

# **Pre-budget scrutiny 2027–28:**

## **The affordability and sustainability of Scotland's tax and spending plans**

2026



---

### About the work of the Royal Society of Edinburgh

The Royal Society of Edinburgh (RSE), Scotland's National Academy, was established in 1783 for 'the advancement of learning and useful knowledge'. Our contemporary mission remains the same – the deployment of knowledge for public good. We recognise, support and mobilise expertise from across academia, business and public service for the benefit of Scotland and the wider world. Our Fellows from academia, industry and public service are among the most distinguished in their fields. This collective knowledge contributes to Scotland's social and economic wellbeing, its people, the care of its natural environment and the nation's wider contribution to the global community. We deliver on this mission through our strategic objectives and impacts to inspire, engage, provide expertise and promote Scotland internationally.

### Citation recommendation

If you are using this document in your writing, our preferred citation is:  
The Royal Society of Edinburgh 2026: Pre-budget scrutiny 2027–28:  
The affordability and sustainability of Scotland's tax and spending plans

### Permission to share

This document is licensed under CC BY-NC-ND 4.0. To view a copy of this license, visit <http://creativecommons.org/licenses/by-nc-nd/4.0/>

This license requires:

BY: Credit must be given to the creator.

NC: Only non-commercial use of our work is permitted.

ND: No derivatives or adaptations of our work are permitted.

For further information, please contact: [publicpolicy@theRSE.org.uk](mailto:publicpolicy@theRSE.org.uk)

### Acknowledgements

We gratefully acknowledge the thoughtful comments and support from those who attended the roundtable meeting. The discussions were held under Chatham House rules, and so we are unable to share the identity of those involved but greatly appreciate their expertise and knowledge. We also acknowledge Rory Macdonald from the RSE Policy team for their editorial support in producing this paper.

Our work is possible because of the continued support from the Scottish Funding Council.

## Executive summary

The Royal Society of Edinburgh (RSE) welcomes the opportunity to contribute to the call for views from the Finance and Public Administration Committee to inform its pre-budget scrutiny of the affordability and sustainability of Scotland's tax and spending plans. This response draws on insights from a working group of RSE Fellows and Young Academy of Scotland members with extensive knowledge of the Scottish economy and policy processes.

The RSE welcomes the Medium-term Financial Strategy and Scottish Spending Review as well as the revision of the National Performance Framework. However, it is our view that these two initiatives need to be better joined up. Furthermore, concepts like 'efficiency' and 'spending' need to be defined more precisely in practice. It is also important to acknowledge that while some of the key factors are within the purview of the Scottish Government, others are not.

Overall, the RSE believes the Scottish Government needs to better link its spending allocations to long-term policy objectives. The country is facing pressing challenges including stagnating growth and productivity, an ageing population, and a diminishing workforce. Without radical change to the devolved tax system, a clearer plan for public sector savings, and a greater commitment to properly planned preventative spending, the sustainability of public finances is at risk.

The key documents highlighted by the Finance and Public Administration Committee go into great detail and so this response limits itself to the main questions that need to be addressed. Our conclusions and recommendations dovetail with those of the RSE response to the Public Service Reform Committee's call for views to inform its pre-budget scrutiny of how the Scottish budget can best advance public service reform, which is cross-referenced as appropriate.

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

---

1. This question raises two considerations. The first is whether individual spending allocations are appropriate, which is a matter of political judgment, on which the RSE cannot comment. The second question is whether the total allocations are within the expected revenue total. Assessing whether allocations are within the expected revenue total is best answered in the medium- to long-term.
2. The Scottish Government's Fiscal Sustainability Delivery Plan (FSDP) mentions a resource fiscal gap of £2.6bn by 2029-30.<sup>1</sup> With capital expenditure, that figure could reach £5bn. Meanwhile, the Auditor General's assessment of spending allocations in October 2025 warned of a £5bn shortfall by the end of the decade, while the Scottish Fiscal Commission has also expressed doubts about public spending prospects. The RSE agrees with these assessments, though the uncertainty of these projections reinforces the need for monitoring and flexibility over the medium-term.
3. The RSE welcomes the current review of the National Performance Framework but believes that this should be more clearly linked to the other financial strategies and to the Scottish Budget, as was recognised by the previous Deputy First Minister.<sup>2</sup> In the spending review, the Scottish Government sets out four overriding priorities (child poverty, climate change, economic growth, and public services) but these sit at a very high level.<sup>3</sup> On the other hand, budgetary allocations are made at a much more granular level, leading to a mismatch. The Scottish Government should consider how it can pursue better alignment between strategic policy objectives and existing budgetary mechanisms without introducing overly cumbersome administrative procedures.

