18 August 2026

Pre-budget scrutiny 2027-28: the affordability and sustainability of Scotland’s tax and spending plans

Finance and Public Administration Committee, Scottish Parliament

Response from ICAS

Pre-budget scrutiny 2027-28: the affordability and sustainability of Scotland's tax and spending plans

1. The Institute of Chartered Accountants of Scotland ('ICAS') is the world's oldest professional body of accountants. We represent over 24,000 members working across the UK and internationally. Our members work in the public and not for profit sectors, business and private practice. Approximately 12,000 of our members are based in Scotland and 10,000 in the rest of the UK. ICAS has a public interest remit, a duty to act not solely for its members but for the wider good.

2. We welcome the opportunity to respond to the Finance and Public Administration Committee's inquiry, "pre-budget scrutiny 2027-28: the affordability and sustainability of Scotland's tax and spending plans". The following submission has been prepared by the ICAS Public Sector Panel and Tax Board.

General comments

3. Concerns about the sustainability of public services have been raised repeatedly over the years. The challenge for public service reform goes back to the 2011 Christie Commission (if not earlier). We note that the Auditor General for Scotland has challenged a lack of progress in 2021[1] and again in 2024[2] warning that Scotland had fallen short of that ambition. Meanwhile, demand levels are expected to increase. This is a worrying trajectory. While some progress is being made, it does not yet reach the scale or pace required to achieve meaningful change.
4. Achieving financial sustainability needs a combined effort to address the scale of the challenge. It is not just about savings or taxation or reform. It is also about a sustained long-term approach to set the policy direction and agree choices about where to spend less and what will deliver the planned outcomes most effectively.
5. ICAS believes that the ambition for a strong, sustainable and effective Scottish public sector needs to be articulated and supported by a coherent long-term "whole of government" strategy which integrates economic growth, tax, fiscal sustainability, public sector reform and public service strategies to present a coherent and consistent direction. It would also support prevention-based strategies which require sustained multi-year investment, whole-system thinking and outcome measurement across sectors.
6. A focus on the bigger picture would offer a more holistic context to optimise decision-making, maximise impact, ensure consistency of action and reduce the risk of unintended impediments across different parts of government. Such a strategy would help clarify the interconnections across government to achieve improved outcomes and how the different parts of government can work together to generate efficiencies and support financial sustainability. It also serves to provide clarity on the rationale and promote consistency of action to support ministers making difficult or sensitive decisions.
7. This needs to be achieved quickly to achieve consensus and enable people to understand how they can support the vision, see what reform looks like, what support is needed and for this thinking to be reflected in a public sector reform strategy.
8. Without such a strategy, it is also harder for the general public to get an overall picture. A concise high-level strategy setting out how the Scottish public sector will be improved and become sustainable is an important communication tool to increase public understanding of the current position, the choices and actions needed, timescales and to obtain buy-in for changes. It is an important part of ensuring transparency and accountability to taxpayers for policy decisions and how public money is spent.
9. For business, an integrated long-term strategy based on the three pillars offers direction, stability and supports confidence to promote investment.
10. Achieving sustainable services will be challenging and need time for the benefits to emerge. To maintain direction, stability and focus will require strong leadership.

[1] Blog: Christie 10-years on | Audit Scotland
[2] Shrewd approach needed for public sector success | Audit Scotland

Specific Questions

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

11. We are supportive of the three pillars approach however, while the Spending Review focuses heavily on managing expenditure there is insufficient detail and attention to economic growth and the tax strategy. In our view, a more balanced and aligned approach across spending, economic growth and tax policy is essential to strengthen the public finances and offer stability for business.
12. Tax and spending cuts are insufficient alone to meet the increasing financial gap. Strong economic growth is fundamental to long-term fiscal sustainability. More detail is needed on the long-term economic growth and tax strategy to clarify how public services will be funded and supported, how the tax base will grow, how Scottish public services can become sustainable[3] and what reform is needed.
13. Budgets and strategies are heavily sector-driven and focused on the short term whilst the challenges and public service outcomes are long-term. We believe that a higher-level "whole of government" strategy is fundamental to provide a coherent top-level vision and generate a shared understanding of how the public services will be funded. This would strengthen consistency of decision-making across different sectors and explain how implementation of a preventative-based approach to manage future demand challenges will be supported.

