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

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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?

Carnegie UK welcomes the renewed emphasis on prevention within the Scottish Government's Public Service Reform Strategy and the development of a Preventative Budgeting Tool. These are important steps towards improving outcomes for people and communities while strengthening long-term fiscal sustainability. However, experience since the Christie Commission suggests that political commitment to prevention has not yet been matched by equivalent change in the institutions, incentives and budget-setting processes that determine how resources are allocated.

The 2011 Spending Review stated that it represented a "decisive shift towards preventative spending" and committed £500 million to boosting preventative initiatives. 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 revised National Performance Framework should provide this strategic outcomes architecture. Stronger alignment between preventative activity, budget decisions and national outcomes would also respond to the previous Finance and Public Administration Committee's concern that the relationship between the National Performance Framework and government activity remains unclear.

Carnegie UK's *Budgeting for Wellbeing: International Approaches* report found that preventative budgeting requires more than dedicated programmes, funding streams or reporting mechanisms. Meaningful progress depends on the wider budget institutions and incentives that shape organisational behaviour.

The Preventative Budgeting Tool can support this shift by improving visibility and establishing a more consistent baseline. In 2011 there was no equivalent mechanism for transparently assessing whether the £500 million commitment had been directed towards preventative activity. A common and consistently applied approach to classification could now help Parliament and government understand where resources are being directed, monitor change over time and support more informed discussion about the balance between preventative and reactive expenditure.

The value of the Tool will nevertheless depend on whether it influences decisions. Budget tagging is necessary, but it will not by itself reallocate resources, change incentives or create the conditions for prevention. Safeguards will also be needed to ensure classifications are applied consistently and to avoid existing activity simply being relabelled as preventative.

The main barriers in this regard are institutional rather than just technical. Beyond the limited focus on outcomes to date noted above, they include weak incentives for cross-departmental and cross-organisational investment, short-term funding cycles, and institutional capacity.

A central barrier is that the benefits of preventative action often arise outwith the spending department. Departmental budgets, ring-fenced funding and short-term spending horizons can therefore make it difficult to prioritise interventions with upfront costs, even where they may improve outcomes and reduce future demand. This difficulty is compounded by the limited recognition and capture of second-round fiscal effects: the longer-term impacts on public revenue and expenditure that follow from a policy intervention.

Budget processes should become better able to identify, capture and reinvest these wider benefits. Models such as the state of Victoria's Early Intervention Investment Fund in Australia offer one possible approach. Under this model, departments develop and cost early-intervention proposals with Treasury officials; successful proposals receive upfront funding, and realised savings are shared between the responsible department and the Fund to support further investment. A Scottish model would need to reflect Scotland's institutional context and should be capable of supporting primary as well as secondary prevention.

Long-term funding is equally important. Preventative programmes may take many years to demonstrate their full effects, while short funding cycles can weaken relationships between funders, delivery partners and communities. Budget-setting should therefore provide sufficient continuity for preventative activity to be implemented, learned from and adapted over time.

Finally, prevention must be embedded across government, local government and arm's-length bodies culturally as well as procedurally. This requires institutional capacity, leadership and accountability for shared outcomes, alongside sufficient local flexibility to respond to different need in different places and communities. It also requires a clear articulation of purpose: Carnegie UK believes that this should be directly connected to the National Performance Framework and associated outcomes, in order to create a coherent strategic framework with a shared direction for all public bodies in Scotland

The Preventative Budgeting Tool should therefore be treated as one component of a wider reform programme. Its success should be judged not only by whether preventative expenditure becomes more visible, but by whether budgeting systems create stronger incentives for prevention, collaboration and delivery of long-term wellbeing outcomes.

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

Carnegie UK does not advocate for a fixed list of capital spending areas. However, we would encourage the Scottish Government to consider and specify the purpose that economic growth is intended to serve. Economic growth should be treated as a means of improving collective wellbeing rather than an end in itself. Capital investment should therefore be prioritised where it helps create the conditions for people and communities to live well, participate in society and benefit from tangible improvements in everyday life.