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

---

4. Many of the biggest risks to the spending plans are already well-documented and lie both within and outwith the Scottish Government's purview. These include external shocks such as global economic conditions, commodity prices, and international conflict, which can depress the economy and thus the yield from devolved taxes. It can also stoke inflation and increase pressures on government budgets. This also does not take the climate crisis into account, which a recent Defra report highlighted as a key risk to national security and resilience.<sup>4</sup>
5. Demographic change and an ageing population in Scotland will also put pressure on public finances. This will continue to reduce the country's tax base if trends continue, increasing demand for public services (particularly health and social care and social security) and presenting additional challenges to tackling Scotland's low productivity growth. In order to plan for this demographic change effectively, spending changes must be made now to accommodate for long-term shifts in service demand.
6. The size of the public sector workforce also creates challenges for spending plans, accounting for 55% of day-to-day spending in 2025-26.<sup>5</sup> Aspects of public sector workforce pay and pension which are presently paid out of current revenue, such as police officer and fire brigade pensions, represent potential risks to short-, medium- and long-term spending plans.
7. Changes made at the UK Government level pose additional risks to Scottish spending plans. A large part of Scottish Government revenue is linked to UK budgetary decisions via the Barnett formula. This means that Scottish budgetary decisions must wait on the UK spending review and be taken in haste

---

<sup>1</sup> Scottish Government, Fiscal sustainability delivery plan, June 2025. <https://www.gov.scot/publications/scottish-governments-fiscal-sustainability-delivery-plan/>. p.4.

<sup>2</sup> What's Changing in Scotland's National Performance Framework and Why It Matters: <https://spice-spotlight.scot/2026/03/25/whats-changing-in-scotlands-national-performance-framework-and-why-it-matters/>.

<sup>3</sup> Scottish Government, Scottish Spending Review 2026, January 2026. <https://www.gov.scot/publications/scottish-spending-review-2026/>. p.4.

<sup>4</sup> UK Government, Nature security assessment on global biodiversity loss, ecosystem collapse and national security, January 2026. <https://www.gov.uk/government/publications/nature-security-assessment-on-global-biodiversity-loss-ecosystem-collapse-and-national-security>.

<sup>5</sup> Scottish Fiscal Commission, Fiscal Sustainability Perspectives: what Scotland's finances mean for the next parliament – February 2026, February 2026. <https://fiscalcommission.scot/publications/fiscal-sustainability-perspectives-what-scotlands-finances-mean-for-the-next-parliament-february-2026/>. p.3.

and may need to be adjusted in response to in-year changes in UK spending in England. The complex interplay of Scottish-UK level finances, especially through the Barnett formula and the block grant adjustment due to devolved income taxation, was discussed in an RSE contribution to the Scottish Affairs Committee's inquiry into the financing of Scottish Government, including its implications for annual budgeting.<sup>6</sup>

---

### **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?**

---

8. The MTFS does recognise the fiscal challenges to an extent. However, the RSE is doubtful whether the actions in the FSDP will meet the challenges fully, as explained below. So far, the Scottish Government has met its balanced-budget commitment by one-off measures, windfalls, and underspends in some areas, which is not sustainable in the long-term.

---

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

---

9. While longer-term financial planning is essential, there needs to be a degree of flexibility where circumstances change and mechanisms for delivering policy priorities need to be adjusted.