Tax perspectives

14. It is positive that the 2026 Scottish Spending Review SSR acknowledges the interdependence of tax policy, economic growth and public services. However, it is less clear how a strategic approach to tax will be realised to help achieve these outcomes.
15. We would encourage future work to develop the tax strategy[4] into demonstrable actions that can support the SSR and the aims of the Scottish Government. This should address the degree to which tax is expected to contribute to the fiscal gap and the direction of Scottish tax policy.
16. The fiscal challenges are significant but a clear, long-term framework for tax in Scotland, which expands on the established tax strategy, would help to deliver the necessary funds to support fiscal sustainability.
17. To support tax policy making, we also encourage the publication of a long-term outlook for Scotland. The fiscal framework creates greater uncertainty over forecast tax revenues, since UK tax policy decisions can have a significant impact on the funding available to Scotland. This makes a long-term outlook more critical and necessary to understand the scale of the challenges ahead and make better decisions to tackle long term uncertainty.
18. We recommend that the Scottish Government:
    - Create integrated multi scenario projections for demographics, productivity, migration, climate transition and fiscal sustainability, and
    - Use scenario planning to evaluate policy options, which include the impact on Scotland's budget and devolved tax revenues.
19. We highlight Ireland's report Future Forty: a fiscal and economic outlook to 2065[5] as best practice in this area. This report is a long-term analysis modelling over 2,000 economic and fiscal scenarios. The scope includes demographics, digitalisation, decarbonisation, deglobalisation, housing, healthcare, migration and EU expansion. It uses a no policy change baseline, enabling new policies to be measured against a neutral reference.
20. The modelling of over 2,000 scenarios offers transparency on the uncertainties that Ireland faces and strengthens resilience planning. Scotland, while unique in its devolved tax framework, faces many similar challenges to Ireland such as a narrow tax base, volatility in fiscal revenues and demographic concerns. Therefore, a similar project could provide wide ranging benefits to supporting Scotland's fiscal sustainability.

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

21. The principal risks are achieving financial sustainability, weak economic growth, erosion and concentration of the tax base, relative performance of the Scottish tax base compared with the rest of the UK and slow labour market growth. Addressing these risks requires a coherent long-

[3] AGS press release Short term measures not addressing gap in public sector finances
[4] Scotland's Tax Strategy: Building on our Tax Principles - gov.scot
[5] Future Forty: A Fiscal and Economic Outlook to 2065

term strategy that aligns economic growth, tax policy, fiscal sustainability and public service reform. The strategy should recognise the tax-base gap and show how Scotland will attract higher earners and investment.

