Public Service Reform: Pre-budget scrutiny 2027-28
Carnegie UK response

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Beyond the financial benefits that the Public Sector Reform (PSR) Strategy aims to achieve, what are the key outcomes that reform should be aiming for?

Carnegie UK's central message is that Scotland's public service reform programme should not primarily be judged by whether it saves money, merges organisations or restructures services. It should be judged by whether it improves people's lives. The real prize is not a cheaper state, but a state that is more coherent, better aligned and better able to support wellbeing, prevent problems and enable people and communities to thrive.

Our response draws primarily on evidence and insight from our Financing the Future programme, including our *Budgeting for Wellbeing: International Approaches* review, our work on second-round fiscal effects, expert roundtables and research on public perceptions of tax and spending. We believe this evidence is relevant to the Committee's scrutiny because it addresses how budget systems, incentives and fiscal institutions can better support prevention, long-term outcomes and public trust.

Carnegie UK welcomes the Public Service Reform Strategy's focus on creating public services that are more preventative, better joined up and more effective for people. Public service reform should therefore be judged against improvements in wellbeing, reductions in future demand for public services, stronger fiscal sustainability and greater public confidence in decision-making. This reflects Carnegie UK's wider work on collective wellbeing, which argues that public policy should be focused on ensuring people have what they need to live well now and in the future.

Reform should also strengthen collaboration around shared outcomes. Many of the factors that shape wellbeing cut across organisational and policy boundaries and cannot be addressed effectively by individual services working in isolation. Public service reform should therefore support more coherent responses to complex social, economic and environmental challenges and encourage collective action across government and the wider public sector.

Finally, public service reform should seek to strengthen democratic legitimacy and public confidence in decision-making. Carnegie UK's research on public perceptions of tax and spending as well as our recurring findings on democratic wellbeing from our Life in the UK index show that many people feel excluded from decisions that affect them and have limited confidence in their understanding of public finances. Reform provides an opportunity to improve transparency around spending choices, outcomes and trade-offs, helping to build greater public understanding, trust and confidence in public institutions.

What progress has been made to date with preventative budgeting?

Since the publication of the Christie Commission on the future delivery of public services in 2011, Scotland has seen only limited and modest progress towards a transformational shift in public expenditure towards prevention. Despite this, Carnegie UK welcomes the Scottish Government's recent commitment to introduce preventative spending tagging within the budget process. Greater visibility of preventative expenditure has the potential to improve understanding of where resources are being directed and support more informed discussions about the balance between preventative and reactive spending. This represents an important step forward and reflects the growing recognition that prevention should play a central and more systemic role in delivering better outcomes and supporting long-term fiscal sustainability.

More broadly, prevention has become an increasingly prominent principle within public service reform discussions. The Scottish Government's Public Service Reform Strategy places prevention at the heart of its ambitions, and there is growing recognition across the public sector that improving outcomes and reducing future demand will require greater investment in early intervention and preventative approaches.

However, Carnegie UK's *Budgeting for Wellbeing: International Approaches* review found that preventative budgeting requires more than preventative programmes, dedicated funding streams or new reporting mechanisms. International examples suggest that meaningful progress depends on reforms to the budget institutions, incentives and decision-making processes that shape how resources are allocated across government. The same research identified short-term budget horizons and fragmented fiscal systems as significant barriers to strategic, outcomes-focused policymaking. While there has been welcome progress in improving the visibility of prevention and strengthening political commitment to preventative approaches, less progress appears to have been made in embedding prevention within the rules, incentives and budget-setting processes that ultimately determine public spending decisions.

How should the forthcoming Budget support greater progress towards preventative budgeting across the devolved public sector? Please set out any barriers and how these can be addressed.

Carnegie UK welcomes the Public Service Reform Strategy's commitment to prevention as a core element of public service reform. We agree that shifting public services towards prevention is essential if Scotland is to improve outcomes for people and communities while also strengthening long-term fiscal sustainability. However, evidence from Carnegie UK's *Budgeting for Wellbeing: International Approaches* review suggests that preventative budgeting cannot be achieved simply by increasing funding for preventative programmes. Progress requires changes to the way spending decisions are assessed, justified and managed across government.

A key barrier is that traditional budgeting approaches often focus on immediate expenditure while giving less attention to longer-term outcomes and the future fiscal consequences of policy decisions. This work also found that fragmented fiscal systems and short-term budget horizons can act as significant barriers to preventative investment and long-term decision-making. As a result, interventions with upfront costs can struggle to secure investment even where they have the potential to improve outcomes and reduce future demand for public services.

In this context, the reform of the National Performance Framework (NPF) presents an essential opportunity to strengthen Scotland's wellbeing approach to government. To matter in practice, the revised NPF must create clearer links between long-term national outcomes, policymaking, delivery priorities and public spending decisions.

Carnegie UK also recommends that the Scottish Government strengthen its ability to assess the longer-term impacts of spending decisions. In particular, budget processes should seek to account more systematically for second-round fiscal effects: the future fiscal impacts that arise when a policy increases or reduces demand for public services. This would support a shift from reactive expenditure towards preventative investment by giving decision makers a fuller understanding of the long-term costs and benefits associated with spending choices. Carnegie UK's *Policy Provocation paper: Second Round Fiscal Effects* explores this concept in more detail.

A second barrier identified in our work is that the fiscal benefits created through preventative action are often not recognised, captured or retained within budget processes. International evidence suggests preventative approaches can struggle to grow where the financial benefits they create are realised in a different part of the system or are not formally recognised within decision-making processes. Without mechanisms to capture and reinvest those savings, such approaches can remain small-scale and vulnerable to short-term budget pressures, even where they are delivering positive outcomes. Carnegie UK believes there would be merit in the forthcoming Budget supporting the development of clearer mechanisms for recognising and reinvesting the benefits generated through prevention.