### **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?**

---

10. In answering this question, the RSE focused on the dual challenge of growing the tax base whilst also increasing labour market participation. Growth of the tax base in turn could refer to the yield of the existing tax base, or to the extension and reform of that base. The Scottish Government has set out numerous measures to stimulate economic growth and thus increase the yield from the existing Scottish tax base, as well as to improve labour market participation and productivity. However, some of the most relevant powers are reserved to the UK Government and so lie outwith the Scottish Government's ability to influence at this time.
11. Having said this, the RSE believes that the Scottish Government needs to reform the current devolved tax system with a view to increasing its efficiency. On income taxation, Scottish Government, with the support of the Scottish Fiscal Commission, should continue to monitor the yield from devolved Scottish income taxes to ensure that behavioural changes and their impact on income tax revenues are fully understood. There is also a particular need to examine property taxation along with local taxation more widely. For example, in 2023-24, when the total revenues from council tax, non-domestic rates, Land and Buildings Transactions Tax (LBTT), and income tax were combined, the taxes related to property accounted for 28.4% of total revenue.<sup>7</sup> The RSE has highlighted the need for reform in a number of papers, including its most recent response to the Scottish Government-COSLA consultation on council tax reform. However, the reform of the devolved tax system will require cross-party buy-in. Overall, the prospect of adding to taxation revenues in Scotland through devolved taxes are probably limited.

---

<sup>6</sup> Royal Society of Edinburgh (2024). *The financing of the Scottish Government*, Advice Paper 24-10.

<sup>7</sup> Administration of Scottish income tax 2023-24: <https://www.nao.org.uk/reports/administration-of-scottish-income-tax-2023-24/#downloads>. p.7; Explainers: Tax: <https://fiscalcommission.scot/explainers/tax/>; Council Tax Collection Statistics, 2023-24: <https://www.gov.scot/publications/council-tax-collection-statistics-2023-24/>.

12. Regarding increased labour market participation and productivity growth, the RSE believes it is essential that cooperation between the Scottish and UK governments improves.<sup>8</sup> In order to most effectively tackle these issues, both governments should seek to identify a shared set of investment priorities and better-coordinated interventions, especially in regional economic development, reflecting the capabilities of the reserved and devolved support as part of an industrial strategy alignment.
13. Crown Estate Revenues should be used for capital investment, but they have also been used to cover revenue gaps, which is not ideal as they include one-off receipts rather than a consistent stream.

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

---

14. In a narrow sense, the real meaning of 'making efficiencies' is to provide the same level of existing services at a reduced cost, or a higher level at the same cost (*output* efficiency). In a broader and more helpful sense, it is to achieve the same level of *outcome* at a lower cost or a higher level at the same cost. Yet it is very difficult to measure the outcome of public spending, especially in the short term. It may also be necessary to change spending allocations during the spending term if it becomes apparent that there are better ways to achieve the desired outcomes.
15. The RSE does not believe the planned efficiencies of between 0.7% to 0.9% per annum are realistic or deliverable at a scale sufficient to make public services sustainable. The reasons given for this thinking are outlined in the RSE's response to the Public Service Reform Committee's call for views to inform its pre-budget scrutiny of how the Scottish budget can best advance public service reform. The Scottish Government's annual savings targets appear quite modest but, if some services are spared, then

the burden on others will increase substantially and this is happening at a time of rising demand across most areas. It will be crucial to explain to the public which services will be prioritised and which will be reduced. There is broad societal discussion about how artificial intelligence (AI) can be used to help deliver efficiencies, particularly in corporate services, but yet there is little evidence to show how this can actually be achieved. Despite this ongoing debate, the use of AI should not be seen as a reliable tool for achieving public sector savings, at least in the short term.

16. Existing data shows substantial public workforce growth in recent years, and Scottish Government efficiency plans have tended to emphasise the need for workforce reductions. However, it seems clear that the scale of workforce reductions needed will not be achieved through natural attrition at the rate required to meet the £1.5bn target over three years. There may also be scope to achieve efficiencies in corporate services by merging them across bodies, although this is by no means guaranteed. However, the common distinction between 'front line' and 'back office' services, with the implication that the latter are somehow less important, can be highly misleading. That is why substantial, strategically driven, well-thought-through reform, which transforms the way in which individual services are delivered, is needed. The RSE has made a series of suggestions on this specifically in its response to the Public Service Reform Committee's call for views to inform its pre-budget scrutiny of how the Scottish budget can best advance public service reform.

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

---

17. Broad economic downturns pose the greatest risk to revenues from devolved taxes, primarily through income tax, council tax, and business rates. Given the fiscal framework, there is also a risk if Scottish tax revenues do not keep pace with those in the rest of the UK.

---

<sup>8</sup> Royal Society of Edinburgh (2024). *The financing of the Scottish Government*, Advice Paper 24-10; Royal Society of Edinburgh (2023). *Intergovernmental relations: Improving devolution capability in Whitehall*, Advice Paper 23-9.