22. A significant risk is the tendency to pursue financial sustainability within individual sectors rather than through a broader whole-of-government approach. This can lead to siloed decision-making, insufficient consideration of interactions between services and missed opportunities for cross-sector reform and efficiencies. Decisions taken in isolation may improve the position of one area while creating costs or pressures elsewhere. This reduces cohesion across services in pursuit of individual savings and impedes progress.
23. The budget cycle remains relatively short-term compared with the timescales required for reform, innovation and service transformation. This creates a risk that immediate pressures are prioritised over longer-term objectives, delaying progress and increasing future costs. Given the recurring structural fiscal gap, a longer-term plan is needed to demonstrate how financial sustainability will be achieved to meet spending plans.
24. Workforce costs constitute a major element of the budgets. This limits the ability to achieve significant efficiencies and increases the challenge to achieve savings within existing parameters. This indicates the importance of structural reform and service redesign. Pressure has been further increased by the public sector above inflation pay settlement. While general inflationary pressures remain relevant, pay costs present the more significant challenge. Feedback from our members suggests that some organisations may struggle to absorb both pay and inflationary pressures within existing budgets.
25. We question the rationale of agreeing the pay settlement increases then following this decision with workforce reductions through public sector reform. Reductions can generate extra costs, and if leavers are eligible to claim benefits it shifts costs elsewhere in the public sector which is inconsistent with the purpose of reform. Feedback from our members highlights that given the available public sector funding and demand pressures, the scale of the pay settlement is not affordable across all sectors and a long-term pay policy is needed which fits within that reality.
26. The assumption that all sectors face similar cost and demand pressures, and the expectation to remain sustainable is worth challenging. The ability to absorb pay and inflationary increases varies across the public sector and does not recognise particular circumstances. For example, local government has experienced sustained financial constraint over many years, and the education sector[6] have reported real-terms funding reductions. As budgets tighten, achieving further percentage-based savings becomes progressively more difficult.
27. Maintaining political support for difficult efficiency and reform decisions represents another risk. Significant recurring savings may require service redesign, rationalisation of assets or closure of facilities that are no longer sustainable or surplus to requirements. There remains a risk that even where proposals are supported by evidence and aligned with strategic objectives, politically sensitive decisions may not receive final approval.
28. A whole of government strategic framework that explains the rationale for reform, efficiencies and prioritisation would provide a stronger basis for consistent decision-making. It would strengthen confidence that difficult decisions are being taken within a coherent framework. This needs to be accompanied by strong leadership to maintain strategic progress.
29. An integrated strategy needs to be openly communicated to the public to increase awareness and buy-in. Whilst we see multiple published strategic documents and plans, it needs to be easier for the public to access and understand the key messages, quickly. This was raised in our previous submission– "*The strategic landscape still appears cluttered…Simplification supports clearer communication to citizens*."
30. Health is a significant component of projected savings and there is a relatively new set of strategic documents. It remains to be seen if the improvements and initiatives identified (which are not all cash based or quantified) deliver at the scale and pace required. Certainty of delivery and the ability to achieve long-term fiscal sustainability is still uncertain.
31. Demand pressures remain a significant risk. Future demand for health services, social care and social security expenditure is inherently difficult to forecast and may exceed current assumptions. For social security in particular, changes in UK Government policy can have direct implications for Scottish expenditure and funding requirements. These uncertainties reinforce the need for contingency planning and ongoing monitoring.
32. Sustained growth in demand for public services will continue unless there is successful investment in prevention and early intervention measures. Delivering preventative approaches requires long-term planning, investment and reform. Without meaningful progress in these areas, demand

[6] AGS press release Colleges feeling impact of funding cuts & Paper-1_Colleges-Cover-Note_18-June

pressures are likely to continue growing, making financial sustainability increasingly difficult to achieve.

Question 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?

33. While the MTFS identifies financial pressures and the gap between spending plans and available funding, it does not fully explain how growth, tax and reform measures will close the gap.
34. There is a risk that spending decisions appear driven by immediate financial pressures rather than long-term objectives, and short-term decisions are made rather than focusing on the longer-term objectives.

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

35. A five-year horizon supports medium-term planning but is on its own, too short to provide the strategic perspective needed for public services which operate on far longer timescales than political horizons. Planning and budgets need to better align with the longer timescales of public service delivery and outcomes to demonstrate effectiveness. For example, the five-year MTFS is not aligned with recent NHS and HSC strategy documents which apply a ten-year horizon.
36. Spending forecasts currently apply an inflationary uplift and incremental changes to the budget. This does not consider the impact of planned reforms, service delivery changes and efficiencies, such as shifting the balance of care into the community and investing in prevention. Forecasts should demonstrate how planned reforms will affect costs, service delivery and resource requirements, rather than simply rolling forward existing spending patterns. This risks creating a disconnect between strategic ambitions and financial planning.
37. While quantifying forecasts is challenging, financial strategies and reform ambitions cannot be considered separately. The MTFS and FSDP should show how reforms are expected to change spending trajectories over time to provide a bridge between current spending and a future operating model. This would support monitoring and accountability.
38. Further details of how targets will be achieved and quantification of cash savings would support evaluation of their effectiveness, monitoring and accountability. To demonstrate that the Scottish Government is on track, future updates should include:
    - measurable milestones and delivery dates;
    - quantified efficiency and cash-saving assumptions;
    - the expected financial and service impacts of reform;
    - evidence of progress against reform outcomes; and
    - stronger integration/alignment with wider strategic objectives.
39. A longer-term perspective better supports monitoring, accountability and assessment of whether reforms are delivering the intended benefits and improving long-term fiscal sustainability.

