenues, reducing available funding.

2. **Income tax reconciliations** – larger than expected repayments could create ongoing budget pressures.

3. **UK Government funding decisions** – future fiscal events may alter Scottish funding levels.

4. **Inflation and pay pressures** – higher prices and wage demands could erode spending power.

5. **Portfolio spending pressures** – particularly within Health and Social Care and Justice.

6. **Additional spending commitments** – SNP manifesto pledges may require difficult funding trade-offs.

7. **Social security and 2027-28 fiscal pressures** – benefit spending uncertainty and a potential real-terms funding squeeze could necessitate significant savings elsewhere.

Medium-Term Financial Strategy

This section of the CfV asked three questions:

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?

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

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

Key themes

- Most respondents accepted that the MTFS accurately describes the scale of the fiscal challenge.
- The FSDP is generally viewed as a useful framework but lacking detailed delivery plans.
- Significant demands for clearer milestones, performance measures and reporting against saving targets.
- Repeated requests for transparent progress reporting and evidence of outcomes rather than publication of further strategies.
- Growing Scotland's tax base requires sustained investment in people and participation, including skills, education, workforce development, employability support, childcare and measure to reduce economic inactivity.
- Many respondents highlighted the importance of growth enhancing infrastructure, particularly housing, transport and energy infrastructure.

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?

Responses generally acknowledged that the MTFS provides a realistic assessment of the scale of Scotland's fiscal challenges and the pressures facing the public finances. With the Audit Scotland stating that:

> "The 2025 MTFS clearly recognised the scale of the fiscal challenge, included appropriate scenario planning and acknowledged the need for significant efficiencies and savings to achieve a balanced position over the medium-term."

Aberdeenshire Council are of the opinion that the FSDP contains a number of positive measures, but it is not yet clear whether these will be sufficient to fully address the projected funding gap.

The majority of respondents questioned whether the strategies provided sufficient detail on how fiscal challenges will be addressed in practice, particularly in relation to delivering efficiencies, reforming public services and supporting economic growth. Professor David Bell stated:

> "The more difficult question is whether the FSDP provides a sufficiently credible route from identifying that problem to resolving it. The measures it identifies—including efficiency savings, workforce reductions, public-service reform and measures intended to improve productivity—are all relevant. However, the principal weakness is that many of the savings remain targets or plans rather than demonstrated, recurring reductions in expenditure."

In their joint response, COSLA, SOLACE and Directors of Finance (DoF) highlighted that there is a disconnect between the ambitions of Public Service Reform, national policy commitments and the ambition of the FSDP.

Enlighten believes that the Scottish Government recognised the scale of the fiscal challenge ahead but were unconvinced that there has been the necessary change in culture and thinking to implement the savings required.

Several respondents also noted concerns that planned efficiencies may be difficult to achieve in practice given existing pressures on public services. The Royal College of Nursing (RCN) Scotland stated:

> "Staffing levels are below what is needed and a comprehensive workforce plan is required based on a robust assessment of increasing need and Scotland's ageing population. Too often staffing decisions are based on

> affordability rather than need. Yet it's a false economy to think you are saving money by having fewer nursing staff. Research shows that ensuring adequate levels of registered nurse staffing doesn’t just improve patient safety; it can also reduce the length of hospital stays and the chances of hospital readmission, resulting in cost savings too.”

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

Respondents focused on the importance of transparency, accountability and effective performance monitoring. The Scottish Council for Voluntary Organisations (SCVO) provided an example that whilst the 2025 MTFS included a welcomed commitment to two-year pilots for round fifty voluntary organisations, further progress remains unclear.

Many respondents argued that demonstrating progress towards fiscal sustainability will require clearer reporting against commitments, measurable milestones and regular updates on delivery.

The IFS highlighted that:

> “The Scottish Government has now notified the Committee that there will be no MTFS this year. Nevertheless, it would be reasonable to expect an update to the FSDP showing what progress has been made against key targets (e.g. workforce, administrative costs, specific measures of cost reduction) for each portfolio in line with the targets set out at the Spending Review. This could be either at the fiscal statement that the Deputy First Minister is due to present in September, or alongside the Scottish Budget.”

There was a reoccurring view that the publication of plans and strategies alone is insufficient, and that stakeholders need greater visibility of whether reforms, savings and transformation programmes are delivering their intended outcomes. Scottish Land & Estates also highlighted that regional information is also important. A national economy can appear relatively stable while individual rural and island areas lose working-age population, businesses and services. They suggest that fiscal sustainability should therefore include measures of whether economic activity and population are becoming more geographically balanced.