## 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?

---

18. The RSE welcomes the proposal to identify preventative spending, but it is not clear exactly how this will be used in the spending plans. Preventative spending has an obvious appeal, but it is notoriously difficult to achieve when trying to take future cost savings into account when determining budgets. It is also difficult to determine just what items of spending are preventative. The RSE welcomes the intention to address this with a Preventative Budgeting Tool, while recognising it can never be a purely mechanical process and may involve contested judgments.
19. If preventative spending is prioritised over short-term priorities, the latter may suffer additional cuts at a time of scarce resources. A classic example is whether the pressing need to reduce medical waiting lists may come at the expense of long-term action. Political short-termism can exacerbate the perceived urgency of these trade-offs whilst also disincentivising the identification of more enduring solutions. The RSE's recent paper *Policy in practice: How Scotland can get it right* explored how Scotland can move towards a more forward-looking approach to policymaking that transcends traditional political timelines, recognising that systemic challenges require sustained investment and adequate foresight.<sup>9</sup>
20. However, given the structure of the Scottish Government, it still has the opportunity to organise its spending proposals around longer-term policy objectives. The non-departmental structure of the government, the single statement of mission, and the

National Performance Framework were all developed to establish a focus on shared strategic outcomes and facilitate a cross-functional approach to policy, programmes, and budget planning. This fluidity of structure should be capitalised upon to create a greater focus on a preventative strategy across all government spending and determine which forms of preventative policy require priority. The importance of achieving this level of whole-system collaboration is referenced in several RSE papers, including the aforementioned *Policy in practice* report<sup>10</sup> and *Gaps, overlaps, and challenges: assessing the alignment of Scotland's education reform agenda with national priorities*.<sup>11</sup>

21. This requires whole-system change across national and local government and buy-in is needed from all affected actors on the need for this change in approach.

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

---

22. One key area that requires investment in Scotland is improving grid connectivity and capacity. This area underlines the need for cooperation between the Scottish and UK governments, with many of the levers being reserved. Reform of the UK electricity market is also hugely important.
23. The Scottish Government should also consider the relative impact of its different infrastructure investments, including innovation infrastructure. Scotland is having trouble attracting private capital investment into assets like labs and manufacturing premises, so subsidy and joint funding to de-risk such developments would help give innovative businesses, spinouts, and startups a better asset base from which to scale.

---

<sup>9</sup> The Royal Society of Edinburgh, March 2026. *Policy in practice: How Scotland can get it right*: <https://rse.org.uk/programme/advice-paper/policy-in-practice-how-scotland-can-get-it-right/>.

<sup>10</sup> Ibid.

<sup>11</sup> Royal Society of Edinburgh, June 2025. *Gaps, overlaps, and challenges: assessing the alignment of Scotland's education reform agenda with national priorities*: <https://rse.org.uk/programme/advice-paper/gaps-overlaps-and-challenges-education-reform-report/>.

**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?**

---

24. It is our view that this question warrants a more in-depth assessment beyond what is possible in responding to this consultation.

**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?**

---

25. The issue of bonds is a complex one. On the one hand, it is argued that bonds are just another form of borrowing, which might be more expensive than the present arrangements because the Scottish Government may face a premium on interest rates compared to the UK Government. On the other hand, it is argued that they might provide more flexibility and subject the Scottish Government to the salutary discipline of bond markets. The RSE feels the Scottish Government's plan for the purpose and mechanisms for bonds is unclear but that it is worth exploring additional mechanisms for funding capital projects.

**Additional information**

---

Any enquiries about this advice paper should be addressed to Rory MacDonald, RSE Senior Policy Officer ([rmacdonald@theRSE.org.uk](mailto:rmacdonald@theRSE.org.uk)). Responses are published on the RSE website ([www.rse.org.uk](http://www.rse.org.uk)).



CREATED IN 1783 BY ROYAL CHARTER  
SCOTTISH CHARITY NO. SC000470

22–26 George Street  
Edinburgh  
EH2 2PQ

Telephone: +44 (0)131 240 5000  
Email: [info@theRSE.org.uk](mailto:info@theRSE.org.uk)

*Discover more at **[rse.org.uk](http://rse.org.uk)***