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

40. Growing Scotland's tax base should be viewed as a long-term strategic objective rather than simply a question of increasing tax rates. The most sustainable approach is to increase economic activity, earnings, productivity and participation while ensuring the Scottish tax system remains competitive, understandable and trusted.
41. Since the devolution of additional tax powers, Scotland's budget has become increasingly dependent on the relative performance of the Scottish tax base compared with the rest of the UK. Income tax revenues are heavily influenced by earnings growth and labour market participation. Therefore, it is imperative to the fiscal sustainability of Scotland to grow the tax base and avoid an over-reliance on a narrow concentration of (potentially mobile) taxpayers.
42. The recent outturn statistics show that in 2024/25, 22% of Scottish taxpayers (being higher, advanced and intermediate marginal rate taxpayers) account for 68% of Scottish income tax[7]. While this is not dissimilar to the statistics for the rest of UK, the particular importance of Scottish income tax to Scotland's budget and the ease with which intra-migration is possible, means it has more significance for securing fiscal sustainability.

[7] Scottish Income Tax Outturn Statistics - 2024 to 2025 - GOV.UK

43. The distribution of Scotland's taxpayers should be monitored and consideration given to how changes may affect Scottish income tax receipts. For higher earners, particular consideration should be given to both behavioural changes (purposive attempts to reduce taxable income) and the volatility of higher salary growth in Scotland. Analysis by Future Economy Scotland of HMRC data shows that Scotland has much more historical volatility in those top earners than the rest of the UK[8].
44. There should also be consideration of how the tax landscape impacts on taxpayers and public finances for example, how the cumulative effects of different taxes may impact on behaviour, productivity, inequality and tax receipts. A holistic approach to tax is therefore needed.
45. This would consider how local taxes such as non-domestic rates and council tax impact on and compound with other devolved taxes such as Scottish income tax, and whether the interaction supports economic growth or produces any unintended effects. It should also look beyond Scottish taxes and consider the interactions with reserved taxes and how this may encourage or discourage economic growth and attractiveness of Scotland to taxpayers.
46. Recent data shows that real earnings have risen slowly since 2008 and are 25% below where a person in 2007 would realistically expect them to be today[9]. Addressing this lack of growth to the extent possible by the Scottish government is a critical component of any future strategy for economic resilience.
47. A fuller understanding of the alignment of tax policy choices with economic policy choices to support economic growth is also needed. This would include detailed analysis of the factors affecting the Scottish tax base compared to the rest of the UK and the risks and opportunities for growth. Choices around tax policy making should acknowledge the power that tax has to influence the social and economic outcomes for the people of Scotland and help to support social mobility.
48. We would also reaffirm the importance of wide and robust consultation on any tax policy matter. With the recent disbanding of the Tax Advisory Group, we would encourage continued use of expert groups to discuss areas of tax policy and help to ensure robust decision-making and accountability. ICAS strongly promotes the benefits of consultation in tax policy making and operational tax decisions. Lack of thorough engagement increases the risk of unintended consequences and in poorly designed policy or legislation that needs to be later amended.
49. To help create a sustainable tax base for income tax purposes, we recommend focusing on two specific areas:
    - Encouraging Scottish entrepreneurship and business growth, and
    - Attracting higher rate, advanced rate and top rate taxpayers to Scotland.