An individual response suggested that updates to the FSDP and the MTFS need to show clear measures of progress, setting out whether anticipated benefits were being achieved.

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

Responses were largely focused on the role of economic growth in supporting Scotland’s long-term fiscal sustainability.

Audit Scotland observed that:

> “The Scottish Government has not set out clearly enough how it plans to address the economic challenge presented by comparatively lower earnings and employment growth in Scotland in future years, and what this would do to support fiscal sustainability. For example, Audit Scotland’s 2024 report on the National Strategy for Economic Transformation noted that The Scottish Government’s 10-year economic strategy currently lacks collective political leadership and clear targets.
>
> Investment targeted at economic growth, and therefore also growing the tax base, requires funding to be clearly prioritised for initiatives and policies aimed at supporting economics growth. They also require defined targets and timescales to allow their success to be measured and monitored.”

Many respondents highlighted investment in people as a critical driver of economic growth. With particular emphasis on education, skills development, lifelong learning, workforce development and employability support.

Universities Scotland stressed that Scotland’s demographic outlook from 2030 means that growing the tax base in future will depend on the ability to increase participation in learning, work and reskilling throughout people's lives.

Public Health Scotland stated that improving population health should be seen as part of an economic growth strategy. Chest Heart and Stroke Scotland reiterated this view stating that people who are prevented from developing serious health conditions, or who receive the support they need to live well with them, are more likely to remain independent, participate in employment and contribute to Scotland's economy.

Professor David Bell’s response states that priority should be growth in earnings and employment, rather than simply higher tax rates. According to Professor Bell, this would involve:

1. **Labour supply:** Scotland needs to prevent economic inactivity, particularly among people with health conditions and among older workers. Employability policy should be increasingly integrated with NHS services, occupational health, rehabilitation and skills rather than treated as a separate labour-market programme.

2. **Skills and human capital**: funding should be tilted towards areas with demonstrable labour shortages and high productivity returns—technical education, engineering, digital capability, health occupations and high-quality apprenticeships. The objective should be employment and productivity outcomes rather than simply funded student places.

3. **Business investment and productivity:** the problem identified by the Fiscal Commission is not principally unemployment; it is weak trend productivity. Productivity growth of around 0.9% is not compatible with continuing service expansion funded by the public sector. Planning reform, infrastructure, innovation diffusion, management capability, digital adoption and access to capital all matter.

4. **Population and migration:** Scotland's ageing population makes retention and attraction of working-age people particularly important. Policies affecting housing availability, childcare, universities and graduate retention therefore have a fiscal dimension as well as an economic one.

5. **Tax-policy implication:** increasingly large differences between Scottish and rest-of-UK marginal tax rates should be evaluated not simply according to their static yield but also for behavioural effects on migration, hours, incorporation and the location of high-skilled employment.

On taxation, respondents expressed support for further reform, particularly in relation to Council Tax, alongside the use of progressive tax measures to increase public revenue.

The IFS highlighted:

> “Scotland’s tax and economic strategies have traditionally focused more on how economic growth can boost the tax base, rather than how the tax system can best support growth. With the main property taxes fully devolved, the Scottish Government has the opportunity to create not only a fairer but also a more growth-friendly system: a revalued and reformed council tax; a simpler business rates system, ideally based on land rather than property value; and the reduction or ideally abolition of the highly damaging LBTT, which gums up the property market, stymying labour mobility and business growth (with revenues made up via other taxes).”

Futures Economy Scotland noted that:

> “Council Tax has long been known to be a highly regressive and inefficient tax, with costs still based on property valuations from 1991. We recommend replacing the inefficient Council Tax and LBTT with a recurring Progressive Property Tax based on up-to-date property values.”

A reoccurring theme was the importance of investing in infrastructure to support productivity and create the conditions for sustainable growth. Respondents frequently identified housing, transport infrastructure, digital connectivity and energy infrastructure as priorities for public investment (further details can be found in response to question 9).

Public sector efficiencies

This section of the CfV asked two questions:

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

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

Key Themes

- Strong concerns that workforce reductions are being relied on too heavily.
- Repeated warning that "efficiency savings" could become service reductions in practice.
- Most commonly identified risks to revenues from devolved taxes were:
    - Weak economic growth
    - Lower labour market participation
    - Scotland's performance relative to the rest of the UK
    - Demographic challenges and ageing population
    - Dependence on higher earners and relatively narrow tax bases

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

Responses generally recognised that improving efficiency and productivity across the public sector will be an important component of addressing Scotland's fiscal challenges.

However, there was widespread scepticism that efficiency measures alone can deliver the scale of savings required to address projected fiscal pressures, particularly given growing demand for public services and existing workforce pressures.