Carnegie UK also believes there is merit in expanding the use of wellbeing-informed approaches to appraisal and cost-benefit analysis. Traditional appraisal approaches may undervalue interventions that generate wider social, environmental and economic benefits over longer periods of time. Wellbeing-informed approaches can help government assess more consistently how spending proposals contribute to collective wellbeing, improve transparency around spending decisions and support preventative investment where it delivers better long-term outcomes. Further analysis of this approach can be found in Carnegie UK's *Policy Provocation paper: Wellbeing Cost Benefit Analysis (CBAx)*.

The forthcoming Budget should also more clearly align spending decisions with Scotland's existing wellbeing framework, the National Performance Framework. International evidence suggests that prevention is most likely to be embedded where budgeting processes are linked directly to long-term societal outcomes rather than operating primarily as mechanisms for controlling expenditure. Stronger alignment between the Budget and Scotland's wellbeing objectives would help ensure prevention is pursued consistently across government rather than treated as a discrete policy area.

In summary, Carnegie UK believes that the forthcoming Budget should support prevention by:

- Aligning spending decisions more explicitly with Scotland's wellbeing objectives and National Performance Framework;
- Strengthening assessment of long-term fiscal impacts and second-round fiscal effects;

- Supporting mechanisms to capture and reinvest savings generated through preventative action;
- Expanding the use of wellbeing-informed appraisal approaches.

Together, these changes would help embed prevention more effectively within budgeting processes and support the long-term ambitions of the Public Service Reform Strategy.

What changes to the Scottish Government's approach to budget-setting are needed to effectively deliver public service reform?

Carnegie UK welcomes the ambition set out in the Public Service Reform Strategy to create public services that are more preventative, better joined up and more efficient in order to better deliver for people. Delivering these ambitions, however, requires more than reform of service delivery alone. It also requires changes to the systems, incentives and decision-making processes through which public resources are allocated.

Evidence from Carnegie UK's *Budgeting for Wellbeing: International Approaches* review suggests that effective public service reform is most likely when budgeting systems support long-term decision-making and actively shape organisational behaviour. International experience indicates that reform is achieved not simply through additional analysis or reporting, but by ensuring that budgeting systems create incentives that support prevention, collaboration and delivery of long-term outcomes.

A key change is the need for stronger alignment between budget-setting and Scotland's wider wellbeing objectives as set out in the revised National Performance Framework. Carnegie UK's evidence suggests that public spending is more likely to support long-term reform when budget decisions are explicitly connected to the outcomes government is seeking to achieve. A stronger outcomes-focused approach would help shift budget-setting away from a primarily annualised departmental expenditure and towards a process that supports long-term wellbeing and fiscal sustainability.

Public service reform requires stronger accountability for shared outcomes. Stakeholders participating in Carnegie UK's Financing the Future expert roundtables highlighted concerns about policy coherence, fragmented decision-making and inconsistent accountability across government. Many of the issues that shape wellbeing cut across organisational and portfolio boundaries, yet budget-setting processes can still reinforce siloed behaviour. Carnegie UK's evidence suggests there would be merit in continuing to develop mechanisms that support collective responsibility for outcomes and enable collaboration across departments, portfolios and public bodies.

Finally, budget-setting should create greater space for innovation and responsible risk-taking. Stakeholders participating in Carnegie UK's Financing the Future expert roundtables identified risk aversion and structural barriers as significant obstacles to innovation within public policy and fiscal decision-making. Preventative approaches often require experimentation, learning and upfront investment before benefits become evident. Budget systems should therefore create conditions that support responsible innovation where it is underpinned by robust evidence and has the potential to improve outcomes or reduce future demand on public services.

In summary, Carnegie UK believes that the Scottish Government's approach to budget-setting should evolve from a primarily annual and expenditure-focused process towards one that supports long-term wellbeing outcomes, prevention and fiscal sustainability. This requires stronger alignment with the National Performance Framework, clearer accountability for shared outcomes, greater support for cross-government collaboration, investment in leadership capability and conditions that enable innovation and preventative investment. Budget-setting should become an active enabler of public service reform rather than simply a mechanism for allocating resources.

How should the Scottish Government best present the extent of any realised efficiencies in the annual budget publication, including providing clarity on whether these are expected to be recurring savings?

Carnegie UK believes that transparency and accessibility should be central to how realised efficiencies are reported in the Scottish Budget. The Public Service Reform Strategy seeks to create public services that are more preventative, better joined up and more efficient in order to better deliver for people.

A first priority should be to distinguish clearly between one-off efficiencies and recurring efficiencies. This distinction is important because the contribution that efficiencies make to long-term fiscal sustainability differs significantly depending on whether savings are realised once or continue into future years. In this context, Carnegie UK recommends that the Scottish Government strengthen its ability to assess the longer-term impacts of spending decisions. In particular, budget processes should seek to account more systematically for second-round fiscal effects: the future fiscal impacts that arise when a policy increases or reduces demand for public services. This would support a shift from reactive expenditure towards preventative investment by giving decision makers a fuller understanding of the long-term costs and benefits associated with spending choices. Carnegie UK's *Policy Provocation paper: Second Round Fiscal Effects* explores this concept in more detail.

Carnegie UK also believes that efficiencies should be linked more explicitly to outcomes. The purpose of public service reform is not simply to spend less money, but to deliver better outcomes for people and communities. Reporting should therefore demonstrate how efficiencies contribute to wider National Performance Framework objectives. This would support a broader understanding of value in public spending and help avoid an overly narrow focus on expenditure in one portfolio area alone.

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