Encouraging Scottish entrepreneurship and business growth

50. The recent outturn statistics for 2024/25 show that self-assessment tax revenues are proportionally lower in Scotland than the rest of UK and have decreased from 2023/24. While there are investment and incentive decisions to be made here that are beyond the scope of tax, we would highlight that poor understanding of the tax system may contribute to fewer entrepreneurial activities. If individuals are not sure of how the tax system operates, particularly in the case of self-assessment or employing people, this may discourage them from pursuing this route.
51. We would therefore encourage tax literacy as part of the school curriculum in Scotland, so that school leavers have the confidence to navigate tax and to understand the tax system in Scotland, including how we raise and spend money. This will also additionally help to reduce lack of compliance: if taxpayers understand their tax obligations better and have increased tax morale, they are more likely to engage with the tax system.
52. In encouraging entrepreneurship and business growth, we would highlight that tax is only one tool in the policy toolkit and there will be other measures that can better support economic growth than pure tax considerations.
53. The non-domestic rates system can present challenges for businesses trying to expand and anecdotal evidence shows that sometimes businesses struggle to pay when a revaluation is made. Therefore, we support the Scottish Government's recent announcement that an independent panel will be introduced to assess the outcome of the 2026 revaluations. The non-domestic rates system should support, or at very least not hinder, business growth, especially considering the Scottish Government's own commitment to economic growth.

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[8] Has Scotland's 48% tax rate really reduced public revenue? | Future Economy Scotland
[9] Britain's Prosperity Gap: Establishing the baseline — 2030 Prosperity Alliance

54. Developing the growth strategy will require long-term thinking to articulate what a resilient economy in Scotland looks like, including the gaps, risks and opportunities.

Attracting higher rate, advanced rate and top rate taxpayers to Scotland

55. HMRC intra-migration data shows the positive impact for Scotland in terms of inward intra-migration is mainly driven by basic rate taxpayers. Attracting higher rate taxpayers, along with growing economic opportunities for those basic rate taxpayers who migrate to Scotland to increase their earnings, would help to create a more sustainable tax base. Particularly as we know that the majority of Scottish income tax is raised by those in the higher rate bands and above.
56. Attracting higher earners will involve multiple, intersecting factors but the prevalence of strong business sectors with lucrative and stable jobs will be of importance. Creating opportunities for real growth in terms of earnings will also drive sustainable tax revenues in those higher bands. The ease with which individuals can move from Scotland to the rest of the UK and vice versa is both a real challenge and an opportunity, and this should be factored into tax policy decisions.
57. The freezing of income tax bands has meant that fiscal drag has driven some of the increase in tax revenues in higher bands, rather than being generated by real earnings growth. This was noted in the recent outturn report as increasing the higher, advanced and top rate taxpayers in Scotland. We would caution against fiscal drag as a mechanism to increase future tax revenues, since this does not stimulate the economy, worsens the cost-of-living crisis, and does not take account of the effects of inflation.

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

58. Efficiencies are an important component of the three-pillar approach, but we are not convinced that efficiencies alone will be sufficient to deliver sustainable public services. Moreover, it is not simply a question of achieving efficiencies; choices and prioritisation are required. Decisions about public spending should be informed by the holistic long-term strategy[10] to support transparent decision-making between competing demands and priorities. Greater transparency about those choices will be important in maintaining public understanding, support and confidence.
59. Economic growth is fundamental to increasing the tax base and generating the revenues needed to support public services. Long-term sustainability requires a holistic strategy articulating how this will be achieved and sound financial management.
60. Simplification and deregulation also present opportunities to support efficiency. Complexity, duplication, silo working and fragmented governance (across sectors or multiple organisations) can create barriers to reform and improvement. Reducing organisational complexity, streamlining processes and reporting requirements, embracing innovation and digital transformation and simplifying regulation where appropriate could help maximise productivity and support more sustainable service delivery.
61. Addressing the recurring fiscal gap is not a short-term challenge but a structural issue that has developed over many years. It requires a long-term, multi-year response focused on reform and modernisation that delivers measurable outcomes. We caution against an over-reliance on annual percentage-based efficiency targets applied uniformly across services. Such approaches risk overlooking the different circumstances, pressures and opportunities within individual sectors.
62. A more fundamental approach would focus on service redesign, digital transformation, greater collaboration and joint working, reduced duplication and shared services where they are cost-effective. Workforce reductions should be supported by service redesign and changes to operating models if they are to deliver sustainable benefits.
63. We also encourage greater transparency about the nature of planned efficiencies and their impact on services. Distinguishing between efficiencies that improve productivity or deliver the same or better outcomes for less cost and measures that reduce service provision would improve accountability and understanding and support decision-making.
64. Maintaining sound financial management, affordability and spending control remains essential. Robust financial management and governance play an important preventative role in reducing financial risk and supporting long-term sustainability. They should be viewed as supporting the effectiveness of efficiency programmes, not separate from them.
65. A broader and longer-term perspective is important to assess the benefits and trade-offs of spending decisions. In particular, greater consideration of opportunity costs and how alternative