Aberdeenshire Council noted that:

> "Put simply, public services cannot efficiency their way out of the challenge. Long-term sustainability will also require prevention, economic growth and reform of how services are delivered.
> The risk remains that efficiency targets become reductions in service capacity unless accompanied by genuine transformation."

With South Lanarkshire Council noting that planned efficiencies:

> "They may contribute significantly to closing medium-term funding gaps, but there is considerable uncertainty over whether they can be delivered quickly enough and on a sufficient scale to make public services sustainably affordable on their own."

Future Economy Scotland stated:

> "If projected savings fail to materialise, the risk is that headline "efficiencies" translate into service cuts rather than genuine productivity improvements. More fundamentally, delivering the Scottish Government's key priorities of growing the economy, eradicating child poverty, and ensuring a just transition to net zero depends on strong and sustained public sector capacity. A government capable of coordinating large-scale decarbonisation, investing in infrastructure, supporting vulnerable households, and reshaping markets must have the institutional capability and workforce to do so. Significant reductions in headcount risk weakening that capacity at precisely the moment when strategic leadership, policy delivery and frontline services need to be strengthened."

Transparency to what these "efficiencies" will look like was also a reoccurring theme. The IFS noted that the overall scale of the planned efficiencies themselves does not seem unrealistic or undeliverable. According to the IFS, the real proof will be in the implementation, which will require much more detail than has currently been made available in the FSDP and the Annex to the Scottish Spending Review.

Police Scotland stated that:

> "Greater transparency is required regarding the composition of the projected savings, including the balance between cashable savings, cost avoidance, workforce reductions, service redesign, demand reduction and productivity improvements. Without this level of detail, it is difficult to assess whether the anticipated efficiencies are achievable and sustainable."

An individual response suggested that smaller public bodies, especially in rural settings, will face limits in terms of the efficiencies that can be delivered due to economies of scale.

What are the main risks to revenues from devolved taxes?

There were a range of risks cited that could affect the performance of Scotland's devolved tax revenues and, in turn, the sustainability of the public finances. One of the most commonly identified risk was Scotland's economic performance relative to the rest of the UK. Respondents noted that weaker economic growth, lower earnings growth, slower population growth and reduced labour market participation could all constrain future tax revenues and place additional pressure on public finances.

The IFS noted the risk involving the potential for UK policy decisions to affect devolved tax revenues directly, or the block grant, stating the following example:

> "The shape of Scotland's income distribution means that freezing the personal allowance will have increased revenues relatively more in Scotland than in England and Northern Ireland, increasing the net contribution of devolved income tax revenues. While speculation about a potential increase in the personal allowance has quietened somewhat an increase would conversely reduce revenues by more in Scotland. (Although it is possible that for a large above-inflation increase, the Scottish Government could argue for a compensatory payment for a policy spillover effect as it did for late 2000s increases in the personal allowance). It is also worth noting that even if UK policy decisions do not apply directly in Scotland, they may create political or financial pressure to follow suit."

Behavioural responses to the differences in tax systems between Scotland and the UK were also cited. Fraser of Allander (FAI) have outlined this divergence over the last five years, stating:

> "The difference is greatest at incomes between £43,663 and £50,270, due to the Scottish higher rate starting at a lower threshold. In this income range, employees in Scotland face a marginal tax rate 22 percentage points higher than the rate faced by taxpayers elsewhere in the UK earning the same income. This differential may motivate some employees to adjust their working behaviour through reducing hours worked, taking a pay cut in exchange for other benefits, or using salary sacrifice arrangements to reduce taxable income."

COSLA, SOLACE and DoF expressed the view that:

> "From a Local Government perspective, the main risks to revenues from devolved taxes are closely linked to the wider role councils play in shaping the economy and supporting the conditions for sustainable growth. Devolved revenues are affected by labour market participation, productivity, earnings growth, housing availability, transport connectivity, educational attainment, employability support, town centre vitality and the quality of public infrastructure. These are all areas where Local Government has significant statutory, delivery and place-shaping responsibilities. This means that risk to devolved tax revenues cannot be separated from the sustainability of Local Government funding.

Alongside concerns regarding the volatility and uncertainty of devolved tax revenues, respondents noted the importance of ensuring that tax policy decisions are informed by a clear assessment of their wider economic impacts. Audit Scotland emphasised this point, stating:

"It is fundamental that the tax strategy considers the implications of decisions related to devolved taxes, including income tax, and the overall costs and benefits of these. This must consider, for example, the balance between decisions aimed at raising additional revenues to support public services and the impacts these could have on economic growth and the behaviour of taxpayers."