This requires a broader understanding of value than short-term economic output alone. Capital investment can support sustainable growth when it strengthens resilience, reduces inequalities, enables participation in work, education, care and community life, and contributes to Scotland's long-term social, economic and environmental outcomes.

Preventative investment should form a core part of this approach. Well-designed capital spending on preventative interventions can help reduce avoidable future demand for acute services, support integrated service delivery and strengthen the infrastructure on which preventative activity depends. The 2026 Spending Review notes, for example, that illustrative modelling suggests reducing overall poverty by a quarter could avoid £2.9 billion in public spending. The Prevention Unit has also recently highlighted the importance of systems thinking in preventative approaches. This reinforces the need to consider both the immediate purpose of investment and its longer-term effects across the public sector. To achieve the fiscal and broader benefits of prevention, thought should be given to how capital spend could enable an integrated, whole-system approach to preventative interventions.

Wellbeing-informed appraisal and cost-benefit analysis could help embed these considerations within investment decisions. This would support greater transparency about how proposals contribute to national outcomes and help avoid capital decisions being assessed primarily within departmental boundaries. Capital budgeting should encourage collective responsibility for outcomes and enable investment across organisational and portfolio lines where this offers greater long-term public value.

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?

Carnegie UK believes that financial flexibilities should be assessed not only by their ability to manage short-term volatility, but also by whether they support long-term investment in prevention, collective wellbeing and fiscal sustainability.

Carnegie UK's Financing the Future programme has highlighted the comparatively constrained nature of devolved borrowing arrangements in the UK. Scotland has stronger borrowing powers than Wales and Northern Ireland, but current powers remain tightly controlled and small in scale by international standards. They are focused primarily on capital investment, limiting their relevance to preventative programmes funded through resource expenditure. Even for capital investment, the current limits are not compatible with major long-term investment priorities.

These constraints can make it harder to plan for the long term and to invest at the scale required for major social, economic and environmental transitions. International comparators, including Canadian provinces, US states, German Länder and Australian states, generally have greater borrowing autonomy, often through rules-based systems or limits linked to economic capacity rather than fixed cash caps.

Having considered a range of policy options, Carnegie UK recommends that enhanced devolved borrowing powers for both capital and resource investment should be considered.

This approach could enable sustained investment in infrastructure and preventative social programmes, while supporting more integrated approaches to improving collective wellbeing.

Expanded borrowing powers, if designed carefully, could strengthen devolved governments' capacity to invest in people, places and future generations, while maintaining UK-wide fiscal stability.

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?

Alternative financing approaches can play a role in increasing the resources available for public investment. 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.

From a preventative perspective, the more significant challenge is whether financing arrangements create incentives for long-term and cross-government investment. Consideration of alternative finance should therefore extend beyond mechanisms for raising new funds. It should also include approaches that change how existing public resources are allocated, how benefits arising elsewhere in the system are recognized, and how savings are captured and reinvested.

A related priority is strengthening the assessment of second-round fiscal effects. Preventative interventions can produce fiscal benefits over long periods and across several parts of the public sector. These effects may be overlooked where budget decisions focus primarily on immediate costs within individual portfolios. Better identification of longer-term fiscal impacts would give decision makers a fuller account of the costs and benefits of alternative financing proposals and support a shift from reactive expenditure towards preventative investment.

The Australian state of Victoria's Early Intervention Investment Fund provides one example of an alternative approach to distributing finance. Departments work with Treasury officials to develop and cost early-intervention proposals. Successful proposals receive upfront funding, while realised savings are shared between the responsible department and the Fund. This creates an incentive to pursue interventions where the financial benefit might otherwise arise outside the initiating department and enables a proportion of savings to support further early intervention.

There may be merit in considering how a comparable mechanism could be adapted for Scotland, including to support primary prevention and wider cross-government outcomes.

Any model should be developed with clear evaluation, transparent reporting and safeguards against overstating or double-counting anticipated savings.

Alongside considering alternative finance-raising approaches, the Scottish Government should develop financing arrangements that recognise and reinvest the benefits of prevention, support collaboration around shared outcomes and strengthen long-term fiscal resilience. The test should not simply be whether a mechanism raises additional finance, but whether it enables better outcomes for people and communities now and in the future.

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