[10] See paragraph 5 – an integrated, whole-of-government strategy including economic growth, taxation, public sector reform and fiscal sustainability.

uses of resources have been evaluated can help to optimise decision-making on choices. It can demonstrate how well decisions align with strategic priorities and national outcomes, whether they are affordable and sustainable, and the extent to which they deliver short, medium or long-term benefits.

66. This is particularly important during periods of reform and investment in preventative approaches, and where there are competing demands across sectors. Without such an approach there is a risk of expenditure increasing without achieving intended outcomes, resulting in continued pressure on already stretched public services.
67. For example, the Auditor General has highlighted decisions that have had cumulative financial consequences over time, including above-inflation pay settlements[11] and expenditure commitments that extend beyond available funding. Such examples illustrate the importance of evaluating longer-term financial impacts and opportunity costs when making policy decisions.
68. More generally, concerns about the sustainability of public services have been raised by a range of stakeholders over many years. The longer structural financial challenges remain unaddressed, the more difficult and costly they become to resolve. Long-term planning, early intervention and timely reform are therefore essential if public services are to become financially sustainable.

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

69. The largest devolved tax revenue source is income tax, making Scottish revenues particularly sensitive to employment levels, earnings growth and the number of higher earners in Scotland. Any underperformance of the Scottish economy relative to the rest of the UK can adversely affect the Scottish Budget and fiscal sustainability. The risks around this have been discussed in detail at question 5. We will therefore focus on other risks to devolved tax revenues.
70. A potentially significant risk, but one which is difficult to quantify is the impact of AI on the tax base and how this might affect Scottish income tax receipts. It is noted that the Scottish Government has committed to a Future Jobs Panel in its recent AI strategy[12] and this measure should provide support in assessing the long-term risk to the tax base from technological advancements. AI has the potential to alter the labour market in ways which may not be easy to predict but which could have huge repercussions for Scotland's fiscal sustainability, for example through creating new types of jobs, changing the way entry level roles work, business models moving from physical presence to online, or removing the need for certain types of jobs completely. Since the advancements in AI and automation move rapidly, the Scottish Government should be monitoring these developments carefully, and considering budget implications.
71. While there is limited evidence of significant impacts to intra-migration driven by taxation, perceptions of competitiveness may influence decisions regarding investment, recruitment and location, particularly for highly skilled individuals and mobile businesses. The data for UK intra-migration cannot assess the counterfactual (i.e. what might have happened if Scotland did not have the six-band income tax system, or if tax rates were the same as rUK[13]) so it is important to still consider the impact that perceptions of competitiveness may have for devolved tax revenues.
72. Tax revenues rely not only on legal obligations but on public willingness to comply with the tax system. Tax morale can be undermined where taxpayers perceive the system as unfair, overly complex or lacking transparency. Improving public understanding of how devolved taxes operate, and how tax revenues support public services, may strengthen confidence in fiscal policy.

Question 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?

73. A preventative approach is central to reform, reducing demand and improving outcomes. Preventative spend has not achieved its intended outcomes because the conditions needed for prevention have not been consistently in place. Prevention requires sustained multi-year investment, whole-system thinking, planning and clear outcome measures across services, sectors and lifetimes. In practice, budgets and strategies remain largely short term and sector based, while immediate operational pressures continue to consume resources that could otherwise support reform.