Preventative spend

This section of the CfV asked three questions:

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?

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

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?

Key themes

- Prevention has been discussed for years but respondents feel budgets remain focused on crisis response.
- Short-term budget cycles undermine long-term prevention, with many calls for multi-year funding as a prerequisite for prevention.
- The new budget tool being developed by the Scottish Government is welcomed, but alone it will not create systemic change.
- Capital spending priorities most frequently identified were:
    - Housing
    - Transport
    - Digital connectivity
    - Energy transition and net zero infrastructure
- Most respondents felt borrowing powers and the Scotland Reserve are useful but too limited. Greater flexibility would help manage volatility and support long-term investment.

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?

There was a widespread view that despite longstanding commitment to prevention, progress in embedding preventative approaches across public spending has been limited.

As Scottish Care observed for many years prevention has been identified as a strategic priority, yet spending decisions continue to favour responding to crisis rather than preventing it.

A recurring theme was that public services and budget-setting processes remain largely focused on responding to immediate pressures rather than investing in interventions that could reduce demand in future years. Respondents frequently argued that short-term budget cycles, annual spending decisions and pressure to address immediate service demands create barriers to preventative investment.

Carnegie UK stated that:

> “The 2025 Public Service Reform Strategy acknowledges that progress has been limited and renews the commitment to prioritise prevention. Across this period, however, preventative spending has not consistently been linked to a clear, measurable and government-wide set of outcomes. This makes it difficult to determine whether preventative activity has achieved or progressed towards its intended objectives or contributed to wider improvements in wellbeing. A vital next step is therefore to establish clear outcomes for preventative spending and connect these to objectives, delivery plans and accountability arrangements.”

The majority of respondents, while welcoming the Scottish Government’s development of the Preventative Budgeting Tool, cautioned that improved measurement alone would not drive change unless accompanied by wider reform.

FAI observed:

> “Plans to tag the Scottish budget annually for spending on prevention is a good first step towards a preventative budgeting process. However, we would emphasise that tagging is not the same as budgeting through a preventative lens and more will be required to change how the budget is set. As we have said before, tagging establishes budgeted spend on preventative measures. Its usefulness depends on how it is used in setting future budgets or in evaluating whether commitments have been met.”

Scottish Human Rights Commission reinforced this view in suggesting:

"Many preventative interventions take time to deliver measurable benefits. In addition, the costs and benefits often fall across different organisations and budget portfolios. This reinforces the need for strategic planning, robust evaluation and regular reporting. These practices allow Parliament to assess whether preventative investment delivers outcomes and contributes to sustainable public finances."

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

A recurring theme was the importance of investing in growth-enabling infrastructure. Housing, transport infrastructure, digital connectivity and energy infrastructure were among the most frequently cited priorities. Respondents argued that investment in these areas can improve economic performance, support labour market participation, unlock private sector investment and strengthen Scotland's long-term economic resilience.

Professor David Bell argues that capital should be ranked principally according to its social rate of return and effect on productive capacity, rather than distributed proportionately between portfolios. He expressed the view that the:

"The Infrastructure Delivery Pipeline currently identifies £11.1 billion of specific investment and recommends that the Committee ask for projects to be ranked using comparable metrics: net present value, benefit-cost ratio, private capital leveraged, productivity effect and whole-life fiscal cost.

It is worth noting that capital budgets are facing constraints. As FAI highlights:

"Constrained capital budgets create challenges for long-term investment planning. While capital budgets should be allocated to the delivery of projects identified in the new Infrastructure Delivery Pipeline, the funding gap to 2029-30 suggests that the £11.1 billion in planned investment may not be deliverable. In particular, projects in the "development" pipeline may face further delays or cancellations, compared to projects in the delivery pipeline, as they do not currently have funds allocated for them."

COSLA, SOLACE and DoF highlighted that capital spend is important to support the continuation and improvement of social capital, as the assets and buildings in communities support the delivery of services and connections locally e.g. libraries, community centres, leisure centres, schools etc. They identified that creating a reliance on borrowing, rather than capital settlement, for the delivery of capital projects has an impact. Noting that the:

"£680 million capital settlement in 2026-27 supports £55 billion worth of LG assets. This includes responsibility for the maintenance of around 53,000km of roads, and the maintenance of around 2,400 schools and just under 400

> public pools. The Accounts Commission reported in January 2026 that the 2024-25 financial year saw council debt increase by over £2.5 billion in the year… Communities are impacted by the effect that a declining capital budget has on the quality of local infrastructure including roads and community assets.”