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[11] The 2024/25 audit of the Scottish Government Consolidated Accounts and other publications (see also ICAS submission 2024)
[12] Scotland's Artificial Intelligence strategy 2026-2031 - gov.scot
[13] Rest of the UK

74. This makes it difficult to invest now in changes whose benefits may emerge only over several years. It also risks reinforcing organisational silos, funding small, disconnected projects, or withdrawing support before benefits can be demonstrated. Reports from members suggest that preventative investment has often been limited, inconsistent and insufficiently sustained to deliver change at the scale required.
75. Political considerations can make it difficult to commit to preventative investment where benefits are long term and may not be visible within short political or budget cycles. Political sensitivity can also prevent final approval of business cases for service closure or redesign, even where these support reform. Clearer national priorities and transparent evidence on costs, benefits and outcomes would help support more consistent decisions.
76. A stronger whole-of-government strategy is needed to set the long-term ambition, define the reform required and clarify how different services contribute to shared outcomes. For example, investment in education, skills, technology and local employment can support economic growth and help reduce poverty, poor health and future demand for services. These links are often missed when decisions are made within separate budget lines or short annual cycles. A focus on the big picture promotes understanding of the scale and type of reform needed.
77. Progress on reform has been too slow despite repeated warnings about growing financial pressures and service risks[14]; the pace now needs to increase, supported by clearer priorities, sustained investment and stronger accountability for delivery.
78. A Preventative Budgeting Tool could help by making these long-term and cross-sector effects more visible. It should track investment, expected outcomes, timescales, demand reduction, costs avoided and impacts across services. It could also help identify where short-term decisions undermine long-term priorities, where funding is too fragmented, and where reform needs more sustained support.
79. In summary, preventative spend has fallen short because it has not been supported by the long-term funding, system-wide planning, leadership, political commitment and measurement needed to deliver lasting change. Political sensitivity can also delay or prevent difficult decisions, including service redesign, even where these support reform.
80. A Preventative Budgeting Tool could improve transparency and accountability by tracking both investment and outcomes over time, showing whether public spending is genuinely shifting from reactive services towards prevention.

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

81. Capital investment plans need close alignment with long-term strategic objectives to promote consistency of decision-making, stability and maintain progress against objectives. We believe this is best approached by setting a long-term integrated strategy which articulates how economic growth will be achieved, the growth and investment opportunities, incorporates cross-sector contributions and sets the priorities which can frame capital expenditure decisions.
82. A transparent prioritisation framework should demonstrate how capital projects support sustainable economic growth, strengthen long-term fiscal resilience and contribute to national outcomes. It should also explain how opportunity costs have been assessed and how benefits, costs, delivery timescales and risks will be monitored throughout the investment lifecycle.
83. Priority should be given to capital investment that improves productivity, supports business growth, develops skills and workforce capability, enhances infrastructure and facilitates the transition to more preventative, efficient and sustainable public services.
84. Investment decisions should be assessed against their contribution to strengthening the tax base, increasing labour market participation and earnings, attracting and retaining skilled workers and investment, and creating the conditions for sustainable and competitive private sector growth and sustainable future tax revenues.
85. In terms of financial management, we echo the points raised in our previous submission. It is not sustainable or efficient to make capital expenditure decisions on a short-term basis. It can also add cost. It is good practice to consider the risk of increased costs arising from delay and evaluate the risks (including environmental).

[14] See paragraph 3.

Question 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?

86. Financial flexibilities help manage short-term pressures but do not solve structural financial sustainability challenges where there is a growing gap between spending plans and available funding.
87. Borrowing can add risk therefore it would be more prudent to show how the finances will be balanced before increasing risk. A credible long-term integrated whole of government strategy is the first step to show how sustainability will be achieved and service commitments met and funded.
88. The extent of fiscal powers and impact of Barnett consequentials is noted. Responsibility for achieving financial sustainability remains regardless of the existing challenges or political context.
89. Sound public financial management and controls are fundamental. Demonstrating good stewardship of public funds and value for money is essential and affordability is an important part of decision-making criteria.

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?

90. Alternative financing tools should support a broader strategy, reform objectives, long-term economic growth and demonstrate clear additionality consistent with the strategic priorities. The key question is to explain how to become financially sustainable. It is important to identify and evaluate the risks and demonstrate how the risks will be managed.

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