IPPR Scotland make the point that maintenance of existing infrastructure should not be overlooked, especially as sufficient expenditure on maintenance will save costs in the long run.

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?

Responses generally focused on the role that financial flexibilities, including borrowing powers and the Scotland Reserve, can play in supporting fiscal sustainability and managing financial risk. Many respondents recognised that the current flexibilities provide useful tools for managing volatility and responding to short-term pressures. However, there was a common view that existing powers are relatively limited and constrain the Scottish Government's ability to plan and invest over the longer term.

Carnegie UK argued that Scotland's borrowing powers remain limited, particularly compared with international standards, restricting their use for long-term investment and preventative spending. The organisation advocated enhanced borrowing powers for both capital and resource expenditure to support infrastructure investment, preventative programmes and improved long-term wellbeing outcomes.

The IFS suggested further improvements that would be warranted in the next fiscal framework review. These can be summarised as follows:

- **Increase flexibility within borrowing and reserve limits** by indexing them to revenues and spending levels rather than inflation, ensuring their value does not diminish over time.

- **Review current borrowing restrictions**, including removing annual borrowing caps for forecast errors while retaining overall borrowing and repayment limits to maintain fiscal discipline.

- **Provide greater resource borrowing powers** to help manage forecast revenue shortfalls, economic downturns and unexpected spending pressures, alongside existing powers for capital investment.

- **Allow limited discretionary borrowing for resource spending**, enabling the Scottish Government to respond more effectively to financial shocks and policy pressures while maintaining safeguards through overall borrowing caps and repayment requirements.

- **Balance greater flexibility with fiscal responsibility**, recognising that extensive or uncapped borrowing powers could raise wider UK fiscal and fairness considerations.

Alternative financing approaches

This section of the CfV asked one question:

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?

Key themes

- Broad willingness to explore alternative financing models.
- Strong caution against repeating mistakes associated with PFI and PPP arrangements.
- Any financing approaches should demonstrate:
    - Value for money
    - Transparency
    - Affordability
    - Clear risk management
    - Alignment with strategic priorities

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?

Respondents generally recognised that alternative financing approaches could play a role in supporting investment and improving fiscal resilience, particularly given the constraints on public finances and capital budgets.

Fraser of Allander observed that

> "Scottish Government's options for managing fiscal pressures exist, but are more limited than those available to the UK Government. We note especially that this year, there will be a negative income tax reconciliation of £728 million that will be applied to the 2027-28 budget. This exceeds the £670 million forecast borrowing limit for 2026-27, so the Scottish Government will need to find funding from elsewhere to cover this shortfall."

Many respondents were open to exploring a wider range of financing mechanisms to support financial resilience, infrastructure development, economic growth and public service transformation. However, there was a strong consensus that alternative finance should complement rather than replace sustainable public funding, and that any approach should be carefully assessed against value for money, affordability, transparency and long-term outcomes.

Carnegie UK emphasised:

> "The choice of mechanism should be guided by its contribution to long-term public value rather than by the availability of finance alone. Any model should be assessed transparently against its whole-life costs, distribution of risk, implications for public accountability and contribution to the collective wellbeing of people in Scotland. "

Professor David Bell noted:

> “While bonds and [the mutual investment model] MIM can alter when expenditure is paid and who initially supplies the capital, they are not free money. They both generate a stream of future payments that must be set aside before the annual budget can be allocated. Domestically issued bonds have some advantages: greater maturity flexibility; development of a Scottish institutional-investor market; potentially greater visibility among international investors; matching long-lived assets with long-term liabilities.”

Audit Scotland outlined that:

> “While these approaches can unlock additional funding beyond traditional budgets, private finance costs more than traditional forms of financing, affecting future budgets for many years. The Scottish Government has previously accepted these costs to enable additional investment to take place. But it was not clear enough about how decisions were taken about which projects would use private finance, or how well this achieved the best balance of cost and benefits in practice. The deployment of the MIM to supplement available capital budgets must consider additionality alongside longer-term affordability, risk and value for money assessments.”

IPPR Scotland is sceptical that bonds are worth pursuing at this particular juncture, noting that:

> “While there is a strong case that the process of issuing bonds can help build Scottish government capacity by extending knowledge of and engagement with financial markets, the higher costs are difficult to justify when the fiscal challenge is so pressing. We have yet to see specific proposals for the Mutual Investment Model but would be sceptical that this will reduce long-term costs. Indeed, as we have seen with previous waves of PFI there is a risk of such an approach leading to higher costs and lower quality services.”

Rachel Cook and Andrew Feeney-Seale, Senior Researchers, SPICe

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